GAP

BANANA REPUBLIC

OLD NAVY

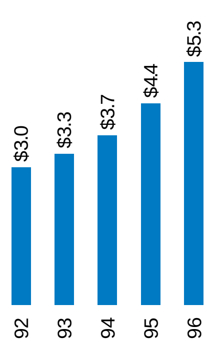
The Gap, Inc. 1996 Annual Report

Financial Highlights

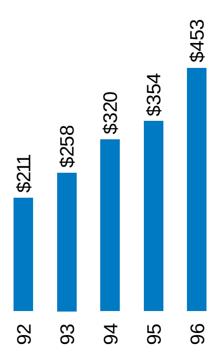
($000 except per share amounts)	Fiscal 1996 52 weeks	Fiscal 1995 53 weeks	Fiscal 1994 52 weeks
Operating Results			
Net sales	$5,284,381	$4,395,253	$3,722,940
Earnings before income taxes	748,527	585,199	529,322
Net earnings	452,859	354,039	320,240
Per Share Data[a]			
Net earnings	$1.60	$1.23	$1.10
Cash dividends	.30	.24	.23
Financial Position			
Total assets	$2,626,927	$2,343,068	$2,004,244
Long-term debt, less current installments	—	—	—
Working capital	554,359	728,301	555,827
Current ratio	1.72:1	2.32:1	2.11:1
Stockholders' equity	1,654,470	1,640,473	1,375,232
Statistics			
Weighted-average number of shares outstanding[a]	283,330,290	288,062,430	291,141,076
Number of shares outstanding at year-end, net of treasury stock[a]	274,517,331	287,747,984	289,529,498
Net earnings as a percentage of net sales	8.6%	8.1%	8.6%
Return on average assets	18.2%	16.3%	17.0%
Return on average stockholders' equity	27.5%	23.5%	25.6%
Number of stores open at year-end	1,854	1,680	1,508
Comparable store sales growth (52-week basis)	5.0%	0.0%	1.0%

(a) Reflects the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

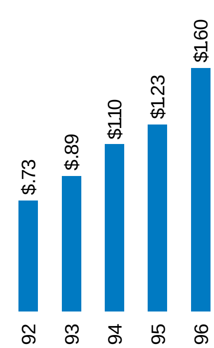
Net Sales (Billions)



Net Earnings (Millions)



Earnings Per Share



How do you build a **brand**? Start with an environment where creative **people** can flourish, sharpen it with discipline and **focus**, then support it with a well-developed **infrastructure**. Result: powerful and extendable brands. Gap, Banana Republic, and Old Navy are three of the strongest apparel brands on the market today.

Dear Shareholders

For the fourth year in a row—and tenth out of the last eleven—we are delighted to report that Gap, Inc. has achieved record sales and earnings. Across the board, all of our key financial indicators—including net sales, net earnings, and return on equity—increased meaningfully in 1996. Needless to say, we are proud to have created such outstanding results for our shareholders.

But 1996 was about more than setting financial records. It was also an important year in the evolution of our brands. Through four quarters and eight seasons of new merchandise, we approached our business not only as retailers, but as the builders of three strong, distinctive brands—Gap, Banana Republic, and Old Navy.

Instead of seeing limits—in the product categories we could extend into, the real estate we could manage, the advertising media we could use—we searched for new opportunities to increase the reach of our brands. All the while, we emphasized quality, value, style, and service—the core elements that have made this Company famous for 27 years. And, finally, we came closer to striking that delicate but powerful balance between innovation and operating discipline.

The result was that in 1996, Gap, Banana Republic, and Old Navy returned superior results, each one combining the necessary quickness and flexibility of a good retailer with the long-term perspective of a growth-oriented brand. We're not yet as ubiquitous as we hope to be, but with Old Navy penetrating the huge mass apparel market, Gap occupying the all-important middle segment (with GapKids looking out for the youngsters), and Banana Republic addressing the sophisticated upscale market, Gap, Inc. now represents a balanced portfolio of brands committed to building long-term shareholder value.

None of this is to suggest, of course, that we have somehow found a way to rise above the inherently unpredictable nature of the apparel industry. If only it were possible. We're in the fashion business, after all, and will always be subject to the vagaries of popular taste. From time to time, we'll miss a trend. We'll bet on the wrong color palette or over-invest in a dud. It happens. But as our long-term performance demonstrates, over time, our talented and passionate people have gotten pretty good at getting the right product into our stores at the right time.

That track record also has a lot to do with our organizational strength, or infrastructure. At Gap, Inc., we see this as a real competitive advantage. Over the years, we've been admired for our quality products, distinctive stores, and attentive salespeople, but our success has just as much to do with what goes on behind the scenes. Our corporate support functions—including Sourcing (with nearly 600 production and quality assurance employees based in North America, Europe, and Asia), Distribution (with eight shipment-processing facilities on three continents), Real Estate (with people scouting locations around the world), and Information Systems (with the technology and know-how to keep our stores and headquarters connected and communicating around the clock)—are Gap, Inc.'s quiet enablers. They provide a foundation for creativity, making it possible for our product designers, visual merchandisers, and marketing managers to immerse themselves in the details that ultimately define the Gap, Banana Republic, and Old Navy brands. Every day, their strength can be leveraged across all divisions of the corporation.

To ensure that Gap, Inc.'s infrastructure gets the attention it needs to support our growth, in 1996 we hired John Wilson as Chief Administrative Officer. Working closely with us, Chief Operating Officer Bob Fisher, and the senior management team, John now oversees most of the Company's support functions, plus Gap's U.S. sales organization.

Of course, customers tend to care more about things they can see and feel: store designs, displays, merchandise, marketing concepts. In 1996, we looked for—and frequently found—new ways to get consumers to connect with our brands. You could sense it walking into our stores, where our visual merchandising was simpler, bolder, more direct. You could feel it in our product assortments, which featured better balance between basics and fashion items. You could see it in our increased brand-oriented marketing activity, which included our first national babyGap TV ads, Old Navy radio and television spots, and the debut of Gap's interactive World Wide Web site. It all added up to an aggressive push to increase awareness of our brands.

At Gap, the Company's original brand and the vehicle for our GapKids, babyGap, and Gap Outlet spin-offs, we are testing new strategies to meet the challenges of what many perceive to be a mature retail concept. We threw out the rigid devotion to 6,000- and 7,000-square-foot Gap stores and tested smaller formats, men's- and women's-only shops, airport locations, and babyGap stand-alones. Inside, we created new interest for customers by expanding our personal care collections and introducing items such as women's intimates and bedding for babies.

Admittedly, in pursuit of greater ubiquity for the Gap brand, we embarked on a few too many new initiatives. We lost focus on some of our franchise businesses, especially in men's, and paid the price when our customers found that our assortment had moved too far from what we've come to stand for at Gap. By year's end, however, we had recognized these problems, and began working to get back on track by renewing investments in the core categories that made us famous. In 1997 and beyond, we will look to strike the right balance between fashion and franchise items, and make certain that extending the reach of our brands does not become an exercise in stretching ourselves too thin.

Banana Republic truly came into its own in 1996. Shaking off a past marred by image inconsistency, the brand honed its identity as the source for casual but sophisticated lifestyle apparel. Customers and employees alike rallied around a simple concept known as "relaxed style," as Banana Republic continued to meet the needs of its demanding but loyal client base while adding excitement with brand enhancements like jewelry, shoes, gifts, and home accessories. In 200-plus stores—including a few men's- and women's-only formats—strong sales and profit margins made it clear that we had hit on a refreshing combination of specialty apparel accessibility and contemporary design attitude.

To be sure, the secret of Old Navy got out in 1996. Having jumped to almost 200 stores in three years, and now occupying approximately one-quarter of Gap, Inc.'s total retail space, our newest brand is being called the fastest growing specialty apparel concept in the world. Originally conceived as a category-killer that could help the corporation maintain the lower-priced business being siphoned off by Gap imitators, Old Navy has since developed into our primary U.S. growth vehicle. It has also become something of a corporate proving ground for fun products and unusual merchandising innovations—like Item of the Week℠ promotions, music CDs customers can sample in converted telephone booths, and headset walkie-talkies that help our salespeople serve shoppers more efficiently. Its growth fueled largely by employees transferred from Gap, Inc.'s other divisions, Old Navy's success is a testament to our people and their ability to redirect their skills, energy, and creativity to an entirely new concept.

While we are looking to Old Navy to help drive our next phase of growth in the United States, we continue to count on Gap to introduce our brands to the rest of the world. In 1996 we added 40 new stores to our international portfolio, which now includes more than 200 locations in Canada, the United Kingdom, France, Germany, and Japan. Though our global expansion has not been as rapid as some might expect, we feel we've done it in a way that reflects discipline. Eschewing start-up speed for quality, consistency, and control, we are learning to manage the considerable cultural, legal, and operational challenges of overseas business development. We are delighted to report that our Gap brand travels well outside the United States, and that returns from Banana Republic's Canadian stores are also promising.

Going forward, we intend to focus our growth within the countries where we already operate and continue to take a cautious approach to opening new markets. With Gap, Inc. footholds now established in five nations outside the United States—and a strong, centralized corporate infrastructure back home—we believe our brands are well-positioned to grow internationally in the years to come.

It's all part of our desire to achieve ubiquity on a global scale. We'll do it the way we have tried to do everything at Gap, Inc.: with quality, passion, and an unshakable commitment to building, enhancing, and protecting the value of our brands.

Millard S. Drexler
President and Chief Executive Officer

Donald G. Fisher
Chairman and Founder

Our **brands** deliver great quality, value, style, and service to our customers. Each of our brands—Gap, Banana Republic, and Old Navy—occupies a unique place in the hearts and minds of customers worldwide.

Gap offers separates or complete outfits. Gap is like a 'fashion safety net'.

GAP

821
Stores

5.5
Million
Square Feet

70
New Stores
Planned '97

every age...

There is nothing quite like the Gap. Our customers tell us that Gap clothes are like social passports. Almost *everyone*—from infant to adult—has something from Gap in a drawer or closet. As a product innovator, each season the Gap offers modern American classics with a twist: maybe it's some detailing on the pocket, or a more relaxed silhouette, or an unusual fabric. Our customers take those basics and create style statements all their own. How would we describe the Gap brand? Classic, casual, stylish, fun. Our customers think Gap is indispensable.

every stage...

Indeed, we're striving to ensure that the Gap label is on every item customers want it to be on. Each season we offer our wardrobe basics, like jeans, khakis, white shirts, denim shirts, and T-shirts, so that our customers, regardless of stage in life or lifestyle, can find those basics in a style and size that suit their needs. And we continue to extend the Gap brand—into new items like personal care products—to complement our assortment of modern American classics.

Personal Care
Om is our sixth scent in this popular category.

only gap.

We believe our customers should be able to find Gap wherever they happen to be. There are six miles of Gap storefronts around the world, and in 1997 a new store will open more than once a week. The variety of places where people can buy Gap has expanded, too. Breaking away from our traditional regional mall and street locations, we've opened several Gap stores in strip malls. Additionally, we debuted men's- and women's-only stores to help customers simplify their shopping experiences.

GAP KIDS

great style and value is kid stuff

We think that kids clothes should offer the same quality, style, and value as other Gap products. GapKids and babyGap merchandise is made of comparable materials with equal attention to both function and detail. Affordably priced, every collection includes outerwear, shoes, accessories, and even stuffed toys, in addition to casual basics, in beautiful colors and modern, durable designs.

babyGap
Durable, adorable clothes and accessories for any occasion.

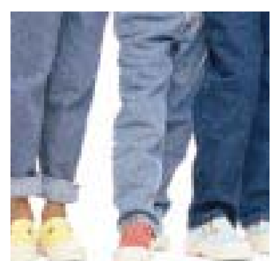
creating opportunities for growth

Innovation is the hallmark of creativity. Through babyGap and GapKids, first-time partnerships helped to extend the Gap brand in 1996. Working with the National Basketball Association, we created a sportswear collection for babies and children featuring the logos of three prominent NBA teams. We also created a limited edition Gap Barbie for Holiday 1996. Adding to our range of merchandise is also key. New babyGap product lines include linens, diaper bags, and other baby essentials in addition to clothes.

GAP KIDS
413 Stores
1.8 Million Square Feet
70 New Stores Planned '97

getting off to a good start in life

Launched in 1986, there are already more than 400 GapKids stores around the country. A decade later, we introduced 17 freestanding babyGap stores in major metropolitan shopping areas, including New York City, San Francisco, Chicago, and Dallas. These smaller baby-only stores enable us to test a new concept: providing a high-quality, tasteful source for apparel and gift items. And it seems like a good idea: In 1997, we plan to open a total of 70 GapKids and babyGap stores.



GapKids
Quality, style, and variety are elementary.

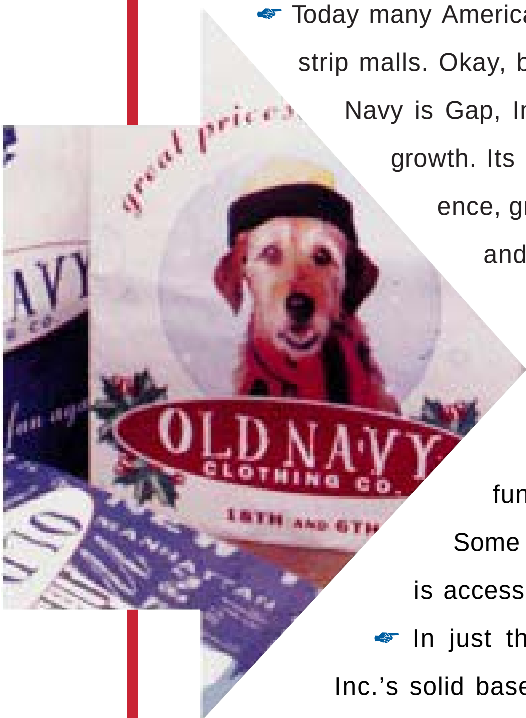
BANANA REPUBLIC

Stores *– 218;* ***Square Feet*** *– 1.3 Million;* ***New Stores Planned ’97*** *– 30*

Banana Republic reflects an **American sensibility, a sophisticated style, a relaxed attitude, an adventurous spirit.** Those same words could be used to describe an important trend in fashion: the casual work wardrobe. Naturally, Banana Republic is leading the way. By designing comprehensive collections for men and women, incorporating everything from shoes and hosiery to lingerie and outerwear, Banana Republic is redefining what it means to be confident, comfortable, and in command at the office, or out of it. ~ The shopping experience is as important as our merchandise for Banana Republic customers. We have an obsession with style and quality. That drives us to provide an environment that looks like the kind of place in which our customers can be comfortable. New store interiors, incorporating diffused lighting, leather, stone, quality woods, and modern fixtures, have created an ambiance that matches the Banana Republic spirit of relaxed American style. ~ Providing the Banana Republic customer with a variety of shopping venues is another of our priorities. In 1997, we will increase the number of men’s- and women’s-only stores. New product extensions include watches, sunglasses, shoes, and accessories for the home. ~ Building and reinforcing the Banana Republic brand has demanded the kind of resources and support that only a large, well-established corporation like Gap, Inc. can provide. Relying on the power and reach of Gap, Inc. for sourcing, distribution, and other operational support leaves Banana Republic free to pursue its individual agenda: **an integrated vision of the store as the brand.** In 1997, Banana Republic plans to open 30 new stores and remodel or expand 15 more. Four of the new locations will be “flagships” of 20,000–30,000 square feet, offering a more complete selection of styles and fits.

Banana Republic collections for men and women include key elements for relaxed style, from shoes and jewelry to outerwear— and everything in between.

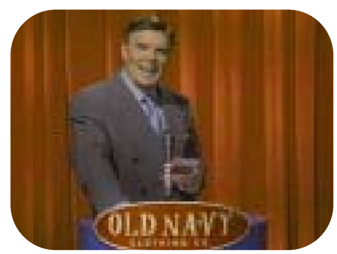
OLD NAVY



Today many Americans shop for value-priced apparel at large discount stores and in strip malls. Okay, but how much fun is that? Plenty, if you've been to Old Navy. Old Navy is Gap, Inc.'s newest brand and represents a tremendous opportunity for growth. Its hallmarks: innovative design, a creative and fun shopping experience, great prices and extraordinary value, exceptional customer service, and something for everyone — adults, kids, and baby.

Old Navy pushes the creative boundaries. By offering new merchandise every four to six weeks, new products like shoes, small gifts, music, and personal care, and the now-famous Item of the Week℠, Old Navy guarantees that shopping really is fun again. In fact, Old Navy is fast becoming a destination store. Some 80% of Old Navy merchandise retails for under $25, a level that is accessible for the value-conscious shopper.

In just three years, building from Gap, Inc.'s solid base, we've opened 193 Old Navy stores in 30 states, and we plan to open 75 more throughout 1997. Already Old Navy stores have over one-half the square footage of all U.S. Gap stores.



look!

Shopping is fun again!

- ✔ **Amazing! We have 193 stores!**
- ✔ **Astounding! 2.9 million square feet!**
- ✔ **Opening '97! 75 new stores planned!**

INTERNATIONAL

personas

Nothing sells like American Style. Each of the Gap, Inc. brands has tremendous potential abroad. The international apparel markets we've targeted for our initial expansion add up to twice the size of the U.S. apparel market. Except for Canadian locations, the population densities in areas with Gap stores are higher than those of U.S. cities. What's more, customers in all of these markets are likely to spend as much or more than Americans on comparable apparel items. We are experimenting with both freestanding and department store models to determine what is most appropriate for each market.

le focus

International expansion can be complex. Our strategy is simple: build a strong support base to fuel profitability as the foundation for future growth. We are taking the necessary steps to ensure that we master doing business in each

Shibuya

The opening of the Shibuya flagship store in Tokyo was the most successful international Gap debut to date.

infrastruktur

of the countries we enter before accelerating our long-term growth. We've targeted the most attractive markets first, and have already established flagship stores in several major metropolitan areas: Tokyo, Cologne, Stuttgart, Toronto, Paris, and London. At year end, we had 68 stores in the United Kingdom, 109 in Canada, 17 in France, 9 in Japan, and 6 in Germany, totaling over 1.2 million square feet. Our greatest success in 1996 was the debut of our Japan flagship store in the Shibuya shopping district of Tokyo. This year we plan to open at least 30 new international stores.

COMMUNITY INVOLVEMENT

"Giving something back" is more than a slogan at Gap, Inc. In 1996 we contributed cash and merchandise totaling $7.2 million. In addition, eligible employees are given paid time off to do volunteer work in the community. As a corporation, we strive to support projects that supply critical resources to people in need, underscoring the Company's essential commitment to customers and our communities. Our continuing efforts encompass both onetime projects and ongoing commitments. Here's a sampling:

Volunteers

In October, the New York Product Development group employed Gap's corporate values as well as its creative skills to throw a Halloween party for 40 children ranging in age from 2 to 12 who live in a homeless shelter in East Harlem. Employees made costumes for each child, and the party featured a jack-o-lantern piñata and cloth goodie bags filled with candy and small gifts.

Special Events

For World AIDS Day, Gap Foundation hosted an in-house fund-raiser for the AIDS Emergency Fund, an agency that provides critical financial assistance to people throughout the San Francisco Bay Area living with HIV and AIDS. Headquarters employees were invited to a special sale of select leather, suede, and specialty Gap and Banana Republic sample items. The sale generated close to $14,000, which was paid directly to the AIDS Emergency Fund.

Old Navy Bus Program

Public schools are central to family and community life. The Old Navy Bus Program, launched last autumn in Long Island, helps schools meet critical transportation needs by providing buses free of charge for field trips to museums, planetariums, parks, nature centers, hospitals, performances, community events, tournaments, and other destinations. The bus is also available for use by groups like the Girl Scouts and by Old Navy employees for community service activities. So far, the Old Navy Bus Program has provided 6,000 students and 1,100 adults with transportation to special events. In 1997, Old Navy will extend the program with buses in Chicago and San Francisco.

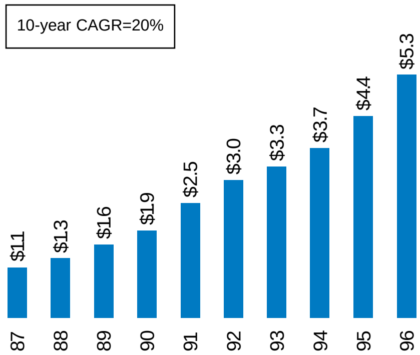
ENVIRONMENT

At Gap, Inc., being a good corporate citizen involves more than volunteer programs and charitable activities—we also strive to operate in an environmentally responsible manner. We believe that business profitability and environmental responsibility are not mutually exclusive. To protect the environment, we encourage employees to improve the environmental performance of our suppliers, stores, and offices worldwide.

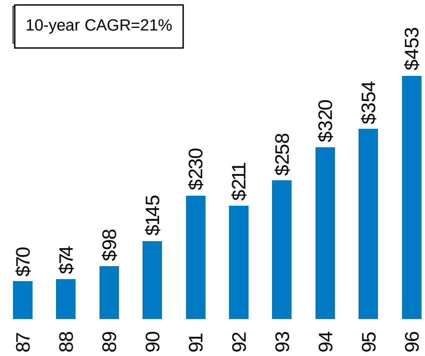
Financial Contents

Key Financial Statistics

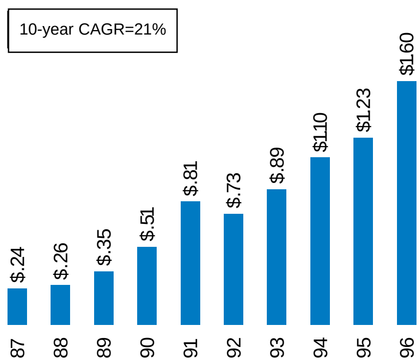
Net Sales (Billions)



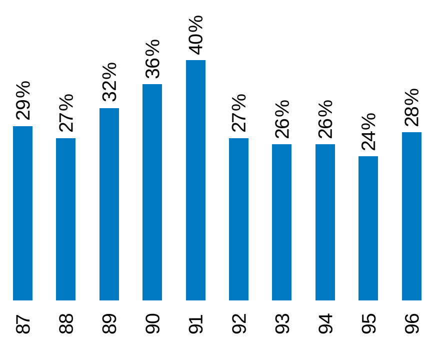
Net Earnings (Millions)



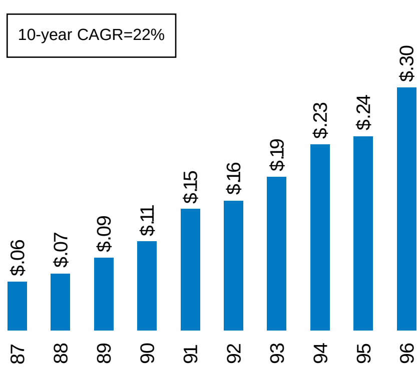
Earnings Per Share*



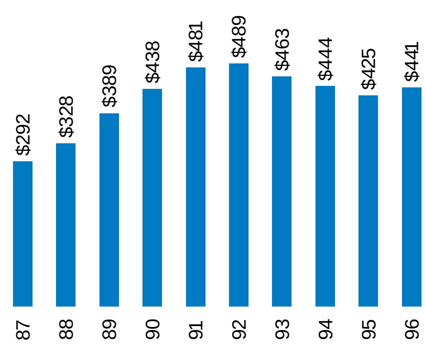
Return on Equity (%)



Dividends Per Share*



Sales Per Average Gross Square Foot**



*Reflects the two-for-one splits of common stock in the form of a stock dividend to stockholders of record on March 18, 1996, June 17, 1991,
September 17, 1990, and June 30, 1986.

**52-week basis.

Ten-Year Selected Financial Data

(continued on the following two pages)

	Compound Annual Growth Rate 3-year	5-year	10-year	1996 52 weeks	1995 53 weeks
Operating Results ($000)					
Net sales	17.0%	16.0%	20.1%	$5,284,381	$4,395,253
Cost of goods sold and occupancy expenses, excluding depreciation and amortization	—	—	—	3,093,709	2,645,736
Percentage of net sales	—	—	—	58.5%	60.2%
Depreciation and amortization[a]	—	—	—	191,457	175,719
Operating expenses	—	—	—	1,270,138	1,004,396
Net interest (income) expense	—	—	—	(19,450)	(15,797)
Earnings before income taxes[b]	20.8%	15.1%	18.5%	748,527	585,199
Percentage of net sales	—	—	—	14.2%	13.3%
Income taxes	—	—	—	295,668	231,160
Net earnings	20.6%	14.5%	20.9%	452,859	354,039
Percentage of net sales	—	—	—	8.6%	8.1%
Cash dividends	16.5%	15.3%	23.0%	83,854	66,993
Capital expenditures[c]	—	—	—	375,838	309,599
Per Share Data[d]					
Net earnings[e]	21.6%	14.6%	20.9%	$1.60	$1.23
Cash dividends	—	—	—	.30	.24
Stockholders' equity (book value)[f]	—	—	—	6.03	5.70
Financial Position ($000)					
Property and equipment (net)	15.3%	15.7%	25.5%	$1,135,720	$ 957,752
Merchandise inventory	20.5%	13.0%	14.8%	578,765	482,575
Total assets	14.2%	18.0%	21.9%	2,626,927	2,343,068
Working capital	3.9%	18.7%	17.4%	554,359	728,301
Current ratio	—	—	—	1.72:1	2.32:1
Total debt, less current installments	—	—	—	—	—
Ratio of long-term debt to stockholders' equity	—	—	—	N/A	N/A
Stockholders' equity	13.7%	19.5%	22.8%	1,654,470	1,640,473
Return on average assets	—	—	—	18.2%	16.3%
Return on average stockholders' equity	—	—	—	27.5%	23.5%
Statistics					
Number of stores opened	23.4%	7.9%	9.0%	203	225
Number of stores expanded	—	—	—	42	55
Number of stores closed	—	—	—	30	53
Number of stores open at year-end[g]	10.6%	8.8%	9.9%	1,854	1,680
Net increase in number of stores	—	—	—	10.4%	11.4%
Comparable store sales growth (52-week basis)	—	—	—	5.0%	0.0%
Sales per square foot (52-week basis)[h]	—	—	—	$441	$425
Square footage of gross store space at year-end	18.8%	17.5%	14.1%	12,645,000	11,100,200
Percentage increase in square feet	—	—	—	13.9%	21.1%
Number of employees at year-end	14.5%	15.6%	18.6%	66,000	60,000
Weighted-average number of shares outstanding[d]	—	—	—	283,330,290	288,062,430
Number of shares outstanding at year-end, net of treasury stock[d]	—	—	—	274,517,331	287,747,984

(a) Excludes amortization of restricted stock.

(b) 1989 includes a non-recurring pretax charge of $10,785 ($.02 per share after tax) taken in the fourth quarter for costs associated with closing the Hemisphere stores. 1988 includes a non-recurring pretax charge of $6,800 ($.01 per share after tax) taken in the first quarter for costs associated with the restructuring of Banana Republic's operations.

(c) Includes property and equipment, as well as lease rights.

(d) Reflects the two-for-one splits of common stock in the form of a stock dividend to stockholders of record on March 18, 1996, June 17, 1991, September 17, 1990, and June 30, 1986.

(e) Based on weighted-average number of shares outstanding at year-end.

(f) Based on actual number of shares outstanding at year-end.

(g) Includes the conversion of GapKids departments to their own separate stores. Converted stores are not classified as new stores.

(h) Based on weighted-average gross square footage.

Ten-Year Selected Financial Data
(continued)

	Fiscal Year			
	1994 52 weeks	1993 52 weeks	1992 52 weeks	1991 52 weeks
Operating Results ($000)				
Net sales	$3,722,940	$3,295,679	$2,960,409	$2,518,893
Cost of goods sold and occupancy expenses, excluding depreciation and amortization	2,202,133	1,996,929	1,856,102	1,496,156
Percentage of net sales	59.2%	60.6%	62.7%	59.4%
Depreciation and amortization(a)	148,863	124,860	99,451	72,765
Operating expenses	853,524	748,193	661,252	575,686
Net interest (income) expense	(10,902)	809	3,763	3,523
Earnings before income taxes(b)	529,322	424,888	339,841	370,763
Percentage of net sales	14.2%	12.9%	11.5%	14.7%
Income taxes	209,082	166,464	129,140	140,890
Net earnings	320,240	258,424	210,701	229,873
Percentage of net sales	8.6%	7.8%	7.1%	9.1%
Cash dividends	64,775	53,041	44,106	41,126
Capital expenditures(c)	236,616	215,856	213,659	244,323
Per Share Data(d)				
Net earnings(e)	$1.10	$ .89	$ .73	$ .81
Cash dividends	.23	.19	.16	.15
Stockholders' equity (book value)(f)	4.75	3.88	3.08	2.38
Financial Position ($000)				
Property and equipment (net)	$ 828,777	$ 740,422	$ 650,368	$ 547,740
Merchandise inventory	370,638	331,155	365,692	313,899
Total assets	2,004,244	1,763,117	1,379,248	1,147,414
Working capital	555,827	494,194	355,649	235,537
Current ratio	2.11:1	2.07:1	2.06:1	1.71:1
Total debt, less current installments	—	75,000	75,000	80,000
Ratio of long-term debt to stockholders' equity	N/A	.07:1	.08:1	.12:1
Stockholders' equity	1,375,232	1,126,475	887,839	677,788
Return on average assets	17.0%	16.4%	16.7%	23.9%
Return on average stockholders' equity	25.6%	25.7%	26.9%	40.2%
Statistics				
Number of stores opened	172	108	117	139
Number of stores expanded	82	130	94	79
Number of stores closed	34	45	26	15
Number of stores open at year-end(g)	1,508	1,370	1,307	1,216
Net increase in number of stores	10.1%	4.8%	7.5%	11.4%
Comparable store sales growth (52-week basis)	1.0%	1.0%	5.0%	13.0%
Sales per square foot (52-week basis)(h)	$444	$463	$489	$481
Square footage of gross store space at year-end	9,165,900	7,546,300	6,509,200	5,638,400
Percentage increase in square feet	21.5%	15.9%	15.4%	18.4%
Number of employees at year-end	55,000	44,000	39,000	32,000
Weighted-average number of shares outstanding(d)	291,141,076	289,682,274	287,345,848	284,279,154
Number of shares outstanding at year-end, net of treasury stock(d)	289,529,498	290,497,456	288,370,476	285,046,668

(a) Excludes amortization of restricted stock.

(b) 1989 includes a non-recurring pretax charge of $10,785 ($.02 per share after tax) taken in the fourth quarter for costs associated with closing the Hemisphere stores. 1988 includes a non-recurring pretax charge of $6,800 ($.01 per share after tax) taken in the first quarter for costs associated with the restructuring of Banana Republic's operations.

(c) Includes property and equipment, as well as lease rights.

(d) Reflects the two-for-one splits of common stock in the form of a stock dividend to stockholders of record on March 18, 1996, June 17, 1991, September 17, 1990, and June 30, 1986.

(e) Based on weighted-average number of shares outstanding at year-end.

(f) Based on actual number of shares outstanding at year-end.

(g) Includes the conversion of GapKids departments to their own separate stores. Converted stores are not classified as new stores.

(h) Based on weighted-average gross square footage.

Ten-Year Selected Financial Data
(continued)

	Fiscal Year			
	1990 52 weeks	1989 53 weeks	1988 52 weeks	1987 52 weeks
Operating Results ($000)				
Net sales	$1,933,780	$1,586,596	$1,252,097	$1,062,021
Cost of goods sold and occupancy expenses, excluding depreciation and amortization	1,187,644	1,006,647	814,028	654,361
Percentage of net sales	61.4%	63.4%	65.0%	61.6%
Depreciation and amortization[(a)]	53,599	39,589	31,408	24,869
Operating expenses	454,180	364,101	277,429	254,209
Net interest (income) expense	1,435	2,760	3,416	3,860
Earnings before income taxes[(b)]	236,922	162,714	125,816	124,722
Percentage of net sales	12.3%	10.3%	10.0%	11.7%
Income taxes	92,400	65,086	51,585	55,127
Net earnings	144,522	97,628	74,231	69,595
Percentage of net sales	7.5%	6.2%	5.9%	6.6%
Cash dividends	29,625	22,857	18,244	17,328
Capital expenditures[(c)]	199,617	94,266	68,153	67,307
Per Share Data[(d)]				
Net earnings[(e)]	$ .51	$ .35	$.26	$.24
Cash dividends	.11	.09	.07	.06
Stockholders' equity (book value)[(f)]	1.65	1.20	.98	.95
Financial Position ($000)				
Property and equipment (net)	$ 383,548	$ 238,103	$ 191,257	$ 156,639
Merchandise inventory	247,462	243,482	193,268	194,886
Total assets	776,900	579,483	481,148	434,231
Working capital	101,518	129,139	106,210	129,988
Current ratio	1.39:1	1.69:1	1.70:1	2.01:1
Total debt, less current installments	17,500	20,000	22,000	18,500
Ratio of long-term debt to stockholders' equity	.04:1	.06:1	.08:1	.05:1
Stockholders' equity	465,733	337,972	276,399	272,912
Return on average assets	21.3%	18.4%	16.2%	17.4%
Return on average stockholders' equity	36.0%	31.8%	27.0%	28.7%
Statistics				
Number of stores opened	152	98	106	110
Number of stores expanded	56	7	N/A	N/A
Number of stores closed	20	38	21	19
Number of stores open at year-end[(g)]	1,092	960	900	815
Net increase in number of stores	13.8%	6.7%	10.4%	12.6%
Comparable store sales growth (52-week basis)	14.0%	15.0%	8.0%	9.0%
Sales per square foot (52-week basis)[(h)]	$438	$389	$328	$292
Square footage of gross store space at year-end	4,762,300	4,056,600	3,879,300	3,644,500
Percentage increase in square feet	17.4%	4.6%	6.4%	8.0%
Number of employees at year-end	26,000	23,000	20,000	16,000
Weighted-average number of shares outstanding[(d)]	283,001,776	282,160,400	289,178,240	285,836,104
Number of shares outstanding at year-end, net of treasury stock[(d)]	282,528,060	281,102,808	281,050,912	286,959,704

(a) Excludes amortization of restricted stock.

(b) 1989 includes a non-recurring pretax charge of $10,785 ($.02 per share after tax) taken in the fourth quarter for costs associated with closing the Hemisphere stores. 1988 includes a non-recurring pretax charge of $6,800 ($.01 per share after tax) taken in the first quarter for costs associated with the restructuring of Banana Republic's operations.

(c) Includes property and equipment, as well as lease rights.

(d) Reflects the two-for-one splits of common stock in the form of a stock dividend to stockholders of record on March 18, 1996, June 17, 1991, September 17, 1990, and June 30, 1986.

(e) Based on weighted-average number of shares outstanding at year-end.

(f) Based on actual number of shares outstanding at year-end.

(g) Includes the conversion of GapKids departments to their own separate stores. Converted stores are not classified as new stores.

(h) Based on weighted-average gross square footage.

Management's Discussion and Analysis

of Results of Operations and Financial Condition

Results of Operations

Net Sales

	Fiscal Year Ended		
	Feb. 1, 1997 (Fiscal 1996) 52 Weeks	Feb. 3, 1996 (Fiscal 1995) 53 Weeks	Jan. 28, 1995 (Fiscal 1994) 52 Weeks
Net sales ($000)	$5,284,381	$4,395,253	$3,722,940
Total net sales growth percentage	20	18	13
Comparable store sales growth percentage (52-week basis)	5	0	1
Net sales per average gross square foot (52-week basis)	441	425	444
Square footage of gross store space (000)	12,645	11,100	9,166
Number of:			
New stores	203	225	172
Expanded stores	42	55	82
Closed stores	30	53	34

The total net sales growth reflected above for 1996, 1995, and 1994 was attributable to the opening of new stores (net of stores closed), the expansion of existing stores, and in 1996, to an increase in comparable store sales. During 1995, an additional week of operations compared to fiscal 1994 contributed one percent to sales growth.

Net sales per average square foot were $441 in 1996, $425 in 1995, and $444 in 1994. The increase in net sales per average square foot in 1996 compared to 1995 was primarily attributable to increases in comparable store sales aided by the smaller size of new stores. The decline in net sales per average square foot in 1995 compared to 1994 was primarily attributable to continued store growth in the Old Navy division, with lower-priced merchandise and significantly larger stores, and to increases in the average size of new stores in other divisions in connection with the Company's store expansion program. During 1995, the Company increased the average size of its new stores and expanded existing stores as a long-term investment.

Cost of Goods Sold and Occupancy Expenses

Cost of goods sold and occupancy expenses as a percentage of net sales were 62.2 percent in 1996, 64.2 percent in 1995, and 63.2 percent in 1994.

The resulting 2.0 percentage point increase in gross margin net of occupancy expenses in 1996 from 1995 was attributable to a 1.2 percentage point increase in merchandise margin as a percentage of net sales combined with a .8 percentage point decrease in occupancy expenses as a percentage of net sales. The increase in merchandise margin in 1996 from 1995 was driven by increases in initial merchandise margin and in the percentage of merchandise sold at regular price.

The 1.0 percentage point decrease in gross margin net of occupancy expenses in 1995 from 1994 was attributable to a 1.2 percentage point decrease in merchandise margin as a percentage of net sales offset by a .2 percentage point decrease in occupancy expenses as a percentage of net sales. The decrease in merchandise margin in 1995 from 1994 was driven by a decline in initial merchandise margin in the first three quarters partially offset by better regular-priced selling in the second half.

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.

The decrease in occupancy expenses as a percentage of net sales between 1996 and 1995 was primarily attributable to the effect of the growth of the Old Navy division, which carries lower occupancy expenses as a percentage of net sales when compared to other divisions, and leverage achieved through comparable store sales growth.

The decrease in occupancy expenses as a percentage of net sales between 1995 and 1994 was attributable to leverage obtained from the 53rd week of sales. Without this extra week, occupancy expenses as a percentage of net sales would have been essentially flat.

Operating Expenses

Operating expenses as a percentage of net sales were 24.0 percent for 1996 and 22.9 percent for 1995 and 1994.

During 1996, the 1.1 percentage point increase was primarily attributable to a planned .3 percentage point increase in advertising/marketing costs to support the Company's brands and a .5 percentage point increase in incentive bonus expense. The Company awarded bonuses for 1996 due to strong earnings performance measured against annual targets.

During 1995, a .3 percentage point increase in advertising costs as a percentage of net sales was offset by a .4 percentage point decrease in bonus expense as a percentage of net sales. Advertising costs increased to support the Company's brands and included marketing expense related to the opening of stores in Germany, Japan, and the Old Navy store in Manhattan. Due to the Company's performance relative to financial targets, less bonus expense was recognized in 1995 as compared to 1994.

Net Interest Income

Net interest income was $19.5, $15.8, and $10.9 million for 1996, 1995, and 1994, respectively. The change in 1996 from 1995 was primarily attributable to an increase in gross average investments. The change in 1995 from 1994 was attributable to an increase in income from higher average interest rates.

Income Taxes

The effective tax rate was 39.5 percent in 1996, 1995, and 1994.

Liquidity and Capital Resources

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

	Fiscal Year 1996	1995	1994
Cash provided by operating activities ($000)	$834,953	$489,087	$504,450
Working capital ($000)	554,359	728,301	555,827
Current ratio	1.72:1	2.32:1	2.11:1

For the fiscal year ended February 1, 1997, the increase in cash provided by operating activities was attributable to an increase in net earnings exclusive of depreciation and the timing of certain year-end payables and accrued expenses. For the fiscal year ended February 3, 1996, the decrease in cash provided by operating activities was attributable to an increased investment in inventory partially offset by a decrease in income tax payments. Merchandise inventories at February 3, 1996 increased primarily as a result of new products, new store growth, and early receipt of Spring merchandise to accommodate a one-week shift in the Spring selling season.

The Company funds inventory expenditures during normal and peak periods through a combination of cash flows provided by operations and normal trade credit arrangements. The Company's business follows a seasonal pattern, peaking over a total of about ten to twelve weeks during the late Summer and Holiday periods. During 1996 and 1995, these periods accounted for approximately 33 and 34 percent, respectively, of the Company's annual sales.

The Company has a credit agreement which provides for a $250 million revolving credit facility through June 30, 2001. In addition, the credit agreement provides for the issuance of letters of credit on a committed basis of up to $450 million at any one time. The Company has arrangements providing the issuance of letters of credit on an uncommitted basis of up to an additional $200 million at any one time. The Company had outstanding letters of credit of approximately $429 million at February 1, 1997.

Capital expenditures, net of construction allowances and dispositions, totaled approximately $359 million in 1996. These expenditures resulted in a net increase in store space of approximately 1.5 million square feet or 14 percent due to the addition of 203 new stores, the expansion of 42 stores, and the remodeling of certain stores. Capital expenditures for 1995 and 1994 were $291 million and $220 million, respectively, resulting in a net increase in store space of approximately 1.9 million square feet or 21 percent in 1995, and approximately 1.6 million square feet or 21 percent in 1994.

The increase in capital expenditures in 1996 from 1995 was primarily attributable to the construction of two distribution centers and an administrative facility. The increase in capital expenditures in 1995 from 1994 was due to an increase in the number of stores opened and expanded. Expenditures in 1996, 1995, and 1994 also included costs for equipment.

For 1997, the Company expects capital expenditures to total approximately $400 to $450 million, net of construction allowances, representing the addition of at least 275 new stores, the expansion of approximately 65 to 75 stores, and the remodeling of certain stores. Planned expenditures also include amounts for administrative facilities, distribution centers, and equipment. The Company expects to fund such capital expenditures with cash flow from operations. Square footage growth is expected to be approximately 18 percent before store closings. New stores are generally expected to be leased.

During 1996, the Company completed construction of a distribution center in Gallatin, Tennessee for approximately $55 million. The facility became fully operational in September 1996. Additionally, in May 1996, the Company purchased land and a building in the Netherlands for approximately $10 million to relocate its European distribution center. The distribution center, which began operating in June 1996, provides a central shipping location to the European continent.

In February 1996, the Company exercised an option to purchase land for $9 million in San Bruno, California to expand its headquarters facilities. Construction commenced in April 1996 for an estimated cost at completion of $55 to $60 million. The facility is expected to be in operation in late fiscal 1997.

On February 27, 1996, the Company's Board of Directors authorized a two-for-one split of its common stock effective by a distribution on April 10, 1996, in the form of a stock dividend for stockholders of record at the close of business on March 18, 1996. Per share amounts in the accompanying consolidated financial statements give effect to the stock split.

In October 1996, the Board of Directors approved a program under which the Company may repurchase up to 30 million shares of its outstanding common stock in the open market over a three-year period. During 1996, 4.7 million shares were repurchased for $140 million. The program announced in October 1996 follows an earlier 18 million share repurchase program, which was completed in November 1996. Under this program, 10.9 million shares were acquired in fiscal 1996 for approximately $329 million. The cost for the entire 18 million share repurchase program was approximately $450 million.

Per Share Data

Fiscal	Market Prices 1996 High	1996 Low	1995 High	1995 Low	Cash Dividends 1996	Cash Dividends 1995
1st Quarter	$30½	$23⅕	$17¾	$15⅜	$.075	$.06
2nd Quarter	36⅛	27¼	18¾	14⅞	.075	.06
3rd Quarter	36½	26	20¼	15⅞	.075	.06
4th Quarter	33½	27⅞	25½	19¼	.075	.06
Year					$.30	$.24

The information above has been adjusted to reflect the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

The principal markets on which the Company's stock is traded are the New York and Pacific Stock Exchanges. The number of holders of record of the Company's stock as of March 24, 1997 was 6,785.

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. Their report, which appears below, is based upon their audits conducted in accordance with generally accepted auditing standards.

The Audit and Finance 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 assure 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 Audit and Finance Committee, with and without Management's presence.

Independent Auditors' Report

To the Stockholders and Board of Directors of The Gap, Inc.:

We have audited the accompanying consolidated balance sheets of The Gap, Inc. and subsidiaries as of February 1, 1997 and February 3, 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three fiscal years in the period ended February 1, 1997. 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 audits to obtain reasonable assurance about whether the consolidated 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 February 1, 1997 and February 3, 1996, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 1, 1997 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

San Francisco, California

February 27, 1997

Consolidated Statements of Earnings

($000 except per share amounts)	Fifty-two Weeks Ended February 1, 1997		Fifty-three Weeks Ended February 3, 1996		Fifty-two Weeks Ended January 28, 1995	
Net sales	$5,284,381	100.0%	$4,395,253	100.0%	$3,722,940	100.0%
Costs and expenses						
Cost of goods sold and occupancy expenses	3,285,166	62.2%	2,821,455	64.2%	2,350,996	63.2%
Operating expenses	1,270,138	24.0%	1,004,396	22.9%	853,524	22.9%
Net interest income	(19,450)	(0.4%)	(15,797)	(0.4%)	(10,902)	(0.3%)
Earnings before income taxes	748,527	14.2%	585,199	13.3%	529,322	14.2%
Income taxes	295,668	5.6%	231,160	5.2%	209,082	5.6%
Net earnings	$ 452,859	8.6%	$ 354,039	8.1%	$ 320,240	8.6%
Weighted-average number of shares(a)	283,330,290		288,062,430		291,141,076	
Earnings per share(a)	$1.60		$1.23		$1.10	

See Notes to Consolidated Financial Statements.

(a) Reflects the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

Consolidated Balance Sheets

($000)	February 1, 1997	February 3, 1996
Assets		
Current Assets		
Cash and equivalents	$ 485,644	$ 579,566
Short-term investments	135,632	89,506
Merchandise inventory	578,765	482,575
Prepaid expenses and other current assets	129,214	128,398
Total Current Assets	1,329,255	1,280,045
Property and Equipment		
Leasehold improvements	836,577	736,879
Furniture and equipment	960,516	763,673
Construction-in-progress	101,520	62,030
	1,898,613	1,562,582
Accumulated depreciation and amortization	(762,893)	(604,830)
	1,135,720	957,752
Long-term investments	36,138	30,370
Lease rights and other assets	125,814	74,901
Total Assets	$2,626,927	$2,343,068
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$ 40,050	$ 21,815
Accounts payable	351,754	262,505
Accrued expenses	282,494	194,426
Income taxes payable	91,806	66,094
Deferred lease credits and other current liabilities	8,792	6,904
Total Current Liabilities	774,896	551,744
Long-Term Liabilities		
Deferred lease credits and other liabilities	197,561	150,851
Stockholders' Equity		
Common stock $.05 par value(a)		
Authorized 500,000,000 shares; issued 317,864,090 and 315,971,306 shares; outstanding 274,517,331 and 287,747,984 shares	15,895	15,799
Additional paid-in capital(a)	442,049	335,193
Retained earnings	1,938,352	1,569,347
Foreign currency translation adjustment	(5,187)	(9,071)
Restricted stock plan deferred compensation	(47,838)	(48,735)
Treasury stock, at cost	(688,801)	(222,060)
	1,654,470	1,640,473
Total Liabilities and Stockholders' Equity	$2,626,927	$2,343,068

See Notes to Consolidated Financial Statements.

(a) Reflects the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

Consolidated Statements of Cash Flows

($000)	Fifty-two Weeks Ended February 1, 1997	Fifty-three Weeks Ended February 3, 1996	Fifty-two Weeks Ended January 28, 1995
Cash Flows from Operating Activities			
Net earnings	$452,859	$354,039	$320,240
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization[(a)]	214,905	197,440	168,220
Tax benefit from exercise of stock options by employees and from vesting of restricted stock	47,348	11,444	19,384
Deferred income taxes	(28,897)	(2,477)	(24,431)
Change in operating assets and liabilities			
Merchandise inventory	(93,800)	(113,021)	(39,860)
Prepaid expenses and other	(16,355)	(15,278)	(10,989)
Accounts payable	88,532	1,183	46,031
Accrued expenses	87,974	9,427	21,953
Income taxes payable	25,706	24,806	(29,241)
Deferred lease credits and other long-term liabilities	56,681	21,524	33,143
Net cash provided by operating activities	834,953	489,087	504,450
Cash Flows from Investing Activities			
Net maturity (purchase) of short-term investments	(11,774)	116,134	(36,474)
Purchase of long-term investments	(40,120)	(30,370)	(85,669)
Purchase of property and equipment	(371,833)	(302,260)	(232,776)
Acquisition of lease rights and other assets	(12,206)	(6,623)	(4,938)
Net cash used for investing activities	(435,933)	(223,119)	(359,857)
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable	18,445	20,787	(4,583)
Payments on long-term debt	—	—	(75,000)
Issuance of common stock	37,053	17,096	12,849
Net purchase of treasury stock	(466,741)	(71,314)	(58,292)
Cash dividends paid	(83,854)	(66,993)	(64,775)
Net cash used for financing activities	(495,097)	(100,424)	(189,801)
Effect of exchange rate changes on cash	2,155	(465)	(637)
Net increase (decrease) in cash and equivalents	(93,922)	165,079	(45,845)
Cash and equivalents at beginning of year	579,566	414,487	460,332
Cash and equivalents at end of year	$485,644	$579,566	$414,487

See Notes to Consolidated Financial Statements.

(a) Includes amortization of restricted stock.

Consolidated Statements of Stockholders' Equity

(continued on the next two pages)

($000 except per share amounts)	Common Stock[a] Shares	Amount
Balance at January 29, 1994	311,466,512	$15,573
Issuance of common stock pursuant to stock option plans	1,249,612	63
Net issuance of common stock pursuant to management incentive restricted stock plans	1,229,430	61
Tax benefit from exercise of stock options by employees and from vesting of restricted stock		
Foreign currency translation adjustment		
Amortization of restricted stock		
Purchase of treasury stock		
Net earnings		
Cash dividends ($.23 per share)		
Balance at January 28, 1995	313,945,554	$15,697
Issuance of common stock pursuant to stock option plans	994,372	50
Net issuance of common stock pursuant to management incentive restricted stock plans	1,031,380	52
Tax benefit from exercise of stock options by employees and from vesting of restricted stock		
Foreign currency translation adjustment		
Amortization of restricted stock		
Purchase of treasury stock		
Reissuance of treasury stock		
Net earnings		
Cash dividends ($.24 per share)		
Balance at February 3, 1996	315,971,306	$15,799
Issuance of common stock pursuant to stock option plans	1,591,174	81
Net issuance of common stock pursuant to management incentive restricted stock plans	301,610	15
Tax benefit from exercise of stock options by employees and from vesting of restricted stock		
Foreign currency translation adjustment		
Amortization of restricted stock		
Purchase of treasury stock		
Reissuance of treasury stock		
Net earnings		
Cash dividends ($.30 per share)		
Balance at February 1, 1997	317,864,090	$15,895

See Notes to Consolidated Financial Statements.

(a) Reflects the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

Consolidated Statements of Stockholders' Equity
(continued)

($000 except per share amounts)	Additional Paid-in Capital[a]	Retained Earnings	Foreign Currency Translation Adjustment	Restricted Stock Plan Deferred Compensation
Balance at January 29, 1994	$232,869	$1,026,836	($8,314)	($48,035)
Issuance of common stock pursuant to stock option plans	10,842			
Net issuance of common stock pursuant to management incentive restricted stock plans	27,470			(25,587)
Tax benefit from exercise of stock options by employees and from vesting of restricted stock	19,384			
Foreign currency translation adjustment				
Amortization of restricted stock				
Purchase of treasury stock				
Net earnings		320,240		
Cash dividends ($.23 per share)		(64,775)		
Balance at January 28, 1995	$290,565	$1,282,301	($8,320)	($54,265)
Issuance of common stock pursuant to stock option plans	9,616			
Net issuance of common stock pursuant to management incentive restricted stock plans	19,556			(16,191)
Tax benefit from exercise of stock options by employees and from vesting of restricted stock	11,444			
Foreign currency translation adjustment			(751)	
Amortization of restricted stock				21,721
Purchase of treasury stock				
Reissuance of treasury stock	4,012			
Net earnings		354,039		
Cash dividends ($.24 per share)		(66,993)		
Balance at February 3, 1996	$335,193	$1,569,347	($9,071)	($48,735)
Issuance of common stock pursuant to stock option plans	19,732			(9,648)
Net issuance of common stock pursuant to management incentive restricted stock plans	32,807			(12,903)
Tax benefit from exercise of stock options by employees and from vesting of restricted stock	47,348			
Foreign currency translation adjustment			3,884	
Amortization of restricted stock				23,448
Purchase of treasury stock				
Reissuance of treasury stock	6,969			
Net earnings		452,859		
Cash dividends ($.30 per share)		(83,854)		
Balance at February 1, 1997	$442,049	$1,938,352	($5,187)	($47,838)

See Notes to Consolidated Financial Statements.

(a) Reflects the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

Consolidated Statements of Stockholders' Equity

(continued)

($000 except per share amounts)	Treasury Stock[a] Shares	Treasury Stock[a] Amount	Total
Balance at January 29, 1994	(20,969,056)	($ 92,454)	$1,126,475
Issuance of common stock pursuant to stock option plans			10,905
Net issuance of common stock pursuant to management incentive restricted stock plans			1,944
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			19,384
Foreign currency translation adjustment			(6)
Amortization of restricted stock			19,357
Purchase of treasury stock	(3,447,000)	(58,292)	(58,292)
Net earnings			320,240
Cash dividends ($.23 per share)			(64,775)
Balance at January 28, 1995	(24,416,056)	($150,746)	$1,375,232
Issuance of common stock pursuant to stock option plans			9,666
Net issuance of common stock pursuant to management incentive restricted stock plans			3,417
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			11,444
Foreign currency translation adjustment			(751)
Amortization of restricted stock			21,721
Purchase of treasury stock	(4,192,800)	(72,717)	(72,717)
Reissuance of treasury stock	385,534	1,403	5,415
Net earning			354,039
Cash dividends ($.24 per share)			(66,993)
Balance at February 3, 1996	(28,223,322)	($222,060)	$1,640,473
Issuance of common stock pursuant to stock option plans			10,165
Net issuance of common stock pursuant to management incentive restricted stock plans			19,919
Tax benefit from exercise of stock options by employees and from vesting of restricted stock			47,348
Foreign currency translation adjustment			3,884
Amortization of restricted stock			23,448
Purchase of treasury stock	(15,523,100)	(468,246)	(468,246)
Reissuance of treasury stock	399,663	1,505	8,474
Net earnings			452,859
Cash dividends ($.30 per share)			(83,854)
Balance at February 1, 1997	(43,346,759)	($688,801)	$1,654,470

See Notes to Consolidated Financial Statements.

(a) Reflects the two-for-one split of common stock in the form of a stock dividend to stockholders of record on March 18, 1996.

Notes to Consolidated Financial Statements

For the Fifty-two Weeks ended February 1, 1997, the Fifty-three Weeks ended February 3, 1996 and the Fifty-two Weeks ended January 28, 1995.

Note A: Summary of Significant Accounting Policies

The Company is an international specialty retailer which operates stores selling casual apparel, shoes, and other accessories for men, women, and children under a variety of brand names including: Gap, GapKids, babyGap, Banana Republic, and Old Navy Clothing Co. Its principal markets consist of the United States, Canada, Europe, and Asia with the United States being the most significant.

On February 27, 1996, the Company's Board of Directors authorized a two-for-one split of its common stock effective April 10, 1996, in the form of a stock dividend for stockholders of record at the close of business on March 18, 1996. Per share amounts in the accompanying consolidated financial statements give effect to the stock split.

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

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

Short-term investments include investments with an original maturity of greater than three months or a remaining maturity of less than one year. Long-term investments include investments with an original and remaining maturity of greater than one year and less than five years. The Company's short- and long-term investments consist primarily of debt securities which have been classified as held to maturity and are carried at amortized cost, which approximates fair market value.

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

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 or lease terms, whichever is less.

Lease rights are recorded at cost and are amortized over 12 years or the lives of the respective leases, whichever is less.

Costs associated with the opening or remodeling of stores, such as pre-opening rent and payroll, are charged to expense as incurred. The net book value of fixtures and leasehold improvements for stores scheduled to be closed or expanded within the next fiscal year is charged against current earnings. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of,* as of January 29, 1995. The adoption of SFAS No. 121 had no material effect on the Company's consolidated financial statements.

Costs associated with the production of advertising, such as writing copy, printing, and other costs, are charged to expense when incurred. Costs associated with communicating advertising that has been produced, such as magazine and billboard space, are charged to expense when the advertising first takes place. Advertising costs were $96 million, $64 million, and $44 million in fiscal 1996, 1995, and 1994, respectively.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

Translation adjustments result from the process of 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 stockholders' equity.

Restricted stock awards represent deferred compensation and are shown as a reduction of stockholders' equity. The Company adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, as of February 4, 1996. The Company elected to continue the intrinsic value-based method under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and has provided pro forma disclosures of net earnings and earnings per share in accordance with the provisions of SFAS No. 123.

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, *Earnings per Share*. SFAS No. 128 requires dual presentation of basic earnings per share (EPS) and diluted EPS on the face of all statements of earnings issued after December 15, 1997, for all entities with complex capital structures. Basic EPS is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options, restricted stock awards, warrants, and other convertible securities. The Company does not anticipate the effect on earnings per share to be material.

Earnings per share are based upon the weighted-average number of shares of common stock outstanding during the period.

Certain reclassifications have been made to the 1994 and 1995 financial statements to conform with the 1996 financial statements.

Note B: Debt and Other Credit Arrangements

The Company has a credit agreement with a syndicated bank group which provides for a $250 million revolving credit facility through June 30, 2001. The revolving credit facility contains both auction and fixed spread borrowing options and may serve as support for the Company's commercial paper program. In addition, the credit agreement provides, on a committed basis, for the issuance of letters of credit through July 1, 1997 of up to $450 million at any one time.

At February 1, 1997, the Company had outstanding letters of credit, including committed and uncommitted lines of credit, totaling $428,600,000.

Borrowings under the Company's loan and credit agreements are subject to the Company maintaining certain levels of tangible net worth and financial ratios. Under the most restrictive covenant of these agreements, $1,074,062,000 of retained earnings were available for the payment of cash dividends at February 1, 1997.

Gross interest payments were $2,800,000, $2,274,000, and $7,032,000 in fiscal 1996, 1995, and 1994, respectively.

Note C: Income Taxes

Income taxes consisted of the following:

($000)	Fifty-two Weeks Ended Feb. 1, 1997	Fifty-three Weeks Ended Feb. 3, 1996	Fifty-two Weeks Ended Jan. 28, 1995
Currently Payable			
Federal income taxes	$269,648	$180,597	$182,811
Less tax credits	(3,585)	(4,397)	(12,692)
	266,063	176,200	170,119
State income taxes	36,167	40,111	45,807
Foreign income taxes	22,335	17,348	17,587
	324,565	233,659	233,513
Deferred			
Federal	(23,980)	(7,169)	(19,911)
State	(4,917)	4,670	(4,520)
	(28,897)	(2,499)	(24,431)
Total provision	$295,668	$231,160	$209,082

The foreign component of pretax earnings before eliminations and corporate allocations in fiscal 1996, 1995, and 1994 was $82,220,000, $71,545,000, and $66,701,000, respectively. Deferred federal and applicable state income taxes, net of applicable foreign tax credits, have not been provided for the undistributed earnings of foreign subsidiaries (approximately $123,489,000 at February 1, 1997) because the Company intends to permanently reinvest such undistributed earnings abroad.

The difference between the effective income tax rate and the United States federal income tax rate is summarized as follows:

($000)	Fifty-two Weeks Ended Feb. 1, 1997	Fifty-three Weeks Ended Feb. 3, 1996	Fifty-two Weeks Ended Jan. 28, 1995
Federal tax rate	35.0%	35.0%	35.0%
State income taxes, less federal benefit	4.4	5.0	5.1
Other	.1	(.5)	(.6)
Effective tax rate	39.5%	39.5%	39.5%

Deferred tax assets (liabilities) consisted of the following at February 1, 1997 and February 3, 1996:

($000)	Feb. 1, 1997	Feb. 3, 1996
Compensation and benefits accruals	$ 31,640	$ 28,872
Scheduled rent	40,834	34,077
Inventory capitalization	16,459	13,243
Nondeductible accruals	18,705	17,011
Other	24,224	10,022
Gross deferred tax assets	131,862	103,225
Depreciation	(13,611)	(14,318)
Other	(5,404)	(4,957)
Gross deferred tax liabilities	(19,015)	(19,275)
Net deferred tax assets	$112,847	$ 83,950

Income tax payments were $249,968,000, $197,802,000, and $232,869,000 in fiscal 1996, 1995, and 1994, respectively.

Note D: Leases

The Company leases virtually all of its store premises, office facilities, and some of its distribution centers.

Leases relating to store premises, distribution centers, and office facilities expire at various dates through 2035.

The aggregate minimum annual lease payments under leases in effect on February 1, 1997 are as follows:

Fiscal Year	($000)
1997	$ 335,774
1998	330,712
1999	324,824
2000	318,642
2001	311,492
Thereafter	1,740,731
Total minimum lease commitment	$3,362,175

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 February 1, 1997 and February 3, 1996, this liability amounted to $110,633,000 and $93,081,000, 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.

Some of the leases relating to stores in operation at February 1, 1997 contain renewal options for periods ranging up to 30 years. Most 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)	Fifty-two Weeks Ended Feb. 1, 1997	Fifty-three Weeks Ended Feb. 3, 1996	Fifty-two Weeks Ended Jan. 28, 1995
Minimum rentals	$337,487	$300,171	$255,202
Contingent rentals	30,644	22,464	20,955
	$368,131	$322,635	$276,157

Note E: Foreign Exchange Contracts

The Company enters into foreign exchange contracts to reduce exposure to foreign currency exchange risk. These contracts are primarily designated and effective as hedges of commitments to purchase merchandise for foreign operations. The market value gains and losses on these contracts are deferred and recognized as part of the underlying cost to purchase the merchandise. At February 1, 1997, the Company had contracts maturing at various dates through 1997 to purchase the equivalent of $60,598,000 in foreign currencies (35,900,000 Canadian dollars through July 3, 1997, 17,100,000 British pounds through May 29, 1997, and 759,000,000 Japanese yen through July 3, 1997) at the contracted rates. The deferred gains and losses on the Company's foreign exchange contracts at February 1, 1997 are immaterial.

Note F: Employee Benefit and Incentive Programs

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 the employee's contributions under a predetermined formula; the Company's contributions vest on behalf of the employee progressively over a seven-year period. Company contributions to the retirement plan in 1996, 1995, and 1994 were $11,427,000, $9,839,000, and $8,281,000, respectively.

A nonqualified Executive Deferred Compensation Plan was established on January 1, 1994 and a nonqualified Executive Capital Accumulation Plan was established on April 1, 1994. Both plans allow eligible employees to defer compensation up to a maximum amount defined in each plan. The Company does not match employees' contributions.

Employee Benefits Plan

The Company has an Employee Benefits Plan to provide certain health and welfare benefits. Payments made to the plan relating to benefits payable in future periods are included in prepaid expenses.

Incentive Compensation Plans

The Company has a Management Incentive Cash Award Plan (MICAP) for key management employees. The MICAP empowers the Compensation and Stock Option Committee to award compensation, in the form of cash bonuses, to employees based on the achievement of Company and individual performance goals. Awards can also be made in the form of nonqualified stock options or restricted shares of the Company's stock under the 1996 Stock Option and Award Plan. Restrictions on shares generally lapse in one to five years. Compensation expense is recorded during the vesting period. The nonqualified stock options generally have a maximum term of ten years and vest over a period of three to four years.

An Executive Management Incentive Cash Award Plan (Executive MICAP) was established on March 22, 1994 for key executive officers. The Executive MICAP empowers the Compensation and Stock Option Committee to award compensation in the form of cash bonuses to executives based on the achievements of Companywide or divisional earnings goals for that fiscal year.

An Executive Long-Term Cash Award Performance Plan (ELCAPP) was established in January 1996. The ELCAPP empowers the Compensation and Stock Option Committee to award compensation in the form of cash bonuses to key officers based on the achievement of multiyear financial goals, as determined by the Committee for each participant in the plan. Payouts are determined based upon the achievement of performance goals over a three-year period.

The 1996 Stock Option and Award Plan (the Plan), was established on March 26, 1996. The Board authorized 20,000,000 shares for issuance under the Plan. The Plan superseded a Management Incentive Restricted Stock Plan (MIRSP) and an earlier stock option plan established in 1981. The Plan empowers the Compensation and Stock Option Committee to award compensation primarily in the form of nonqualified stock options or restricted stock to key employees. 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 Board of Directors. Total compensation cost for the Plan and MIRSP was $22,248,000, $23,743,000, and $20,317,000 in 1996, 1995, and 1994, respectively.

Employee Stock Purchase Plan

An Employee Stock Purchase Plan was established on December 1, 1994. Under this plan 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 399,663 shares issued under the plan during fiscal 1996 and all shares were acquired from reissued treasury stock. At February 1, 1997, there were 3,214,803 shares reserved for future subscriptions.

Note G: Stockholders' 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 stockholders. No preferred shares have been issued.

In October 1994, the Board of Directors approved a program under which the Company repurchased 18,000,000 shares of its outstanding stock in the open market over a two-year period. In fiscal 1996, 10,860,000 shares were acquired for $328,695,000. All 18,000,000 shares were purchased for $449,672,000. In October 1996, the Board of Directors approved a second share-buyback program under which the Company may repurchase up to 30,000,000 shares of its outstanding stock in the open market over a three-year period. Under this program, 4,663,000 shares were repurchased for $140,031,000 in fiscal 1996.

Stock Options

Under the Company's Stock Option Plans, nonqualified options to purchase common stock are granted to officers and key 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 Board of Directors.

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

	Shares	Weighted-Average Exercise Price
Balance at January 29, 1994	7,151,086	$12.12
Granted	2,310,800	22.45
Exercised	(1,249,612)	8.73
Cancelled	(465,730)	19.97
Balance at January 28, 1995	7,746,544	$15.27
Granted	9,484,400	17.91
Exercised	(994,372)	9.72
Cancelled	(596,148)	18.41
Balance at February 3, 1996	15,640,424	$17.11
Granted	6,242,740	30.90
Exercised	(1,591,174)	12.45
Cancelled	(799,072)	22.28
Balance at February 1, 1997	19,492,918	$21.69

Outstanding options at February 1, 1997 have expiration dates ranging from March 20, 1997 to January 29, 2007 and represent grants to 1,793 key employees.

At February 1, 1997, the Company reserved 34,239,852 shares of its common stock for the exercise of stock options. There were 14,749,234 and 190,602 shares available for granting of options at February 1, 1997 and February 3, 1996, respectively. Options for 2,915,481 and 2,946,164 shares were exercisable as of February 1, 1997 and February 3, 1996, respectively, and had a weighted-average exercise price of $13.52 and $12.38 for those respective periods.

The Company accounts for its Stock Option and Award Plans in accordance with APB Opinion No. 25, under which no compensation cost has been recognized for stock option awards granted at fair market value. Had compensation cost for the Company's three stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans in accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to fiscal year 1995. Additional awards in future years are anticipated.

		1996	1995
Net earnings ($000)	As reported	$452,859	$354,039
	Pro forma	$437,232	$348,977
Earnings per share	As reported	$1.60	$1.23
	Pro forma	$1.54	$1.21

The weighted-average fair value of the stock options granted during fiscal 1996 and 1995 was $11.21 and $6.27, 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 1996 and 1995: dividend yield of 1.0 percent for all years; expected price volatility of 30 percent; risk-free interest rates ranging from 5.5 percent to 6.5 percent; and expected lives between 3.5 and 6 years.

The following table summarizes information about stock options outstanding at February 1, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 2/1/97	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 2/1/97	Weighted-Average Exercise Price
$ 4.76 to $15.69	2,825,688	4.31	$12.38	2,173,888	$11.42
15.72 to 16.94	4,001,690	6.09	16.10	97,023	16.29
17.09 to 22.59	7,186,470	6.10	20.23	593,970	19.81
22.69 to 35.44	5,479,070	9.25	32.51	50,600	24.36
$ 4.76 to $35.44	19,492,918	6.72	$21.69	2,915,481	$13.52

Note H: Related Party Transactions

The Company has an agreement with Fisher Development, Inc. (FDI), 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 177, 204, and 159 new stores' leasehold improvements and fixtures during fiscal 1996, 1995, and 1994, respectively. In the same respective years, FDI supervised construction of 38, 54, and 79 expansions, as well as remodels of existing stores. FDI construction also included administrative offices. Total cost of this construction was $111,871,000, $164,820,000, and $142,791,000, including profit and overhead costs of $10,751,000, $11,753,000, and $10,738,000. At February 1, 1997 and February 3, 1996, amounts due to FDI were $6,456,000 and $12,491,000, respectively. The terms and conditions of the agreement with FDI are reviewed annually by the Audit and Finance Committee of the Board of Directors.

During the first quarter of fiscal 1995, the Company repurchased 250,000 shares of its common stock for $8,438,000 from a senior executive of the Company.

Note I: Quarterly Financial Information (Unaudited)

Fiscal 1996 Quarter Ended

($000 except per share amounts)	Thirteen Weeks Ended May 4, 1996	Thirteen Weeks Ended August 3, 1996	Thirteen Weeks Ended Nov. 2, 1996	Thirteen Weeks Ended Feb. 1, 1997	Fifty-two Weeks Ended Feb. 1, 1997
Net sales	$1,113,154	$1,120,335	$1,382,996	$1,667,896	$5,284,381
Gross profit	413,840	400,170	545,221	639,984	1,999,215
Net earnings	81,573	65,790	134,310	171,186	452,859
Net earnings per share	.28	.23	.48	.62	1.60

Fiscal 1995 Quarter Ended

($000 except per share amounts)	Thirteen Weeks Ended April 29, 1995	Thirteen Weeks Ended July 29, 1995	Thirteen Weeks Ended Oct. 28, 1995	Fourteen Weeks Ended Feb. 3, 1996	Fifty-three Weeks Ended Feb. 3, 1996
Net sales	$848,688	$868,514	$1,155,929	$1,522,122	$4,395,253
Gross profit	280,557	259,193	458,050	575,998	1,573,798
Net earnings	50,113	32,414	116,875	154,637	354,039
Net earnings per share	.17	.11	.41	.54	1.23

Corporate Officers

Donald G. Fisher
Chairman of the Board

Millard S. Drexler
President and
Chief Executive Officer

Robert J. Fisher
Chief Operating Officer

John B. Wilson
Chief Administrative Officer

Dennis M. Connors
Senior Vice President
Chief Information Officer

Charles K. Crovitz
Senior Vice President
Strategic Planning and
Business Development

James P. Cunningham
Senior Vice President
Offshore Sourcing and
Managing Director of
Gap International Sourcing

Anne B. Gust
Senior Vice President
General Counsel

Warren R. Hashagen, Jr.
Senior Vice President and
Chief Financial Officer

Adrienne M. Johns
Senior Vice President
Human Resources

George A. Joseph
Senior Vice President
Distribution

Steven B. Kaplan
Senior Vice President
Real Estate

Gary L. McNatton
Senior Vice President
Personal Care

Stanley P. Raggio
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Vice President
Real Estate

David G. Bergen
Vice President
Information Technology

George P. Blankenship
Vice President
Real Estate

Carrie Brooks-Brown
Vice President
Assistant Controller

James A. Brownell
Vice President
Information Technology

Susan L. Cooper
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Stephen M. Dillon
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Consulting and
Auditing Services

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Vice President
Store Design

Claude Frattini
Vice President
European Sourcing

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Vice President
Associate General Counsel

William R. Jaeger
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Barbara J. Johnson
Vice President
Taxes

Michelle M. Lantow
Vice President
Corporate Controller

James M. LaRocco
Vice President
Human Resources

Paula L. Levitan
Vice President
Associate General Counsel

John A. Minor
Vice President
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Ayliffe B. Mumford
Vice President
Human Resources

Stephen L. Pearson
Vice President
Sourcing

Sheila S. Peters
Vice President
Human Resources

John A. Sabol
Vice President
Corporate Administration

Lauri M. Shanahan
Vice President
Associate General Counsel

Laurence S. Shushan
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Associate General Counsel

Steven Winningham
Vice President
Information Technology

Gap International Sourcing

K.L. Szetoh
Vice President
General Manager
Southeast Asia Region

Hansel Wong
Vice President
Operations

Divisional Officers

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Division Executive
Vice President
Stores

Elizabeth H. Salamone
Division Executive
Vice President
Merchandising

Lisa A. Schultz
Division Executive
Vice President
Product Design
and Development

Richard F. Eastwick
Senior Vice President
Merchandise Planning
and Distribution

Michael McCadden
Senior Vice President
Marketing

Kenneth S. Pilot
Senior Vice President
Outlet and New Business
Development

Kenneth R. Rapp
Senior Zone Vice President

Ed Stair
Senior Vice President
Operations

June A. Beckstead
Vice President
Product Design

Joanne Calabrese
Vice President
Merchandising

Lorraine C. Christensen
Regional Vice President

Mary Ellen Coyne
Vice President
Product Design

Mark E. Dvorak
Vice President
Visual Design

John Farugia
Vice President
Store Operations
and Control

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Regional Vice President

Jayne Greenberg
Vice President
Advertising Media

Amy Hennisch
Vice President
Product Design
and Development

Thomas E. Hurney
Zone Vice President

Lanny Israel
Vice President
Visual Merchandising

Douglas C. Marker
Vice President
Loss Prevention

Robert D. Muncey
Regional Vice President

Rhonda L. Schladerbach
Zone Vice President

GapKids

Ronald G. Franks
Division Executive
Vice President
Stores

Paula Flynn
Senior Vice President
Product Design
and Development

Michael D. Tucci
Senior Vice President
Merchandising

Nancy Blok-Anderson
Regional Vice President

Jane E. Dolan Rizzo
Vice President
Merchandising

Nancy M. Green
Vice President
Merchandising

Margaret G. Hopkins
Vice President
Merchandising

Robin R. Rice
Vice President
Merchandising

Johanna Sedman
Vice President
Merchandise Planning
and Distribution

Steven Yacker
Regional Vice President

Banana Republic

Jeanne Jackson
Chief Executive Officer

Marie Holman-Rao
President

Michael J. Dadario
Division Executive
Vice President
Stores and Operations

Ronald R. Beegle
Senior Vice President
Finance, Planning and
Administration

Jerome M. Jessup
Senior Vice President
Product Design
and Development

Gary P. Muto
Senior Vice President
Merchandising

Mary M. Anderson
Regional Vice President

Jody L. Austin
Vice President
Product Design
and Development

Kathleen H. Boyer
Vice President
Merchandising

Stacey K. Brown
Regional Vice President

Deborah T. Corsiglia
Vice President
National Sales

Lisa Kay Engler
Vice President
Merchandising

Dorothy B. Hardesty
Vice President
Product Design
and Development

Jill McCoy
Vice President
Visual Merchandising
and Design

Mary Mitchell
Vice President
Merchandise Control

Robert J. Mulholland
Vice President
Product Sourcing

Paul Price
Vice President
Merchandising

Amy Schoening
Vice President
Marketing

Jayme R. Witman
Regional Vice President

Daniel J. Worden
Vice President
Store Design

John L. Zannini
Vice President
Product Design

Old Navy

Kevin M. Lonergan
Division Executive
Vice President
Stores and Operations

Jenny J. Ming
Division Executive
Vice President
Merchandising

Jeffrey A. Pfeifle
Division Executive
Vice President
Product Design
and Development

Richard Crisman
Senior Vice President
Marketing

Richard Anders
Zone Vice President

Patricia A. Barkin
Vice President
Product Design
and Development

Maureen Chiquet
Vice President
Merchandising

Lori David
Vice President
Merchandising

Kevin L. Finnegan
Zone Vice President

John Fontana
Vice President
Planning and Distribution

Catherine C. Guiley
Vice President
Merchandising

Robert A. Hodges
Zone Vice President

Charlotte Marshall
Vice President
Product Design
and Development

Richard S. McKinley
Vice President
Finance

Jody E. Patraka
Vice President
Visual Merchandising
and Design

James C. Petty
Vice President
Operations

International

William S. Fisher
President

Richard M. Lyons
Division Executive
Vice President
Brand Development

Marka V. Hansen
Senior Vice President
Merchandising

Edward F. Dunlap
Vice President
Finance and Business
Development

Christopher Garek
Vice President
Japan

Jerome S. Griffith
Vice President
Managing Director
Europe

Alain Moreaux
Vice President
Country Manager
France

Carl A. Seletz
Vice President
Country Manager
United Kingdom

Pascal Somarriba
Vice President
Marketing

Stephen Sullivan
Vice President
Administration

Janelle Van Rensselaer
Vice President
Merchandise Planning
and Distribution

Directors

Adrian D. P. Bellamy† □
Chairman of the Gucci Group N.V.; Director of The Body Shop International PLC; and Paragon Trade Brands, Inc.
Director since 1995.

John G. Bowes† □
Former Chairman of Kransco Group Companies.
Director since 1974.

Millard S. Drexler
President and Chief Executive Officer of the Company; and Director of Williams-Sonoma, Inc.
Director since 1983.

Donald G. Fisher □
Chairman and founder of the Company; Director of The Charles Schwab Corporation; and AirTouch Communications.
Director since 1969.

Doris F. Fisher
Merchandising consultant and founder of the Company.
Director since 1969.

Robert J. Fisher
Chief Operating Officer of the Company; and Director of Sun Microsystems, Inc.
Director since 1990.

Lucie J. Fjeldstad † □
President of Video and Networking, Tektronix, Inc.; Formerly President of Fjeldstad International; Vice President and General Manager of Multimedia, IBM; Director of Keycorp, Entergy; and Bolt Beranek & Newman.
Director since 1995.

William A. Hasler* □
Dean, Haas Graduate School of Business, University of California, Berkeley; Formerly Vice Chairman of KPMG Peat Marwick; Director of Tenera Inc.; Aphton, Inc.; Walker Interactive Systems Inc.; and TCSI.
Director since 1991.

John M. Lillie† □
Former Chairman and Chief Executive Officer of American President Companies, Ltd.; Director of Vons Companies; Consolidated Freightways, Inc.; The Harper Group, Inc.; and Walker Interactive Systems Inc.
Director since 1992.

Charles R. Schwab* □
Chairman and Chief Executive Officer of The Charles Schwab Corporation; Director of Transamerica Corporation; AirTouch Communications; and Siebel Systems, Inc.
Director since 1986.

Brooks Walker, Jr.* □
General Partner of Walker Investors; Director of Pope & Talbot, Inc.; and AT&T Capital Corporation.
Director since 1972.

* Audit and Finance Committee
† Compensation and Stock Option Committee
□ Corporate Governance Committee

Corporate Information

Corporate Offices

Gap, Inc.
One Harrison Street
San Francisco, CA 94105
415-952-4400

Annual Meeting

The annual meeting of stockholders will be held at 1:30 p.m., Tuesday, May 20, 1997, at the Delancey Street Foundation Town Hall, 600 Embarcadero, San Francisco, California 94107. Each stockholder is cordially invited to attend.

Common Stock

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

Fiscal 1997 Quarterly Earnings Release Dates

1st quarter:	May 15, 1997
2nd quarter:	August 14, 1997
3rd quarter:	November 13, 1997
4th quarter and fiscal year:	February 26, 1998

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 February 1, 1997, will be available after May 5, 1997, by calling 1-800-GAP-NEWS (1-800-427-6397).

Web site

Our Web site at www.gap.com offers information about our Company and stock, as well as online versions of our Annual Report, SEC reports, quarterly earnings results and monthly sales reports.

Hotline

The Company's Investor Relations Hotline, 1-800-GAP-NEWS, offers 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.

Duplicate mailings

If you are receiving duplicate or unwanted copies of our publications, please contact us at 1-800-GAP-NEWS.

Stockholder Assistance

Registered Stockholders
(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:

Harris Trust Company of California, Chicago
311 West Monroe Street
Chicago, IL 60606
312-461-5139

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, California

Design: Frankfurt Balkind Partners, NY/LA/SF.
Photography: Chris Felver (pg. 4, bottom)