

Managing Ethics & Social Compliance Risk in the Supply Chain

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Compliance Week *West*

Managing Ethical and Social Compliance Risks

- Increasing pace of globalization and competition
 - *Worldwide, multi-tiered supplier networks*
- Bad news spreads faster
 - *Rising role of NGOs and social media*
- Risk of reputational brand damage
 - *Expectations of good corporate citizenship*
- Sustainability, quality & environmental compliance
 - *Product traceability, restricted substances*
- Increasing number of social compliance standards
 - *Sorting through complexity and handling contention*
- Audit fatigue and data integrity issues
 - *Increasing number and cost of audits from multiple entities*

Questions for the Panel

- How do we handle an NGO alert / social compliance issue before conditions spiral out of control?
- What is the effect on brands; what are the potential losses?
- How do we increase supplier involvement and ownership?
- How can we develop and manage policies and effectively communicate expectations to suppliers?
- How can we facilitate suppliers' efforts to provide relevant data and demonstrate compliance? Is there a way to avoid falsification of data?
- How can we collaborate with vendors to implement corrective actions?
- How to set up proper audit scope: social and fair labor, environmental, workplace health and safety?
- How can we move from social compliance to social performance?
- Models for building an approach to sustainability?

Ethics & Social Compliance Risk: Target Corp.

Scott Lercel

*Director of social responsibility and sustainability
Target Corp.*

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Ethics & Compliance Risks in the Supply Chain

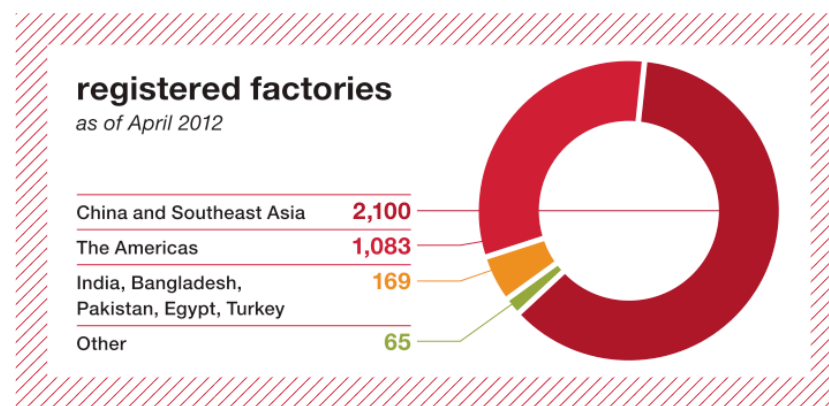
Target's Social Compliance Program

- Standards of Vendor Engagement
- Audit Process and Audit Results
- Types of Non-Compliant Facilities

Target's Social Compliance Program

The mission of Target's Social Compliance team is to ensure that our products are produced ethically and in accordance with the local laws, Target's Standards of Vendor Engagement (SOVE), and our Vendor Conduct Guide. Our SOVE are eight business principles that form the basis of our Social Compliance program. We will not knowingly work with any company that does not comply with our ethical standards, we benchmark our standards against those of other companies, and we work closely with nongovernmental organizations (NGOs) that focus on social responsibility.

1. Our business partners must provide safe and healthy workplaces that comply with local laws. If our partners provide residential facilities for their workers, these must be safe, healthy and in compliance with local standards.
2. No forced or compulsory labor. We will not knowingly work with business partners who use forced labor in the manufacturing of products.
3. No physical or mental punishment used against employees.
4. While we respect cultural differences, we believe workers should be employed based on their abilities, and we encourage our business partners to eliminate workplace discrimination based on race, gender, personal characteristics or beliefs.
5. We seek business partners who do not require a work week that exceeds local laws or business customs and who do not require a week of more than 48 hours, plus a maximum of 12 hours overtime, on a regularly scheduled basis. Workers shall have at least one in seven days off.
6. Fair wages and benefits must be provided in compliance with local laws; in addition, we encourage our partners to improve wages and benefits to address the basic needs of workers and their families.
7. No child labor, which we define as being below the local minimum working age or age 15, whichever is greater.
8. We will not work with business partners who use deceptive practices to deliberately misrepresent country of origin to evade quota or import restrictions or duties on products that will be sold in our stores



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Audit Process

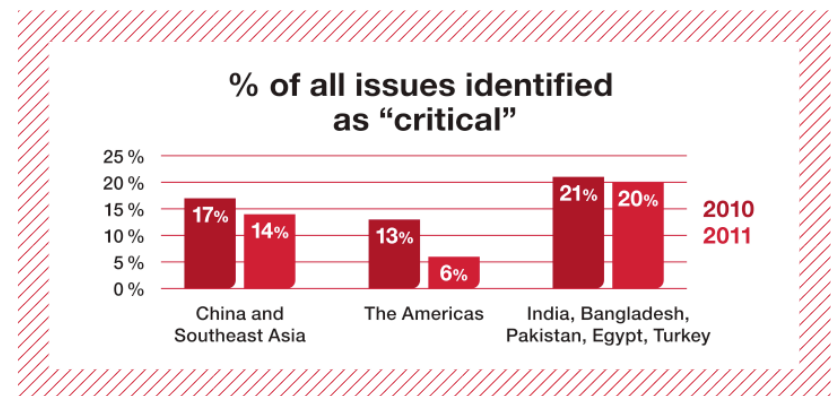
Our audit process includes 100 percent unannounced audits. We use our own internal audit forms and tools and, in most countries, our own auditors, who complete robust training in our standards and audit processes. In countries where we use a third-party auditor, we train them and require them to use our processes and tools.

The unannounced visit consists of a meeting with facility management to explain the purpose of the visit and collect documentation, a robust tour of the facility, and interviews with management and select employees to determine working conditions, treatment of workers and the hiring process. The auditor also reviews personnel, wage and time records to verify the facility meets local labor law requirements. At the conclusion, the auditor explains any violations with management and discusses corrective actions and next steps.

A facility is allowed up to 20 minutes after the auditor arrives before the audit begins. If the audit does not begin within this time, the auditor will leave and Target will consider this a denied audit. In 2010, 1.9 percent of all audits were denied; in 2011, 1.6 percent audits were denied.

Audit Results

- Acceptable
- Needs Improvement
- At-Risk
- Non-Compliant



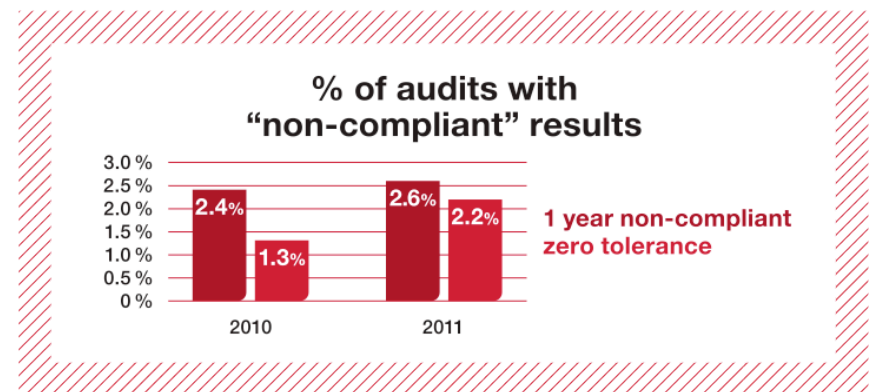
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Target's Social Compliance Program

Types of Non-Compliant Facilities

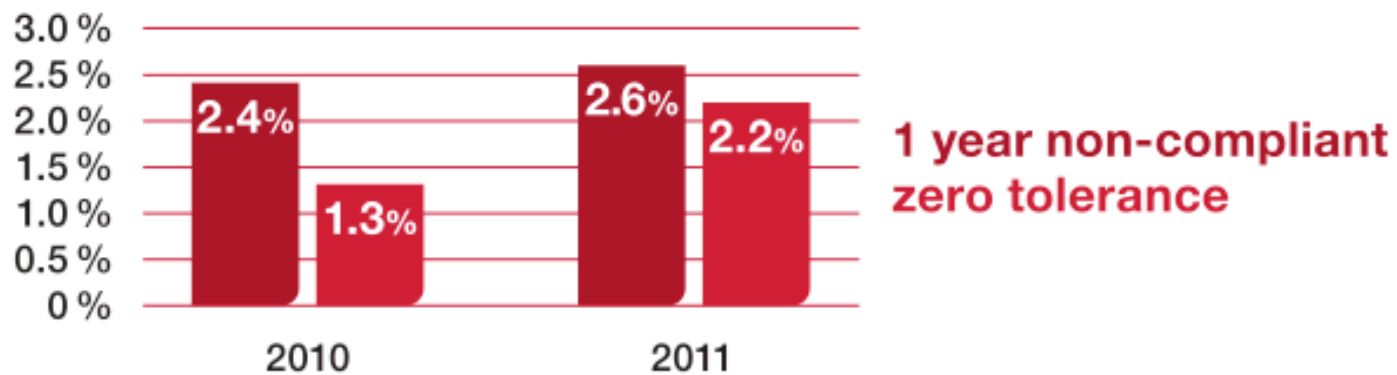
Target recognizes two types of non-compliant facilities, One-Year Non-Compliant and Zero Tolerance.

- One-Year Non-Compliant
- Zero Tolerance
 - Child Labor
 - Forced Labor
 - Corporal Punishment
 - Bribery



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% of audits with “non-compliant” results



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Ethics & Social Compliance Risk: Gap Inc.

Kindley Walsh-Lawlor

*Vice president of social and environmental
responsibility, Gap Inc.*

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Gap Inc. Social & Environmental Responsibility

What social responsibility means to us

Every day, Gap Inc. actively embraces our responsibility to people and the planet—ensuring that those who make our clothes have safe and fair working conditions. Finding innovative ways to protect natural resources. Helping employees reach their career goals. Making a positive impact in communities around the world. Acting with integrity. And reporting to you regularly on this important work.

www.gapinc.com/socialresponsibility

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Gap Inc. Social & Environmental Responsibility

Who is Gap Inc?



3,200+
stores worldwide

\$14.5 B
sales in FY11

90
countries
outside the U.S.

132,000
employees

1,200+
factories
monitored in

32
countries

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Gap Inc. Social & Environmental Responsibility

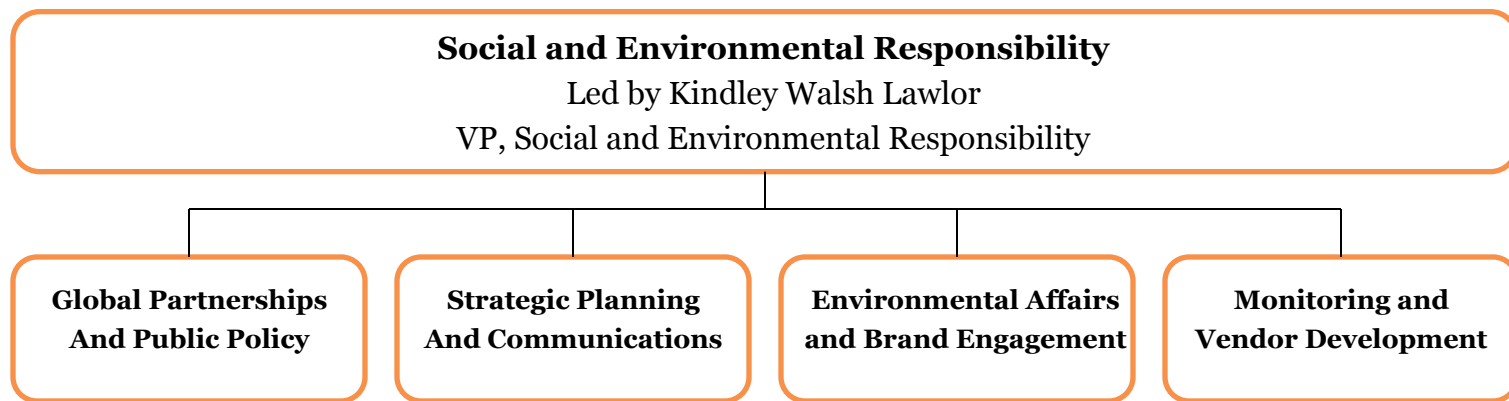
Our History



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Gap Inc. Social & Environmental Responsibility

Our structure and team at a glance



Social and Environmental Responsibility team:

- Team of approximately 70 people located in 22 countries
- Over 40 languages spoken
- Locally hired

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Gap Inc. Social & Environmental Responsibility

Our areas of focus



While Community Investment and Employees are a core part of our efforts to be a responsible company, **Gap Inc.'s Social and Environmental Responsibility department** is predominantly focused on the **Environment** and our **Supply Chain**.

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Thank you

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