

*Levi Strauss & Co.*

2007

Annual Financial Report

Copyright-protected photos have been removed  
from this online version of the  
LS&CO. 2007 Annual Financial Report

**A Message from the Chairman Emeritus 3**

**A Message from the CEO 5**

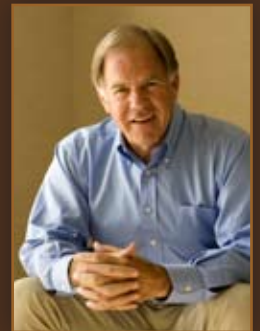
**Corporate Citizenship 9**

# A MESSAGE FROM THE CHAIRMAN EMERITUS



This is my last Chairman's letter. I retired as Chairman of the Board at the Annual Stockholders' Meeting in February 2008 after 18 rewarding years in this role.

I have handed over the reins to Gary Rogers, an exceptional business leader who has added great value to our Board deliberations over the past 10 years. Gary recently retired as the Chairman and CEO of Dreyer's Grand Ice Cream after building it into the world's largest ice cream company. He fully understands our business challenges and opportunities and has actively participated in developing our future strategies. With his background of success, Gary will be a great partner to John Anderson as he drives profitable growth.



Although I no longer will be engaged in the day-to-day operations of the company, I will continue to be involved as a member of the Board and Chairman Emeritus. After 35 years with the company, including 15 years as CEO, the time is right for me to make this transition. The business is strong, and we have capable leadership in place to guide its future success. I look forward to spending more time with my family and being more actively involved in community and philanthropic interests.

Levi Strauss & Co. is making solid progress under John Anderson's leadership. A longtime LS&CO. employee, John has a deep-seated passion for the company and its brands. In his first year as CEO, he has already put his distinctive stamp on the business by driving the development of innovative products and encouraging the adoption of market-leading concepts and products across the company. Later in this annual report, John reports on the progress we made during 2007, the challenges we addressed and the key strategic and operational initiatives that are driving enhanced performance.

It is gratifying to be leaving the company in the hands of leaders who strongly believe in our core values of empathy, originality, integrity and courage. Both Gary and John are committed to our operating philosophy of "Profits through Principles," believing that a company can be both commercially successful and a distinguished corporate citizen at the same time. This annual report includes a comprehensive summary of our corporate citizenship activities during 2007 and how we will build on those efforts in the future.

Levi Strauss & Co. has made much progress during the past few years. I want to express my deep appreciation for the ongoing support of our shareholders and investors as we have steadily strengthened the company.

I also would like to thank our Board of Directors for their helpful counsel and commitment. During the past year we augmented the Board's expertise by adding two accomplished members: Vanessa Castagna, who brings more than 30 years of retail experience, and Stephen Neal, Chairman of a major law firm and an expert in corporate governance.

Regrettably, Pat House decided to step down from the Board at the end of the fiscal year to focus on other professional and civic activities. While her contributions were wide-ranging, I am especially appreciative of Pat's leadership of the Board's Human Resources Committee.

Finally, I want to thank our employees for their dedication and contributions to the company, its brands and community service. Throughout my career they have been a source of inspiration and innumerable lasting friendships.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Haas", with a long horizontal flourish extending to the right.

ROBERT D. HAAS  
Chairman Emeritus

# A MESSAGE FROM THE CEO



In 2007, we made solid progress in our financial performance and in strengthening the operational capabilities of the company. We grew our revenues and delivered considerable profit while reducing debt — which gives us the means to invest in future growth initiatives. The company is the strongest it has been in many years.

Our strategies of upgrading products, expanding distribution, capitalizing on our global footprint and making our operations more efficient are working. Looking ahead to 2008, we will need to work even harder to execute these strategies in the face of uncertain economic conditions confronting our business, particularly in the United States.

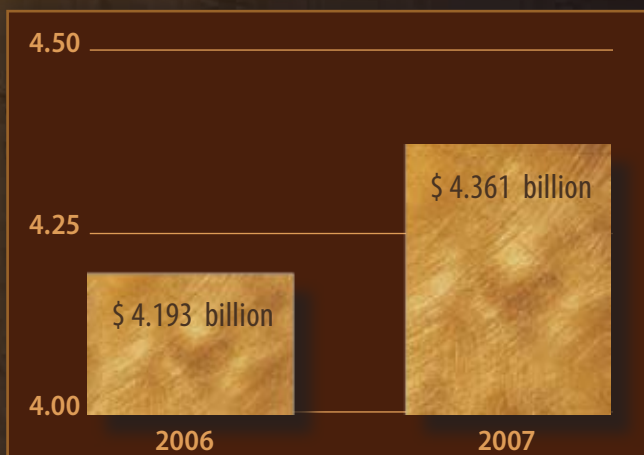
## **Grow the Company**

In 2007, we generated full-year revenue and profit growth, although the second half of the year proved more challenging with marketplace conditions weakening in the United States and key mature markets in Asia as the year unfolded.

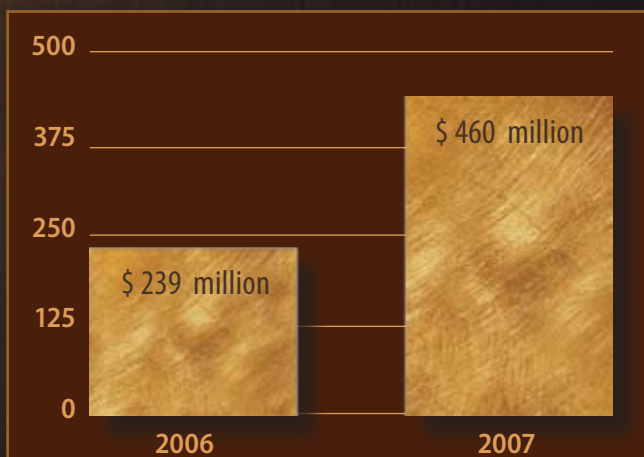
Our net revenues for the fiscal year grew 4 percent, helped substantially by stronger foreign currencies. We are delivering more income as a result of our focus on lowering debt and interest expense. Income before income tax increased 9 percent to \$376 million compared to fiscal 2006. Net income improved by 93 percent to \$460 million, substantially driven by a \$215 million tax benefit that resulted in part from our improved business performance. For the year, we paid down more than \$250 million of debt. Our total debt has now fallen to \$1.96 billion, the lowest level in more than a decade.

The three agencies that rate our debt recognized our improved financial strength. In August, Moody's Investors Service, Standard & Poor's and Fitch Ratings all upgraded our debt ratings or ratings outlook. This healthier financial "scorecard" helped secure lower interest rates when we refinanced our high-interest 12.25 percent bonds, saving the company millions of dollars annually.

## NET REVENUE



## NET INCOME



## TOTAL DEBT



We made significant strides in 2007 to strengthen each of our three regional businesses. Europe was a standout performer, ending the year with a solid 13 percent net revenue increase that also included the benefit of foreign currency exchange rates. The region bounced back from a tough year in 2006 by successfully repositioning the Levi's® brand in the premium segment of the market and upgrading its retail network. Asia Pacific faced several challenges in its largest mature markets — Japan and Korea — including significant excess inventory. We put new leadership in place in Japan, and continue to focus on the issues pressuring our mature markets. The region grew again in 2007, helped substantially by the rapid growth of emerging markets such as China and India.

In North America, the Levi's® brand grew again for the second consecutive year. The Dockers® business also grew slightly for the year, although the weakening U.S. retail environment slowed the brand's performance in the second half of the year. The Signature by Levi Strauss & Co.™ brand had a difficult year, as expected. The brand is being overhauled to align with our mass retail customers' evolving apparel merchandising strategies. The plans we have developed with them will give the brand a fresh look and a new presence at retail for fall 2008.

### Win with "Product, Product, Product"

The company's most significant achievement for 2007 is the worldwide growth of the Levi's® brand. It is our largest business and an important indicator of our progress. People ask me what has driven the resurgence of the Levi's® brand and my answer is always: "product, product and more product." Among all the initiatives we are pursuing to strengthen the company, creating great products is the most critical to our success. In 2007, our teams around the world worked relentlessly to upgrade and extend our product ranges, making our assortments more premium, innovative and stylish. Their efforts are paying off.

The Levi's® brand established itself as a leader in slim- and skinny-fit jeans around the world. The brand also strengthened its presence in the premium and super-premium jeans categories. In North America, our Levi's® Capital E™ range made us a formidable competitor in the super-premium jeans category at upscale retailers. In Europe, the super-premium Blue range helped to reestablish the brand's credibility as a premium jeans purveyor across the region. Asia Pacific, where most of the Levi's® range competes in the premium and super-premium categories, further cemented its upscale position by rolling out innovative, high-end new collections, such as Levi's® Copper™, Levi's® Lady Style™ and Levi's® Redloop.

The Dockers® brand's improved sales in 2007 also reflect its upgraded product range worldwide. The men's business in North America continued to build on its four wearing occasions strategy — work, dress, weekend and golf — offering consumer-relevant, head-to-toe lifestyle products with functional benefits, such as Iron Free Cotton Khaki pants and Iron Free shirts. But the big story for the brand was the strong resurgence of the women's business in North America. A completely new product range — including a revitalized core offering — and a constant rhythm of on-trend seasonal fashion products resulted in healthy double-digit sales increases for the Dockers® women's business.

# product, product, product

## **Adopt, Adapt, Invent – To Grow**

One of our competitive advantages is our global footprint. We sell our products in more than 110 countries. In 2007, we put processes and people in place to enable us to better leverage our tremendous scale. Our “adopt, adapt, invent” philosophy encourages teams to share their best ideas, products and practices across the company. The Dockers® brand is a great example of this. Although still a relatively small brand outside of the United States, Dockers® teams around the world have come together under a consistent lifestyle positioning – Dockers® San Francisco. Operating from this common platform, the teams are systematically sharing product ideas, merchandising concepts and marketing programs, leveraging the very best from each region. This approach lets us take full advantage of our scale and talented people in every region of the world.

We are embedding our “adopt, adapt, invent” approach across our brands and businesses. The result is greater speed to market, consistency and efficiency worldwide.

## **Sell Where People Shop**

Making great products doesn't matter if you can't get them in front of the right consumers. Throughout 2007, we invested considerably in expanding

and improving the availability of our products. We added new branded retail stores – both company-operated and franchised – and focused on building our business with our traditional retail customers. We recognize that selling in both traditional retail stores and our own branded stores is essential to grow the company.

In the United States, we created separate wholesale and retail divisions for the Levi's® brand, each with their own leadership and teams dedicated to building these distinct businesses. Both divisions contributed to the brand's growth in 2007. We also opened our first company-operated Dockers® Stores in the United States, giving the brand a venue to merchandise the breadth of its lifestyle offering for men and women.

In Europe, we upgraded and expanded our Levi's® franchise retail network across the region to better reflect the brand's premium positioning. This improved retail presence was a key to the region's substantially improved results in 2007. Asia Pacific also has expanded its retail network, including opening branded Levi's® and Dockers® Flagship stores in key consumer markets throughout the region.

Worldwide, we now have more than 1,500 brand-dedicated stores,

# adapt, adapt, invent

including more than 1,300 franchised stores and approximately 200 company-operated stores. We will continue to expand and enhance our retail presence worldwide in 2008.

## **Enable Growth and Productivity with Systems**

We continue to upgrade our global systems to make the company more productive, eliminate unnecessary work and reduce complexity. We have implemented SAP in 12 countries across Asia Pacific and will "go live" in the United States by the end of the first quarter of fiscal 2008. Europe will follow in 2009. In addition, we are rolling out new retail systems in our own store network.

New technology also helps our employees share information and work more collaboratively around the world. In 2007, we introduced a new global portal platform that gives employees a strategic communications tool, enabling them to collaborate across teams, regions and the world. This approach fosters innovation, and increases our productivity and speed to market.

I am encouraged by the company's financial strength and progress in 2007. At the same time, I am realistic about the tough challenges ahead for us in 2008, given the weaker economic conditions in the United States and our mature Asian markets at the start of the new year. Our performance in 2007 demonstrates that we are on the right strategic path. Our focus now is on executing our plans with excellence.

I want to thank our shareholders and investors for their support, as well as our Board of Directors for their guidance during my first year as CEO. I especially want to thank Bob Haas for his encouragement and counsel this past year. I have known Bob for nearly three decades, and I wish him the very best as he focuses more time on his family and philanthropic endeavors. I look forward to continuing to work with him in his new role as a member of the Board.

Lastly, I'd like to thank our employees for their hard work and commitment during a challenging year. Not only are they making the company stronger commercially, they also are upholding the core values and commitment to responsible business practices that underpin this great company. As you will see in the corporate citizenship write-up in this report, the legacy of Levi Strauss lives on thanks to our employees throughout the world.

Sincerely,



**JOHN ANDERSON**

President and  
Chief Executive Officer



CORPORATE  
CITIZENSHIP  
2007



# *What we believe*

Great brands and businesses are built by consistently providing quality products and services and by earning the trust of consumers, customers, investors, employees and communities through responsible, progressive and accountable business practices. Moreover, as business leaders we have the obligation, both individually and collectively, to make our enterprise not only a source for economic wealth, but also a force for positive social change in the conduct of our business. This principle of responsible commercial success is embedded in our 155-year experience and continues to anchor how we operate today.



# CORPORATE CITIZENSHIP 2007



*Mercado Global, a Levi Strauss Foundation grantee in Guatemala, provides tuition assistance for members' daughters.*

Our corporate Web site, [levistrauss.com](http://levistrauss.com), contains a wealth of information on Levi Strauss & Co.'s (LS&CO.) corporate citizenship programs. On topics ranging from responsible sourcing practices and community involvement to environmental protection, [levistrauss.com](http://levistrauss.com) provides detailed descriptions of what we do, how we do it and why. This section of our annual report is intended to supplement that information, and provides a summary of our noteworthy corporate citizenship efforts from 2007.

## SUPPLY CHAIN PRACTICES

We work at the factory, community and public policy levels to ensure that the people making our products are treated with dignity and respect, and work in safe and healthy conditions.

### Factory Level

In 1991, we developed and implemented our Terms of Engagement (TOE), a set of guidelines that cover specific business practices of our suppliers, such as fair employment, worker health and safety, freedom of association, and environmental practices. We were the first global company to put in place a supplier code of conduct and since then have annually assessed each of our contract suppliers and subcontractors to ensure their practices are meeting our standards. In recent years we have come to realize that while the monitoring approach is helpful in ensuring that suppliers are meeting our expectations in the present, it is not necessarily a sustainable approach to this work. Because we seek to achieve a state with our suppliers where they have embedded responsible business practices into all operations (human resources, health and safety, legal compliance, environmental practices, etc.) and are regularly meeting our standards without the need for frequent and regular auditing, we know that we need to develop creative and practical solutions to facilitate a fundamental shift in responsibility for workplace standards. During the past year, on our own and in collaboration with other stakeholders, we made progress on initiatives that we believe will help take us beyond monitoring and create additional meaningful change at the factory level.

We firmly believe that by working with other brands in shared factories we can have a measurable, positive impact on factory working conditions and at the same time reduce administrative burdens for our contractors. We took the first step in our work on brand collaboration in late 2005 when we disclosed the names and locations of our contract suppliers and then reached out to other apparel brands, suggesting we explore how we might work together in any shared factories. In 2006 we began working with brands to develop the program and at the close of 2007 we were working with 15 U.S. and European brands in 135 factories – sharing monitoring results and remediation plans, conducting joint monitoring, and coordinating training on capacity-building.

In order to support this work, we initiated relationships with Fair Factories Clearinghouse and SEDEX (Suppliers Ethical Data Exchange), organizations that provide Web-based data systems for companies to input and share factory audit data with other brands and organizations identified to help improve conditions at specific factories.

Because we are sharing factory audit information with other brands, we have significantly more information available on many of the suppliers from which we source. As expected, with the additional data we are seeing more issues at factories that require attention. And because we have been able to reduce the number of audits in each factory by about 25 percent, we have been able to devote additional resources to remediation of all identified issues. We are pleased to be able to divert resources in these factories from the audit process to focus on real improvement, and we are encouraged that our program has attracted additional brands and doubled the number of participating factories in 2007 compared to 2006. We believe that brand collaboration on labor standards will yield performance improvements in factories as the program matures, and are proud to be on the front line of this important industry development.

In the past year, we also significantly advanced our work to integrate our TOE program more deeply within our business. We began this work in 2005, assigning ratings to suppliers based on their overall TOE performance, change in performance over previous years, timeliness in completing corrective action plans and number of repeat violations, and then weighting the ratings with other key factors in determining the suppliers with whom we would place future orders.

We have learned over time that sometimes our own business practices can have unintended consequences on a supplier's TOE performance — a sudden rush order or last-minute design change can affect a supplier's ability to meet our own strict standards. In 2007, we sought to take our business integration work to the next level and create ownership of the TOE principles among the functions in LS&CO's go-to-market process that are closely connected with the manufacturing process. We identified where in our organization we could have the greatest effect at the factory level and worked with leaders in those targeted functions to raise awareness of our own potential impacts on TOE performance and solicit feedback on how to develop business-based solutions that would help our suppliers meet our TOE standards.

In 2008, we will pilot a program that pairs representatives from product-development, product-management and other supplier touch-points with TOE managers to ensure mutual understanding of each other's work and critical results. With the business integration program, we are working toward developing sustainable business practices that advance both our business and our responsible manufacturing objectives.

We also continued to work with suppliers on our supplier ownership program, which is focused on building suppliers' management systems and capabilities so they can maintain our TOE standards in the normal course of business. We had piloted the program with a supplier in Turkey in 2005, and based on our findings, we developed tools and a program design to bring to other key suppliers. In 2007, we implemented our supplier ownership program with 20 key suppliers. We recognize that the program is a long-term proposition for change. However, we are confident that the management-systems and capacity-building approach will prove to be one way we are able to create positive change at the factory level.

### Community Level

Levi Strauss & Co. and the Levi Strauss Foundation (LSF) support our responsible sourcing work by making grants to innovative local,



*"I would like to thank Levi Strauss & Co. for their leadership role in creating the impetus for brand collaborations in our factories. Brand collaboration has been a goal for the footwear and apparel industry since the early 1990s, with various "top-down" approaches pursued. For the first time, collaboration is happening at the factory level, crossing over challenges previously viewed as barriers. In the pilots that we conducted last year with Levi Strauss & Co. in India and Turkey, we found that factory commitment and responsiveness improved as well as cost savings and efficiencies for both the brands and the factories - fewer audits, shared remediation resources, consistent messaging, aligned expectations... all improving the likelihood of sustainable change. With these successes, we are eager to engage in more factory collaborations with Levi Strauss & Co. and other brands of like-minded philosophies, approaches, and commitment to improve the lives of our workers."*



**Gordon Peterson**  
Vice President of CSR  
The Timberland  
Company



regional or global nonprofit organizations that focus on building capacity among local legal and advocacy organizations. We focus on strengthening labor and human rights protections in the apparel industry, and improving working and living conditions for apparel workers in communities where our products are made.

When we began our workers' rights grantmaking program in 1999, we quickly learned that in order to have the greatest effect, our focus needed to be geographically tailored, taking into consideration the particular needs of communities, socio-political frameworks that may keep people in poverty, shifting trade-preference programs and potential for buy-in to innovative anti-poverty strategies. In Latin America, for example, we continue to fund labor rights training and education, but we are also investing in asset building and financial-literacy programs to address the impact of the expiration of the Multi Fiber Arrangement (MFA) on that region. In Haiti, HIV/AIDS protection and prevention is a critical component of our workers' rights grantmaking, which also includes microfinance and financial-literacy programs. And in China, a country with a significant female migrant labor force and generally weak enforcement of the labor laws promulgated to protect it, we fund legal aid programs that are taking on issues especially pertinent to the needs of migrant women workers.

Through our grantmaking in 2007, we sought to improve the lives of workers by:

- educating workers and factory management on labor rights and responsibilities;
- promoting access to health services and information (hygiene, reproductive health, HIV/AIDS);
- promoting access to financial-literacy training and financial services to build assets;
- advancing public policy and creating institutional change; and
- promoting access to legal aid for workplace issues.

Recognizing the strategic importance of workers' rights grantmaking in our overall responsible sourcing framework, in 2007, LS&CO. and LSF initiated new relationships with several nongovernmental organizations focused on apparel workers and low-wage earners in the communities where our products are made. One new and noteworthy LSF grantee is the Apparel Lesotho Alliance to Fight AIDS (ALAFA). Still in its infant stages, ALAFA grew out of the major apparel employers association in Lesotho to provide a comprehensive response to the pandemic in that country's apparel and textile industry. ALAFA aims to provide apparel workers with education and prevention information, voluntary testing and counseling, and treatment for people who test positive for HIV including antiretroviral medications when necessary. The 2007 LSF grant will fund ALAFA to conduct peer-led interventions to address HIV/AIDS among garment workers with a curriculum focused on gender inequality, gender-based violence, stigma and discrimination, and life skills.

In Cambodia, an important sourcing country for LS&CO., more people work in the garment industry than any other in the country's private sector. Like many countries in the region, legal and government systems are relatively weak, making

it difficult for low-wage workers to have their issues heard by a court or other government institution. In 2005, LS&CO. provided seed money to The Arbitration Council, a nonpartisan, nonprofit organization that facilitates the effective resolution of industrial labor disputes through dialogue with employers, unions and government officials. In 2007, LSF made an additional two-year grant to the Arbitration Council and remains the organization's only corporate funder.

To date, the Arbitration Council has received and settled nearly 500 individual labor disputes, more than 90 percent of which had come from the garment industry. With 30 arbitrators evenly representing employers, unions and government, the Council has become widely regarded as one of the country's most successful, effective and transparent legal institutions, and the only forum in Cambodia where employers and unions can turn to have their labor disputes resolved quickly and fairly.

For a complete list of our workers' rights grants, visit:  
<http://www.levistrauss.com/Downloads/Grants.pdf>

### Public Policy Level

LS&CO. works closely with governments, nongovernmental organizations, industry associations and other stakeholders to strengthen implementation and enforcement of labor laws in countries where we have a business presence. Throughout 2007, LS&CO. continued its advocacy for labor provisions and enforcement mechanisms to be included in all multilateral and bilateral free-trade agreements (FTA). After seven years of strong advocacy on this front, we were pleased that in May, the U.S. Congress and the U.S. Trade Representative reached a positive agreement to ensure that all FTAs negotiated by the United States include provisions committing parties to adhere to the 1998 International Labor Organization Declaration on the Fundamental Principles and Rights at Work.

Our participation and leadership in important multistakeholder initiatives increased in 2007. LS&CO. continues to chair the Americas Working Group of the MFA Forum, an open network of organizations including representatives of brands/retailers, trade unions, non-governmental organizations and international institutions committed to working collaboratively to address worker rights and apparel-industry competitiveness after the expiration of textile and apparel quotas in January 2005. LS&CO. was appointed to the organization's executive committee representing U.S. brands and we began active participation in new MFA Forum initiatives in Mexico, Morocco and Nicaragua (in addition to our existing participation in the Bangladesh and Lesotho initiatives).

We remain engaged in the International Labor Organization's (ILO) Better Factories Cambodia project, which addresses capacity building, monitoring and remediation, and worker rights education in Cambodian apparel factories. In 2007, we began participating in the Better Work program, a unique partnership between the ILO and the International Finance Corporation that launched in February 2007. The program leverages the successful Better Factories Cambodia framework to build cooperation between international buyers, governments, and employer and worker organizations in order to develop scalable and sustainable solutions to improve labor standards and competitiveness in global supply chains. LS&CO. is currently participating in Better Work pilots in Vietnam and Lesotho.



Building on our membership and participation in the United Nations Global Compact, in 2007, LS&CO. joined the Compact's CEO Water



*A boy in Argentina holds a brochure from Levi Strauss Foundation grantee Otro Mercado al Sur about the organization's fair-trade supply chain.*

*"Support from the Levi Strauss Foundation and Levi Strauss and Co. represents an important milestone for the Arbitration Council. It proves that major international garment manufacturers want to protect workers and improve working conditions in Cambodia by supporting fast, fair and transparent resolutions to labor disputes."*



**Men Nimmith**  
Executive Director  
The Arbitration  
Council Foundation



Wastewater undergoes treatment at a contractor in Japan.



Some Levi's® eco Jeans are washed with pumice stones to create a worn-in look.

*"Citizenship leadership means advancing sustainability in tomorrow's markets, beyond one's direct footprint. Such leadership requires innovative, collaborative endeavour, exemplified by Levi Strauss & Co.'s engagement in the MFA Forum, which is advancing responsible competitiveness in the apparel sector by blending innovative public policies, investments, and business strategies and practices – grounded in labour and civil society and labour engagement and design."*



**Simon Zadek**  
Chief Executive,  
AccountAbility



Mandate. As a company that recognizes sustainable water use as a critical emerging issue in our industry and has pioneered water quality standards in the apparel sector supply chain, we look forward to working with other mandate signatories and the Compact to share best practices, improve on our current work, and encourage others in our sector to meaningfully address the issues of water scarcity and sanitation.

## ENVIRONMENT, HEALTH AND SAFETY

We have long believed that environmental stewardship is a critical component of a company's corporate citizenship profile, and have been a leader in addressing environmental issues associated with apparel production. Our notable achievements in this area include our groundbreaking Global Effluent Guidelines (GEG), strict water quality guidelines that all contract laundries and finishing facilities must comply with, and our sector-leading Restricted Substance List (RSL), which ensures our products are manufactured in a responsible and environmentally sensitive manner.

In 2007, we continued to administer and improve our RSL program, and increased the frequency of our dialogue with contractors and chemical suppliers in light of product safety issues that resulted in numerous product recalls across the food and consumer goods sectors. And following up on the results our 2006 GEG Validation Initiative, where we visited each of our laundries and finishing facilities to independently sample their wastewater and examine their systems, we worked on-site with facilities that required systems improvement in order to comply fully with our standards. To further assist our suppliers and other stakeholders interested in our environment, health and safety (EHS) compliance programs, we developed a comprehensive Environment, Health and Safety handbook that provides a management systems approach and detailed information on how to meet the EHS requirements of our Terms of Engagement, including the GEG. The EHS Handbook is published on our Web site, [www.levistrauss.com](http://www.levistrauss.com).



We also continued to develop Levi's® eco, our U.S. and European products made with organic cotton. In both regions we added new fits and finishes to the eco line to appeal to a broader audience of concerned consumers and build demand for the line. We are also looking at expanding our sustainable products offerings beyond organic cotton to include new fibers and blends that demand less from the environment and products made from recycled materials.

To date, we have focused on the production and design processes to address environmental sustainability in our work. Looking at our citizenship goals in the area of the environment, we know that we must look beyond design and production to assess the potential effects of our business on the environment. Accordingly, in 2007, we began to pay special attention to the issue of climate change – an environmental concern not typically associated with apparel production, but one that we recognize is pressing and that every corporate citizen has a responsibility to explore.

To better understand our impact on environmental issues including climate change, we engaged in important data-gathering and benchmarking exercises in 2007.

- We completed a “cradle-to-grave” lifecycle assessment (LCA) of select high-volume products that provides us with important insights relating to the environmental impact of our products – from the cotton fields through production and consumer use and then disposal – looking at impacts related to air emissions, water usage, waste production and other areas.
- We established our 2006 greenhouse-gas (GHG) inventory for owned/leased-and-operated facilities (headquarters, distribution centers, retail stores, data centers, sales offices, etc.) in North and South America and are in the process of gathering the same information from other regions in order to set global baselines and targets for future emissions reductions. The Americas data was verified by a third-party consultant relying on the World Resources Institute’s GHG Protocol and protocols from the California Climate Action Registry.
- We are also in the process of conducting a Facilities Environmental Impact Assessment (FEIA) to learn about the overall environmental impacts (water, waste, air emissions, chemicals, materials, etc.) of our owned/leased-and-operated facilities around the world.

Findings from this research, which we expect to complete in early 2008, along with results from our 2006 GEG Validation Initiative will inform a comprehensive environmental strategy for the company. Once the strategy is in place, we will develop a roadmap for moving forward with clear reduction and conservation targets and objectives, and programs designed to engage critical stakeholders in helping us meet them.

We will also continue to work with partner organizations including the World Resources Institutes Green Power Group – California Affiliates, an organization that is exploring the development and use of renewable energy for commercial and industrial operations, and



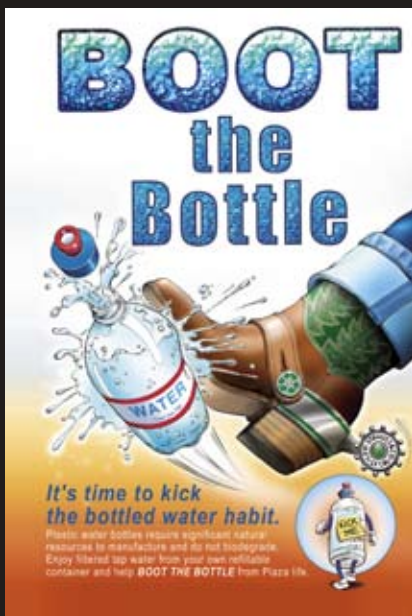
Business for Social Responsibility’s Apparel Water Quality Working Group to learn from and share environmental-stewardship best practices with other concerned companies.



*Wastewater goes through a series of treatments in China (above). Treated water (below) is recycled into the factory and also used to irrigate landscaping.*







## An Employee-led, Management-endorsed Resource Conservation Initiative at our San Francisco Headquarters

*Picking up on a behavior of our new CEO John Anderson, who, upon his arrival in San Francisco, did away with bottled water in the executive suite in favor of a pitcher of filtered water, LS&CO.'s Community Involvement Team for the Environment (CIT) launched a campaign to reduce waste at Levi's Plaza by educating employees on the environmental impacts associated with the manufacturing, transportation and disposal of plastic water bottles. The CIT earned the full support of senior management and approached the facilities department and the cafeteria, both of which were interested and eager to participate. Facilities worked to ensure that the buildings' water filtering systems had the capacity required to support a wholesale move away from bottled water, and worked with their supplier to remove bottled water from vending machines at the Plaza. The cafeteria agreed to phase bottled water out of their offerings to employees directly and in their catering business. Within a few weeks, bottled water was unavailable in the Plaza. The action resulted in a greater awareness of our day-to-day, personal environmental impact among the general employee population, and LS&CO. eliminated more than 250 cases of bottled water per month from its consumption and waste streams.*

## DIVERSITY AND PROGRESSIVE EMPLOYMENT PRACTICES

LS&CO. is a consumer-driven apparel company. We market our brands in more than 110 countries around the world, and our consumers include a broad spectrum of ages, lifestyles and cultures. To understand and address differing consumer needs, drive innovation and achieve our goals, we employ and mentor a diverse workforce at all levels of the organization. We value and depend on diversity, and we respect, embrace and draw upon the varying backgrounds, knowledge, points of view and talents of each other.

As colleagues, we are committed and accountable to fostering a culture where diversity and inclusion thrive — a work environment that provides every employee with the opportunity to achieve their potential and to participate fully in helping the company build its brands and generate sustained, profitable growth.

In 2007, we continued to work to make LS&CO. a place where employees feel supported in the workplace, have the tools they need to advance and are excited to contribute to high-performing teams.

### Diversity and Equal Treatment for All Employees

In order to see that all employees at LS&CO. and nationwide can truly be treated equally under the law, LS&CO. public policy staff continued their efforts to lobby for the passage of the Employment Non-Discrimination Act (ENDA) to prohibit workplace discrimination on the basis of sexual orientation, and the Domestic Partner Health Benefits Equity Act to equalize federal tax treatment of health benefits for married couples and domestic partners. For ENDA supporters, 2007 was a very encouraging year. The legislation passed in the U.S. House of Representatives, but the version that passed excluded transgender individuals. LS&CO. is co-chair of a coalition that will continue to work with legislators to pass an all-inclusive ENDA, and will continue to advocate strongly for passage of the Domestic Partner Health Benefits Equity Act in 2008.

For the fifth consecutive year, LS&CO. received a perfect score of 100 percent on the Human Rights Campaign's (HRC) Corporate Equality Index, an annual report that rates U.S. businesses on how they are treating and responding to gay, lesbian, bisexual and transgender employees. HRC also honored LS&CO. with a Corporate Equality Award at its San Francisco dinner event, recognizing the company's extraordinary record of support for the LGBT community.



### HIV/AIDS Treatment and Care Program

LS&CO. is widely viewed as a leader in the business response to HIV/AIDS, and for developing workplace policies, practices and protocols that remain best practices in private, public and nonprofit sectors. In recognition of our work in this area, The San Francisco AIDS Foundation presented the company with its 2007 corporate leadership award.

## **Another Courageous and Leadership Stand for Civil Rights**

*Near the end of 2007, LS&CO. was approached by a San Francisco law firm and asked, along with a number of other California businesses and chambers of commerce with strong diversity and civil rights records, to join a friend-of-the-court brief to the Supreme Court of California in support of parties challenging the exclusion of same-sex marriage from the state's marriage statute. While many of the companies and business organizations approached voiced support for the position and agreed it was the right thing to do, on the day of the filing, LS&CO. was the only signatory to the brief aside from the nonprofit organization, Out and Equal. Shortly after the brief was filed, LS&CO. CEO John Anderson wrote the members of the San Francisco Chamber of Commerce's Public Policy Committee, explaining the business case and our reasoning for signing onto the brief. After multiple meetings attended by LS&CO. representatives, the Chamber's board unanimously voted to join the brief if the court would allow it.*

*In 1992, LS&CO. took a similar leading stand in this civil rights frontier when we were the first Fortune 500 company to extend health benefits to domestic partners of employees, a widespread and best practice among top U.S. corporations today.*



that employees receive locally relevant services; and leverage strategic partnerships, drawing on the experience of nonprofit organizations, local governments and other local and multinational companies to strengthen service delivery and expand the program's reach.



In 2008, the team will continue to build the program and launch pilots in select countries with varying HIV/AIDS prevalence profiles. We look forward to reporting more on the HIV/AIDS Treatment and Care Program's development in this report next year.

### Employee Development and Benefits

The LS&CO. Way is our blueprint for leading and managing the company. Firmly rooted on our values — empathy, originality, integrity and courage — and with an emphasis on collaboration and principled decision-making, The LS&CO. Way is our common framework for conducting ourselves, building our brands and achieving both our business and our citizenship objectives. Building on our success with a 2005 course for senior leaders entitled "Leading the LS&CO. Way," in 2007, we launched "The LS&CO. Way and You" for the balance of our employees. The LS&CO. Way and You is a day-and-a-half, visual, team-based, employee-led and interactive experience designed to enable employees to work together in small teams to discover The LS&CO. Way. The experience includes modules on corporate responsibility and community involvement, and incorporates

exercises in applying the company's values and our "Profits through Principles" philosophy to a range of hypothetical business situations. At the close of 2007, nearly 550 managers worldwide had been through The LS&CO. Way and You. By the end of 2008, we hope to have brought more than 8,000 employees through the experience.



Another initiative launched in 2007 is Backup Care Options, a unique benefit program that supports employees who

experience a temporary breakdown in their normal care arrangements at times when they need to get to work. Employees now have 24/7 access to backup care specialists who find and schedule care for anyone who counts on an LS&CO. employee as their primary caregiver — infants through the elderly.

### 2007 Employee Survey

In an effort to continually improve our work environment in ways that are relevant to the global employee base, we conducted our second global

While we are very proud of our current programs and numerous accomplishments, we recognize that gaps exist in HIV/AIDS treatment and care services available to our employees and their families around the world. For example, country by country, there are stark differences between what insurance plans will cover for HIV-positive individuals, the packages of HIV/AIDS services provided by governments, and the quality and reach of HIV/AIDS services provided by nonprofits.

At the 2006 Clinton Global Initiative, a global forum for visionary leaders from all sectors, LS&CO. committed to creating a more comprehensive HIV/AIDS treatment and care program for our employees and their dependants worldwide. The program will ensure that every LS&CO. employee and his or her dependents are provided access to HIV/AIDS education, treatment, care and support services, and to advance best-practice standards among global apparel companies.

Since making our commitment, we have made significant progress in bringing our vision to life. The HIV/AIDS Treatment and Care Program was established as part of the Human Resources department in the Compensation and Benefits area. The department put in place a highly credentialed team with experience in the public, private and research sectors. The team has been pouring through data on HIV/AIDS prevalence and existing programs and services in countries where we have employees, and are leading a global cross-functional group as they seek to clarify needs of employees in various locations around the world; develop a package of HIV/AIDS services including prevention, treatment and care; provide guidance to country offices on how to ensure

employee survey in 2007. With 83 percent of employees responding, we learned that we have made improvements in several areas since the last survey (conducted in 2005) but that we can do better for our employees in others.

According to the survey results, employees strongly believe that our company values guide our decision-making and play a significant role in driving employee engagement. A majority of employees believe they have collaborative working relationships, are encouraged to voice and consider differing opinions, and have a clear understanding of the company's vision. A large majority also believes that people at all levels of the organization are open to addressing issues in new and different ways and sharing what they have learned.

Ninety-one percent of employees told us that they are very proud to be associated with LS&CO.

The 2007 survey also told us that there are areas where there is opportunity for improvement — timely decision-making, employee development and workload management are among them — and the company's Worldwide Leadership Team (WLT) is taking action. Already the WLT has reconstructed the corporate calendar to reduce the amount of time spent in global, regional and departmental meetings; reduce the amount of required travel; and harmonize timing for critical business planning processes to ensure maximum efficiency. The WLT will continue to develop new programs and augment existing ones throughout 2008 to respond to the employee feedback.

## MAKING A DIFFERENCE IN OUR COMMUNITIES

### Employee Community Involvement

Employee community involvement is an important part of LS&CO. life and LS&CO. history. We have learned over time that when we encourage employees to support organizations that are important to them with their time, talent and money, everybody wins — our communities, our employees and our company.

Community Day at LS&CO. continues to evolve and grow. On Community Day, LS&CO. employees around the world take a day away from work to volunteer in groups with local nonprofit organizations, and the Levi Strauss Foundation makes grants to the organizations with which employees volunteer.

In 2007, we piloted projects in Los Angeles, New York and San Francisco, inviting consumers to join us in our Community Day efforts. Our consumers turned out in force, comprising about 50 percent of the total volunteers on their projects. In San Francisco, Levi's® store associates and consumers painted a special mural on behalf of the Foundation for Hospital Art; at the Santa Monica location, volunteers worked with Heal the Bay to clean up Venice Beach; and in New York City, employees and consumers worked with New York Cares to brighten up Washington Irving High School by painting murals and cleaning the school.



*LS&CO. employees make a difference for local nonprofit organizations on Community Day 2007.*



Participation in Community Day and support for local nonprofits increased substantially in 2007. We added eight new countries and increased employee participation by almost 25 percent compared to 2006. Community Day 2007 saw nearly 4,000 employees in 33 countries volunteering more than 20,000 hours on 117 projects. To recognize employees' efforts, the company and the Levi Strauss Foundation made more than \$210,000 in grants to the organizations at which employees volunteered on that day.

2007 was also an active year for LS&CO's employee-led Community Involvement Teams (CIT). Around the world, nearly 1,200 employees volunteered approximately 800 hours with 64 CITs and deepened their ties with local community agencies.

Many of the longstanding CITs have been building on their successful programs over time and are becoming quite important to the organizations they are committed to serving. The Singapore CIT, for example, participated in an "Adopt-a-Grandparent" program, where each member "adopted" a senior citizen housed in the Tiong Bahru Community Senior Center, a nonprofit organization the CIT has supported since 2005. Participants spent much-appreciated quality time with their adoptees throughout the year and helped their adopted grandparents with various tasks that they might not have been able to accomplish on their own. Throughout the year, CIT members also regularly took up collections for groceries for the center and distributed them to the homes of their adopted grandparents.

The AIDS Action Group, a San Francisco-based CIT, mobilized 110 employees and orchestrated the company's participation in the 2007 San Francisco AIDS Walk, helping raise almost \$95,000 for Bay Area AIDS services organizations and beating their goal by nearly \$20,000. The CIT also put together an extensive program around World AIDS Day, with a full week of activities, fundraising and education programs geared toward LS&CO. employees.

The Dockers® brand supported the C.A.R.E. CIT (Cancer Awareness Recovery Education) in the 2007 Susan G. Komen Race for the Cure. C.A.R.E. volunteers and Team Dockers® participants raised \$62,000 to support breast cancer research and education, making the LS&CO. team the Bay Area's top fundraiser. In recognition of her hard work and long-term dedication to the event, C.A.R.E. CIT chair Pam Judd was named Volunteer of the Year by the Susan G. Komen Bay Area affiliate.



In the spirit of our core value empathy, LS&CO. responds to natural disasters that affect the communities where we operate. In October 2007, the southern California wildfires captured the attention of the world as hundreds of thousands of people were evacuated from their homes and property damage reached into the billions of dollars. LS&CO. responded on multiple fronts, providing grant funding to the San Diego Foundation's After the Fire Fund, and mobilizing employee volunteers from the San Diego retail store to work with Volunteer San Diego in its efforts to provide assistance to people and animals affected by the fires. And the Signature by Levi Strauss & Co.™ brand donated nearly 8,500 pieces of clothing to be distributed to fire victims through the Salvation Army.

### Corporate Philanthropy

In addition to supporting employee community engagement, the Levi Strauss Foundation (LSF) continued its work to address poverty among women and youth in countries around the world where we have a business presence. The foundation pursues its mission through three interrelated strategies: preventing the spread of HIV/AIDS, helping women and youth build assets, and strengthening workers' rights (discussed earlier).



*LS&CO. volunteers performed a “retail makeover” for Out of the Closet, a San Francisco thrift store whose profits benefit HIV/AIDS services organizations.*

HIV/AIDS continues to have a disproportional impact on low-income and minority populations in developed countries. In Japan, the country’s Ministry of Health, Labor and Welfare estimates that non-Japanese, primarily migrant workers from Southeast Asia and Latin America, account for 26.5 percent of people living with HIV/AIDS in Japan and 14 percent of new infections. HIV-positive migrants experience stigma and discrimination on multiple levels and most Japanese HIV/AIDS agencies do not focus on non-Japanese populations with education messages or information on available services. In order to address these inequities, LSF began funding Services for the Health in Asian and African Regions (SHARE), an organization that focuses on Thai people living with HIV/AIDS in Japan, the majority of whom are undocumented, unable to receive necessary treatment because they are not eligible to utilize the social welfare or health insurance system in Japan, and do not speak Japanese.

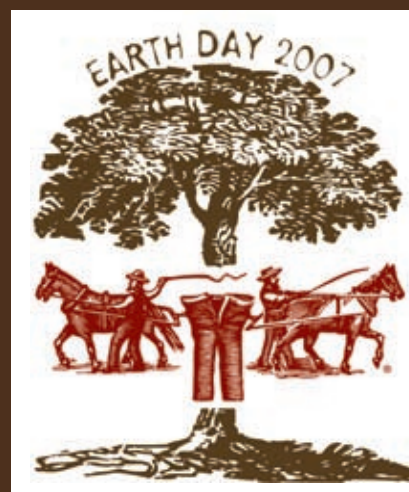
SHARE provides access to health care for these people, and through public policy advocacy, addresses structural barriers in the legal and health care systems. SHARE also provides advice and translation services for HIV-positive natives of Thailand, Nigeria, Tanzania, Nepal, Philippines, Indonesia and Brazil at numerous medical facilities; contributes articles on HIV/AIDS treatment and prevention information to popular Thai magazines that reach thousands of Thai people in Japan; and advocates on the behalf of HIV-positive Thai people who are refused treatment at Japanese hospitals.

The company and LSF also continued with the highly visible “Red for Life” campaign in South Africa which continues to challenge citizens and leaders to take responsible action and be tested for HIV/AIDS. In 2007, the Levi’s® brand, along with local nonprofit organization New Start, launched co-branded mobile voluntary counseling and testing centers that conduct HIV testing outside of Levi’s® stores. The mobile testing centers have, to date, had a marked impact on voluntary testing in the cities where they operate. With the Levi’s® brand’s participation in the project, New Start

saw a 197 percent increase in client flow compared to the same period in 2005, with 50 percent of those visiting the center between the ages of 15 and 24 – a critical and previously difficult population to reach. During one two-month period, New Start performed more than 10,000 HIV tests at its mobile testing centers.

Building assets and savings is a fairly new and progressive approach to alleviating poverty, and one that LSF has been involved in for some time. By developing matched savings and microfinance programs, advocating for alternatives to predatory lending schemes, and working with financial institutions to develop products for poor and low-income people, LSF grantees have helped people around the world to save their way out of poverty. After more than two years in development, a signature asset-building program of which we are very proud, the Mission Asset Fund, launched this year.

In 2004, LS&CO. sold a former factory in San Francisco’s Mission District and donated all the proceeds to the Levi Strauss Foundation for its global



*"We're seeing more young people, I think, because Levi Strauss & Co. gave us the cool factor and put HIV testing out there for young South Africans in a very in-your-face way that young people related to. I don't think young people really listen to the government or to public health organizations on AIDS issues any more, but they do pay attention when Levi Strauss & Co. talks about AIDS."*



**Scott Billy**  
Director  
New Start

philanthropic programs, earmarking a portion to support economic development in the surrounding neighborhood. After the sale, LSF staff participated in a two-year collaborative planning process with community leaders. The goal of the participants was to create a meaningful approach to economic development in the neighborhood that would benefit both people and place. In May 2007, the Levi Strauss Foundation approved a \$1 million dollar grant to launch the Mission Asset Fund (MAF), a community-based organization dedicated to helping Mission residents save and invest in their future. The action reflects the company's long-standing presence in the neighborhood and its commitment to invest a former corporate asset toward community revitalization.

The MAF will pilot an innovative model of wealth-building in a low-income immigrant community by expanding savings and investment opportunities for residents to become vested stakeholders in their neighborhood through cooperative home and business ownership. The long-term vision is that the Fund will contribute to the evolution of the Mission as a neighborhood of genuine economic opportunity for all its residents, regardless of income level or immigration status – one in which everyone has a voice and a stake in their community.

In 2007, the foundation also made important grants in the United Kingdom, where it is estimated that close to three million adults do not have a bank account and nearly eight percent of all households do not use or have access to financial products. Without access to a mainstream financial system, financially excluded people in the UK pay more for basic services, such as check cashing or bill paying, and pay exorbitant interest rates on loans. Lack of a bank account can also be an impediment to entering the job market.

London Building Society (LBS) seeks to link economically disadvantaged ethnic minority groups (mainly refugees who face high rates of long-term unemployment, lack of formal



qualifications, low levels of literacy and lack of marketable employment skills) with financial institutions through Community Investment Intermediaries. Organizations identified to serve as intermediaries are typically pre-existing assistance groups such as refugee and immigrant women's organizations. As a result of the program, financial institutions have developed new loan products tailored specifically to serve LBS clients with lower interest rates than those clients could otherwise secure in the market.

Another recent UK grantee, New Economics Foundation (NEF), is focused on the widening financial exclusion gap in the UK resulting from the disappearance of local bank branches and supporting policy reform to address financial exclusion. The organization is engaged in research and advocacy work around practical implications of a universal service obligation, the role of financial institutions, solutions to predatory lending and basic bank account provision beyond 2010.

In the spirit of innovation, LSF is also exploring new and sustainable, market-based approaches to poverty alleviation for apparel workers. Since 2005, the foundation has been making grants to TransFair USA to study the feasibility of a fair trade certification standard for apparel products. We have also provided grants to Mercado Global, a United States-based nonprofit fair-trade organization that links economically disadvantaged cooperatives around the world to the United States market.

In 2007, Mercado Global worked with the Levi's® brand to bring fairly traded accessories to Levi's® stores in the United States. Levi's® retail stores carried woven purses, bags and scarves made by women from cooperatives in Guatemala as part of the brand's overall jeanswear offering. Some of the products sourced through Mercado Global were made by women at another foundation grantee, the TUPUEDES Weavers' Store, where indigenous Guatemalan women, many of whom had previously worked in garment factories, are weaving traditional clothing and developing innovative designs to market locally and export. With LSF funding and Mercado Global's marketing assistance, the women of TUPUEDES, who at one time were unable to afford the raw materials required for their work, have developed a sustainable business and gained access to a quickly expanding international market.



Between LSF and LS&CO., our philanthropy for 2007 totaled \$10.6 million. The Levi Strauss Foundation made \$8.2 million in grants to nonprofit organizations around the world. The LS&CO. Worldwide Community & Corporate Citizenship department provided \$2.1 in corporate contributions for similar activities and our brands delivered \$320,150 in product donations and branded giving. In 2007, LS&CO. made a \$7.1 million gift to the Levi Strauss Foundation reserve based on the company's financial performance for the year.

For a complete listing of all grants made by the Levi Strauss Foundation, visit:

<http://www.levistrauss.com/Citizenship/LeviStraussFoundation/GrantsDatabase.aspx>

### Red Tab Foundation

The Red Tab Foundation (RTF) is a unique nonprofit organization created by a former employee to offer financial assistance to LS&CO. employees and retirees who are unable to afford life's basic necessities due to unexpected hardships. Now in its 26th year, RTF offers specialized, regional assistance, as needed, for LS&CO.'s diverse community. In 2007, RTF disbursed nearly \$1.2 million to 1,270 employees and retirees worldwide.



*Levi Strauss Foundation grantee Mercado Global supports weaving and sewing cooperatives in Guatemala.*



Building on an existing program that provides aid for heating fuel in Plock, Poland, RTF rolled out a program to provide support for school books for employees' dependents. Based on the very positive feedback received around school book assistance in Poland, RTF replicated the program in Manila, the Philippines.



In the United States, where LS&CO. has thousands of retired sewing plant employees, RTF supports a robust basic-necessities program for retirees that includes aid for such items as eyeglasses, hearing aids, and critical home repairs that impact retirees' health and safety. 2007 was a record year for RTF's support of retirees, with a 46 percent increase in dollar disbursements from 2006 and a nearly 70 percent increase in total grants. While grant applications were received from retirees of all ages, the majority of grants and dollars were distributed to retirees 65 and older.

With LS&CO.'s owned-and-operated manufacturing presence in countries outside the United States and the increase in RTF programs that benefit employees in those countries, RTF is experiencing an increase in donations and fundraising efforts from employees in our Europe and Asia regions. In 2007, employees in Europe held "Run for Red Tab" in Paris and Brussels, raising more than \$17,500 for the foundation.

For more information on Levi Strauss & Co.'s corporate citizenship work, visit [www.levistrauss.com/citizenship](http://www.levistrauss.com/citizenship)





**DOCKERS**  
SAN FRANCISCO



LEVI STRAUSS & CO.

1155 Battery Street  
San Francisco, CA 94111

415 501 6000

[www.levistrauss.com](http://www.levistrauss.com)

