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Gap (Netherlands) B.V.

Annual Report

For the year ended 30 January 2010

Contents

Annual Report 2009/2010

Directors' Report

The dırectors present the annual report ıncludıng the audıted financıal statements for the year ended 30 January 2010 Comparatıve figures are for the perıod ended 31 January 2009

ACTIVITIES

The Company's prıncıpal actıvıty ıs the sale of fine casual clothıng

Gap (Netherlands) B V ("the Company") has a trademark lıcence agreement wıth Gap (ITM) Inc and ıs entıtled to sell Gap brand merchandıse through a commıssıonaıre agent ın the Unıted Kıngdom and a dıstrıbutıon agreement ın France

The Company entered ınto a merchandıse purchase agreement wıth Gap Stores (Ireland) Lımıted under whıch the Company sells Gap brand merchandıse to Gap Stores (Ireland) Lımıted, whıch ın turn sells to thırd party customers ın Ireland Gap Stores (Ireland) Lımıted obtaıned trademark and other ıntangıble lıcences from theır respectıve owners

The Company ıs ultımately wholly-owned by The Gap, Inc and was ıncorporated on 26 June 1995

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Total UK retaıl sales were £317 3m (2009 £301 4m), up 5 2% and 2% on total sales and comparable sales agaınst 2009, respectıvely Thıs was drıven prımarıly by a decrease ın traffic of 6%, offset by a 3% ımprovement ın conversıon, 1% ıncrease unıts per transactıons and 4% ıncrease ın average unıt retaıl Transactıons wıth group companıes resulted ın addıtıonal net sales of £38 4m (2009 £30 5m) beıng recorded wıthın the profit and loss account (note 5(ı))

At the operatıng margın level, a profit of £7 9m was earned versus a £30 0m loss ın the prıor year The maın reason for thıs ımprovement ıs a 5% ıncrease ın gross margın coupled wıth effectıve management control of operatıng costs ın GPS (Great Brıtaın) Ltd, leadıng to a reductıon ın retaıner fees payable by the Company

The number of store locatıons ın Europe whıch sell merchandıse on behalf of the Company ıncreased from 176 ın 2009 to 181 by the end of 2010

The Company's busıness ıs sensıtıve to a number of factors that ınfluence the levels of consumer spendıng, ıncludıng polıtıcal and economıc condıtıons such as the recessıonary envıronment, the levels of dısposable consumer ıncome, consumer debt, ınterest rates and consumer confidence Declınes ın consumer spendıng on apparel could have a materıal adverse effect on the Company's operatıng results

The prıncıpal rısk facıng the busıness ıs the abılıty to gauge the fashıon tastes of customers and to provıde merchandıse that satısfies customer demand ın a tımely manner It ıs the dırectors' ıntentıon to contınue to collaborate wıth affilıates to fix the core busıness by creatıng the rıght product and store experıence, retaınıng and developıng the best talent ın the ındustry, and examınıng the organısatıon structure to ensure that ıt wıll effectıvely support the busıness and meet customer needs Opportunıtıes wıll contınue to be sought to maxımıse profitabılıty and market share ın the European casual apparel market

PERSONNEL

There are no employees of the Company as of 30 January 2010 (2009 nıl)

DIVIDENDS

The dırectors do not recommend the payment of a dıvıdend (2009 £nıl)

GOING CONCERN

The dırectors have ascertaıned that The Gap, Inc ıntends and has the abılıty to contınue ıts financıal support to the Company (eıther dırectly or through another Gap company) for a perıod of 12 months from sıgnıng the statutory accounts As at 30 January 2010, the ultımate parent company, The Gap, Inc , has no funded, on-balance sheet thırd party debt and has $2,348m ın cash and cash equıvalents Addıtıonally, the Company has had good profitabılıty from operatıng actıvıtıes durıng the year and thıs trend has contınued ınto 2010 Therefore the dırectors belıeve the group ıs well placed to manage busıness rısks successfully despıte the current uncertaın economıc outlook and wıll contınue ın operatıonal exıstence for the foreseeable future Accordıngly, they contınue to adopt the goıng concern basıs ın preparıng the annual report and financıal statements

RESEARCH AND DEVELOPMENT

The Company does not engage in research and development

FACTORS WITH SIGNIFICANT EFFECT ON SALES AND LIQUIDITY

The Company does not anticipate any significant change in liquidity

INVESTMENTS

The Company does not anticipate any significant changes in investments

FINANCING

The Company is mainly financed through group companies and shareholders' equity Effective 04 February 2007, a Revolving Note Agreement was also executed between GPS (Great Britain) Limited as the lender and Gap (Netherlands) BV as the borrower effective 04 February 2007, in respect of an aggregate principal amount not to exceed £75,000,000 At 30 January 2010, £20,247,661 (2009 £13,219,555) was drawn down by Gap (Netherlands) BV

FINANCIAL RISK MANAGEMENT

The Gap, Inc 's Treasury Department seeks to reduce financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably It operates within policies and procedures approved by The Gap, Inc Board, which include strict controls on the use of financial instruments in managing the Company's risk The Company does not undertake any trading activity in financial instruments

Exchange rate risk

The Company's activities expose it to exchange rate risk The Company's risk management policy is to use forward contracts to hedge its market risk exposure associated with foreign currency exchange rate fluctuations on merchandise purchases Gains and losses on the currency forward contracts are recognised as part of cost of goods sold

Liquidity risk

The Company's activities expose it to liquidity risk The Company does not use derivative financial instruments for speculative purposes In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses short term inter-company finance and equity injections which are made available from group companies

AUDITORS

A resolution for the reappointment of Deloitte Accountants B V as auditors of the Company is to be proposed at the forthcoming Annual General Meeting of Shareholders

Approved by the directors

Evan Price

Director

Date 18 October 2010

Balance sheet
At 30 January 2010
(After proposed appropriation of net result)

	Note		30/01/2010		30/01/2009
		GBP	GBP	GBP	GBP
Current assets					
Inventory	*3(a)*		29,981,882		29,198,187
Receivables:					
Group companies		2,531,728		8,919,021	
Group relief receivable		5,692,926		7,889,721	
Deferred tax asset	5(*h*)	4,113,257		-	
Prepayments and accrued income		6,624		22,431	
Other debtors		318,709		18,050	
			12,663,244		16,849,223
Cash	*5(a)*		1,345,157		1,700,427
Total current assets			43,990,283		47,747,837
Current liabilities:					
Trade creditors		(17,683,770)		(19,125,383)	
Group companies		(37,475,578)		(51,986,215)	
Other creditors		(3,642,147)		(4,235,057)	
Accrued liabilities		(2,521,340)		(1,865,461)	
			(61,322,835)		(77,212,116)
Current assets less current liabilities			(17,332,552)		(29,464,279)
Net liabilities			(17,332,552)		(29,464,279)
Shareholders' deficit					
Share capital issued	*5(c)*		33,395		34,019
Share premium			240,334,997		240,334,997
Currency translation adjustment on share capital	*5(d)*		(4,596)		(5,220)
Accumulated deficit			(257,696,348)		(269,828,075)
Total shareholders' deficit	*5(b)*		(17,332,552)		(29,464,279)

Profit and loss account

For the year ended 30 January 2010

	Note	GBP	2010 GBP	GBP	2009 GBP
Net sales	*5(f)*		355,653,984		331,840,717
Cost of goods sold			(146,989,217)		(153,553,930)
Gross margin			208,664,767		178,286,787
Selling, general and administrative expenses					
Selling expenses		(167,439,110)		(176,251,785)	
General and administrative expenses		(33,319,607)		(32,075,344)	
			(200,758,717)		(208,327,129)
Operating profit/(loss)			7,906,050		(30,040,342)
Financial income/(expense)					
Interest income		2,338		77,372	
Interest expense		(1)		(1,814)	
Interest expense paid to group companies	*5(g)*	(695,395)		(3,525,477)	
Foreign exchange results		714,822		(439,973)	
			21,764		(3,889,892)
Net profit/(loss) for the financial year before tax			7,927,814		(33,930,234)
Taxation	*5(h)*		4,203,913		8,202,940
Net profit/(loss) for the financial year after tax			12,131,727		(25,727,294)

Notes to the accounts

1 General

Gap (Netherlands) B V ("the Company"), is incorporated with limited liability, having its statutory seat in Amsterdam, the Netherlands and its offices in London, United Kingdom, is an approximate 51 95% subsidiary of Gap (RHC) B V , a company incorporated in Amsterdam, the Netherlands and an approximate 48 05% subsidiary of Gap International B V , a company incorporated in Amsterdam, the Netherlands The ultimate parent company is The Gap, Inc , a company incorporated in Delaware, United States of America The accounts of the Company are included in the consolidated financial statements of The Gap, Inc

The Gap, Inc and its subsidiaries are international speciality retailers who operate stores selling casual apparel, shoes and other accessories for men, women and children under a variety of brand names

The Company has a trademark licence agreement with Gap (ITM) Inc , a wholly-owned subsidiary of The Gap, Inc and is entitled to sell Gap brand merchandise through commissionaire agents or distribution agreements in various European countries The Company purchases merchandise from unrelated manufacturers

The Company was incorporated in the Netherlands on 26 June 1995 and commenced trading on 2 June 1996

The accounts of the Company are prepared under Dutch GAAP and presented in sterling in order to give a more meaningful insight into the Company's operations

The ultimate parent Company prepares a consolidated cash flow statement The directors have taken advantage of the exemptions allowed for group subsidiaries and have not prepared a cash flow statement

The directors have ascertained that The Gap, Inc intends and has the ability to continue its financial support to the Company (either directly or through another Gap company) for a period of 12 months from signing the statutory accounts Accordingly the financial statements have been prepared on the going concern basis

2 Accounting principles

(a) *General*

Assets and liabilities are shown at the amounts for which they were acquired or incurred, unless stated otherwise Income and expenses are accounted for on an accrual basis Income is only recognised when realised Losses and risks originating before the end of the financial year are taken into account if they have become known before preparation of the accounts

(b) *Foreign currencies*

Assets and liabilities denominated in foreign currencies are translated into sterling, the functional and reporting currency, at the exchange rate ruling on the balance sheet date Foreign currency transactions have been reflected in sterling at the exchange rates in effect at the time of the transactions resulting foreign currency gains and losses are shown separately in the profit and loss account

(c) *Share capital*

Issued and paid-up share capital, which is denominated in euros (EUR), is translated into sterling at the exchange rate ruling on the balance sheet date, resulting exchange gains and losses are included in the currency translation adjustment as part of shareholders' equity

Notes *(continued)*

3 Principles for valuation of assets and liabilities

(a) ***Inventories***

Merchandise is stated at the lower of cost and net realisable value on a weighted average cost basis Inventories consist of finished goods only As at 30 January 2010, the Company has written down merchandise by £62,500 (2009 £366,400) to reflect realisable value This resulted in a credit to the profit and loss account of £303,900 during the year

(b) ***Receivables***

Receivables will mature within one year from the balance sheet date

4 Principles for determination of financial results

(a) ***Net sales***

Net sales represent income derived from the sale of merchandise during the year, net of value added taxes, royalties, discounts and commissions

(b) ***Corporate income tax***

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date The current tax rate is the tax rate of the United Kingdom because the Company is a tax resident of the United Kingdom and not of the Netherlands

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current taxes and law Timing differences arise from the inclusion of items of income and expenditure in tax computations different from those in which they are included in financial statements Deferred tax assets and liabilities are not discounted

5 Notes to specific items of the balance sheet and profit and loss account

(a) ***Cash***

Cash represents cash and bank balances There are no restrictions on cash and bank balances

(b) ***Shareholders' deficit***

Movement in shareholders' deficit is as follows

	Share capital issued	Share premium	Accumulated deficit	Cumulative translation adjustment	Total
	GBP	GBP	GBP	GBP	GBP
Balance as at 02 February 2008	28,976	223,334,997	(244,100,781)	(177)	(20,736,985)
Translation adjustment	5,043	-	-	(5,043)	-
Net loss for the year	-	-	(25,727,294)	-	(25,727,294)
Share premium contribution	-	17,000,000	-	-	17,000,000
Balance as at 31 January 2009	34,019	240,334,997	(269,828,075)	(5,220)	(29,464,279)
Translation adjustment	(624)	-	-	624	-
Net profit for the year	-	-	12,131,727	-	12,131,727
Balance as at 30 January 2010	33,395	240,334,997	(257,696,348)	(4,596)	(17,332,552)

Notes *(continued)*

5 Notes to specific items of the balance sheet and profit and loss account *(continued)*

On 15 August 2008 Gap (RHC) BV and Gap International BV entered into a Share Premium Contribution Agreement with Gap (Netherlands) BV to fund it with £17,000,000

(c) ***Share capital***

Authorised share capital amounts to EUR 192,500 and is divided into 1,000 Class A common shares and 925 Class B common shares with a nominal value of EUR 100 each The paid-up Class A share capital amounts to EUR 20,000 and the paid up Class B share capital amounts to EUR 18,500

	Share premium Class A	**Share premium Class B**
	GBP	**GBP**
Balance as at 02 February 2008	65,000,000	158,334,997
Balance as at 31 January 2009	65,000,000	175,334,997
Balance as at 30 January 2010	65,000,000	175,334,997

	Authorised Share capital (A and B)	**Issued Class A**	**Issued Class B**
	No	**No**	**No.**
Balance as at 02 February 2008	1,925	200	185
Balance as at 31 January 2009	1,925	200	185
Balance as at 30 January 2010	1,925	200	185

Share capital is translated into sterling at the 30 January 2010 exchange rate of EUR 1 GBP 0 8674 (2009 EUR 1 GBP 0 8836)

(d) ***Currency translation adjustment***

The currency translation adjustment records exchange differences arising from the translation of share capital denominated in euros into sterling

(e) ***Financial instruments***

The Company's risk management policy is to use forward contracts to hedge its market risk exposure associated with foreign currency exchange rate fluctuations on merchandise purchases Gains and losses on the currency forward contracts are recognised as part of cost of goods sold As at 30 January 2010, the fair market value loss of those contracts is £1,231,530 The estimated fair values are provided by the financial institutions for which the Company entered into the contracts As at 30 January 2010, the Company has forward exchange contracts to sell £109,917,998 (2009 £77,820,648) to the value of $173,450,000 (2009 $141,700,000), maturing within 12 months following the year end

Notes *(continued)*

5 Notes to specific items of the balance sheet and profit and loss account *(continued)*

(f) *Net sales*

Net sales were generated within Europe and are net of commission payments to commissionaire agents and a long term intangible charge Net sales also include sales under distribution and merchandise purchase agreements within Europe

(g) ***Interest expense paid to group companies***

Effective 4 February 2007, a Revolving Note Agreement was set up between GPS (Great Britain) Limited as the lender and Gap (Netherlands) BV as the borrower in respect of an aggregate principal amount not to exceed £75,000,000 At 30 January 2010, £20,247,661 was drawn down and is included within amounts owed to group companies The interest rate is adjusted monthly based on the corresponding 1 month LIBOR plus 100bps

(h) ***(i) Tax on profit/(loss) on ordinary activities***

Current tax	**2010 GBP**	**2009 GBP**
UK corporation tax (charge)/credit for the period	(655)	8,082,585
Adjustments in respect of previous periods	91,311	120,355
Tax credit on profit/(loss) on ordinary activities	90,656	8,202,940
Deferred tax		
Origination and reversal of timing differences	4,113,257	-
Tax credit on profit on ordinary activities	4,203,913	8,202,940

(ii) Factors affecting the tax credit for the current period

	2010 GBP	**2009 GBP**
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	7,927,814	(33,930,234)
Current tax at 28% (2009 30% to 31 March 2008, 28% thereafter)	(2,219,788)	9,611,712
Effects of:		
Expenses not deductible for tax purposes	(42,515)	(148,111)
Adjustments in respect of prior periods	91,311	120,355
Decrease/(increase) in deferred tax asset	2,261,648	(1,381,016)
Total current tax credit	90,656	8,202,940

The tax charge in future periods may be affected by the change in the UK corporation tax rate from 28% to 27% with effect from 1 April 2011

The movement in deferred tax is as follows	**GBP**
At 31 January 2009	-
Credit for the year	4,113,257
At 30 January 2010	4,113,257

Notes *(continued)*

5 Notes to specific items of the balance sheet and profit and loss account *(continued)*

The elements of deferred taxation are as follows	2010 GBP	2009 GBP
Revenue timing differences	4,113,257	-

The Company has no unprovided deferred tax as at 30 January 2010 (2009 unprovided deferred tax asset of £6,465,293 relating to unutilised losses)

(i) *Transactions with The Gap, Inc. and subsidiaries*

The profit and loss account includes the following arms length transactions with The Gap, Inc and subsidiaries

	2010 GBP	2009 GBP
Net sales		
Commission expense	1,630,893	6,106,537
Long term intangible charge	2,164,462	2,414,994
Sale of goods through distribution and merchandise purchase agreements	(42,208,763)	(38,984,121)
	(38,413,408)	(30,462,590)
Operating expenses		
Selling expenses (retainer)	167,439,110	176,251,785
The Gap, Inc management fee & The Gap Inc marketing allocation	6,910,753	5,293,089
GPS (Great Britain) Limited Distribution Centre and Head Office charges	21,277,729	23,299,404
	195,627,592	204,844,278

On 31 January 1999, the Company entered into a Cost Sharing Agreement and a Marketing Intangibles Licence Agreement with The Gap, Inc and Gap (ITM) Inc to obtain certain rights to use and commercially exploit the marks and marketing intellectual property in connection with the sale of Gap brand products and the provision of Gap brand services in specified territories in Europe The agreements require the Company to make payments for these rights over the term of the agreements based on a predetermined formula Expenses relating to these agreements are reflected in the above mentioned inter-company transactions

(j) *Payroll expenses and employees*

The Company did not employ any employees during the current and prior year The directors did not receive any remuneration in respect of services to the Company during the current and prior year

(k) *Fees statutory auditor*

The amounts that have been charged to the company for the audit of the financial statements by the audit firm to which the statutory auditor Deloitte Accountants B V , Rotterdam relates and that are required to be disclosed ex article 2 382a of the Netherlands Civil Code, amount to £13,000 (2009 £13,000)

Notes *(continued)*

6 Signing of the accounts

The Board of Management

Nicki Groom

Lisa Mertens

Evan Price

Date 18 October 2010

Additional information

(1) Appropriation of net result

According to Article 14 of the Articles of Association, the net result is at the disposal of the General Meeting of Shareholders with due observance of any possible obligation to maintain statutory reserves

(2) Proposed appropriation of result

Management proposes to add the net profit of £12,131,727 to the accumulated deficit The proposal of the appropriation of the net result has been included in the accounts The result of prior year has been allocated to accumulated deficit following a decision by the General Meeting of Shareholders

(3) Auditors' report

The auditors' report is presented on the next page

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To the shareholders of
GAP (Netherlands) B V

Date	From	Reference
18 October 2010	J Penon	

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2009/2010 of GAP (Netherlands) B V , Amsterdam, which comprise the balance sheet as at January 30, 2010, the profit and loss account for the year then ended and the notes

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Directors' Report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit We conducted our audit in accordance with Dutch law This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of GAP (Netherlands) B V as at January 30, 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2 393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' Report is consistent with the financial statements as required by 2 391 sub 4 of the Netherlands Civil Code

Deloitte Accountants B V

J Penon

Deloitte.

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To the shareholders of
GAP (Netherlands) B V

Date	From	Reference
October 18, 2010	J Penon	Oml/3100100762/op9997/DvM

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2009/2010 of GAP (Netherlands) B V , Amsterdam, which comprise the balance sheet as at January 30, 2010, the profit and loss account for the year then ended and the notes

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Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Directors' Report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit We conducted our audit in accordance with Dutch law This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error

Deloitte.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of GAP (Netherlands) B V as at January 30, 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2 393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' Report is consistent with the financial statements as required by 2 391 sub 4 of the Netherlands Civil Code

Deloitte Accountants B V

was signed
J Penon