

SUPPLY CHAIN

We are sometimes asked why we dedicate time and resources to improving working conditions in garment factories. Put simply, we believe it is not only the right thing to do, but that it also creates tangible value for Gap Inc. For example, we know that better working conditions improve the efficiency of our supply chain. Workers who are paid fairly, work a reasonable number of hours and operate in healthy and safe environments tend to be more productive, deliver higher-quality work, and choose to stay with factories longer than those who are mistreated. In addition, our firsthand knowledge of events in factories helps us identify issues and resolve them earlier. We've also heard from our own employees that they are proud and inspired to work for a company that is committed to improving the lives of garment workers. In our view, striving to improve working conditions in the supply chain is a win-win endeavor — for the world's garment workers and for Gap Inc.

A Holistic Approach to Improve Garment Factory Working Conditions

The root causes of poor working conditions in garment factories are varied and complex. As we noted in our 2004 Social Responsibility Report, inadequate labor standards are often the result of a wide range of factors that can be difficult to isolate and address. In some areas, such as our own buying practices, we

may have considerable ability to drive change. We can also set standards for garment manufacturers and require through direct monitoring and enforcement that they achieve a certain level of compliance in order to continue doing business with us. In other areas, such as changing common industry-wide practices or addressing national- and global-level challenges, our influence is more limited and we need to partner with others to work toward collaborative solutions. The chart on page 24 provides an overview of these different areas and our relative influence as a company. We strive to address each of these areas in a way that effectively leverages our strengths and resources as a company and takes into account stakeholder concern.

Measuring Factory Performance

Factory monitoring remains an important part of our strategy to improve working conditions in the apparel industry. As we noted in our 2004 Report, we believe that “what gets measured gets managed.” Monitoring provides us with firsthand insight into factory conditions and serves as an important tool to measure factory progress against our standards. Monitoring not only helps us leverage our influence with contract garment factories through face-to-face interaction, but also provides us with regular data about factory conditions and a mechanism to assess the impact of our efforts over time.