REPORT

1999 Gap Inc. Annual Report

One Harrison Street
San Francisco CA 94105

Introduction Gap, Banana Republic and Old Navy share the same basic philosophy: to be where our customers are—and consistently serve them in a way that's personal and focused. That sets us apart. That distinct point of view makes us successful.

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LETTER TO SHAREHOLDERS


Donald G. Fisher
Chairman and Founder

Millard S. Drexler
President and Chief Executive Officer

Our performance begins and ends with our customers. We never forget that. Every day we try to listen more to what customers are telling us, and work harder to exceed their expectations.

Our ability to continually change and evolve our brands is what drives our long-term success, and our passion for innovation is what keeps Gap, Banana Republic and Old Navy exciting. From product design and distribution, to marketing, merchandising and shopping environments, we control our brands and what our customers touch, see and feel. We believe that's a competitive advantage as the retail world today moves at Internet speed.

Gap, Banana Republic and Old Navy always strive to deliver distinct identities, focused points of view and an emphasis on convenience and accessibility that make shopping simple and easy. So whether customers call, walk, drive or surf to our stores, we know the brand experience will be the same.

As our brands evolve, quality growth is always our priority. In 1999, Gap, Banana Republic and Old Navy turned in another year of record sales, earnings and new store openings. Our International division topped $1 billion in sales, and Old Navy passed $3.5 billion We opened more than 550 stores and expanded our online presence for each brand, with an emphasis on seamlessly integrating our online and in-store experiences.

We'll continue to drive quality growth with our dedicated, diverse and talented team of 140,000 employees worldwide. We're building a dynamic infrastructure to continually improve our ability to serve customers. And our ongoing focus on operational excellence lets us constantly reinvest in our business.

Every day, we know there's something we could have done better to satisfy more customers. That makes every day a growth opportunity. Gap Inc. employees don't measure success by what we've done, but by what we imagine we still can do.

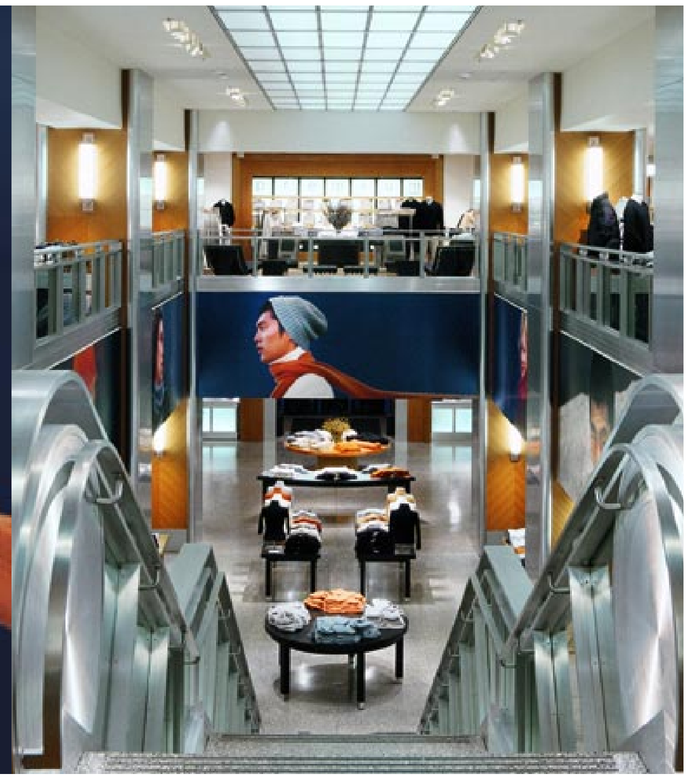
THREE DISTINCT BRANDS

Gap

Gap brings time-tested fashion elements together in a way that's fresh, easy to shop and comfortable to wear—for every age and every lifestyle. In 1999, we kept evolving the brand by refining our merchandise selections, enhancing the shopping experience and building strong relationships with more customers. From fun online features to cutting-edge window displays and merchandising, customers count on Gap to take fresh, new approaches to keeping the brand globally exciting.

THREE DISTINCT BRANDS

Banana Rebublic

With an emphasis on all things elegant, modern and comfortable, **Banana Republic** is the ultimate destination for style-conscious shoppers. Customers feel it in every aspect of the brand—from personalized service to a distinctive shopping experience.

In 1999, we built stronger relationships with our customers through exceptional service, targeted product assortments and seamless accessibility. Banana Republic defines what it means to live simply and dress effortlessly.

THREE DISTINCT BRANDS
Old Navy

Fun. Family. Fashion. Value. These are the things that make **Old Navy** a one-stop shopping destination. Old Navy delivers well designed clothing that appeals to the whole family at a value everyone can appreciate. Of course, we have fun along the way

Clever merchandise displays, neon signs and mannequins dressed in Old Navy's best bring fun into the shopping experience. With the right mix of product, service and personality, Old Navy proves it's possible to be individual—even in a mass market.

FOCUSED POINT OF VIEW

Banana Republic

An intense commitment to our discerning customer gave **Banana Republic** a strong voice in 1999. Today, the brand is a trusted editor for customers seeking comfortable luxury in how they live and what they wear. By offering collections such as cashmere and stretch, we make sure customers wear what they like, and like what they wear. A simple approach to marketing and merchandising speaks directly to customers looking for style that is effortless and flexible. The result? Everything we offer reflects the lifestyles of our customers—and transitions easily from career to casual, from weekend to evening. When it comes to offering exceptional style and service, Banana Republic stands alone.

FOCUSED POINT OF VIEW

Old Navy

Style- and bargain-conscious customers know where to look for one-stop shopping for the entire family. In 1999, **Old Navy** focused on merchandise availability and distribution—and increased style, size and color selections for customers throughout the United States. We also introduced ON Collection—a line of sophisticated sportswear—broadening the appeal for many customers. Products such as our colorful Tech Vests made it "hip to zip," and glitter inspired our Old Navy Sparkles line.

The Item of the Week makes it even easier for customers to find fashion and value by highlighting key fashions at low prices. Featured promotions are emblazoned on theater-style marquees and clothing is cleverly merchandised on displays that simulate merry-go-rounds and market counters. From store experience to merchandising to advertising, Old Navy has held true to its point of view and proven that shopping and entertainment can live in harmony with value-priced clothing for the entire family.

FOCUSED POINT OF VIEW

Gap

At **Gap**, a focus on fashion is always in style. 1999 was no exception. We tapped into current pop culture—from sports to art and music—and wove it into product offerings with a distinct viewpoint. Around the world, we made a return to bold color—a hallmark for Gap over the years—and the holiday color collection became the brand's most successful line in 1999.

We premiered "1969," a collection of vintage-inspired clothing and accessories for men and women, in our new Harajuku flagship—set in the heart of Tokyo. Above all else, Gap's merchandise and marketing remained simple and focused. Featuring the latest special effect film techniques, our GapKids TV spots showed boys and girls outlined in bold black, to spotlight the details of the Carpenter Flare and the Contractor Jean. Classic, modern clothing. Unique, easy style. That's Gap.

CONVENIENT AND ACCESSIBLE

Old Navy

By focusing on quality growth in 1999, **Old Navy** gave customers better access to stores, product and fashion. Old Navy opened 117 stores in strip centers, malls, street locations and prominent shopping destinations across the United States, including flagships in San Francisco and New York. We also expanded existing stores to accommodate more merchandise styles and sizes for customers. We launched oldnavy.com in October, inviting customers to enter contests, play games or buy Old Navy GiftCards. For those who prefer logging on before stepping out, the Web site also reveals a sneak peek at upcoming fashion features, and allows customers to sign up for email notifications on special price promotions.

CONVENIENT AND ACCESSIBLE

Banana Republic

Shopping **Banana Republic** has never been easier. In 1999, we made sure our exceptional style and service was within easy reach of our customers. The launch of BananaRepublic.com in October delivered yet another way to access the brand—and transferred the elegance of our stores to an easy-to-shop environment.

With the Banana Republic Catalog and the addition of 56 stores in 1999, finding modern style is more convenient than ever. Now customers can have Banana Republic however and whenever they want it. Above all else, we never falter on delivering unsurpassed service no matter how our customers prefer to shop. By phone or in store, expertly trained style consultants are ready to assist customers with sizing and fit, fabric details or putting together the perfect look.

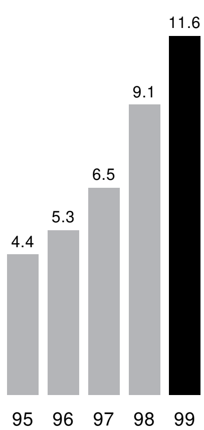
CONVENIENT AND ACCESSIBLE
Gap

As **Gap's** worldwide appeal grows, so does our store count—increasing accessibility to the brand for customers around the globe. In 1999, we opened 397 stores, including flagships in Tokyo and on the Champs-Elysées in Paris. In addition to the world's premier shopping destinations, Gap, GapKids and babyGap are located in smaller markets—both domestic and international—close to where customers live and work.

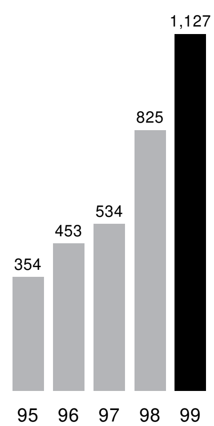
For online shoppers, it's easier and faster than ever to browse and buy merchandise around the clock, thanks to the navigation enhancement and redesign of gap.com, gapkids.com and babygap.com. Product highlights and online features such as “First Look and “Take Five” improve the shopping experience and help make Gap convenient and accessible.

FINANCIAL HIGHLIGHTS

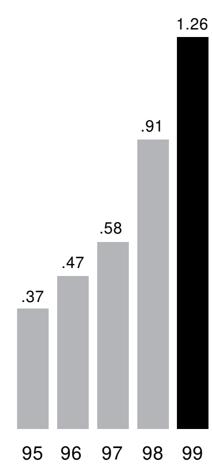
	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Operating Results ($000)			
Net sales	$11,635,398	$ 9,054,462	$ 6,507,825
Percentage change year-to-year	29%	39%	23%
Earnings before income taxes	$ 1,784,949	$ 1,319,262	$ 854,242
Percentage change year-to-year	35%	54%	14%
Net earnings	$ 1,127,065	$ 824,539	$ 533,901
Percentage change year-to-year	37%	54%	18%
Per Share Data			
Net earnings–diluted	1.26	0.91	0.58
Cash dividends paid	0.09	0.09	0.09
Statistics			
Net earnings as a percentage of net sales	9.7%	9.1%	8.2%
Return on average assets	24.6%	22.6%	17.9%
Return on average shareholders' equity	59.2%	52.2%	33.0%
Current ratio	1.25:1	1.21:1	1.85:1
Number of stores open at year-end	3,018	2,466	2,130
Comparable store sales growth	7%	17%	6%



Net Sales
(in billions of dollars)



Net Earnings
(in millions of dollars)



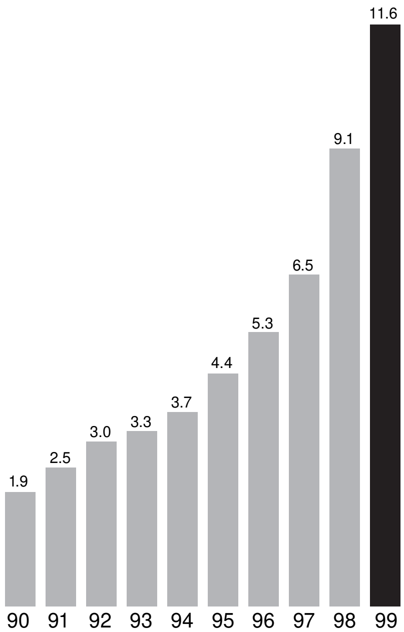
Earnings Per Share–Diluted
(in dollars)

STORE GROWTH

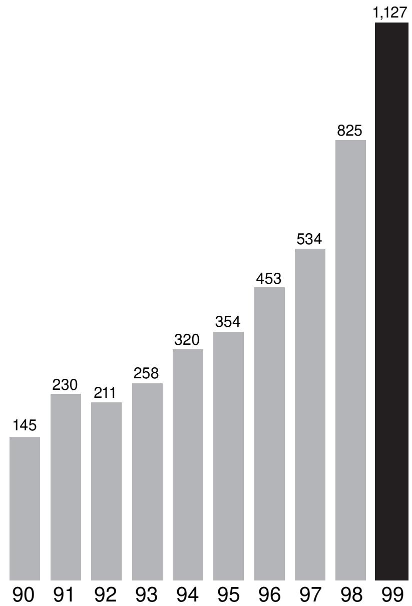
	Stores Opened Fiscal 1999	Total Stores at End Fiscal 1999	Planned Store Openings Fiscal 2000 (a)
Gap (Domestic)			320-340
United States	299	1,767	
Gap (International)			120-130
Canada	22	144	
United Kingdom	34	137	
France	13	42	
Japan	23	53	
Germany	6	17	
Banana Republic			40-60
United States	56	335	
Canada	0	10	
Old Navy	120-130		
United States	117	513	
Total	570	3,018	600-660

(a) Represents approximate numbers.

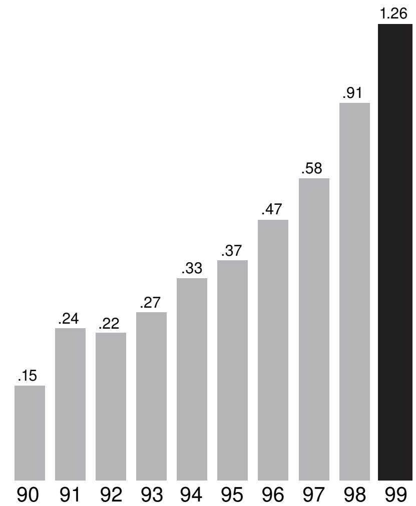
KEY FINANCIAL STATISTICS



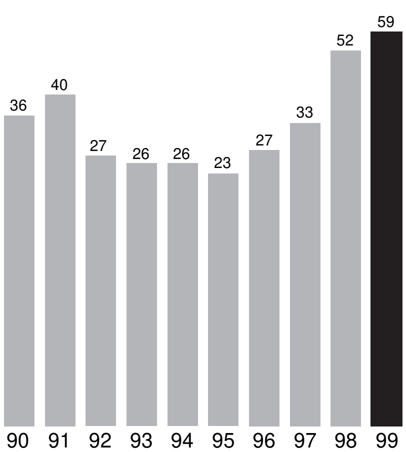
Net Sales
(in billions of dollars)
10-year CAGR=22%



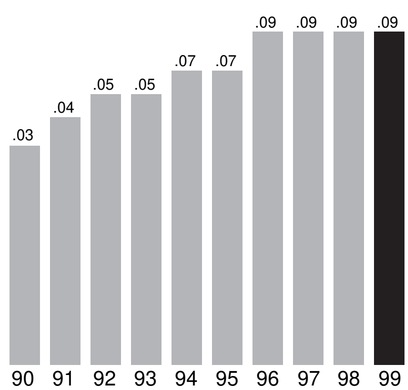
Net Earnings
(in millions of dollars)
10-year CAGR=28%



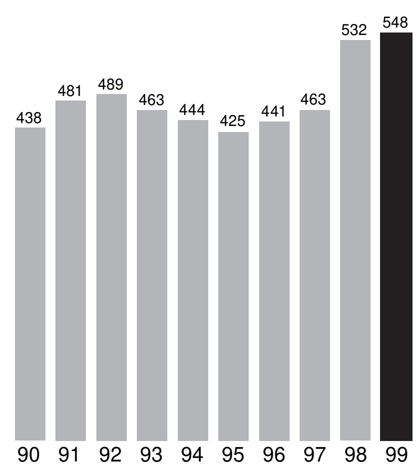
Earnings Per Share–Diluted
(in dollars)
10-year CAGR=29%



Return on Average Shareholders' Equity
(percent)



Dividends Paid Per Share
(in dollars)



Sales Per Average Gross Square Foot *
(in dollars)

* 52-week basis.

10-YEAR SELECTED FINANCIAL DATA

	Compound Annual Growth Rate		
	3-year	**5-year**	**10-year**
Operating Results ($000)			
Net sales	30%	26%	22%
Cost of goods sold and occupancy expenses, excluding depreciation and amortization	—	—	—
Percentage of net sales	—	—	—
Depreciation and amortization (a)	—	—	—
Operating expenses	—	—	—
Net interest expense (income)	—	—	—
Earnings before income taxes	34	28	27
Percentage of net sales	—	—	—
Income taxes	—	—	—
Net earnings	36	29	28
Percentage of net sales	—	—	—
Cash dividends paid	—	—	—
Capital expenditures	—	—	—
Per Share Data			
Net earnings–basic	40%	31%	29%
Net earnings–diluted	39	31	29
Cash dividends paid (b)	—	—	—
Shareholders' equity (book value)	—	—	—
Financial Position ($000)			
Property and equipment, net	34%	27%	28%
Merchandise inventory	36	32	20
Total assets	25	21	25
Working capital	—	—	—
Current ratio	—	—	—
Total long-term debt, less current installments	—	—	—
Ratio of long-term debt to shareholders' equity	—	—	—
Shareholders' equity	—	—	—
Return on average assets	—	—	—
Return on average shareholders' equity	—	—	—
Statistics			
Number of stores opened (c)	41%	27%	19%
Number of stores expanded	—	—	—
Number of stores closed	—	—	—
Number of stores open at year-end (c)	18	15	12
Net increase in number of stores	—	—	—
Comparable store sales growth (52-week basis)	—	—	—
Sales per square foot (52-week basis) (d)	—	—	—
Square footage of gross store space at year-end	24	21	19
Percentage increase in square feet	—	—	—
Number of employees at year-end	28	21	20
Weighted-average number of shares–basic	—	—	—
Weighted-average number of shares–diluted	—	—	—
Number of shares outstanding at year-end, net of treasury stock	—	—	—

(a) Excludes amortization of restricted stock, discounted stock options and discount on long-term debt.
(b) Excludes a dividend of $.0222 per share declared in January 2000 but paid in the first quarter of fiscal 2000.
(c) Reflects new store-count methodology for 1999 and 1998 stores, see page 7.
(d) Based on weighted-average gross square footage.

10-YEAR SELECTED FINANCIAL DATA (CONTINUED)

					Fiscal Year (in weeks)
	1994 (52)	1993 (52)	1992 (52)	1991 (52)	1990 (52)
Operating Results ($000)					
Net sales	$ 3,722,940	$ 3,295,679	$ 2,960,409	$ 2,518,893	$ 1,933,780
Cost of goods sold and occupancy expenses, excluding depreciation and amortization	2,202,133	1,996,929	1,856,102	1,496,156	1,187,644
Percentage of net sales	59.2%	60.6%	62.7%	59.4%	61.4%
Depreciation and amortization (a)	$ 148,863	$ 124,860	$ 99,451	$ 72,765	$ 53,599
Operating expenses	853,524	748,193	661,252	575,686	454,180
Net interest expense (income)	(10,902)	809	3,763	3,523	1,435
Earnings before income taxes	529,322	424,888	339,841	370,763	236,922
Percentage of net sales	14.2%	12.9%	11.5%	14.7%	12.3%
Income taxes	$ 209,082	$ 166,464	$ 129,140	$ 140,890	$ 92,400
Net earnings	320,240	258,424	210,701	229,873	144,522
Percentage of net sales	8.6%	7.8%	7.1%	9.1%	7.5%
Cash dividends paid	$ 64,775	$ 53,041	$ 44,106	$ 41,126	$ 29,625
Capital expenditures	236,616	215,856	213,659	244,323	199,617
Per Share Data					
Net earnings–basic	$ 0.34	$ 0.27	$ 0.23	$ 0.25	$ 0.16
Net earnings–diluted	0.33	0.27	0.22	0.24	0.15
Cash dividends paid (b)	0.07	0.05	0.05	0.04	0.03
Shareholders' equity (book value)	1.41	1.15	0.91	0.71	0.49
Financial Position ($000)					
Property and equipment, net	$ 828,777	$ 740,422	$ 650,368	$ 547,740	$ 383,548
Merchandise inventory	370,638	331,155	365,692	313,899	247,462
Total assets	2,004,244	1,763,117	1,379,248	1,147,414	776,900
Working capital	555,827	494,194	355,649	235,537	101,518
Current ratio	2.11:1	2.07:1	2.06:1	1.71:1	1.39:1
Total long-term debt, less current installments		$ 75,000	$ 75,000	$ 80,000	$ 17,500
Ratio of long-term debt to shareholders' equity	N/A	0.07:1	0.08:1	0.12:1	0.04:1
Shareholders' equity	$ 1,375,232	$ 1,126,475	$ 887,839	$ 677,788	$ 465,733
Return on average assets	17.0%	16.4%	16.7%	23.9%	21.3%
Return on average shareholders' equity	25.6%	25.7%	26.9%	40.2%	36.0%
Statistics					
Number of stores opened (c)	172	108	117	139	152
Number of stores expanded	82	130	94	79	56
Number of stores closed	34	45	26	15	20
Number of stores open at year-end (c)	1,508	1,370	1,307	1,216	1,092
Net increase in number of stores	10%	5%	7%	11%	14%
Comparable store sales growth (52-week basis)	1%	1%	5%	13%	14%
Sales per square foot (52-week basis) (d)	$ 444	$ 463	$ 489	$ 481	$ 438
Square footage of gross store space at year-end	9,165,900	7,546,300	6,509,200	5,638,400	4,762,300
Percentage increase in square feet	21%	16%	15%	18%	17%
Number of employees at year-end	55,000	44,000	39,000	32,000	26,000
Weighted-average number of shares–basic	948,699,959	940,287,006	928,417,491	915,766,923	904,421,435
Weighted-average number of shares–diluted	971,144,612	965,110,280	960,903,782	953,297,157	944,950,514
Number of shares outstanding at year-end, net of treasury stock	977,162,057	980,428,914	973,250,357	962,032,505	953,532,203

10-YEAR SELECTED FINANCIAL DATA (CONTINUED)

					Fiscal Year (in weeks)
	1999 (52)	1998 (52)	1997 (52)	1996 (52)	1995 (53)
Operating Results ($000)					
Net sales	$11,635,398	$ 9,054,462	$ 6,507,825	$ 5,284,381	$ 4,395,253
Cost of goods sold and occupancy expenses, excluding depreciation and amortization	6,360,704	5,013,473	3,775,957	3,093,709	2,645,736
Percentage of net sales	54.7%	55.4%	58.0%	58.5%	60.2%
Depreciation and amortization (a)	$ 414,558	$ 304,745	$ 245,584	$ 191,457	$ 175,719
Operating expenses	3,043,432	2,403,365	1,635,017	1,270,138	1,004,396
Net interest expense (income)	31,755	13,617	(2,975)	(19,450)	(15,797)
Earnings before income taxes	1,784,949	1,319,262	854,242	748,527	585,199
Percentage of net sales	15.3%	14.6%	13.1%	14.2%	13.3%
Income taxes	$ 657,884	$ 494,723	$ 320,341	$ 295,668	$ 231,160
Net earnings	1,127,065	824,539	533,901	452,859	354,039
Percentage of net sales	9.7%	9.1%	8.2%	8.6%	8.1%
Cash dividends paid	$ 75,795	$ 76,888	$ 79,503	$ 83,854	$ 66,993
Capital expenditures	1,268,811	842,655	483,114	375,838	309,599
Per Share Data					
Net earnings–basic	$ 1.32	$ 0.95	$ 0.60	$ 0.48	$ 0.38
Net earnings–diluted	1.26	0.91	0.58	0.47	0.37
Cash dividends paid (b)	0.09	0.09	0.09	0.09	0.07
Shareholders' equity (book value)	2.63	1.83	1.79	1.79	1.69
Financial Position ($000)					
Property and equipment, net	$ 2,715,315	$ 1,876,370	$ 1,365,246	$ 1,135,720	$ 957,752
Merchandise inventory	1,462,045	1,056,444	733,174	578,765	482,575
Total assets	5,188,756	3,963,919	3,337,502	2,626,927	2,343,068
Working capital	444,911	318,721	839,399	554,359	728,301
Current ratio	1.25:1	1.21:1	1.85:1	1.72:1	2.32:1
Total long-term debt, less current installments	$ 784,925	$ 496,455	$ 496,044	—	—
Ratio of long-term debt to shareholders' equity	0.35:1	0.32:1	0.31:1	N/A	N/A
Shareholders' equity	$ 2,233,045	$ 1,573,679	$ 1,583,986	$ 1,654,470	$ 1,640,473
Return on average assets	24.6%	22.6%	17.9%	18.2%	16.3%
Return on average shareholders' equity	59.2%	52.2%	33.0%	27.5%	23.5%
Statistics					
Number of stores opened (c)	570	356	298	203	225
Number of stores expanded	129	135	98	42	55
Number of stores closed	18	20	22	30	53
Number of stores open at year-end (c)	3,018	2,466	2,130	1,854	1,680
Net increase in number of stores	22%	16%	15%	10%	11%
Comparable store sales growth (52-week basis)	7%	17%	6%	5%	0%
Sales per square foot (52-week basis) (d)	$ 548	$ 532	$ 463	$ 441	$ 425
Square footage of gross store space at year-end	23,978,100	18,757,400	15,312,700	12,645,000	11,100,200
Percentage increase in square feet	28%	22%	21%	14%	21%
Number of employees at year-end	140,000	111,000	81,000	66,000	60,000
Weighted-average number of shares–basic	853,804,924	864,062,060	891,404,945	938,579,921	939,866,394
Weighted-average number of shares–diluted	895,029,176	904,374,383	922,951,706	961,351,245	962,443,160
Number of shares outstanding at year-end, net of treasury stock	850,498,941	857,960,032	884,549,313	926,495,994	971,149,446

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The information below and elsewhere in this Annual Report contains certain forward-looking statements which reflect the current view of Gap Inc. (the "Company") with respect to future events and financial performance. Wherever used, the words "expect," "plan," "anticipate," "believe" and similar expressions identify forward-looking statements.

Any such forward-looking statements are subject to risks and uncertainties and the Company's future results of operations could differ materially from historical results or current expectations. Some of these risks include, without limitation, ongoing competitive pressures in the apparel industry, risks associated with challenging international retail environments, changes in the level of consumer spending or preferences in apparel, trade restrictions and political or financial instability in countries where the Company's goods are manufactured, disruption to operations from Year 2000 issues and/or other factors that may be described in the Company's Annual Report on Form 10-K and/or other filings with the Securities and Exchange Commission. Future economic and industry trends that could potentially impact revenues and profitability are difficult to predict.

The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Results of Operations

Net Sales

	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Net sales ($000)	$11,635,398	$ 9,054,462	$ 6,507,825
Total net sales growth percentage	29	39	23
Comparable store sales growth percentage	7	17	6
Net sales per average gross square foot	$ 548	$ 532	$ 463
Square footage of gross store space at year-end (000)	23,978	18,757	15,313
Number of new stores	570	356	298
Number of expanded stores	129	135	98
Number of closed stores	18	20	22

The total net sales growth for all years presented was primarily attributable to the increase in retail selling space, both through the opening of new stores (net of stores closed) and the expansion of existing stores. An increase in comparable store sales also contributed to net sales growth for all years presented.

The increase in net sales per average square foot for 1999 and 1998 was primarily attributable to increases in comparable store sales.

Comparable store sales growth by division for 1999 and 1998 was as follows: Gap domestic reported positive low single-digit growth in 1999 versus positive low double-digit growth in 1998; Gap international reported positive mid-teens growth in 1999 versus positive low-thirties growth in 1998; Banana Republic reported positive low double-digit growth in 1999 versus positive high-teens growth in 1998; Old Navy reported positive mid-teens growth in 1999 versus positive mid-twenties growth in 1998.

Store count and square footage growth were as follows:

	Jan. 29, 2000		Jan. 30, 1999	
	Number of Stores	**Sq. Ft. (Millions)**	**Number of Stores**	**Sq. Ft. (Millions)**
Gap Domestic	1,767	10.3	1,476	9.0
Gap International	393	2.1	300	1.5
Banana Republic (a)	345	2.6	292	2.0
Old Navy	513	9.0	398	6.3
Total	3,018	24.0	2,466	18.8
Increase	22%	28%	16%	22%

(a) Includes 10 stores in Canada in fiscal 1999 and 1998.

New Store-count Methodology

Store count numbers for 1999 and 1998 have been restated to reflect the Company's new store-count methodology as it relates to Gap brand. Historically, the Company has defined existing and new Gap brand stores by the number of doors of entry, regardless of how many concepts were included in the store. Under the new methodology, individual concepts (adult, kids, baby and body) that meet minimum square footage requirements will be counted as a store, even when residing in a single, physical location. This methodology change resulted in an increase of 86 stores at January 29, 2000. The store count numbers for years prior to 1998 have not been restated as they are not significantly different under the new methodology.

Cost of Goods Sold and Occupancy Expenses

Cost of goods sold and occupancy expenses as a percentage of net sales decreased 0.5 and 3.1 percentage points in 1999 from 1998 and in 1998 from 1997, respectively.

The decrease in 1999 from 1998 was primarily attributable to a decrease in occupancy expenses as a percentage of net sales due to changes in the mix of stores as Old Navy becomes a larger part of the business, partially offset by a decrease in the merchandise margin due to a decline in the level of merchandise sold at regular price.

The decrease in 1998 from 1997 was primarily attributable to a decrease in occupancy expenses as a percentage of net sales due to leverage achieved through comparable store sales growth combined with an increase in merchandise margin due to higher margins achieved on marked-down goods, as well as to an increase in the percentage of merchandise sold at regular price.

As a general business practice, the Company reviews its inventory levels in order to identify slow-moving merchandise and broken assortments (items no longer in stock in a sufficient range of sizes) and uses markdowns to clear merchandise. Such markdowns may have an adverse impact on earnings, depending upon the extent of the markdown and the amount of inventory affected.

Operating Expenses

Operating expenses as a percentage of net sales decreased 0.3 percentage points in 1999 from 1998 and increased 1.4 percentage points in 1998 from 1997.

In 1999, the decrease resulted from lower administrative costs as a percentage of net sales.

In 1998, the increase was driven by significantly higher advertising/marketing costs as part of the Company's continued brand development efforts, partially offset by a decrease as a percentage of net sales in the write-off of leasehold improvements and fixtures associated with the remodeling, relocation and closing of certain stores, as well as to leverage from comparable store sales growth.

Net Interest Expense/Income

The increase in net interest expense between 1999 and 1998 is primarily due to the additional interest expense from the issuance of long-term debt during 1999 to support the Company's international expansion plans.

The change in 1998 to net interest expense from net interest income in 1997 was primarily due to the interest expense incurred for the full fiscal year related to the $500 million of debt securities issued during the third quarter of 1997. The Company's greater short-term borrowings in the last half of 1998 compared to 1997 also contributed to the increase in interest expense.

Income Taxes

The effective tax rate was 36.9 percent in 1999 and 37.5 percent in 1998 and 1997. The decrease in the effective tax rate in 1999 resulted from the Company's implementation of global tax planning initiatives based on long-term business needs.

Liquidity and Capital Resources

The following sets forth certain measures of the Company's liquidity:

	Fiscal Year 1999	Fiscal Year 1998	Fiscal Year 1997
Cash provided by operating activities ($000)	$ 1,477,928	$ 1,394,161	$ 844,651
Working capital ($000)	444,911	318,721	839,399
Current ratio	1.25:1	1.21:1	1.85:1

For the fiscal year ended January 29, 2000, the increase in cash flows provided by operating activities was primarily due to an increase in net earnings exclusive of depreciation and amortization and a tax benefit from the vesting of a large restricted stock grant, partially offset by the timing of payments for certain payables and an increase in merchandise inventory. The increase in working capital and the current ratio was primarily due to investments in merchandise inventory, partially offset by an increase in payables.

For the fiscal year ended January 30, 1999, the increase in cash provided by operating activities was primarily due to an increase in net earnings and the timing of payments for certain payables, partially offset by investments in merchandise inventory. The decline in working capital and the current ratio was attributable to an increase in payables driven by business growth combined with a decrease in cash resulting from greater capital expenditures and share repurchases.

The Company funds inventory expenditures during normal and peak periods through a combination of cash flows from operations and short-term financing arrangements. The Company's business follows a seasonal pattern, peaking over a total of about 13 weeks during the Back-to-School and Holiday periods. During 1999 and 1998, these periods accounted for 36 and 37 percent, respectively, of the Company's annual sales.

The Company has committed credit facilities totaling $1 billion, consisting of an $850 million, 364-day revolving credit facility, and a $150 million, 5-year revolving credit facility through June 28, 2003. These credit facilities provide for the issuance of up to $500 million in letters of credit and provide backup for the Company's $500 million commercial paper program. The Company has additional uncommitted credit facilities of $520 million for the issuance of letters of credit. At January 29, 2000, the Company had outstanding letters of credit totaling approximately $851 million. The Company had no commercial paper outstanding at January 29, 2000.

To provide financial flexibility, the Company filed a shelf registration statement in January 1999 with the Securities and Exchange Commission for $500 million of debt securities. The net proceeds from any issuance are expected to be used for general corporate purposes, including expansion of stores, distribution centers and headquarters facilities, brand investment, development of additional distribution channels and repurchases of the Company's common stock pursuant to its ongoing repurchase program. The Company has not issued any securities under this shelf registration and no assurances can be given that the Company will issue these debt securities in the future.

In September 1997, the Company issued $500 million of debt securities, due September 15, 2007. The proceeds were used for general corporate purposes similar to those described above.

In March 1999, the Company's Japanese subsidiary, Gap (Japan) KK, issued $50 million of debt securities, due March 1, 2009. The net proceeds were used for general corporate purposes similar to those described above. The cash flows relating to the bonds were swapped for the equivalent amounts in Japanese yen to minimize currency exposure.

Also, in September 1999, the Company's Netherlands subsidiary, Gap International B.V., issued debt securities in the amount of 250 million Euro, approximately $262 million at issuance, due September 30, 2004. The net proceeds will be used to support the Company's international expansion plans.

All of the Company's long-term debt was issued at fixed interest rates to avoid the risk of fluctuations in interest rates. Quantitative and qualitative disclosures about market risk for the Company's long-term debt are presented on page 11.

Capital expenditures, net of construction allowances and dispositions, totaled approximately $1.189 billion in 1999. These expenditures resulted in a net increase in store space of approximately 5.2 million square feet, or 28 percent, due to the addition of 570 new stores, the expansion of 129 stores and the remodeling of certain stores. Capital expenditures for 1998 and 1997 were $797 million and $450 million, respectively, resulting in a net increase in store space of 3.4 million square feet in 1998 and 2.7 million square feet in 1997.

The increases in capital expenditures in 1999 and 1998 over the prior years were primarily attributable to the number of stores opened, expanded and remodeled, as well as the expansion of headquarters facilities. The addition and expansion of distribution centers also contributed to the 1999 and 1998 capital expenditure increases.

For 2000, the Company expects capital expenditures to exceed $1.6 billion, net of construction allowances. This represents the addition of 600 to 660 new stores, the expansion of approximately 200 stores and the remodeling of certain stores, as well as amounts for headquarters facilities, distribution centers and equipment. The Company expects to fund such capital expenditures with cash flow from operations and other sources of financing. Square footage growth is expected to be in the mid-20 percent range. By division, the 600 to 660 new stores are expected to be: Gap domestic 320 to 340 stores, Banana Republic 40 to 60 stores, Old Navy 120 to 130 stores and Gap international 120 to 130 stores. New stores are generally expected to be leased.

During 1998, the Company purchased land on which to construct additional headquarters facilities in San Francisco and San Bruno, California. The estimated total project costs are approximately $240 million and $100 million, respectively. Construction commenced on the San Francisco facility during the third quarter of 1998 and is estimated to continue through early 2001. Construction commenced during the first quarter of 1999 on the San Bruno facility and is estimated to continue through late 2000.

During 1999, the Company opened a distribution center that was constructed over fiscal 1997 and 1998 for a total cost of approximately $60 million. During 1999, the Company commenced construction of a $55 million expansion of this distribution center, which is expected to be complete in mid-2000.

Additionally during 1999, the Company commenced construction on three distribution facilities for an estimated total cost of approximately $300 million. Approximately half of these expenditures were incurred during fiscal 1999, with the remainder to be incurred during fiscal 2000. These expenditures are included in the projected capital expenditures as described above. The first facility opened in mid-1999. The remaining two facilities are expected to open in early 2000 and late 2000, respectively.

In 1999, the Company agreed to purchase a distribution site and building in Ontario, Canada to support the initial international expansion plans for the Old Navy business. The Company will take possession of the facility in early 2000 and will spend the next year remodeling the facility prior to its anticipated opening date in mid-2001. The estimated total project cost is approximately $89 million.

On May 20, 1999, the Company's Board of Directors authorized a three-for-two split of the Company's common stock that was distributed on June 21, 1999, in the form of a stock dividend for shareholders of record at the close of business on June 4, 1999. All share and per share amounts in the accompanying consolidated financial statements for all periods have been restated to reflect the stock split.

During 1999, the Company completed a 101 million share repurchase program approved in October 1996 by acquiring approximately 2.1 million shares for approximately $94 million. In addition, during fiscal 1999, under the 67.5 million share repurchase program approved in October 1998, the Company acquired approximately 16.4 million shares for approximately $651 million, including 0.8 million shares acquired under put option contracts for approximately $32 million.

During 1999, the Company entered into various put option contracts in connection with the share repurchase program to hedge against stock price fluctuations. As of January 29, 2000, the Company had an outstanding put option contract to repurchase approximately 0.4 million shares of the Company's stock. The contract has an exercise price of $32.00 per share, with an expiration date in March 2000.

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company's risk management policy is to hedge substantially all merchandise purchases for foreign operations through the use of foreign exchange forward contracts to minimize this risk. Additional information on these contracts and agreements is presented in the Notes to Consolidated Financial Statements (Note E.). Quantitative and qualitative disclosures about market risk for financial instruments are presented on page 11.

Year 2000 Issue

The Year 2000 issue is primarily the result of computer programs using a two-digit format, as opposed to four digits, to indicate the year.

The Company has noticed no material impact to its operations as a result of the transition to the Year 2000. Problems relating to the Year 2000 issue could still arise. However, the Company does not believe that the Year 2000 issue will have a material adverse effect on its financial condition or results of operations. The Company operates a large number of geographically dispersed stores and has a large supplier base and believes that these factors will mitigate any adverse impact.

The Company's beliefs and expectations, however, are based on certain assumptions and expectations that ultimately may prove to be inaccurate, including the Year 2000 viability of sourcing countries, and compliance of third-party vendors and suppliers. The Company has identified that a significant disruption in the product supply chain represents the most reasonably likely worst case Year 2000 scenario. A substantial, extended disruption in the product supply chain could have a material adverse effect on the Company's financial condition and results of operations.

To date, the Company has incurred costs of $40 million to address the Year 2000 issue. The Company does not expect to incur significant additional costs in connection with this issue.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information about the Company's market sensitive financial instruments as of January 29, 2000 and January 30, 1999.

The Company purchases foreign exchange forward contracts to hedge substantially all merchandise purchases made by foreign operations. These contracts are entered into with large reputable financial institutions, thereby minimizing the risk of credit loss. Further discussion of these contracts appears in the Notes to Consolidated Financial Statements (Note E).

During fiscal 1997, the Company issued $500 million of unsecured notes, due September 15, 2007, with a fixed interest rate of 6.9 percent.

During fiscal 1999, the Company's Japanese subsidiary, Gap (Japan) KK, issued $50 million of debt securities due March 1, 2009, with a fixed interest rate of 6.25 percent payable in U.S. dollars. The Company swapped the cash flows payable under these debt securities to Japanese yen with a fixed interest rate of 2.43 percent. These debt securities are recorded in the balance sheet at their fair market value as of January 29, 2000.

During 1999, the Company's Netherlands subsidiary, Gap International B.V., issued debt securities in the amount of 250 million Euro, approximately $262 million, with a fixed interest rate of 5.0 percent, due September 30, 2004.

By entering into the fixed-rate borrowings, the Company avoids interest rate risk from variable rate fluctuations. A portion of the Company's fixed-rate borrowings used to finance foreign operations is denominated in foreign currencies. By borrowing and repaying the loans in local currencies, the Company avoids the risk associated with exchange rate fluctuations.

	Jan. 29, 2000			Jan. 30, 1999		
($000)	Average Contract Rate (a)	Notional Amount of Forward Contracts in U.S. Dollars	Fair Value (b)	Average Contract Rate (a)	Notional Amount of Forward Contracts in U.S. Dollars	Fair Value (b)
Foreign exchange forward contracts (c)						
Sell contracts:						
British pounds	0.62	$ 133,432	$ 134,469	0.61	$ 137,222	$ 136,581
Canadian dollars	1.47	91,151	92,678	1.51	112,967	112,228
Japanese yen	109.12	67,648	70,393	126.24	25,776	28,197
Buy contracts:						
Italian lire	1,842.40	47,178	44,269	1,700.06	24,459	25,052
Spanish pesetas	159.02	12,476	11,730	142.75	9,351	9,189
Total foreign exchange forward contracts		$ 351,885	$ 353,539		$ 309,775	$ 311,247

	Jan. 29, 2000		Jan. 30, 1999	
($000)	Carrying Amount in U.S. Dollars	Fair Value (d)	Carrying Amount in U.S. Dollars	Fair Value (d)
Notes payable, due 2007	$ 496,866	$ 478,393	$ 496,455	$ 551,818
Notes payable, due 2009	44,136	44,136	—	—
Notes payable, due 2004	243,923	231,880	—	—
Total long-term debt	$ 784,925	$ 754,409	$ 496,455	$ 551,818

(a) Currency per U.S. dollar.
(b) Calculated using forward spot rates at the dates presented.
(c) All contracts mature within one year.
(d) Based on the rates at which the Company could borrow funds with similar terms and remaining maturities at the dates presented.

MANAGEMENT'S REPORT ON FINANCIAL INFORMATION

Management is responsible for the integrity and consistency of all financial information presented in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include certain amounts based on Management's best estimates and judgments.

In fulfilling its responsibility for the reliability of financial information, Management has established and maintains accounting systems and procedures appropriately supported by internal accounting controls. Such controls include the selection and training of qualified personnel, an organizational structure providing for division of responsibility, communication of requirement for compliance with approved accounting control and business practices and a program of internal audit. The extent of the Company's system of internal accounting control recognizes that the cost should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by Management. Although no system can ensure that all errors or irregularities have been eliminated, Management believes that the internal accounting controls in use provide reasonable assurance, at reasonable cost, that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with Management's authorization and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. The financial statements of the Company have been audited by Deloitte & Touche LLP, independent auditors, whose report appears below.

The Audit and Finance Committee (the "Committee") of the Board of Directors is comprised solely of directors who are not officers or employees of the Company. The Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with Management, the independent auditors and the internal auditors to ensure that they are carrying out their responsibilities. The Committee also reviews and monitors the financial, accounting and auditing procedures of the Company in addition to reviewing the Company's financial reports. Deloitte & Touche LLP and the internal auditors have full and free access to the Committee, with and without Management's presence.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF THE GAP, INC.:

We have audited the accompanying consolidated balance sheets of The Gap, Inc. and subsidiaries as of January 29, 2000 and January 30, 1999, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three fiscal years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of January 29, 2000 and January 30, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 29, 2000 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

San Francisco, California
February 23, 2000

CONSOLIDATED STATEMENTS OF EARNINGS

($000 except per share amounts)	52 Weeks Ended Jan. 29, 2000	Percentage to Sales	52 Weeks Ended Jan. 30, 1999	Percentage to Sales	52 Weeks Ended Jan. 31, 1998	Percentage to Sales
Net sales	$11,635,398	100.0%	$ 9,054,462	100.0%	$6,507,825	100.0%
Costs and expenses						
Cost of goods sold and occupancy expenses	6,775,262	58.2	5,318,218	58.7	4,021,541	61.8
Operating expenses	3,043,432	26.2	2,403,365	26.5	1,635,017	25.1
Net interest expense (income)	31,755	0.3	13,617	0.2	(2,975)	0.0
Earnings before income taxes	1,784,949	15.3	1,319,262	14.6	854,242	13.1
Income taxes	657,884	5.6	494,723	5.5	320,341	4.9
Net earnings	$ 1,127,065	9.7%	$ 824,539	9.1%	$533,901	8.2%
Weighted-average number of shares–basic	853,804,924		864,062,060		891,404,945	
Weighted-average number of shares–diluted	895,029,176		904,374,383		922,951,706	
Earnings per share–basic	$ 1.32		$ 0.95		$ 0.60	
Earnings per share–diluted	1.26		0.91		0.58	

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

($000 except par value)	Jan. 29, 2000	Jan. 30, 1999
Assets		
Current Assets		
Cash and equivalents	$ 450,352	$ 565,253
Merchandise inventory	1,462,045	1,056,444
Other current assets	285,393	250,127
Total current assets	2,197,790	1,871,824
Property and Equipment		
Leasehold improvements	1,426,537	1,040,959
Furniture and equipment	2,083,604	1,601,572
Land and buildings	278,422	160,776
Construction-in-progress	414,725	245,020
	4,203,288	3,048,327
Accumulated depreciation and amortization	(1,487,973)	(1,171,957)
Property and equipment, net	2,715,315	1,876,370
Lease rights and other assets	275,651	215,725
Total assets	$5,188,756	$3,963,919
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable	$ 168,961	$ 90,690
Accounts payable	805,945	684,130
Accrued expenses and other current liabilities	751,710	655,770
Income taxes payable	26,263	122,513
Total current liabilities	1,752,879	1,553,103
Long-Term Liabilities		
Long-term debt	784,925	496,455
Deferred lease credits and other liabilities	417,907	340,682
Total long-term liabilities	1,202,832	837,137
Shareholders' Equity		
Common stock $.05 par value		
Authorized 2,300,000,000 shares; issued 1,007,356,790 and 997,496,214 shares; outstanding 850,498,941 and 857,960,032 shares	50,368	49,875
Additional paid-in capital	669,490	349,037
Retained earnings	4,172,796	3,121,360
Accumulated other comprehensive loss	(6,759)	(12,518)
Deferred compensation	(23,150)	(31,675)
Treasury stock, at cost	(2,629,700)	(1,902,400)
Total shareholders' equity	2,233,045	1,573,679
Total liabilities and shareholders' equity	$5,188,756	$3,963,919

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000)	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Cash Flows from Operating Activities			
Net earnings	$ 1,127,065	$ 824,539	$ 533,901
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	436,184	326,447	269,706
Tax benefit from exercise of stock options and vesting of restricted stock	211,891	79,808	23,682
Deferred income taxes	2,444	(34,766)	(13,706)
Change in operating assets and liabilities:			
Merchandise inventory	(404,211)	(322,287)	(156,091)
Prepaid expenses and other	(55,519)	(77,292)	(44,736)
Accounts payable	118,121	265,296	63,532
Accrued expenses	89,071	231,178	107,365
Income taxes payable	(94,893)	38,805	(8,214)
Deferred lease credits and other long-term liabilities	47,775	62,433	69,212
Net cash provided by operating activities	1,477,928	1,394,161	844,651
Cash Flows from Investing Activities			
Net purchase of property and equipment	(1,238,722)	(797,592)	(465,843)
Acquisition of lease rights and other assets	(39,839)	(28,815)	(19,779)
Net maturity of short-term investments	—	—	174,709
Net purchase of long-term investments	—	—	(2,939)
Net cash used for investing activities	(1,278,561)	(826,407)	(313,852)
Cash Flows from Financing Activities			
Net increase in notes payable	84,778	1,357	44,462
Net issuance of long-term debt	311,839	—	495,890
Issuance of common stock	76,211	36,655	23,309
Net purchase of treasury stock	(707,125)	(879,383)	(585,798)
Cash dividends paid	(75,795)	(76,888)	(79,503)
Net cash used for financing activities	(310,092)	(918,259)	(101,640)
Effect of exchange rate fluctuations on cash	(4,176)	2,589	(1,634)
Net (decrease) increase in cash and equivalents	(114,901)	(347,916)	427,525
Cash and equivalents at beginning of year	565,253	913,169	485,644
Cash and equivalents at end of year	$ 450,352	$ 565,253	$ 913,169

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($000 except share and per share amounts)	Shares	Amount	Additional Paid-in Capital
Balance at February 1, 1997	1,072,791,305	$ 53,640	$ 404,304
Issuance of common stock pursuant to stock option plans	6,409,277	320	47,785
Net cancellations of common stock pursuant to management incentive restricted stock plans	(2,130,438)	(107)	(10,392)
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			23,682
Foreign currency translation adjustments			
Amortization of restricted stock and discounted stock options			
Purchase of treasury stock			
Reissuance of treasury stock			7,344
Retirement of treasury stock	(87,243,750)	(4,362)	(267,330)
Net earnings			
Cash dividends ($.09 per share)			
Balance at January 31, 1998	989,826,394	$ 49,491	$ 205,393
Issuance of common stock pursuant to stock option plans	7,575,195	380	46,709
Net issuance of common stock pursuant to management incentive restricted stock plans	94,625	4	4,361
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			79,808
Adjustments for foreign currency translation ($1,893) and fluctuations in fair market value of financial instruments ($819)			
Amortization of restricted stock and discounted stock options			
Purchase of treasury stock			
Reissuance of treasury stock			12,766
Net earnings			
Cash dividends ($.11 per share)			
Balance at January 30, 1999	997,496,214	$ 49,875	$ 349,037
Issuance of common stock pursuant to stock option plans	9,933,713	497	81,456
Net cancellations of common stock pursuant to management incentive restricted stock plans	(73,137)	(4)	2,583
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			211,891
Adjustments for foreign currency translation ($3,305) and fluctuations in fair market value of financial instruments ($2,454)			
Amortization of restricted stock and discounted stock options			72
Purchase of treasury stock			4,276
Reissuance of treasury stock			20,175
Net earnings			
Cash dividends ($.09 per share)			
Balance at January 29, 2000	1,007,356,790	$ 50,368	$ 669,490

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

		Treasury Stock	
($000 except share and per share amounts)	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation
Balance at February 1, 1997	$1,938,352	$ (5,187)	$ (47,838)
Issuance of common stock pursuant to stock option plans			(18,166)
Net cancellations of common stock pursuant to management incentive restricted stock plans			3,869
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			
Foreign currency translation adjustments		(10,043)	
Amortization of restricted stock and discounted stock options			23,968
Purchase of treasury stock			
Reissuance of treasury stock			
Retirement of treasury stock			
Net earnings	533,901		
Cash dividends ($.09 per share)	(79,503)		
Balance at January 31, 1998	$2,392,750	$ (15,230)	$ (38,167)
Issuance of common stock pursuant to stock option plans			(10,351)
Net issuance of common stock pursuant to management incentive restricted stock plans			(3,873)
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			
Adjustments for foreign currency translation ($1,893) and fluctuations in fair market value of financial instruments ($819)		2,712	
Amortization of restricted stock and discounted stock options			20,716
Purchase of treasury stock			
Reissuance of treasury stock			
Net earnings	824,539		
Cash dividends ($.11 per share)	(95,929)		
Balance at January 30, 1999	$3,121,360	$ (12,518)	$ (31,675)
Issuance of common stock pursuant to stock option plans			(9,186)
Net cancellations of common stock pursuant to management incentive restricted stock plans			(3,411)
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			
Adjustments for foreign currency translation ($3,305) and fluctuations in fair market value of financial instruments ($2,454)		5,759	
Amortization of restricted stock and discounted stock options			21,122
Purchase of treasury stock			
Reissuance of treasury stock			
Net earnings	1,127,065		
Cash dividends ($.09 per share)	(75,629)		
Balance at January 29, 2000	$4,172,796	$ (6,759)	$ (23,150)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

	Treasury Stock			
($000 except share and per share amounts)	Shares	Amount	Total	Comprehensive Earnings
Balance at February 1, 1997	(146,295,311)	$ (688,801)	$ 1,654,470	
Issuance of common stock pursuant to stock option plans			29,939	
Net cancellations of common stock pursuant to management incentive restricted stock plans			(6,630)	
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			23,682	
Foreign currency translation adjustments			(10,043)	$ (10,043)
Amortization of restricted stock and discounted stock options			23,968	
Purchase of treasury stock	(47,678,177)	(598,149)	(598,149)	
Reissuance of treasury stock	1,452,657	5,007	12,351	
Retirement of treasury stock	87,243,750	271,692	—	
Net earnings			533,901	533,901
Cash dividends ($.09 per share)			(79,503)	
Balance at January 31, 1998	(105,277,081)	$(1,010,251)	$ 1,583,986	$ 523,858
Issuance of common stock pursuant to stock option plans			36,738	
Net issuance of common stock pursuant to management incentive restricted stock plans			492	
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			79,808	
Adjustments for foreign currency translation ($1,893) and fluctuations in fair market value of financial instruments ($819)			2,712	2,712
Amortization of restricted stock and discounted stock options			20,716	
Purchase of treasury stock	(35,714,475)	(910,387)	(910,387)	
Reissuance of treasury stock	1,455,374	18,238	31,004	
Net earnings			824,539	824,539
Cash dividends ($.11 per share)			(95,929)	
Balance at January 30, 1999	(139,536,182)	$(1,902,400)	$ 1,573,679	$ 827,251
Issuance of common stock pursuant to stock option plans			72,767	
Net cancellations of common stock pursuant to management incentive restricted stock plans			(832)	
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			211,891	
Adjustments for foreign currency translation ($3,305) and fluctuations in fair market value of financial instruments ($2,454)			5,759	5,759
Amortization of restricted stock and discounted stock options			21,194	
Purchase of treasury stock	(18,500,000)	(745,056)	(740,780)	
Reissuance of treasury stock	1,178,333	17,756	37,931	
Net earnings			1,127,065	1,127,065
Cash dividends ($.09 per share)			(75,629)	
Balance at January 29, 2000	(156,857,849)	$(2,629,700)	$ 2,233,045	$ 1,132,824

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED JANUARY 29, 2000 (FISCAL 1999), JANUARY 30, 1999 (FISCAL 1998), AND JANUARY 31, 1998 (FISCAL 1997).

Note A: Summary of Significant Accounting Policies

Organization

Gap Inc. (the "Company") is a global specialty retailer that operates stores selling casual apparel, personal care and otheraccessories for men, women and children under a variety of brand names including Gap, Banana Republic and Old Navy. Its principal markets consist of the United States, Canada, Europe and Japan with the United States being the most significant. The Company sells its products through traditional retail stores, a catalog and online.

Stock Split

On May 20, 1999, the Company's Board of Directors authorized a three-for-two split of the Company's common stock that was distributed on June 21, 1999, in the form of a stock dividend for shareholders of record at the close of business on June 4, 1999. All share and per share amounts in the accompanying consolidated financial statements for all periods have been restated to reflect the stock split.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated.

Translation adjustments result from translating foreign subsidiaries' financial statements into U.S. dollars. Balance sheet accounts are translated at exchange rates in effect at the balance sheet date. Income statement accounts are translated at average exchange rates during the year. Resulting translation adjustments are included in shareholders' equity.

Fiscal Year

The Company's fiscal year is a 52- or 53-week period ending on the Saturday closest to January 31. Fiscal years 1999, 1998 and 1997 each consisted of 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

Cash and equivalents represent cash and short-term, highly liquid investments with original maturities of three months or less.

Merchandise Inventory

Merchandise inventory is stated at the lower of FIFO (first-in, first-out) cost or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Interest costs related to assets under construction are capitalized during the construction period.

Lease Rights

Lease rights are recorded at cost and are amortized over the estimated useful lives of the respective leases, not to exceed 20 years.

Impairment of Long-lived Assets

The Company reviews long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the undiscounted future cash flows from the long-lived asset are less than the carrying value, a loss equal to the difference between the carrying value and the fair market value of the asset is recorded.

Advertising

Costs associated with the production of advertising, such as writing copy, printing and other costs, are expensed as incurred. Costs associated with communicating advertising that has been produced, such as television and magazine, are expensed when the advertising event takes place. Direct response costs of catalogs are capitalized and amortized over the expected lives of the related catalogs, not to exceed six months. Advertising costs were $529 million, $419 million and $175 million in fiscal 1999, 1998 and 1997, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

Stock-based Awards

The Company accounts for stock-based awards using the intrinsic value-based method of accounting, under which no compensation cost is recognized for stock option awards granted at fair market value. Restricted stock and discounted stock option awards, which are granted at less than fair market value, result in the recognition of deferred compensation. Deferred compensation is shown as a reduction of shareholders' equity and is amortized to operating expenses over the vesting period of the stock award.

Segments

The Company has one reportable segment given the similarities of economic characteristics between the operations represented by the Company's three brands. Revenues of international retail operations represent 11.3 percent, 10.1 percent and 9.7 percent of the Company's revenues for fiscal 1999, 1998 and 1997, respectively. Long-term assets of international operations, including retail and sourcing, represent 13.8 percent and 14.3 percent of the Company's long-term assets for fiscal 1999 and 1998, respectively.

Derivatives

The Company records the fair value of derivatives designated as fair-value and cash-flow hedges on the balance sheet. The Company also records the fair value of the hedged firm commitments on the balance sheet.

Reclassifications

Certain reclassifications have been made to the 1998 and 1997 financial statements to conform with the 1999 presentation.

Note B: Debt and Other Credit Arrangements

The Company has committed credit facilities totaling $1 billion, consisting of an $850 million, 364-day revolving credit facility, and a $150 million, 5-year revolving credit facility through June 28, 2003. These credit facilities provide for the issuance of up to $500 million in letters of credit and provide backup for the Company's $500 million commercial paper program. The Company has additional uncommitted credit facilities of $520 million for the issuance of letters of credit. At January 29, 2000, the Company had outstanding letters of credit totaling approximately $851 million. The Company had no commercial paper outstanding as of January 29, 2000.

Borrowings under the Company's credit agreements are subject to the Company not exceeding a certain debt ratio. The Company was in compliance with this debt covenant at January 29, 2000.

During fiscal 1997, the Company issued $500 million of unsecured notes, due September 15, 2007, with a fixed annual interest rate of 6.9 percent. Interest on the notes is payable semi-annually. The fair value of the notes at January 29, 2000 was approximately $478 million, based on the current rates at which the Company could borrow funds with similar terms and remaining maturities. The notes are recorded in the balance sheet at their issuance amount net of unamortized discount.

During fiscal 1999, the Company's Japanese subsidiary, Gap (Japan) KK, issued $50 million of 10-year debt securities, due March 1, 2009, with a fixed annual interest rate of 6.25 percent payable in U.S. dollars. Interest on the notes is payable semi-annually. The Company swapped the cash flows payable under these debt securities to Japanese yen with a fixed annual interest rate of 2.43 percent to minimize foreign currency exposure. The fair value of the notes at January 29, 2000 was approximately $44 million, based on the current rates at which the Company could borrow funds with similar terms and remaining maturities. The notes are recorded in the balance sheet at their fair value.

Also, during fiscal 1999, the Company's Netherlands subsidiary, Gap International B.V., issued debt securities in the amount of 250 million Euro, approximately $262 million at issuance, with a fixed annual interest rate of 5.0 percent, due September 30, 2004. Interest on the notes is payable annually. The fair value of the notes at January 29, 2000 was approximately $232 million, based on the current rates at which the Company could borrow funds with similar terms and remaining maturities. The notes are recorded in the balance sheet at their issuance amount net of an unamortized discount and are translated into U.S. dollars at the period-end exchange rate.

Gross interest payments were $53,790,000, $47,415,000 and $8,399,000 in fiscal 1999, 1998 and 1997, respectively.

Note C: Income Taxes

Income taxes consisted of the following:

($000)	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Current			
Federal	$549,107	$438,110	$279,068
State	62,357	55,716	33,384
Foreign	43,976	35,663	21,595
Total current	655,440	529,489	334,047
Deferred			
Federal	(3,815)	(29,163)	(14,832)
State and foreign	6,259	(5,603)	1,126
Total deferred	2,444	(34,766)	(13,706)
Total provision	$657,884	$494,723	$320,341

The foreign component of pretax earnings before eliminations and corporate allocations in fiscal 1999, 1998 and 1997 was $225,873,000, $190,864,000 and $84,487,000, respectively. No provision was made for U.S. income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time or repatriate such earnings only when tax effective to do so. Accumulated undistributed earnings of foreign subsidiaries were $524,982,000 at January 29, 2000.

The difference between the effective income tax rate and the U.S. federal income tax rate is summarized as follows:

	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Federal tax rate	35.0%	35.0%	35.0%
State income taxes, less federal benefit	2.5	2.5	3.2
Other	(0.6)	0.0	(0.7)
Effective tax rate	36.9%	37.5%	37.5%

Deferred tax assets (liabilities) consisted of the following:

($000)	Jan. 29, 2000	Jan. 30, 1999
Compensation and benefits accruals	$ 26,377	$ 43,509
Scheduled rent	50,164	54,687
Inventory capitalization	39,485	40,976
Nondeductible accruals	24,126	10,257
Other	44,501	22,031
Gross deferred tax assets	184,653	171,460
Depreciation	(23,054)	(4,058)
Other	(2,724)	(6,083)
Gross deferred tax liabilities	(25,778)	(10,141)
Net deferred tax assets	$ 158,875	$ 161,319

Net deferred tax assets at January 29, 2000 and January 30, 1999 are included in Other Current Assets ($81,920,000 and $101,048,000, respectively), and Lease Rights and Other Assets ($76,955,000 and $60,271,000, respectively) in the Consolidated Balance Sheets. Income tax payments were $537,187,000, $410,919,000 and $320,744,000 in fiscal 1999, 1998 and 1997, respectively.

Note D: Leases

The Company leases most of its store premises and headquarters facilities and some of its distribution centers. These leases expire at various dates through 2019.

The aggregate minimum non-cancelable annual lease payments under leases in effect on January 29, 2000 are as follows:

Fiscal Year	($000)
2000	$ 633,985
2001	611,753
2002	582,483
2003	527,717
2004	460,770
Thereafter	1,818,509
Total minimum lease commitment	$ 4,635,217

Many leases entered into by the Company include options that may extend the lease term beyond the initial commitment period, subject to terms agreed to at lease inception. Some leases also include early termination options which can be exercised under specific conditions.

For leases that contain predetermined fixed escalations of the minimum rentals, the Company recognizes the related rental expense on a straight-line basis and records the difference between the recognized rental expense and amounts payable under the leases as deferred lease credits. At January 29, 2000 and January 30, 1999, this liability amounted to $170,275,000 and $154,897,000, respectively.

Cash or rent abatements received upon entering into certain store leases are recognized on a straight-line basis as a reduction to rent expense over the lease term. The unamortized portion is included in deferred lease credits. At January 29, 2000 and January 30, 1999, the long-term deferred credit was $168,903,000 and $112,416,000, respectively.

Some of the leases relating to stores in operation at January 29, 2000 contain renewal options for periods ranging up to 30 years. Many leases also provide for payment of operating expenses, real estate taxes and for additional rent based on a percentage of sales. No lease directly imposes any restrictions relating to leasing in other locations, other than radius clauses.

Rental expense for all operating leases was as follows:

($000)	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Minimum rentals	$ 546,215	$ 460,715	$ 391,472
Contingent rentals	114,484	75,601	38,657
Total	$ 660,699	$ 536,316	$ 430,129

Note E: Financial Instruments

Foreign Exchange Forward Contracts

The Company operates in foreign countries which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company's risk management policy is to hedge substantially all U.S. dollar-denominated merchandise purchases for foreign operations through the use of foreign exchange forward contracts to minimize this risk. At January 29, 2000, the Company had contracts maturing at various dates through November 2000 to buy and sell the equivalent of $351,885,000 in foreign currencies (Buy contracts: 86,921,000,000 Italian lire and 1,984,000,000 Spanish pesetas; Sell contracts: 83,000,000 British pounds, 133,700,000 Canadian dollars and 7,382,000,000 Japanese yen) at the contracted rates.

Changes in the fair value of forward contracts designated as fair-value hedges, along with the offsetting changes in fair value of the related firm commitments to purchase foreign merchandise, are recorded in cost of sales in the current period. Changes in the fair value of forward contracts designated as cash-flow hedges are recorded as a component of comprehensive earnings, and are recognized in earnings in the period in which the hedged merchandise inventory is sold. The related balance included in comprehensive earnings at January 29, 2000 will be recognized in earnings over the next 12 months. The critical terms of the forward contracts and the respective firm commitments and forecasted foreign purchase transactions are essentially the same. As a result, there were no amounts reflected in fiscal 1999 earnings resulting from hedge ineffectiveness.

Note F: Employee Benefit and Incentive Stock Compensation Plans

Retirement Plans

The Company has a qualified defined contribution retirement plan, called GapShare, which is available to employees who meet certain age and service requirements. This plan permits employees to make contributions up to the maximum limits allowable under the Internal Revenue Code. Under the plan, the Company matches all or a portion of employees' contributions under a predetermined formula. The Company's contributions vest immediately. Company contributions to the retirement plan in 1999, 1998 and 1997 were $16,035,000, $14,284,000 and $12,907,000, respectively.

A nonqualified Executive Deferred Compensation Plan was established on January 1, 1999 which allows eligible employees to defer compensation up to a maximum amount. This plan superseded an earlier nonqualified Executive Deferred Compensation Plan, established on January 1, 1994, and a nonqualified Executive Capital Accumulation Plan, established on April 1, 1994. The Company does not match employees' contributions under the current plan.

A Deferred Compensation Plan was established on August 26, 1997 for nonemployee members of the Board of Directors. Under this plan, Board members may elect to defer receipt on a pre-tax basis of eligible compensation received for serving as nonemployee directors of the Company. In exchange for compensation deferred, Board members are granted discounted stock options to purchase shares of the Company's common stock. All options are fully exercisable upon the date granted and expire seven years after grant or one year after retirement from the Board, if earlier. The Company may issue up to 675,000 shares under the plan.

Incentive Stock Compensation Plans

The 1996 Stock Option and Award Plan (the "1996 Plan") was established on March 26, 1996. The Board authorized 93,341,342 shares for issuance under the 1996 Plan, which includes shares available under the Management Incentive Restricted Stock Plan ("MIRSP") and an earlier stock option plan established in 1981, both of which were superseded by the 1996 Plan. The 1996 Plan empowers the Compensation and Stock Option Committee of the Board of Directors (the "Committee") to award compensation primarily in the form of nonqualified stock options or restricted stock to key employees. The 1999 Stock Option Plan (the "1999 Plan") was established on March 29, 1999. The Board authorized 22,500,000 shares for issuance under the 1999 Plan. The 1999 Plan empowers the Committee to award nonqualified stock options to non-officers. Stock options generally expire 10 years from the grant date or one year after the date of retirement, if earlier. Stock options generally vest over a three-year period, with shares becoming exercisable in full on the third anniversary of the grant date. Nonqualified stock options are generally issued at fair market value but may be issued at prices less than the fair market value at the date of grant or at other prices as determined by the Committee. Total compensation cost for those stock options issued at less than fair market value and for the restricted shares issued was $19,175,000, $20,845,000 and $17,170,000 in 1999, 1998 and 1997, respectively.

In 1998, the Company established a stock option plan for non-officers, called Stock Up On Success, under which eligible employees may receive nonqualified stock options. The Board of Directors authorized 6,000,000 shares for issuance under Stock Up On Success. Stock options under the plan must be issued at not less than fair market value. During 1999, options to purchase approximately 1,484,000 shares were granted to approximately 19,000 employees under the plan. These stock options have a vesting period of one-and-a-half years and expire 10 years after the grant date.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan under which all eligible employees may purchase common stock of the Company at 85 percent of the lower of the closing price of the Company's common stock on the grant date or the purchase date on the New York Stock Exchange Composite Transactions Index. Employees pay for their stock purchases through payroll deductions at a rate equal to any whole percentage from 1 percent to 15 percent. There were 1,178,333 shares issued under the plan during fiscal 1999, 1,440,615 shares during 1998 and 1,452,657 shares during 1997. All shares were acquired from reissued treasury stock. At January 29, 2000, there were 6,778,354 shares reserved for future subscriptions.

Note G: Shareholders' Equity and Stock Options

Common and Preferred Stock

The Company is authorized to issue 60,000,000 shares of Class B common stock, which is convertible into shares of common stock on a share-for-share basis; transfer of the shares is restricted. In addition, the holders of the Class B common stock have six votes per share on most matters and are entitled to a lower cash dividend. No Class B shares have been issued.

The Board of Directors is authorized to issue 30,000,000 shares of one or more series of preferred stock and to establish at the time of issuance the issue price, dividend rate, redemption price, liquidation value, conversion features and such other terms and conditions of each series (including voting rights) as the Board of Directors deems appropriate, without further action on the part of the shareholders. No preferred shares have been issued.

During 1999, the Company completed a 101 million share repurchase program approved in 1996 by acquiring approximately 2.1 million shares for approximately $94 million. In addition, during fiscal 1999, under the 67.5 million share repurchase program approved in 1998, the Company acquired approximately 16.4 million shares for approximately $651 million, including 0.8 million shares acquired under put option contracts for approximately $32 million.

At the end of fiscal 1999, the Company was obligated under a put option contract to repurchase 375,000 shares of the Company's stock. The contract has an exercise price of $32.00 per share, with an expiration date of March 22, 2000.

Stock Options

Under the Company's stock option plans, nonqualified options to purchase common stock are granted to officers, directors and employees at exercise prices equal to the fair market value of the stock at the date of grant or at other prices as determined by the Compensation and Stock Option Committee of the Board of Directors.

Stock option activity for all employee benefit plans was as follows:

	Shares	Weighted-Average Exercise Price
Balance at February 1, 1997	65,788,599	$ 6.43
Granted	25,633,196	9.61
Exercised	(6,410,327)	4.73
Canceled	(5,758,415)	7.11
Balance at January 31, 1998	79,253,053	$ 7.54
Granted	28,445,033	21.45
Exercised	(7,603,242)	4.95
Canceled	(2,836,809)	11.94
Balance at January 30, 1999	97,258,035	$ 11.69
Granted	11,780,067	42.15
Exercised	(9,942,133)	7.50
Canceled	(6,582,343)	17.30
Balance at January 29, 2000	92,513,626	$ 15.61

Outstanding options at January 29, 2000 have expiration dates ranging from March 2000 to January 2010.

At January 29, 2000, the Company reserved 145,993,924 shares of its common stock, including 160,912 treasury shares, for the exercise of stock options. There were 53,480,298 and 36,214,437 shares available for granting of options at January 29, 2000 and January 30, 1999, respectively. Options for 15,682,738, 10,913,039 and 9,674,657 shares were exercisable as of January 29, 2000, January 30, 1999 and January 31, 1998, respectively, and had a weighted-average exercise price of $7.76, $5.51 and $5.18 for those respective periods.

The Company accounts for its stock option and award plans using the intrinsic value-based method of accounting, under which no compensation cost has been recognized for stock option awards granted at fair market value. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below.

	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Net earnings ($000)			
As reported	$1,127,065	$ 824,539	$ 533,901
Pro forma	1,047,304	772,062	507,966
Earnings per share			
As reported–basic	$ 1.32	$ 0.95	$ 0.60
Pro forma–basic	1.23	0.89	0.57
As reported–diluted	1.26	0.91	0.58
Pro forma–diluted	1.17	0.85	0.55

The weighted-average fair value of the stock options granted during fiscal 1999, 1998 and 1997 was $16.77, $7.50 and $3.89, respectively. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1999: dividend yield of 0.2 percent; expected price volatility of 35 percent; risk-free interest rates ranging from 5.4 percent to 6.7 percent and expected lives between 3.9 and 6.2 years. The fair value of stock options granted in 1998 was based on the following weighted-average assumptions: dividend yield of 0.4 percent; expected price volatility of 32 percent; risk-free interest rates ranging from 5.3 percent to 5.7 percent and expected lives between 3.9 and 6.1 years. The fair value of stock options granted in 1997 was based on the following weighted-average assumptions: dividend yield of 0.7 percent; expected price volatility of 31 percent; risk-free interest rates ranging from 5.9 percent to 7.0 percent and expected lives between 3.9 and 5.8 years.

The following table summarizes information about stock options outstanding at January 29, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at Jan. 29, 2000	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at Jan. 29, 2000	Weighted-Average Exercise Price
$ 4.17 to $ 5.79	24,865,302	3.87	$ 5.39	5,435,433	$ 4.73
5.96 to 9.80	27,755,468	6.45	9.09	9,741,033	8.98
9.87 to 24.25	25,061,458	8.15	19.59	467,201	15.00
24.36 to 50.29	14,831,398	8.84	38.24	39,071	36.43
$ 4.17 to $ 50.29	92,513,626	6.60	$ 15.61	15,682,738	$ 7.76

Note H: Earnings Per Share

Basic earnings per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share includes the additional dilutive effect of the Company's potentially dilutive securities, which includes certain stock options, unvested shares of restricted stock, and certain put options. The following summarizes the incremental shares from these potentially dilutive securities, calculated using the treasury stock method, as included in the calculation of diluted weighted-average shares.

	52 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 31, 1998
Weighted-average number of shares–basic	853,804,924	864,062,060	891,404,945
Incremental shares resulting from:			
Stock options	39,781,579	35,340,667	22,584,825
Restricted stock	1,442,673	4,971,656	8,961,936
Weighted-average number of shares–diluted	895,029,176	904,374,383	922,951,706

Excluded from the above computations of weighted-average shares for diluted earnings per share were options to purchase 7,089,268 shares of common stock for fiscal 1999, 27,263 shares for fiscal 1998 and 990,143 shares for fiscal 1997. Issuance or repurchase of these securities would have resulted in an antidilutive effect on earnings per share.

Note I: Related Party Transactions

The Company has an agreement with Fisher Development, Inc. (FDI), a company wholly owned by the brother of the Company's chairman, setting forth the terms under which FDI may act as general contractor in connection with the Company's construction activities. FDI acted as general contractor for 547, 340 and 266 new stores' leasehold improvements and fixtures during fiscal 1999, 1998 and 1997, respectively. In the same respective years, FDI supervised construction of 123, 135 and 97 expansions, as well as remodels of existing stores and headquarters facilities. Total cost of construction was $485,295,000, $342,030,000 and $233,777,000, including profit and overhead costs of $46,886,000, $28,877,000 and $16,845,000, for fiscal 1999, 1998 and 1997, respectively. At January 29, 2000 and January 30, 1999, amounts due to FDI were $26,265,000 and $15,302,000, respectively. The terms and conditions of the agreement with FDI are reviewed annually by the Audit and Finance Committee of the Board of Directors.

QUARTERLY FINANCIAL INFORMATION

Fiscal 1999

($000 except per share amounts)	13 Weeks Ended May 1, 1999	13 Weeks Ended Jul. 31, 1999	13 Weeks Ended Oct. 30, 1999	13 Weeks Ended Jan. 29, 2000	52 Weeks Ended Jan. 29, 2000
Net sales	$ 2,277,734	$ 2,453,339	$ 3,045,386	$ 3,858,939	$11,635,398
Gross profit	943,579	1,009,794	1,304,288	1,602,475	4,860,136
Net earnings	202,370	195,829	315,017	413,849	1,127,065
Earnings per share–basic	0.24	0.23	0.37	0.49	1.32
Earnings per share–diluted	0.22	0.22	0.35	0.47	1.26

Fiscal 1998

($000 except per share amounts)	13 Weeks Ended May 2, 1998	13 Weeks Ended Aug. 1, 1998	13 Weeks Ended Oct. 31, 1998	13 Weeks Ended Jan. 30, 1999	52 Weeks Ended Jan. 30, 1999
Net sales	$ 1,719,712	$ 1,904,970	$ 2,399,948	$ 3,029,832	$ 9,054,462
Gross profit	688,708	769,805	1,023,943	1,253,788	3,736,244
Net earnings	136,066	136,874	237,749	313,850	824,539
Earnings per share–basic	0.16	0.16	0.28	0.37	0.95
Earnings per share–diluted	0.15	0.15	0.27	0.35	0.91

Per Share Data

	Market Prices				Cash Dividends Paid	
Fiscal	1999		1998		1999	1998
	High	Low	High	Low		
1st Quarter	$51 9/16	$39 13/16	$22 7/8	$ 17 9/16	$0.0222	$0.0222
2nd Quarter	52 11/16	39 3/8	29 15/16	22 7/16	0.0222	0.0222
3rd Quarter	47 15/16	30 13/16	30 3/16	20 3/16	0.0222	0.0222
4th Quarter	49 5/16	32 13/32	43 5/16	26 1/16	0.0222	0.0222
Year					$0.0888	$0.0888

The principal markets on which the Company's stock is traded are the New York Stock Exchange and the Pacific Exchange. The number of holders of record of the Company's stock as of March 10, 2000 was 9,409.

OFFICERS AND DIRECTORS

Corporate Executive Officers

Donald G. Fisher
Chairman of the Board

Millard S. Drexler
President and
Chief Executive Officer

Charles K. Crovitz
Executive Vice President
Supply Chain and Technology

Anne B. Gust
Executive Vice President
Human Resources, Legal,
Corporate Administration and
Global Compliance

Heidi Kunz
Executive Vice President and
Chief Financial Officer

John B. Wilson
Executive Vice President and
Chief Operating Officer

Divisional Officers

Gap

James A. Nevins
Executive Vice President
Marketing

Dennis R. Parodi
Executive Vice President
Stores and Operations

Elizabeth H. Salamone
Executive Vice President
Merchandising

Lisa A. Schultz
Executive Vice President
Product Design and Development

Michael D. Tucci
Executive Vice President
GapBody

Gap International

Kenneth S. Pilot
President

Stephen Sullivan
Executive Vice President
Stores and Operations

Banana Republic

Michael J. Dadario
Executive Vice President
Stores and Operations

Jerome M. Jessup
Executive Vice President
Product Design and Development

Gary P. Muto
Executive Vice President
Merchandising

Amy Schoening
Executive Vice President
Marketing

Old Navy

Jenny J. Ming
President

Richard M. Crisman
Executive Vice President
Marketing

Kevin M. Lonergan
Executive Vice President and
Chief Operating Officer

Jeffrey A. Pfeifle
Executive Vice President
Product Design and Development

Gap Inc. Direct

Online and Catalog

Ronald R. Beegle
Executive Vice President

Outlet

Ed Stair
Executive Vice President

Directors

Adrian D.P. Bellamy[*†]
Chairman of Gucci Group N.V.; Former Chairman and Chief Executive Officer of DFS Group Limited; Director of The Body Shop International plc, Shaman Pharmaceuticals Inc.,Williams-Sonoma, Inc. and Reckitt Benckiser plc.
Director since 1995.

Evan S. Dobelle[†§]
President of Trinity College; Former Chancellor of City College of San Francisco.
Director since 1999.

Millard S. Drexler
President and Chief Executive Officer of the Company; Director of Apple Computer, Inc. and Restoration Hardware, Inc.
Director since 1983.

Donald G. Fisher[†]
Chairman and Founder of the Company; Director of The Charles Schwab Corporation, Vodafone AirTouch plc and Cornerstone Properties Inc.
Director since 1969.

Doris F. Fisher
Merchandising Consultant and Founder of the Company.
Director since 1969.

Robert J. Fisher
Former Executive Vice President of the Company and President of Gap Division; Director of Sun Microsystems, Inc.
Director since 1990.

Glenda A. Hatchett[*†]
Independent Consultant; Former Chief Judge of Fulton County Juvenile Court; Director of The ServiceMaster Company and Columbia/HCA Healthcare Corporation.
Director since 1999.

Steven P. Jobs[†]
Chief Executive Officer of Apple Computer, Inc.; Chairman and Chief Executive Officer of Pixar; Former Chairman and Chief Executive Officer of NeXt Software, Inc.; Director of Apple Computer, Inc.
Director since 1999.

John M. Lillie[*†]
President of Sequoia Associates LLC; Former Chairman of The Epic Team; Former Chairman and Chief Executive Officer of American President Companies, Ltd.; Director of Consolidated Freightways, Ltd. and Walker Interactive Systems, Inc.
Director since 1992.

Charles R. Schwab[†§]
Chairman and Co-Chief Executive Officer of The Charles Schwab Corporation; Director of Vodafone AirTouch plc and Siebel Systems, Inc.
Director since 1986.

Brooks Walker, Jr.[†§]
General Partner of Walker Investors; Director of Pope & Talbot, Inc.
Director since 1972.

Sergio S. Zyman[†§]
President of Z Group; Former Senior Vice President and Chief Marketing Officer of The Coca-Cola Company.
Director since 1997.

* Compensation and Stock Option Committee

† Corporate Governance Committee

§ Audit and Finance Committee

CORPORATE INFORMATION

Gap Inc. Corporate Offices

One Harrison Street, San Francisco, CA 94105, 650 952 4400, gapinc.com.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m., Friday, May 5, 2000 at the Company's Distribution Center located at 200 Gap Boulevard, Gallatin, TN 37066. Each shareholder is cordially invited to attend.

Common Stock

The common stock of Gap Inc. is listed for trading on the New York Stock Exchange and the Pacific Exchange, ticker symbol "GPS."

Fiscal 2000 Quarterly Earnings Release Dates

1st Quarter:	2nd Quarter:	3rd Quarter:	4th Quarter and Fiscal Year:
May 11, 2000*	August 10, 2000*	November 9, 2000*	March 1, 2001*

* Reports are scheduled for release after the market closes.

Webcast

The Company broadcasts its quarterly earnings results conference call in a real-time Webcast that is available to the general public at www.gapinc.com. The Webcast begins shortly after the market closes on each earnings release date, and is located on our Web site.

Information Resources

Publications

A copy of the Company's Annual Report to the Securities and Exchange Commission (Form 10-K) for the fiscal year ended January 29, 2000, will be available without charge (except exhibits, which will be available for a nominal charge) after April 3, 2000, by calling 1 800 GAP NEWS (1 800 427 6397), or by making a written request to Investor Relations at the Company's corporate offices.

Gap Inc. Investor Relations

One Harrison Street, San Francisco, CA 94105, investor_relations@gap.com.

Hotline

The Company's Investor Relations Hotline, 1 800 GAP NEWS, provides recorded highlights from the most recent quarter and month, as well as upcoming news release dates, and may be used to request mailed copies of the most recently published financial information. The Hotline is accessible from within the United States.

Web sites

You can access Company information through our corporate Web site at www.gapinc.com. The site offers information about Gap Inc., as well as online versions of our Annual Report, Securities and Exchange Commission reports, quarterly earnings results and monthly sales reports. You can also obtain information about employment opportunities with Gap Inc., and read about our environmental principles and community relations programs, including Gap Foundation grant guidelines.

Product information is available through our brand Web sites at: www.gap.com, www.gapkids.com, www.babygap.com, www.BananaRepublic.com and www.oldnavy.com.

Shareholder Assistance

Registered Shareholders
(shares held by you in your name):

Questions about your statement, dividend payments, registration changes, lost stock certificates, stock holdings or related matters should be directed to the Transfer Agent and Registrar:

Norwest Bank Minnesota NA, Shareowner Services, P.O. Box 64854, St. Paul, MN 55164-0854, Toll Free 877 262 8250.

Beneficial Shareholders
(shares held by your broker in the name of the brokerage house):

Questions should be directed to your broker on all administrative matters.

Independent Auditors

Deloitte & Touche LLP
San Francisco, CA

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