# Gap Inc. - Water 2018



## W0. Introduction

### W0.1

(W0.1) Give a general description of and introduction to your organization.

Gap Inc. was founded in San Francisco in 1969. Today, Gap Inc. is a leading global retailer offering clothing, accessories and personal care products for me, women and children under the Old Navy, Gap, Banana Republic and Athleta brands, with approximately 135,000 employees, including part-time and full-time employees. Our products are available for purchase in more than 90 countries worldwide through about 3,165 Company-operated stores, 429 franchise stores and e-commerce sites (as of FY'17).

As our business evolves, we continue to work on further integrating sustainability into our core business and interactions with all stakeholders, including the suppliers that make our branded products. We believe sustainability promotes innovation and improves employee engagement, operational efficiency, productivity, and ultimately, our profitability.

Building off our submission in 2017, in 2018 our Athleta brand has been certified as a benefit corporation ("B Corp"), furthering its commitment to using business as a force for good to drive social and environmental impact by meeting rigorous standards across social and environmental performance, accountability and transparency. Additionally, we have amended Athleta's legal charter to become a Delaware Public Benefit Corporation in order to further uphold Athleta's commitments to people and the planet. With this accreditation, Gap Inc. has become one of the largest publicly traded retail companies with a B Corp certified subsidiary apparel brand. We plan to leverage the learnings from Athleta as a case study for Gap Inc., providing a benchmark and roadmap of potential opportunities for greater social and environmental impact across the enterprise.

We purchase private label and non-private label merchandise from about 800 vendors. Our vendors have factories in about 50 countries. Our two largest vendors each accounted for about 5 percent of the dollar amount of our total fiscal 2017 purchases. Of our merchandise purchased during fiscal 2017, substantially all purchases, by dollar value, were from factories outside the United States. Approximately 25 percent and 22 percent of our fiscal 2017 purchases, by dollar value, were from factories in Vietnam and China, respectively.

#### W0.2

(W0.2) State the start and end date of the year for which you are reporting data.

	Start date	End date	
Reporting year	February 1 2017	January 31 2018	

### W0.3

(W0.3) Select the countries/regions for which you will be supplying data.

United States of America

# W0.4

(W0.4) Select the currency used for all financial information disclosed throughout your response.

USD

# W0.5

(W0.5) Select the option that best describes the reporting boundary for companies, entities, or groups for which water impacts on your business are being reported

Companies, entities or groups over which operational control is exercised

# W0.6

(W0.6) Within this boundary, are there any geographies, facilities, water aspects, or other exclusions from your disclosure?

No

#### W1.1

(W1.1) Rate the importance (current and future) of water quality and water quantity to the success of your business.

	importance	Indirect use importance rating	Please explain
Sufficient amounts of good quality freshwater available for use	Not very important	Vital	Direct use: Freshwater use in our direct, owned operations – including our stores, distribution centers and HQ offices – is limited to supporting our main activities and thus is minimally important. Freshwater in our direct operations is primarily used for hygiene, cleaning and maintenance activities, food preparation and personal consumption by employees. Indirect use: Water is a key input in dyeing, washing and finishing our garments within our supply chain. Additionally, we rely on water-intensive cotton fibers to manufacture most our product. Some of our suppliers have water intensive operations in water scarce areas and therefore face risk to business continuity if freshwater were limited. Limited availability of freshwater may result in production delays or longer lead times for our products, which can negatively impact sales. Access to good quality freshwater is also important for our suppliers' workers' personal consumption and well-being as well as cleaning and maintenance.
Sufficient amounts of recycled, brackish and/or produced water available for use	Not very important	Important	Direct use: Our direct, owned operations primarily use freshwater for cleaning and maintenance activities, food preparation and personal consumption by employees.  Recycled water is generally not used to support our owned operations. Indirect use: Water is a key input for garment production processes at mills and laundries, including dyeing, washing and finishing. An increasing amount of our supply chain is using partial recycling techniques to conserve water. Some geographical areas also have Zero-Liquid Discharge (ZLD) laws that mandate water recycling rates of 80-95%. We are supportive of these efforts and work with our strategic suppliers to increase their use of recycled water. Waste water treatment is also important for protecting the health and safety of workers and people in the local community; high-quality water treatment is one of our critical areas of compliance for our wet processing suppliers.

### W1.4

(W1.4) Do you engage with your value chain on water-related issues?

Yes, our suppliers

### W1.4a

(W1.4a) What proportion of suppliers do you request to report on their water use, risks and/or management information and what proportion of your procurement spend does this represent?

### Row 1

% of suppliers by number

76-100%

% of total procurement spend

76-100

### Rationale for this coverage

Suppliers are required to adhere to Gap Inc.'s Code of Vendor Conduct (COVC), which includes provisions on management of their environmental impacts, including energy and GHG emissions, air pollution, water consumption, water quality, wastewater, as well as chemical use and handling. Non-compliance with our COVC can lead to a reduction of business, up to and including termination of the business relationship. We request all Tier 1 suppliers of branded products, and our preferred Tier 2 mills to report on water consumption using the Sustainable Apparel Coalition's (SAC) Higg Index Facility Environment Module (FEM). Our teams engage suppliers to encourage and assist them with reporting. Water-related data reported by suppliers through the Higg Index include: annual water usage, daily wastewater production, treatment of wastewater, evidence of water use reductions.

# Impact of the engagement and measures of success

We request that all our Tier 1 suppliers report on water use, risks, and management practices by responding to the Higg Index, and track the percentages which respond and engage In addition, we request that strategic suppliers in Tier 2 (fabric mills, spinners, and dye houses) also respond. From 2016-17, 68% of all our T1 facilities and 96% of our invited T2 facilities completed the assessment. From 2017-18, 93% of our T1 and strategic T2 factories responded to the Index. This allows us to calculate our water baseline by geography, facility type, and category, and understand our progress towards our goal to save 10 billion liters of water in our manufacturing processes by 2020. All of the denim laundries from which we source have achieved our Water Quality Program standard. This year, we have updated our WQP wastewater guidelines to match the new ZDHC Wastewater Guidelines. We are rolling out the ZDHC Wastewater guidelines to all of our wet processing facilities in 2018.

Comment

## W1.4b

### (W1.4b) Provide details of any other water-related supplier engagement activity.

#### Type of engagement

Innovation & collaboration

#### **Details of engagement**

Encourage/incentivize innovation to reduce water impacts in products and services

#### % of suppliers by number

1-25

#### % of total procurement spend

51-75

### Rationale for the coverage of your engagement

We work with our strategic mill and laundry suppliers on water and energy efficiency programs to incentivize their investments into operational efficiency that minimizes their water consumption. We have engaged 50+ facilities to date in 7 programs across our strategic geographies, such as the India Water Partnership in India, Race to the Top in Vietnam, PaCT in Bangladesh, and NRDC Clean by Design. We concentrate on high-volume suppliers that are located in areas of water risk. As many suppliers are concentrated at a regional level, collaboration and innovation allows for local-specific solutions and action. Our work currently covers about 1-25% of our suppliers. As some of our largest sourcing countries, Vietnam, China represent approximately 47% of our sourcing spend, when including other countries with which we engage in water stewardship programs, we estimate they represent approximately 51-75% of our sourcing spend.

### Impact of the engagement and measures of success

Engaging suppliers at the country level has allowed us to expand our coverage and incentivize participation by working with trusted groups such as PaCT in Bangladesh and Race to the Top in Vietnam. This provides competitive benefits to suppliers who are eager to engage in collaborations and gain market and production efficiencies, in addition to compliance with local regulation. Success is measured by progress towards our goal to save 10 billion liters of water in our manufacturing by 2020, as well as the percentage of our procurement spend covered by the suppliers engaged.

#### Comment

## W2. Business impacts

## W2.1

### (W2.1) Has your organization experienced any detrimental water-related impacts?

No

# W2.2

(W2.2) In the reporting year, was your organization subject to any fines, enforcement orders, and/or other penalties for water-related regulatory violations?

# W3. Procedures

### W3.3

# (W3.3) Does your organization undertake a water-related risk assessment?

Yes, water-related risks are assessed

### W3.3a

(W3.3a) Select the options that best describe your procedures for identifying and assessing water-related risks.

#### **Direct operations**

### Coverage

Full

#### Risk assessment procedure

Water risks are assessed as part of an enterprise risk management framework

#### Frequency of assessment

Annually

#### How far into the future are risks considered?

6 to 10 years

## Type of tools and methods used

Tools on the market International methodologies Other

### Tools and methods used

WRI Aqueduct Life Cycle Assessment Internal company methods External consultants

#### Comment

We conduct Company-wide enterprise risk assessments and asset-level business continuity planning that encompass sustainability-related risks, including the risks that water could pose to our business. Our asset-level risk assessments evaluate risks to our owned and operated facilities around the world on a country-by-country basis. These assessments are intended to ensure that senior management is aligned on and has taken measures to address the most important risks our business.

### Supply chain

#### Coverage

Full

#### Risk assessment procedure

Water risks are assessed in an environmental risk assessment

#### Frequency of assessment

Six-monthly or more frequently

## How far into the future are risks considered?

6 to 10 years

### Type of tools and methods used

Tools on the market International methodologies Other

# Tools and methods used

WRI Aqueduct Life Cycle Assessment Internal company methods External consultants

### Comment

We conduct enterprise-level and asset-level risk assessments, which encompass environmental risks across our business and supply chain, at least once per year. Water risks are also factored into country risk assessments that are conducted annually through collaboration between our Global Sustainability, Sourcing and Supply Chain functions. Our risk assessment procedures look throughout our entire supply chain; this scale allows us to understand all risks and opportunities we face from water.

# Other stages of the value chain

# Coverage

Please select

## Risk assessment procedure

<Not Applicable>

# Frequency of assessment

<Not Applicable>

## How far into the future are risks considered?

<Not Applicable>

## Type of tools and methods used

<Not Applicable>

# Tools and methods used

<Not Applicable>

Comment

# W3.3b

	Relevance	Please explain
	& inclusion	
Water availability at a basin/catchment level	Relevant, always included	Local water availability and quality in our sourcing countries could affect our ability to source products on favorable terms. We have worked with tools, such as WRI Aqueduct as well as stakeholders to assess water quality and quantity risks in key sourcing countries. We also assist our cut-and-sew vendors with conducting performance assessments using the Higg Index at the factory level. Through our Mill Sustainability program, we have engaged over 200 strategic mills in our efforts to assess water-related risks and opportunities, and are expanding our efforts to engage more directly on water-risk mitigation. We have partnered with the NRDC's Clean by Design program to improve water conservation and productivity at fabric mills in China, and have launched the India Water Partnership to build industry collaboration across our sourcing mills in the region.
Water quality at a basin/catchment level	Relevant, always included	Local water availability and quality in our sourcing countries could affect our ability to source products on favorable terms. We have worked with tools, such as WRI Aqueduct as well as stakeholders to assess water quality and quantity risks in key sourcing countries. We also assist our cut-and-sew vendors with conducting performance assessments using the Higg Index at the factory level. Through our Mill Sustainability program, we have engaged over 200 strategic mills in our efforts to assess water-related risks and opportunities, and are expanding our efforts to engage more directly on water-risk mitigation. We have partnered with the NRDC's Clean by Design program to improve water conservation and productivity at fabric mills in China, and have launched the India Water Partnership to build industry collaboration across our sourcing mills in the region.
Stakeholder conflicts concerning water resources at a basin/catchment level	Relevant, always included	Stakeholder conflict in our supply chain could affect our reputation and ability to source products on favorable terms. Our Global Sustainability department uses internal methods and engages with external consultants to actively monitor and, where appropriate, engage stakeholders on social and environmental issues, including water quality, availability and access. As part of our USAID partnership, we will work to ensure local water resources are managed sustainably in two locations in India, in partnership with the Institute for Sustainable Communities (ISC), using the CEO Water Mandate's terms.
Implications of water on your key commodities/raw materials	Relevant, always included	Changes in water access and water-related events such as drought or flooding could affect the cost of cotton, which is used in the majority of our products, and other raw materials. Gap Inc.'s Supply Chain and Sourcing team monitors and responds to risks for key raw materials using a multifactor model that includes cotton futures pricing. The team's work to develop and maintain a diverse supplier base across a number of countries reduces risk on an ongoing basis. We also evaluate water and other environmental risks in key sourcing countries through our country-level risk assessments, informed by WRI Aqueduct, and we are working to improve our methods for assessing cotton risks. We joined the Better Cotton Initiative in 2016 as part of our ongoing efforts to integrate more sustainable materials into our product design and sourcing practices, and have set a goal for Gap brand of 100% sustainable cotton by 2021.
Water-related regulatory frameworks	Relevant, always included	Changes in water access and water-related events such as drought or flooding could affect the cost of cotton, which is used in the majority of our products, and other raw materials. Gap Inc.'s Supply Chain and Sourcing team monitors and responds to risks for key raw materials using an internal multifactor model that includes cotton futures pricing. The team's work to develop and maintain a diverse supplier base across a number of countries reduces risk on an ongoing basis. We also evaluate water and other environmental risks in key sourcing countries through our country-level risk assessments, informed by WRI Aqueduct, and we are working to improve our methods for assessing cotton risks. We joined the Better Cotton Initiative in 2016 as part of our ongoing efforts to integrate more sustainable materials into our product design and sourcing practices, and have set a goal for Gap brand of 100% sustainable cotton by 2021.
Status of ecosystems and habitats	Relevant, always included	We understand the use of water and chemicals during various stages of our supply chain could have impacts on local ecosystems and habitats. Many of these impacts occur at stages where we have less influence, including cotton and fiber production, though we have identified areas of higher risk, which we have mapped and identified with the WRI Aqueduct tool. Nevertheless, we are working to promote practices that could help to protect local ecosystems and habitats through our Water Quality program (WQP) for denim laundries, Mill Sustainability program and participation in the Better Cotton Initiative, and ZDHC, especially its MRSL and Wastewater Guidelines. With WQP, we are able to assess risk through testing of wastewater discharge from vendor laundry facilities; vendors are required to pass these tests to be compliant with our program.
Access to fully- functioning, safely managed WASH services for all employees	Relevant, always included	Access to WASH services could affect the well-being and productivity of the workers who make our clothes, which in turn could affect our ability to source products on favorable terms Our Code of Vendor Conduct and assessments of the factories that make our branded products cover EHS issues, including access to water and sanitation. WASH is included as a training module for garment workers and community members as part of Gap Inc.'s P.A.C.E. program, which teaches life and job skills to women. As part of our USAID partnership, we are expanding our Women + Water program to reach women in communities touched by our business (mill and cotton growing communities) with access to WASH services. In 2016 we became a signatory to the UN Global Compact's CEO Water Mandate where we participate in working groups related to best practices on human rights and WASH, water metrics impact and disclosure, water in operations and supply chain, and collective action and policy engagement. Alongside other companies, we are working with WaterAid to develop a business case to better measure the ROI on WASH investments in corporate supply chains.
Other contextual issues, please specify	Please select	

# W3.3c

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		Please explain
	& inclusion	
Customers	Relevant, always included	The potential impact of water-related events, such as risks from drought or flooding, on our stores and customers is factored into asset-level risk assessments conducted by our Corporate Business Continuity Planning (BCP) department. Our BCP team develops annual preparedness plans on a country-by-country basis to address risks that could affect the well-being of customers and employees in our stores. Flooding, droughts or natural disasters involving high levels of rainfall could close our stores and affect nearby communities, impacting customers, such as recent hurricanes and flooding in Texas and Puerto Rico in 2017.
always assessments conducted by our Corporate Business Continuity Planning (BCP) department. Our BCP included address risks that could affect the well-being of Gap Inc. employees at our facilities or on the job. We		The potential impact of water-related events, such as risks from drought or flooding, on employee safety and well-being including access to clean water is factored into asset-level risk assessments conducted by our Corporate Business Continuity Planning (BCP) department. Our BCP team develops annual preparedness plans on a country-by-country basis to address risks that could affect the well-being of Gap Inc. employees at our facilities or on the job. We engage our employees on direct and indirect water risks through direct communications with our facilities teams, as well as through Company-wide communications such emails, internal communications, as well as lobby and restroom signs.
Investors	Relevant, always included	Natural disasters, such as hurricanes, tornadoes, floods, earthquakes, and other adverse weather and climate conditions; etc., could adversely affect our operations and financial results, impacting investors. We engage investors through our public reporting on water and other sustainability issues, ad hoc responses to inquiries and in-person meetings. We conduct ongoing evaluations of business risks related to water issues across our business and implement various programs to mitigate those risks. These water-related risks range from pricing for raw materials to supply chain disruptions associated with global sourcing and manufacturing. In 2016, we worked with Ceres, an NGO working with an influential investor group, to conduct a multi-stakeholder dialogue to inform our water strategy. This group included investor groups which provided their input to our strategy, including: Ceres, Calvert Investments, CARE, Conservation International, Forum for the Future, Interfaith Center for Corporate Responsibility, International Center Research on Women, Institute for Sustainable Communities, Natural Resources Defense Council, Pacific Institute, Solidaridad, and WWF. These stakeholders are leading experts in water resource strategy and investment.
Local communities	Relevant, always included	Flooding, droughts or natural disasters involving high levels of rainfall could close our stores and affect nearby communities, such as recent hurricanes and flooding in Texas and Puerto Rico in 2017.
NGOs	Relevant, always included	We have worked closely with a number of international and local NGOs in key sourcing countries to evaluate and address water risks in our supply chain. At the international level, our work to assess and take action on water-related risks and opportunities has included Conservation International, NRDC and WWF, Ceres, ZDHC, SAC. Local examples include our engagement with IPE in China and our work with Race to the Top in Vietnam to address regulatory issues that have affected or could impact mills that supply fabrics for our branded products. These stakeholders are factored into our water risk assessment due to their international and local understanding of water risk and resource management, as well as their partnership in implementation of our water programs. In addition, in FY2016 we entered into a multi-year Global Development Alliance with the U.S. Agency for International Development (USAID) to expand our P.A.C.E. program with a specific focus on WASH, support access to WASH services and products through finance, and aggregate stakeholders around proven WASH investments and water stewardship practices. We are working with NGO partners CARE, ICRW, Water.org, and ISC to implement the program.
Other water users at a basin/catchment level	Relevant, sometimes included	We have worked with WRI and Conservation International to assess water quality and quantity risks in key sourcing countries in Asia. These assessments have led us to address the impact of water risks on the well-being of the female garment workers that make our clothes, as well as their communities. We are providing training on good water, sanitation and hygiene (WASH) practices through our P.A.C.E. (Personal Advancement and Career Enhancement) program to women in community settings and factories. The program is intended to improve the health, well-being and productivity of women participants, while also providing spillover benefits to their families and other community members.
Regulators	Relevant, always included	Our Code of Vendor Conduct requires, and our factory assessment process checks for, full compliance with country and local environmental laws and regulations. China has introduced new water quality emissions standards that apply to apparel mills in our supply chain. A Chinese NGO, IPE, is identifying companies that do not comply with these new standards. We are engaging river basin management authorities at the local level through our engagement with IPE in China and our work with Race to the Top in Vietnam. Through this engagement, we are helping take measures to reduce or avoid regulatory action that could disrupt our ability to source products on favorable terms.
River basin management authorities	Relevant, always included	We are engaging river basin management authorities at the local level through our engagement with IPE in China and our work with Race to the Top in Vietnam. Through this engagement, we are helping mills take measures to reduce or avoid regulatory action that could disrupt our ability to source products on favorable terms. The USAID Women + Water Alliance will also be engaging with river basin management authorities in India in two river basins where we source product.
Statutory special interest groups at a local level	Relevant, always included	Our Global Sustainability department actively monitors and, where appropriate, engages stakeholders on a variety of matters, including issues related to water risks. We have worked with the local environmental NGO IPE in China as part of our efforts to engage other local stakeholders and regulators and help mills take action to reduce regulatory risks.
Suppliers	Relevant, always included	We have supported all of our Tier 1 garment suppliers with conducting environmental footprint assessments using the Sustainable Apparel Coalition's (SAC) Higg Index. Through our Mill Sustainability Program, we have engaged over 200 strategic mills globally to conduct environmental assessments, including water consumption and wastewater treatment and disposal using the Higg Index. We have also actively monitored and helped to remediate wastewater quality at denim laundries through our Water Quality Program (WQP) and recently strengthened our WQP requirements. We are also an active partner in the Zero Discharge of Hazardous Chemicals (ZDHC) 2020 Roadmap to eliminate hazardous chemicals from our supply chain by 2020.
Water utilities at a local level	Relevant, always included	Through the USAID/Gap Inc. Women + Water Alliance we will be engaging with water utilities at a local level in India in two river basins where we source product. We are working with NGO partners CARE, ICRW, Water.org, and ISC to implement the program. Our partner, Water.org built national and state level government support for water and sanitation lending by collaborating with Ministry of Drinking Water and Sanitation (MDWS) to issue a circular to promote water and sanitation lending options at the district level, including within the target districts chosen by the W+W Alliance in Madhya Pradesh.
Other stakeholder, please specify	Please select	

## W3.3d

(W3.3d) Describe your organization's process for identifying, assessing, and responding to water-related risks within your direct operations and other stages of your value chain.

We use tools, such as WRI Aqueduct, Life Cycle Assessment, as well as advice from external consultants, to understand global water-related risk patterns affecting countries and water basins from where we source, examining over the next 6-10 years and are continually working to improve our methods for assessing risks to agriculture, for our supply of cotton, as well as water use and discharge in manufacturing. Alongside a global view, we combine our internal knowledge of materials sourcing and production to build an understanding of our supply chain and sourcing impacts through LCAs of our products, to understand directly where water-related risks exist in our value chain.

In 2016, the results of LCA on representative products of our supply chain enabled us to build internal tools that help evaluate the water-risks of our supply chain, which we have implemented over the following years as well as better focus our work on water risks. Currently, we focus on the highest areas of impact for our value chain, from raw materials to end of life, and, using primary data for sourcing and manufacturing, utilize our LCA work to understand specific hotspots by product, sourcing location and material.

We respond to identified risks in several ways. We request all Tier 1 suppliers of branded products, and identified strategic Tier 2 mills, to report on water consumption using the Sustainable Apparel Coalition's (SAC) Higg Index. This allows us to both identify and address water-related risks within our immediate supply chain. With this, we are working on integrating environmental data, including water use, into our sourcing scorecards and decisions. We have built a comprehensive evaluation of our raw materials, especially cotton, which is a large user of global water supplies. Historically, fiber traceability has been a challenge, so we greatly improved our systems in 2017 to enable us to track our fiber consumption, which will help us track toward our goals.

#### W4.1

(W4.1) Have you identified any inherent water-related risks with the potential to have a substantive financial or strategic impact on your business?

Yes, only in our value chain beyond our direct operations

#### W4.1a

(W4.1a) How does your organization define substantive financial or strategic impact on your business?

Substantive changes from water risks in our supply chain include those that could have a substantial impact on our business results incurring financial impacts which would be demonstrated in our financial filings such as Form 10-K or reputation with key stakeholders. These could include disruptions in our ability to source products or increases in product costs due to risks such as water scarcity, quality, pollution, drought or flooding. Risk of water availability to our suppliers' operations could lead to significant delays in production as our suppliers' capacity is diminished, which could lead to lost sales for our business. Water-related impacts such as drought, storms or extensive flooding in agricultural regions where cotton is produced could substantially increase the cost of cotton, which is an essential raw material for our product, affecting our costs of goods sold. Similarly, water-related impacts in regions where we manufacture may cause disruption or delay in our supply chain. In particular, these types of events could impact our supply chain from or to the impacted region and could impact our ability or the ability of our franchisees or other third parties to operate our stores or websites. In addition, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally. Disasters occurring at our vendors' manufacturing facilities could impact our reputation and our customers' perception of our brands. To the extent any of these events occur, our operations and financial results could be adversely affected.

They could also include reputation risks due to the impact of water-related risks that affect the well-being of the people who make our clothes or local communities. These reputation risks could adversely affect consumers' perceptions of our brands and lead to lower demand for our products.

#### W4.1b

(W4.1b) What is the total number of facilities exposed to water risks with the potential to have a substantive financial or strategic impact on your business, and what proportion of your company-wide facilities does this represent?

	Total number of facilities exposed to water risk	wide facilities	Comment
Row 1	25		We've identified water-intensive operations exposed to water risk through water risk mapping, using the WRI Water Risk Atlas, and risk management processes previously referenced. These facilities represent some our suppliers' preferred and tier 2 mills, as well as laundries in India and Pakistan. The number of facilities represents localities with identified supplier facilities within these two countries where we have identified water risk.

# W4.1c

(W4.1c) By river basin, what is the number and proportion of facilities exposed to water risks that could have a substantive impact on your business, and what is the potential business impact associated with those facilities?

# W4.2a

(W4.2a) Provide details of risks identified within your value chain (beyond direct operations) with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.

### Country/Region

China

#### River basin

Dong Jiang

#### Stage of value chain

Supply chain

#### Type of risk

Physical

#### Primary risk driver

Increased water stress

## **Primary potential impact**

Reduction or disruption in production capacity

#### Company-specific description

Gap Inc. brands sourced approx. 22% of merchandise from China in fiscal 2017. Our risk assessments indicate the ability to source products from China on favorable terms could be affected by a number of water-related risks, including water scarcity, stress and extreme weather events such as drought or flooding. Water is a key input at many stages of our supply chain in China, from growing cotton to fabric mills and denim laundries. Cotton is used in a majority of our products and requires substantial quantities of water and chemicals, and China is one of the largest global cotton producers.

#### **Timeframe**

1 - 3 years

### Magnitude of potential financial impact

Medium-low

#### Likelihood

Likely

#### Potential financial impact

1000000

#### **Explanation of financial impact**

Experiencing supply chain disruption would cause financial impacts for our sourcing, potentially requiring production shifts or delaying product delivery. China has been enforcing environmental laws more stringently, especially for facilities that discharge wastewater, which has caused facility closures and supply chain disruptions throughout the industry. We expect this to continue into the near-term over 1-3 years and potentially beyond.

#### Primary response to risk

Supplier diversification

### **Description of response**

Our Supply Chain and Sourcing teams' work to develop and maintain a diverse supplier base across a number of countries reduces risk on an ongoing basis. We are working to integrate more sustainable materials, which are less vulnerable to climate and other environmental impacts, into our product design and sourcing practices. We are also working to use more sustainable fabrics and raw materials (such as Gap brand's goal to use 100% sustainable cotton, including BCI cotton, by 2021) that use less water; since 2016, we have already sourced 105 million pounds of BCI cotton. We have conducted comprehensive environmental audits, including water consumption and wastewater treatment and disposal, using the Sustainable Apparel Coalition's (SAC) Higg Index with all of our strategic mill partners, achieving a 94% response rate. Three mills in China that we helped participate in the NRDC's Clean by Design program achieved significant reductions in water and electricity use, as well as wastewater discharge. China has imposed regulations that are continuing to affect fabric mills, contributing to more mills improving their performance. We request all of our Tier 1 suppliers conduct and report annually on their environmental footprint assessments using the Higg Index. We have also actively monitored and helped to remediate wastewater quality at denim laundries through our Water Quality Program (WQP).

# Cost of response

500000

# Explanation of cost of response

Management costs include reoccurring employee resources and time and contributions to external partners. Personnel costs include the costs of Supply Chain, Sourcing and Global Sustainability personnel who are involved in engaging fabric mills and apparel suppliers.

# W4.2b

(W4.2b) Why does your organization not consider itself exposed to water risks in its direct operations with the potential to have a substantive financial or strategic impact?

	Primary reason	Please explain
1	but no substantive	We have approximately 3,600 Company-operated and franchise stores globally, as well as an online retail presence. We do not consider ourselves exposed to water risks in our direct operations as we have a highly-diversified retail presence and are unlikely to experience widespread impact to direct operations. We have, historically, had water related impacts to direct operations such as flooding and storm damage from Hurricanes Harvey, Irma, and Maria in 2017 which temporarily impacted some retail stores, and these have not shown to cause substantive impact, which includes incurring financial impacts which would be demonstrated in our financial filings such as Form 10-K.

# W4.3

W4.3a

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#### (W4.3a) Provide details of opportunities currently being realized that could have a substantive financial or strategic impact on your business.

#### Type of opportunity

Resilience

#### Primary water-related opportunity

Increased supply chain resilience

#### Company-specific description & strategy to realize opportunity

In the long-term, we see the importance of building a more resilient supply chain, beginning with raw materials. We joined the Better Cotton Initiative in 2016 as part of our ongoing efforts to integrate more sustainable materials into our product design and sourcing practices, and have set a goal for Gap brand of 100% sustainable cotton by 2021, alongside Athleta's goal to source sustainable fibers for 80% of their materials by 2020. Cotton sourcing for our other brands incorporates an increasing amount of more sustainable cotton, especially Better Cotton. As we continue to evolve our sourcing practices, we are also developing an understanding of the regions from where we source, to understand risk from water-sensitive areas alongside other impacts arising from climate change.

#### Estimated timeframe for realization

1 to 3 years

#### Magnitude of potential financial impact

Low-medium

### Potential financial impact

52000

#### **Explanation of financial impact**

The number provided is the membership fee cost for large companies as defined by BCI, however our total costs may vary. Retailers and Brand members pay a Membership Fee and a variable Volume Based Fee (VBF). The membership fee is calculated on total cotton lint footprint, and the VBF is calculated on how much Better Cotton is sourced.

#### Type of opportunity

Products and services

#### Primary water-related opportunity

New R&D opportunities

### Company-specific description & strategy to realize opportunity

We are committed to pursuing technology and product innovation on an ongoing basis. In recent years, we've begun to build on our capabilities and empower our employees to make sustainability part of their jobs. Our brands are tasked with developing strategies to improve their sustainability performance, and in 2017, both our Athleta and Gap brands released public goals to improve the materials they source. Since up to 80% of a product's environmental impact is tied to decisions made in design and development, reducing water impacts begins with innovative product design. We are working with our designers to evaluate a variety of factors that can reduce water impacts throughout a product's life cycle. These factors include: the type of raw materials and how much are used, how our products are manufactured and how long our clothes are designed to last. For instance, Gap has implemented a program called Washwell that promotes denim wash technologies that incorporates water-savings.

#### Estimated timeframe for realization

4 to 6 years

### Magnitude of potential financial impact

Low-medium

# Potential financial impact

1000000

## **Explanation of financial impact**

We expect the financial impact to be at least \$1mm, however, depending on success of the program or other considerations, including consumer sentiment, the exact financial impact may vary significantly.

## Type of opportunity

Markets

### Primary water-related opportunity

Stronger competitive advantage

# Company-specific description & strategy to realize opportunity

Our brands are also taking a leading role by establishing their own sustainability goals. From its start, Athleta has been grounded in the values of taking care of ourselves and our environment. In 2015, the brand strengthened this commitment by integrating sustainability more deeply into the way it does business. Athleta took its efforts to the next level by building a passionate, knowledgeable, cross-functional team and making training courses and tools available to them. This included the development of ambitious sustainability targets and customer messaging. As part of its B Corp Certification, Athleta's corporate charter has been amended to update its purpose to include 'creating positive social and environmental impact, taken as a whole, through the products we offer, the treatment of our employees, customers, suppliers, and partners, the marketing of our products and brand, and our engagement with the broader community. Water-related issues are incorporated into Athleta's holistic work on environmental impact.

### Estimated timeframe for realization

Current - up to 1 year

# Magnitude of potential financial impact

Medium

### Potential financial impact

1000000

# **Explanation of financial impact**

We expect the financial impact to be at least \$1mm, however, depending on success of the program or other considerations, including consumer sentiment, the exact financial impact may vary significantly

# W6.1

## (W6.1) Does your organization have a water policy?

Yes, we have a documented water policy that is publicly available

# W6.1a

(W6.1a) Select the options that best describe the scope and content of your water policy.

	Scope	Content	Please explain
Row	Scope Company- wide	Description of business dependency on water Description of business impact on water Description of business impact on water Description of water-related standards for procurement Reference to international standards and widely-recognized water initiatives Company water targets and goals Commitment to align with public policy initiatives, such as the SDGs Commitments beyond regulatory compliance Commitment to water-related innovation Commitment to stakeholder awareness and education Commitment to water stewardship and/or collective action Acknowledgement of the human right	Our water policy is embedded in our sustainability strategy and programs, which we report on online and through our Global Sustainability Report, 2015 – 2016. The aim of our policies is to communicate that we believe clean, safe water is both an environmental issue and a basic human right. Water is also critical to our business and considered Company-wider—it is used to cultivate raw materials like cotton, consumed in the mills and laundries that manufacture our products. As a business that relies on water to create our products in communities where people need access to water for their daily lives, water stewardship is a core pillar of the Gap Inc. sustainability strategy. To help build the resilience of our Company, our supply chain and the people who make our clothes, we strategically address water use, water contamination and education about water and sanitation.
		water stewardship and/or collective action Acknowledgement	
		linkages, for example, due to climate change	

# W6.2

(W6.2) Is there board level oversight of water-related issues within your organization?

Yes

# W6.2a

(W6.2a) Identify the position(s) of the individual(s) on the board with responsibility for water-related issues.

Position	Please explain
of	
individual	
	The Gap Inc. Governance and Sustainability Committee of the Board of Directors assists the board in fulfilling its oversight responsibilities relating to the Company's corporate governance matters, including the development of corporate governance guidelines, periodic evaluation of the board, oversight of the Company's programs, policies and practices relating to social and environmental issues and impacts, and such other duties as directed by the board of directors. The Governance and Sustainability Committee is headed by the Board Chair. Specifically related to sustainability, the Committee's responsibilities mandates that they review and evaluate Company programs, policies and practices relating to social and environmental issues and impacts to support the sustainable growth of the Company's businesses. For example, the Committee receives regular updates on our progress against our water goals, in addition to their responsibility to advise on and review water-related initiatives.

### (W6.2b) Provide further details on the board's oversight of water-related issues.

	Frequency that water-related issues are a scheduled agenda item	Governance mechanisms into which water- related issues are integrated	Please explain
Rov 1	Scheduled - some meetings	Monitoring implementation and performance Overseeing major capital expenditures Reviewing and guiding business plans Reviewing and guiding major plans of action Reviewing and guiding risk management policies Reviewing and guiding strategy Reviewing and guiding strategy Reviewing and guiding corporate responsibility strategy Reviewing innovation/R&D priorities Setting performance objectives	Gap Inc.'s Board of Directors, particularly the Board's Governance and Sustainability Committee, oversees the Company's Global Sustainability program and receives regular briefings directly from the Senior Vice President of Global Sustainability and President, Cap Foundation. The Committee is updated on strategy, goals and progress related to water-related issues, sourcing risks and other environmental issues. The Board of Directors received updates on our 2017 enterprise goals for water related issues, specifically our goal to work with our suppliers to save 10 billion liters of water through our manufacturing processes by 2020.

### W6.3

(W6.3) Below board level, provide the highest-level management position(s) or committee(s) with responsibility for water-related issues.

## Name of the position(s) and/or committee(s)

Environment/Sustainability manager

### Responsibility

Both assessing and managing water-related risks and opportunities

### Frequency of reporting to the board on water-related issues

More frequently than quarterly

### Please explain

Gap Inc.'s Senior Vice President of Global Talent & Sustainability has the highest level of direct responsibility for water-related matters. Our environmental/sustainability executive reports to Executive Vice President and Chief People Officer, who reports directly to our CEO. The SVP meets regularly with Gap Inc.'s CEO, members of our Global Sustainability department and other business partners about our water strategy, ongoing water programs and specific water issues as they arise. Reports to the Board include regular presentations on our goals and progress, such as our target to reduce consumption within our manufacturing by 2020. The SVP has the highest responsibility for all environmental initiatives, including approving annual budgets and strategic plans, coordination with business partners representing our supply chain and strategic sourcing teams, as well as building support for larger initiatives such as our USAID partnership for Women + Water.

# W6.5

(W6.5) Do you engage in activities that could either directly or indirectly influence public policy on water through any of the following?

Yes, direct engagement with policy makers

Yes, trade associations

## W6.5a

(W6.5a) What processes do you have in place to ensure that all of your direct and indirect activities seeking to influence policy are consistent with your water policy/water commitments?

Our Government Affairs team sits within the same organization as our Sustainability team, allowing for close collaboration and alignment on policy priorities. Before taking action, we first evaluate policy proposals, working with internal stakeholders—including sustainability—to analyze the impacts of proposed policies and develop Companywide positions. Government Affairs participates on committees and working groups organized by advocacy organizations like BICEP/Ceres, as well as environmental and sustainability policy committees organized by retail industry trade associations. If inconsistencies are discovered between our engagement and our commitments, we would evaluate our activities and partnerships to ensure alignment. The team regularly consults with these groups when determining policy positions.

## W7. Business strategy

### W7.1

(W7.1) Are water-related issues integrated into any aspects of your long-term strategic business plan, and if so how?

	Are water- related issues integrated?	Long- term time horizon (years)	Please explain
Long- term business objectives	Yes, water- related issues are integrated	11-15	Changes in water access and water-related events such as drought or flooding could affect the cost of cotton, which is used in the majority of our products, and other raw materials. Gap Inc.'s Supply Chain and Sourcing team monitors and responds to risks for key raw materials using a multifactor model that includes cotton futures pricing. The team's work to develop and maintain a diverse supplier base across a number of countries reduces risk on an ongoing basis. In the long-term of 11-15 years, we see the importance of building a more resilient supply chain, beginning with raw materials. We joined the Better Cotton Initiative in 2016 as part of our ongoing efforts to integrate more sustainable materials into our product design and sourcing practices, and have set goals for sourcing across our brands. As we continue to evolve our sourcing practices, we are also developing an understanding of the regions from where we source, to understand risk from water-sensitive areas alongside other impacts arising from climate change. As part of our commitment to build Science Based Targets for climate goals which will be set for and implemented in the next 11-15 years, we have been mapping our supply chain and building our long-term business strategy to account for a more resilient supply chain, which includes water-related issues.
Strategy for achieving long-term objectives	related issues are integrated	11-15	Changes in water access and water-related events such as drought or flooding could affect the cost of cotton, which is used in the majority of our products, and other raw materials. Gap Inc.'s Supply Chain and Sourcing team monitors and responds to risks for key raw materials using a multifactor model that includes cotton futures pricing. The team's work to develop and maintain a diverse supplier base across a number of countries reduces risk on an ongoing basis. In the long-term of 11-15 years, we see the importance of building a more resilient supply chain, beginning with raw materials. We joined the Better Cotton Initiative in 2016 as part of our ongoing efforts to integrate more sustainable materials into our product design and sourcing practices, and have set goals for sourcing across our brands. As we continue to evolve our sourcing practices, we are also developing an understanding of the regions from where we source, to understand risk from water-sensitive areas alongside other impacts arising from climate change. As part of our commitment to build Science Based Targets for climate goals which will be set for and implemented in the next 11-15 years, we have been mapping our supply chain and building our long-term business strategy to account for a more resilient supply chain, which includes water-related issues.
Financial planning	Yes, water- related issues are integrated	11-15	Changes in water access and water-related events such as drought or flooding could affect the cost of cotton, which is used in the majority of our products, and other raw materials. Gap Inc.'s Supply Chain and Sourcing team monitors and responds to risks for key raw materials using a multifactor model that includes cotton futures pricing. The team's work to develop and maintain a diverse supplier base across a number of countries reduces risk on an ongoing basis. In the long-term of 11-15 years, we see the importance of building a more resilient supply chain, beginning with raw materials. We joined the Better Cotton Initiative in 2016 as part of our ongoing efforts to integrate more sustainable materials into our product design and sourcing practices, and have set goals for sourcing across our brands. As we continue to evolve our sourcing practices, we are also developing an understanding of the regions from where we source, to understand risk from water-sensitive areas alongside other impacts arising from climate change. As part of our commitment to build Science Based Targets for climate goals which will be set for and implemented in the next 11-15 years, we have been mapping our supply chain and building our long-term business strategy to account for a more resilient supply chain, which includes water-related issues.

# W7.2

(W7.2) What is the trend in your organization's water-related capital expenditure (CAPEX) and operating expenditure (OPEX) for the reporting year, and the anticipated trend for the next reporting year?

		Anticipated forward trend for CAPEX (+/- % change)		Anticipated forward trend for OPEX (+/- % change)	Please explain
Row 1	0	0	0		Water CAPEX is generally not relevant to our strategy our programs since we source all of the products we sell through third-party suppliers and do not own any manufacturing operations.

# W7.3

(W7.3) Does your organization use climate-related scenario analysis to inform its business strategy?

	Use of climate-related scenario analysis	Comment
Row 1	No plans for the next two years	

# W7.4

#### (W7.4) Does your company use an internal price on water?

### Row 1

### Does your company use an internal price on water?

No, and we do not anticipate doing so within the next two years

Please explain

## W8. Targets

### W8.1

(W8.1) Describe your approach to setting and monitoring water-related targets and/or goals.

		at	Approach to setting and monitoring targets and/or goals
Row	Company- wide targets		We support our tier 1 & 2 suppliers in conducting environmental footprint assessments using the Sustainable Apparel Coalition's (SAC) Higg Index. We are also actively monitoring and helping improve wastewater quality at denim laundries through our Water Quality Program, which expects complete compliance with wastewater quidelines. We monitor
1			through reported facility-level results from the Higg Index, and in order to achieve savings, we work with various collaborative initiatives that have measurable water-saving
	Business	corporate	outcomes, such as PaCT, India Water Partnership and Race to the Top. With product-based projects, such as our Washwell processing for our denim, we calculate savings based
	level specific	level	on baselines for the volume produced. Traditional fabric mills use a great deal of water and chemicals during the dyeing and finishing process, and wastewater must be treated to
	targets and/or	Goals are	ensure that both ecosystems and nearby communities are protected. Laundries, especially for denim, also require a great deal of water and pose pollution risks. Gap Inc. is
	goals	monitored	working with fabric mills and laundries to improve practices, and we are pursuing partnerships across our supply chain to reduce water and chemicals use. Launched in 2013, our
	Brand/product	at the	Mill Sustainability Program aims to improve the practices of fabric mills. Our program establishes clear environmental standards, and we are integrating those standards into our
	specific	corporate	sourcing decisions. In 2017, we expanded our program significantly to engage with all our strategic mills, representing the majority of our fabric spend, to meet our goals around
	targets and/or	level	water savings and chemical usage. We aim to save 10 billion liters of water in our manufacturing processes by the end of 2020.
	goals		

#### W8.1a

(W8.1a) Provide details of your water targets that are monitored at the corporate level, and the progress made.

### Target reference number

Target 1

## Category of target

Water consumption

### Level

Company-wide

# **Primary motivation**

Reduced environmental impact

### Description of target

Gap Inc. is working with fabric mills and laundries to improve practices, and we are pursuing partnerships across our supply chain to reduce water and chemicals use. We set and achieved a goal to save 1 billion liters of water in our manufacturing processes by the end of 2017. In 2018, we unveiled a new sustainable manufacturing goal to conserve a total of 10 billion liters of water by the end of 2020. Product innovation and efficiency improvements at fabric mills and laundries will be key to achieving these water savings. Progress towards the goal is already underway: since 2014, Gap Inc.-led projects have saved more than 2.4 billion liters of water. We also actively monitor and help improve wastewater quality at denim laundries through our strengthened Water Quality Program, which was first launched in 2004 to help ensure that wastewater from denim laundries is properly treated.

# Quantitative metric

Other, please specify (Absolute reduction in water consumption)

# Baseline year

2016

### Start year

2017

# Target year

2018

# % achieved

100

## Please explain

The new manufacturing goal is part of the Gap Inc.'s water stewardship strategy, which includes a focus on lessening the impact at the raw materials and product design level as well as helping communities touched by its business improve access to clean water and sanitation. We achieved and exceeded our first goal, to save 1 billion liters in manufacturing in 2017, and have thus set a more ambitious goal in 2018, aimed at 2020.

# W8.1b

#### (W8.1b) Provide details of your water goal(s) that are monitored at the corporate level and the progress made.

#### Goal

Engagement with suppliers to reduce the water-related impact of supplied products

#### Level

Company-wide

#### Motivation

Water stewardship

#### **Description of goal**

Gap Inc. announced a new sustainable manufacturing goal to conserve a total of 10 billion liters of water by the end of 2020. Product innovation and efficiency improvements at fabric mills and laundries will be key to achieving these water savings. Progress towards the goal is already underway: since 2014, Gap Inc.-led projects have saved more than 2.4 billion liters of water. To ensure a broader impact, Gap Inc. is also working with other leading brands to advocate for the implementation of more environmentally responsible manufacturing practices. This includes working to help scale the Natural Resources Defense Council (NRDC)'s Clean by Design program, which is focused on helping mills improve their operational efficiencies to reduce water, energy and chemical use, and serving as a founding member of the SAC's Apparel Impact Institute. Gap Inc. is also a member of the Zero Discharge of Hazardous Chemicals (ZDHC) Programme. ZDHC members have made a shared commitment to help lead the industry towards elimination of hazardous chemicals in apparel and footwear product lifecycles by 2020. Additionally, Gap Inc. is a signatory to the United Nations Global Compact CEO Water Mandate.

#### Baseline year

2017

#### Start year

2018

#### End year

2020

#### Progress

Progress towards the goal is already underway: since 2014, Gap Inc.-led projects have saved more than 2.4 billion liters of water. Using these techniques and conservation measures, we are measuring additional progress with 2017 as a baseline year. We measure progress through calculations of water-saving techniques utilized by product development per unit produced, alongside water-saving projects implemented by supplier and manufacturing partners.

### W9. Linkages and trade-offs

## W9.1

(W9.1) Has your organization identified any linkages or tradeoffs between water and other environmental issues in its direct operations and/or other parts of its value chain?

Yes

### W9.1a

(W9.1a) Describe the linkages or tradeoffs and the related management policy or action.

# Linkage or tradeoff

Linkage

# Type of linkage/tradeoff

Decreased energy use

# Description of linkage/tradeoff

The use of chemicals and energy are linked to water consumption at fabric mills and laundries. Water stewardship, chemicals & toxics management and energy & climate stewardship have all been identified as important issues to our business and stakeholders through our sustainability materiality assessment. Our facility-level assessments through the Higg Index cover, as well as our work with ZDHC, work to reduce all these material issues. Often, due to the cost of energy, we are able to work with suppliers to both decrease energy use, reduce chemical impacts and improve water stewardship as a linked management policy. We can quantitively measure this linkage through the Higg Index data collection and our collaborative partnerships. To drive impact, we have set a goal to reduce water consumption in our production by 10 billion liters by 2020, as well as are developing a Science-Based Target for GHG emissions that will address our supply chain impacts.

## Policy or action

Fabric mills and denim laundries use large quantities of water, and the chemicals used to dye and finish fabrics pose a risk to local waterways. We have programs in place both to improve water practices at fabric mills and ensure that washing denim does not contaminate local waterways or harm local communities. We have developed an integrated sustainability strategy that addresses water stewardship, chemicals and toxics management and GHG and energy emissions in our supply chain. Our Mill Sustainability program helps over 200 strategic mill partners in key sourcing countries with water risks to identify ways to improve the use of water, chemicals and energy. This reduces their energy usage, water consumption and improves water quality through reduced chemical usage. We are expanding the program to engage and set performance standards for all strategic mills. We are an active partner in the Zero Discharge of Hazardous Chemicals 2020 Roadmap to eliminate hazardous chemicals from our supply chain by 2020. We continue to engage our cut-sew factories and mill facilities through the SAC's Higg Index. By helping suppliers understand environmental impacts, we can help to make connections between energy and water linkages and identify opportunities for impact reduction. We have created and shared data visualization tools that helps suppliers understand and identify opportunities to improve their use of water, energy and chemicals, and reduce GHG emissions.

# W10. Verification

### W10.1

(W10.1) Do you verify any other water information reported in your CDP disclosure (not already covered by W5.1d)?

No, but we are actively considering verifying within the next two years

# W11. Sign off

### W-FI

(W-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.

# W11.1

(W11.1) Provide details for the person that has signed off (approved) your CDP water response.

	Job title	Corresponding job category
Row 1	Senior Vice President of Global Sustainability and President, Gap Foundation	Environment/Sustainability manager

## W11.2

(W11.2) Please indicate whether your organization agrees for CDP to transfer your publicly disclosed data on your impact and risk response strategies to the CEO Water Mandate's Water Action Hub [applies only to W2.1a (response to impacts), W4.2 and W4.2a (response to risks)].

Yes

# Submit your response

In which language are you submitting your response?

English

Please confirm how your response should be handled by CDP

	Public or Non-Public Submission	I am submitting to
I am submitting my response	Public	Investors

# Please confirm below

I have read and accept the applicable Terms