





Abercrombie & Fitch

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I have often said our success is dependent on total commitment to the long term strength of our brands. That philosophy requires a delicate balance between protecting our current profitability while simultaneously investing in our brands to assure the company's success over the long-term. I, along with Bob Singer, the company's President and Chief Operating Officer, believe that managing this balance effectively is critical to the company's ongoing success. We have undertaken significant steps this year to achieve this balance and I am very pleased with our current performance as well as our future prospects.

Fiscal 2004 marked another year of strong operating results for our company. We achieved net income per share of \$2.28, up 11%, on net sales of \$2.021 billion, up 18%. The gross margin rate increased 300 basis points to 45.0%. We utilized our strong cash position to repurchase 11.2 million shares of common stock for \$434.7 million. Shareholder value increased significantly in fiscal 2004 as our share price rose 88% and we began to pay a dividend amounting to \$0.50 per share.

During fiscal 2004 we undertook several initiatives in order to enhance the in-store experience of our customers as well as to expand the reach of the business both demographically and geographically. Recognizing the importance of our stores as the primary marketing vehicle for the business, we implemented a comprehensive program designed to increase control and discipline over store operations, and enhance the shopping experience of our customers. A large part of this initiative involved increasing staff coverage in stores by developing detailed programs to be used by store managers and brand representatives, as well as increasing the number of staff hours per week in our stores and enhancing staff training. We are pleased with the early results of the program. By increasing staff coverage throughout most of our stores, we have significantly improved customer service levels, while also upgrading store presentation standards and reducing merchandise shrink.

Hollister's performance during 2004 was exceptional. Hollister is now broadly recognized as a leading aspirational brand for the high school-aged guy and girl. The business recorded a double-digit comparable store increase for the year. In addition, we opened 84 new stores, increasing the total number of stores to 256. Sales productivity exceeded \$420 per square foot, with profitability similar to that of Abercrombie & Fitch. In 2005, as we expect to open between 60 and 70 new Hollister stores, this brand will continue to be a primary growth vehicle for our company.

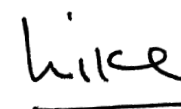
I am extremely proud of the improvements made in the Abercrombie & Fitch business. Our team did an excellent job of differentiating the brand from the competition by increasing the quality of our products and stressing aspiration in every element of the brand. The Casual Luxury theme truly defines the aspirational

character of the Abercrombie & Fitch brand. During 2004 we introduced Ezra Fitch, a high-quality classics line, inspired by our past, but mindful of our casual luxury orientation. Reflecting our initiatives to eliminate promotional activity and to improve store presentations, in late 2004 the brand began to achieve significant sales increases, a trend which has continued to accelerate in early 2005. This strength has also favorably impacted the abercrombie kids business. Looking ahead, we are excited about the opening of our two over 20,000 square foot Abercrombie & Fitch flagship stores in 2005 in the two key markets in the United States, in Manhattan on the corner of Fifth Avenue and 56th Street and the other at The Grove at Farmer's Market in Los Angeles. We expect these stores to generate exceptional sales levels and at the same time further solidify the Abercrombie & Fitch brand as an icon of casual American luxury.

We launched RUEHL, our newest brand, with four stores opening in the fall of 2004 targeting the 22-35 year-old customer. The brand identifies itself with a Greenwich Village heritage and offers our first leather goods as well as designer denim and casual apparel with sophisticated fabrications. The in-store experience embodies luxury and mystery, while reflecting the feel of a classically inspired modern residence. We are building a very strong design and merchandising team and I am confident that RUEHL will become an important contributor to the company.

During fiscal 2004 we decided to expand our business internationally. To support this expansion, the company has established a European subsidiary in preparation for the rollout of Abercrombie & Fitch stores in Europe planned for 2006. In addition, we are preparing for the launch of both Abercrombie & Fitch and Hollister in Canada during 2005. While our initial steps into the global marketplace will be more focused when compared to our domestic rollout, we are optimistic about the prospects for this business given the high level of recognition our brands have throughout the world.

I believe that we are on track for another successful year in fiscal 2005. I am confident that we are achieving the necessary balance between long-term investment and shorter-term financial objectives and I believe this approach will bring us many more years of profitable growth and success.



Michael S. Jeffries

Chairman and Chief Executive Officer





Abercrombie & Fitch

FINANCIAL SUMMARY

(Thousands except per share and per square foot amounts, ratios and store and associate data)

Fiscal Year	2004	2003	2002	2001	2000*
Summary of Operations					
Net Sales	\$2,021,253	\$1,707,810	\$1,595,757	\$1,364,853	\$1,237,604
Gross Income	\$ 909,793	\$ 716,944	\$ 655,747	\$ 554,580	\$ 507,241
Operating Income	\$ 347,635	\$ 331,180	\$ 312,315	\$ 268,004	\$ 251,518
Operating Income as a Percentage of Net Sales	17.2%	19.4%	19.6%	19.6%	20.3%
Net Income	\$ 216,376	\$ 204,830	\$ 194,754	\$ 166,600	\$ 156,853
Net Income as a Percentage of Net Sales	10.7%	12.0%	12.2%	12.2%	12.7%
Dividends Paid per Share	\$ 0.50	—	—	—	—
Per Weighted Average Share Results					
Net Income per Basic Share	\$ 2.33	\$ 2.12	\$ 1.98	\$ 1.68	\$ 1.57
Net Income per Diluted Share	\$ 2.28	\$ 2.06	\$ 1.94	\$ 1.62	\$ 1.54
Weighted Average Diluted Shares Outstanding	95,110	99,580	100,631	102,524	102,156
Other Financial Information					
Total Assets	\$1,347,701	\$1,383,229	\$1,173,074	\$ 916,485	\$ 692,555
Return on Average Assets	16%	16%	19%	21%	26%
Capital Expenditures	\$ 185,065	\$ 159,777	\$ 145,662	\$ 171,673	\$ 194,604
Long-Term Debt	—	—	—	—	—
Shareholders' Equity	\$ 669,326	\$ 857,765	\$ 736,307	\$ 582,395	\$ 411,733
Return on Average Shareholders' Equity	28%	26%	30%	34%	44%
Comparable Store Sales**	2%	(9%)	(5%)	(9%)	(7%)
Retail Sales per Average Gross Square Foot	\$ 360	\$ 345	\$ 379	\$ 401	\$ 474
Stores and Associates at End of Year					
Total Number of Stores Open	788	700	597	491	354
Gross Square Feet	5,590,000	5,016,000	4,358,000	3,673,000	2,849,000
Average Number of Associates	48,500	30,200	22,000	16,700	13,900

* Fifty-three week fiscal year.

** A store is included in comparable store sales when it has been open at least one year and its square footage has not been expanded or reduced by more than 20%.

MANAGEMENT’S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS During the 2004 fiscal year, the Company made solid progress in executing its strategic priority to build and maintain the aspirational positioning of its brands. An integral part of this strategy was to reduce the overall level of promotions to emphasize the superior quality of its brands. In addition, the Company increased its spending in its retail stores to improve the overall customer experience and reduce the level of shrink.

The Company had net sales of \$2.021 billion in fiscal 2004, up 18.3% versus net sales in the fiscal 2003 period. Net income was \$216.4 million in fiscal 2004, up 5.7% versus the 2003 fiscal year. Operating income for the 2004 fiscal year increased 5.0% to \$347.6 million from \$331.2 million for the 2003 fiscal year. Operating income included a \$40.9 million accrual for the expected settlement of three related class action employment discrimination lawsuits. Net income per weighted-average diluted share was \$2.28 for the 2004 fiscal year compared to \$2.06 in the 2003 fiscal year, an increase of 10.7%.

The Company generated cash from operations of \$426.1 million in fiscal 2004 versus \$342.5 million in fiscal 2003 resulting primarily from strong earnings coupled with disciplined inventory management. The Company used cash from operations to finance its growth strategy, opening 84 Hollister stores, 16 Abercrombie & Fitch stores, 9 abercrombie stores and 4 RUEHL stores, and remodeling 14 Abercrombie & Fitch stores.

Further, the Company used excess cash to repurchase 11.2 million shares of common stock for \$434.7 million and pay dividends of \$0.50 per share. Cash distributions to shareholders will continue to be an important way to deliver shareholder value, but the Company’s first priority will be to invest in the business to support its domestic and international growth plans. Further, the Company is committed to maintaining sufficient cash on the balance sheet to support the needs of the business and withstand unanticipated business volatility. Therefore, the Company plans to retain approximately \$300 to \$350 million of cash and marketable securities, subject to a variety of factors including inventory purchases and the timing of certain payments.

The following data represent the Company’s consolidated statements of income for the last three fiscal years, expressed as a percentage of net sales:

	2004	2003	2002
Net Sales	100.0%	100.0%	100.0%
Cost of Goods Sold, Occupancy and Buying Costs	55.0	58.0	58.9
Gross Income	45.0	42.0	41.1
General, Administrative and Store Operating Expenses	27.8 ⁽¹⁾	22.6	21.5
Operating Income	17.2	19.4	19.6
Interest Income, Net	(0.3)	(0.2)	(0.2)
Income Before Income Taxes	17.5	19.6	19.8
Provision for Income Taxes	6.8	7.6	7.6
Net Income	10.7	12.0	12.2

(1) Includes 2.0% related to the settlement of the class action diversity lawsuits.

FINANCIAL SUMMARY The following summarized operational data compares fiscal 2004 to fiscal 2003 and fiscal 2002:

				% Change	
	2004	2003	2002	2003-2004	2002-2003
Net sales (thousands)	\$2,021,253	\$1,707,810	\$1,595,757	18%	7%
Net sales by brand					
Abercrombie & Fitch	\$1,210,222	\$1,180,646	\$1,238,498	3%	(5)%
abercrombie	\$ 227,204	\$ 212,276	\$ 207,537	7%	2%
Hollister	\$ 579,687	\$ 314,888	\$ 149,722	84%	110%
RUEHL*	\$ 4,140	—	—	—	—
Increase (decrease) in comparable store sales					
Abercrombie & Fitch	(1)%	(11)%	(6)%		
abercrombie	1%	(6)%	(4)%		
Hollister	13%	7%	10%		
Retail sales increase attributable to new and remodeled stores, magazine, catalogue and web sites	16%	16%	22%		
Retail sales per average gross square foot					
Abercrombie & Fitch	\$ 352	\$ 358	\$ 407	(2)%	(12)%
abercrombie	\$ 282	\$ 270	\$ 286	4%	(6)%
Hollister	\$ 423	\$ 404	\$ 385	5%	5%
RUEHL*	\$ 136	—	—	—	—
Retail sales per average store (thousands)					
Abercrombie & Fitch	\$ 3,103	\$ 3,184	\$ 3,652	(3)%	(13)%
abercrombie	\$ 1,241	\$ 1,194	\$ 1,271	4%	(6)%
Hollister	\$ 2,740	\$ 2,594	\$ 2,450	6%	6%
RUEHL*	\$ 1,255	—	—	—	—
Sales statistics per average store					
Number of transactions					
Abercrombie & Fitch	45,941	51,234	59,832	(10)%	(14)%
abercrombie	21,740	22,128	23,210	(2)%	(5)%
Hollister	56,687	57,593	58,648	(2)%	(2)%
RUEHL*	12,913	—	—	—	—
Average transaction value					
Abercrombie & Fitch	\$ 67.54	\$ 62.15	\$ 61.04	9%	2%
abercrombie	\$ 57.10	\$ 53.98	\$ 54.77	6%	(1)%
Hollister	\$ 48.33	\$ 45.04	\$ 41.78	7%	8%
RUEHL*	\$ 97.16	—	—	—	—
Units per transaction					
Abercrombie & Fitch	2.22	2.24	2.22	(1)%	1%
abercrombie	2.68	2.68	2.70	—	(1)%
Hollister	2.18	2.14	2.00	2%	7%
RUEHL*	2.17	—	—	—	—
Average unit value					
Abercrombie & Fitch	\$ 30.42	\$ 27.75	\$ 27.50	10%	1%
abercrombie	\$ 21.31	\$ 20.14	\$ 20.29	6%	(1)%
Hollister	\$ 22.17	\$ 21.05	\$ 20.89	5%	1%
RUEHL*	\$ 44.77	—	—	—	—

* Net sales for RUEHL, and the related statistics, reflect the activity of three stores opened in September 2004 and one store opened in December 2004.

FISCAL 2004 COMPARED TO FISCAL 2003: CURRENT TRENDS AND OUTLOOK The Company’s focus is on building, maintaining and managing the aspirational positioning of its brands. Management believes that this strategy will allow the Company to maintain high margins over the long-term while driving the Company’s growth in sales and profits through the development of new brands. Management expects Hollister to be a significant growth vehicle for the Company domestically, while it continues to differentiate the Abercrombie & Fitch brand from the competition by emphasizing high-quality and fashion content. Management believes that Abercrombie & Fitch’s success will continue to favorably impact abercrombie’s business. While the Company is encouraged by the results of the RUEHL launch, the brand is still in its early development and as such the Company expects RUEHL to sustain operating losses in 2005 and 2006.

In order to achieve and, thereafter, maintain the aspirational positioning of the brands, the Company will continue to manage its expenditures to maintain and enhance the current store base and complement the new stores being opened. The Company will also continue its store investment program to focus on improving the customer’s in-store experience through enhanced customer service and improved merchandise presentation. Further, the Company expects to invest in higher inventories to ensure in-stock size and color assortments. While these initiatives will increase the Company’s selling costs, management believes the enhanced aspirational image of the Company’s brands and improved customer service will have a positive impact on the Company’s sales and profit performance.

The Company is planning to open up to five stores in Canada during fiscal 2005. Further, in February 2005, the Company established two European subsidiaries that are expected to begin opening stores in Europe by 2006.

FOURTH QUARTER 2004: NET SALES Net sales for the fourth quarter of the 2004 fiscal year were \$687.3 million, up 22.6% versus last year’s fourth quarter net sales of \$560.4 million. The net sales increase was attributable to the net addition of 88 stores during the 2004 fiscal year, a comparable store sales increase of 9% for the quarter and an increase in the direct-to-consumer business net sales of \$11.1 million versus the comparable period in the 2003 fiscal year.

By merchandise brand, comparable store sales for the quarter were as follows: Abercrombie & Fitch increased 4% with men’s comparable store sales increasing by a high-single digit percentage and women’s increasing by a low-single digit percentage. abercrombie, the kids’ business, achieved a 16% increase in comparable store sales with girls attaining a high-teen positive increase and boys

increasing by a low double-digit percentage. In Hollister, comparable store sales increased by 19% for the fourth quarter with guys posting a high-teen increase and girls realizing an increase in the low-twenties.

On a regional basis, comparable store sales results across all three brands were strongest along the East Coast and in the West and weakest in the Midwest. However, all regions reported positive comparable store sales for the quarter. Stores located in New York City metropolitan area, Florida, Philadelphia metropolitan area and Southern California had the best comparable store sales performance.

The Company committed to a more aspirational and less promotional strategy in early 2004 which it maintained throughout the year. As such, the Company did not anniversary the direct mail promotions used during the fourth quarter of the 2003 fiscal year to drive business between Thanksgiving and Christmas.

In Abercrombie & Fitch, the men’s comparable store sales increase for the quarter was driven by strong performances in graphic tees, denim, and woven shirts. Women’s comparable store sales growth was driven by an increase in polos, denim and fleece, offset by a decrease in sweaters.

In the kid’s business, for the quarter, girls had comparable store sales increases across most of the categories, especially polos, denim and graphic tees. Boys’ comparable store sales increase was driven by graphic tees, denim and fleece.

In Hollister, girls achieved a slightly higher comparable store sales increase than guys. In girls, polos, denim and fleece had strong comparable store sales increases. The increase in the guys’ comparable store sales was the result of a strong performance in graphic tees, denim and woven shirts categories for the quarter.

The impact of the four RUEHL stores was immaterial to the Company’s total net sales for the fourth quarter of the 2004 fiscal year.

Direct-to-consumer merchandise net sales, which are sold through the Company’s web sites and catalogue, in the fourth quarter of the 2004 fiscal year, were \$40.1 million, an increase of 29.4% versus last year’s fourth quarter net sales of \$31.0 million. Shipping and handling revenue for the corresponding periods was \$5.5 million in 2004 and \$3.5 million in 2003. The direct-to-consumer business, including shipping and handling revenue, accounted for 6.6% of net sales in the fourth quarter of fiscal 2004 compared to 6.2% in the fourth quarter of fiscal 2003.

GROSS INCOME The Company’s gross income may not be comparable to those of other retailers since all significant costs related to the Company’s distribution network, excluding direct shipping costs related to direct-to-consumer sales, are included in general, administrative and store operating expenses (see “General,

Administrative and Store Operating Expenses” section below).

Gross income during the fourth quarter of the 2004 fiscal year was \$336.6 million compared to \$261.5 million in the 2003 fiscal year. The gross income rate (gross income divided by net sales) for the fourth quarter of the 2004 fiscal year was 49.0%, up 230 basis points from last year’s rate of 46.7%. The increase in gross income rate resulted largely from lower markdowns and an increase in initial markup (IMU) during the fourth quarter of fiscal 2004 versus fourth quarter of fiscal 2003, partially offset by the lower margin of RUEHL. The improvement in IMU during the fourth quarter was a result of higher unit retail pricing in Abercrombie & Fitch, abercrombie and Hollister. The three brands had IMU improvements compared to the fourth quarter of 2003 and operated at similar margins.

The Company ended the fourth quarter of the 2004 fiscal year with inventories, at cost, up 11% per gross square foot versus the fourth quarter of the 2003 fiscal year. The inventory increase reflected a planned shift in the timing of Spring and denim merchandise deliveries.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES General, administrative and store operating expenses during fourth quarter of the 2004 fiscal year were \$166.4 million compared to \$106.7 million during the same period in 2003. During the fourth quarter of the 2004 fiscal year, the general, administrative and store operating expense rate (general, administrative and store operating expenses divided by net sales) was 24.2% compared to 19.0% in the fourth quarter of the 2003 fiscal year. The increase in the percentage of net sales versus the 2003 comparable period was primarily related to the following: higher store expenses due to an increase in aggregate payroll which represented 250 basis points of the increase and higher incentive compensation bonus accruals resulting from improved financial performance, which represented 160 basis points of the increase. Wage levels, in Abercrombie & Fitch, abercrombie and Hollister, decreased compared to the fourth quarter of 2003. The decrease in wage levels was due to an increase in part-time hours in order to provide better customer service at the stores which resulted in a higher proportion of part-time employees at lower rates of pay than the comparable period last year.

The distribution center continued to achieve record levels of productivity during the fourth quarter of the 2004 fiscal year. Productivity, as measured in units processed per labor hour, was 10% higher than the fourth quarter of the 2003 fiscal year. Costs related to the distribution center, excluding direct shipping costs related to the direct-to-consumer sales, included in general, administrative and store operating expenses were \$6.1 million for the fourth quarter of

the 2004 fiscal year compared to \$5.5 million for the fourth quarter of the 2003 fiscal year.

OPERATING INCOME Operating income during the fourth quarter of the 2004 fiscal year increased to \$170.2 million from \$154.8 million in the 2003 fiscal year fourth quarter, an increase of 10.0%. The operating income rate (operating income divided by net sales) was 24.8% for the fourth quarter of the 2004 fiscal year compared to 27.6% for the fourth quarter of the 2003 fiscal year. The decrease in the operating income rate during the fourth quarter of fiscal 2004 was a result of higher general, administrative and store operating expenses during the quarter, partially offset by higher gross income resulting from higher unit retail pricing in Abercrombie & Fitch, abercrombie and Hollister.

INTEREST INCOME AND INCOME TAXES Fourth quarter net interest income was \$1.3 million in fiscal 2004 compared to \$1.1 million during the comparable period in fiscal 2003. The increase in net interest income was due to higher rates during the fourth quarter of the 2004 fiscal year when compared to the same period in the prior year. The Company continued to invest in tax-free securities for the majority of the quarter and then changed its investing strategy to taxable money market investments. The effective tax rate for the fourth quarter was 39.2% compared to 39.3% for the 2003 comparable period.

NET INCOME AND NET INCOME PER SHARE Net income for the fourth quarter of the 2004 fiscal year was \$104.3 million versus \$94.6 million for the fourth quarter of fiscal 2003, an increase of 10.3%. The increase in net income was the result of higher net sales and higher gross income partially offset by increased spending in general, administrative and store operating expenses.

Net income per weighted-average diluted share outstanding for the fourth quarter of fiscal 2004 was \$1.15 versus \$0.97 for the same period last year, an increase of 18.6%. Net income per share increased by more than net income as a result of the Company’s share repurchase program. In the fourth quarter of the 2004 fiscal year the Company had weighted-average basic shares outstanding of 87.6 million versus 96.1 million in the fourth quarter of 2003.

FISCAL 2004 RESULTS: NET SALES Net sales for the 2004 fiscal year were \$2.021 billion, an increase of 18.3% versus the 2003 fiscal year net sales of \$1.708 billion. The net sales increase was attributable to the net addition of 88 stores during the 2004 fiscal year, an increase in comparable stores sales of 2% for the year and an increase in the direct-to-consumer business net sales of \$35.6 million versus the 2003 fiscal year.

For the fiscal year, comparable store sales by brand were the

following: Abercrombie & Fitch declined 1%; abercrombie increased 1%; Hollister increased 13%; and the women’s and girls’ businesses in each brand continued to be more significant than the men’s and boys’. During the 2004 fiscal year, womens and girls represented over 60% of the net sales for each of the brands. Hollister girls achieved a mid-teen increase and abercrombie girls posted a mid-single digit increase in comparable store sales for the 2004 fiscal year, while Abercrombie & Fitch women’s had a low-single digit decrease.

For the 2004 fiscal year, sales per square foot in Hollister stores were approximately 135% of the sales per square foot of Abercrombie & Fitch stores in the same malls compared to 113% for the 2003 fiscal year.

Direct-to-consumer merchandise net sales for the 2004 fiscal year were \$110.6 million, an increase of 37.6% versus last year’s net sales of \$80.4 million for the comparable period. Shipping and handling revenue was \$15.7 million in fiscal 2004 and \$10.2 million in fiscal 2003. The direct-to-consumer business, including shipping and handling revenue, accounted for 6.2% of net sales compared to 5.3% of net sales for the 2004 and 2003 fiscal years, respectively.

The impact of the four RUEHL stores opened during the fall of fiscal 2004 was immaterial to the Company’s total net sales for the 2004 fiscal year.

GROSS INCOME The Company’s gross income may not be comparable to those of other retailers since all significant costs related to the Company’s distribution network, excluding direct shipping costs related to the direct-to-consumer sales, are included in general, administrative and store operating expenses (see “General, Administrative and Store Operating Expenses” section below).

For the 2004 fiscal year, gross income increased to \$909.8 million from \$716.9 million in the 2003 fiscal year. The gross income rate in the 2004 fiscal year was 45.0% versus 42.0% in the 2003 fiscal year. The increase was driven by improvements in IMU across all three brands due to higher average unit retail pricing, especially in Abercrombie & Fitch.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES Full year general, administrative and store operating expenses were \$562.2 million in the 2004 fiscal year versus \$385.8 million in the 2003 fiscal year. The general, administrative and store operating expense rate in 2004 was 27.8% versus 22.6% in 2003. The increased rate during the 2004 fiscal year period was primarily due to higher home office and store expenses. Home office expenses increased largely due to the accrual for the settlement of three related class action employment discrimination lawsuits which represented 200 basis points and higher incentive compen-

sation accruals resulting from improved financial performance during the year which represented 90 basis points. Store expenses increased due to an increase in aggregate payroll which represented 150 basis points. Wage levels in Abercrombie & Fitch, abercrombie and Hollister decreased in fiscal 2004 compared to fiscal 2003. The decrease in wage levels was due to an increase in part-time hours in order to provide better customer service at the stores which resulted in a higher proportion of part-time employees at lower rates of pay than last year.

Productivity at the distribution center, as measured in units processed per labor hour, was 10% higher during the 2004 fiscal year than during the 2003 fiscal year. Costs related to the distribution center, excluding direct shipping costs related to the direct-to-consumer sales, included in general, administrative and store operating expenses were \$20.3 million and \$19.3 million for the 2004 and 2003 fiscal years, respectively.

OPERATING INCOME For the 2004 fiscal year, operating income was \$347.6 million compared to \$331.2 million for the 2003 fiscal year, an increase of 5.0%. The operating income rate for the 2004 fiscal year was 17.2% versus 19.4% in the 2003 fiscal year. The decline was primarily due to the accrual for the settlement of three related class action employment discrimination lawsuits and higher payroll expense at both the home office and stores. The decline was partially offset by sales increases, due to the increase in comparable store sales and new stores, higher gross margin and increases in average unit retail pricing in Abercrombie & Fitch, abercrombie and Hollister.

INTEREST INCOME AND INCOME TAXES Net interest income for the 2004 fiscal year was \$5.2 million compared to \$3.7 million for the 2003 fiscal year. The increase in net interest income was due to an increase in rates and average cash balances for the 2004 fiscal year when compared to the 2003 fiscal year. Beginning in January 2005, the Company began investing in taxable money market investments; prior thereto, the Company invested in tax-free securities. The effective tax rate for the 2004 fiscal year was 38.7% compared to 38.8% for the 2003 fiscal year.

NET INCOME AND NET INCOME PER SHARE Net income for the 2004 fiscal year was \$216.4 million versus \$204.8 million for the 2003 fiscal year, an increase of 5.6%. Net income for 2004 included the after-tax impact of the settlement of three class action employment discrimination lawsuits of \$25.1 million.

Net income per weighted-average diluted share was \$2.28 in the fiscal 2004 year versus \$2.06 in the fiscal 2003 year, an increase of 10.7%. The increase in net income per diluted share outstanding

versus net income was due to the Company’s share repurchase program in fiscal 2004. The Company repurchased 11.2 million shares in fiscal 2004 versus 4.4 million shares in fiscal 2003.

FISCAL 2003 COMPARED TO FISCAL 2002 : FOURTH QUARTER 2003: NET SALES Net sales for the fourth quarter of the 2003 fiscal year were \$560.4 million, up 4.8% versus 2002 fourth quarter net sales of \$534.5 million. The net sales increase was attributable to the net addition of 103 stores and an increase in the direct-to-consumer business net sales of \$8.2 million versus the comparable period in the 2002 fiscal year, offset by an 11% decrease in comparable store sales during the quarter.

By merchandise brand, comparable store sales for the quarter were as follows: Abercrombie & Fitch’s comparable store sales declined 14% with mens declining in the low twenties and womens declining by a high-single digit percentage. In abercrombie, comparable store sales decreased 7% with girls achieving a low-single digit positive increase and boys declining in the low twenties. In Hollister, comparable store sales were flat when compared to fiscal 2002 for the quarter. Hollister girls comparable store sales were a positive low-single digit for the fourth quarter, while guys were a negative mid-single digit.

On a regional basis, comparable store sales results across all three brands were strongest along the East Coast and in the West and weakest in the Midwest. Stores located in Florida, Southern California and the New York metropolitan area had the best comparable store sales performance.

From a promotional standpoint, the Company used direct mail promotions during the fourth quarter of the 2003 fiscal year to drive business between Thanksgiving and Christmas, but did not anniversary the 2002 fourth quarter issuance of a bounce-back coupon. Also, the Company did not repeat a 15%-off bag stuffer coupon that impacted late December and January business in fiscal 2002. Overall, the Company sought to have a less promotional look to the stores in the 2003 fiscal year.

From a merchandising standpoint, womens continued to outperform mens. In Abercrombie & Fitch, womens had strong comparable store sales increases in the fourth quarter in knits, fleece and skirts. Weak classifications included woven shirts and outerwear. The mens business continued to be difficult. However, graphic tees and woven shirts were classifications that had comparable store sales increases while the sweater and outerwear classifications had significant decreases.

In the kids’ business, for the quarter, knits, sweats and pants had strong comparable store sales increases in girls, which were somewhat offset by weak business in sweaters, shirts, outerwear and gymwear. Boys graphic tees, woven shirts and accessories had

comparable store sales increases, but these increases were not sufficient to offset other weaker performing classifications.

In Hollister, girls also achieved stronger comparable store sales than guys. In girls, sweats, skirts, pants and denim had significant comparable store sales increases during the quarter, while the sweater and outerwear classifications declined. In guys, woven shirts, denim and sweats had positive comparable store sales increases. However, the sweater, knit tops and outerwear classifications had significant declines.

Direct-to-consumer merchandise net sales through the Company’s web sites, the A&F Quarterly (a catalogue/magazine) and catalogue for the fourth quarter of the 2003 fiscal year were \$31.0 million, an increase of 28.6% versus last year’s fourth quarter net sales of \$24.1 million. The Company added a Hollister e-commerce business during Back-to-School 2003. Shipping and handling revenue for the corresponding periods was \$3.5 million in 2003 and \$2.2 million in 2002. The direct-to-consumer business, including shipping and handling revenue, accounted for 6.2% of net sales in the fourth quarter of the 2003 fiscal year compared to 4.9% in the fourth quarter of fiscal 2002.

GROSS INCOME The Company’s gross income may not be comparable to those of other retailers since all significant costs related to the Company’s distribution network, excluding direct shipping costs related to the direct-to-consumer sales, are included in general, administrative and store operating expenses (see “General, Administrative and Store Operating Expenses” section below).

Gross income for the fourth quarter of the 2003 fiscal year was \$261.5 million compared to \$244.2 million in the 2002 fiscal year. The gross income rate for the fourth quarter of the 2003 fiscal year was 46.7%, up 100 basis points from the 2002 rate of 45.7%. The increase in gross income rate resulted largely from an increase in IMU, partially offset by a higher markdown rate and an increase in buying and occupancy costs, as a percent of net sales.

Continued progress in sourcing efficiency was an important factor in improving IMU and profit. The Company continued to make progress increasing IMU in the Hollister and abercrombie business, where IMU improved over 400 basis points versus the fourth quarter of the 2002 fiscal year for both concepts. All three concepts operated at very similar margins, both in IMU and merchandise margin.

The increase in buying and occupancy costs, as a percent of net sales, reflected the inability to leverage fixed costs, such as rent, depreciation and other real estate related charges, with a comparable stores sales decrease. The markdown rate, as a percentage of net sales, exceeded fiscal 2002’s fourth quarter due to the weaker than expected pre-Christmas business resulting in aggressive markdowns in the back half of January.

The Company conservatively managed its inventory and despite negative comparable store sales ended the fourth quarter of the 2003 fiscal year with inventories, at cost, up 3% per gross square foot versus the fourth quarter of the 2002 fiscal year.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES General, administrative and store operating expenses during fourth quarter of the 2003 fiscal year were \$106.7 million compared to \$93.4 million during the same period in the 2002 fiscal year. The fourth quarter of the 2003 fiscal year general, administrative and store operating expense rate was 19.0% compared to 17.5% in the fourth quarter of the 2002 fiscal year. The increase in rate versus the 2002 fiscal year reflects a loss of leverage due to the double-digit drop in comparable store sales partially offset by lower bonuses and efficiencies in store operations, distribution center operations and the direct-to-consumer business.

During the fourth quarter of the 2003 fiscal year, store payroll hours were reduced by 2% per average Abercrombie & Fitch adult store and wages, in all three concepts, were held relatively flat. Store hours were managed on a weekly basis in order to match hours with sales volume. Overall, store expenses grew at approximately the same rate as the Company’s square footage growth during the fourth quarter.

The distribution center achieved record level productivity during the fourth quarter of the 2003 fiscal year. Productivity, as measured in units processed per labor hour, was 18% higher than the fourth quarter of the 2002 fiscal year. This increase was on top of a 39% increase in the fourth quarter of fiscal 2002 and a 50% increase in the fourth quarter of fiscal 2001.

Costs related to the distribution center, excluding direct shipping costs related to the direct-to-consumer sales, included in general, administrative and store operating expenses were \$5.5 million for the fourth quarter of the 2003 fiscal year compared to \$4.9 million for the fourth quarter of the 2002 fiscal year.

OPERATING INCOME Operating income for the fourth quarter of the 2003 fiscal year increased to \$154.8 million from \$150.8 million in the 2002 fiscal year fourth quarter. The operating income rate was 27.6% for the fourth quarter of the 2003 fiscal year compared to 28.2% for the fourth quarter of the 2002 fiscal year. Higher general, administrative and store operating expenses, expressed as a percentage of net sales, reduced the operating income rate in the fiscal 2003 fourth quarter. This decline was partially offset by higher merchandise margins during the quarter.

INTEREST INCOME AND INCOME TAXES Fourth quarter net interest income for the 2003 fiscal year was \$1.1 million compared with net interest income of \$1.3 million for the comparable period in

the 2002 fiscal year. The decline in the 2003 fiscal year fourth quarter net interest income was due to lower interest rates. The Company continued to invest in tax-free securities. The effective tax rate for the fourth quarter was 39.3% compared to 38.5% for the 2002 comparable period.

NET INCOME AND NET INCOME PER SHARE Net income for the fourth quarter of the 2003 fiscal year was \$94.6 million versus \$93.5 million for the same period in fiscal 2002, an increase of 1.2%. The increase in net income was the result of higher net sales and higher gross income partially offset by increased spending in general, administrative and store operating expenses.

Net income per weighted-average diluted share outstanding for the fourth quarter of fiscal 2003 was \$0.97 versus \$0.94 for the fourth quarter of fiscal 2002, an increase of 3.2%. Net income per share increased by more than net income as a result of the Company’s share repurchase program. In the fourth quarter of the 2003 fiscal year the Company had weighted-average basic shares outstanding of 96.1 million versus 97.2 million in the fourth quarter of 2002.

FISCAL 2003: NET SALES Net sales for the 2003 fiscal year reached \$1.708 billion, an increase of 7.0% versus the 2002 fiscal year net sales of \$1.596 billion. The net sales increase was attributable to the net addition of 103 stores and an increase in the direct-to-consumer business net sales of \$16.9 million versus the 2002 fiscal year, offset by a 9% decrease in comparable store sales for the year.

By merchandise concept, comparable store sales for the 2003 fiscal year were as follows: Abercrombie & Fitch’s declined 11% with mens declining in the low twenties and womens declining by mid-single digits. abercrombie comparable store sales declined 6% with girls achieving a mid-single digit increase and boys posting a high-teen decrease. Overall, the women’s and girls’ businesses continued to increase in share of the total business and accounted for approximately 63% of the adult’s and kids’ businesses in the 2003 fiscal year. Hollister comparable store sales for the 2003 fiscal year increased 7%, with girls achieving a low double-digits increase and guys a slight decrease.

During the year, Hollister continued to gain in productivity relative to Abercrombie & Fitch. For the 2003 fiscal year, sales per square foot in Hollister stores were approximately 113% of the sales per square foot of Abercrombie & Fitch stores in the same malls compared to 86% for the 2002 fiscal year.

Direct-to-consumer merchandise net sales through the Company’s web sites, the A&F Quarterly and catalogue for the 2003 fiscal year were \$80.4 million, an increase of 22.0% versus net sales of \$65.9 million for the comparable period in fiscal 2002. The Company added a Hollister direct-to-consumer business during

Back-to-School 2003. Shipping and handling revenue for the corresponding periods was \$10.2 million in 2003 and \$7.8 million in 2002. The direct-to-consumer business, including shipping and handling revenue, accounted for 5.3% of net sales compared to 4.6% for the 2003 and 2002 fiscal years, respectively.

GROSS INCOME The Company’s gross income may not be comparable to those of other retailers since all significant costs related to the Company’s distribution network, excluding direct shipping costs related to the direct-to-consumer sales, are included in general, administrative and store operating expenses (see “General, Administrative and Store Operating Expenses” section below).

For the 2003 fiscal year, gross income increased to \$716.9 million from \$655.7 million in the 2002 fiscal year. The gross income rate in the 2003 fiscal year was 42.0% versus 41.1% in the 2002 fiscal year. The increase was driven by improvements in IMU that were partially offset by increased buying and occupancy costs as a percentage of net sales.

Buying and occupancy costs increased versus fiscal 2002, as a percentage of net sales, due to the inability to leverage fixed expenses with lower sales volume per average store.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES Full year general, administrative and store operating expenses were \$385.8 million in the 2003 fiscal year versus \$343.4 million in the 2002 fiscal year. The general, administrative and store operating expense rate in the 2003 fiscal year was 22.6% versus 21.5% in the 2002 fiscal year. The increased rate in the 2003 fiscal year resulted primarily from a drop in comparable store sales that could not be offset by lower variable expenses per average store. In addition, legal expense increased in the 2003 fiscal year compared to the 2002 fiscal year as the Company reserved expected defense costs for pending litigation. Partially offsetting these costs were improvements in distribution center productivity, reduced expenses per order in the direct-to-consumer business and reduced marketing expenses, as a percentage of net sales, due to savings from fewer direct mail campaigns in the 2003 fiscal year.

Productivity at the distribution center, as measured in units processed per labor hour, was 31% higher during the 2003 fiscal year than during the 2002 fiscal year. Costs related to the distribution center, excluding direct shipping costs related to the direct-to-consumer sales, included in general, administrative and store operating expenses were \$19.3 million in the 2003 fiscal year compared to \$19.9 million in the 2002 fiscal year.

OPERATING INCOME For the 2003 fiscal year, operating income was \$331.2 million compared to \$312.3 million for the 2002 fiscal

year. The operating income rate for the 2003 fiscal year was 19.4% versus 19.6% in the 2002 fiscal year. The decline was attributable to a higher general, administrative and store operating expense rate due to the inability to leverage fixed costs on a comparable store sales decrease. The increased expense rate was partially offset by a gross income rate increase.

INTEREST INCOME AND INCOME TAXES Net interest income for the 2003 fiscal year was \$3.7 million compared to \$3.8 million in the 2002 fiscal year. The decline in the 2003 fiscal year net interest income was due to lower interest rates. The Company continued to invest in tax-free securities. The effective tax rate for the 2003 fiscal year was 38.8% compared to 38.4% for the 2002 fiscal year.

NET INCOME AND NET INCOME PER SHARE Net income for the 2003 fiscal year was \$204.8 million versus \$194.8 million for the 2002 fiscal year, an increase of 5.1%. Net income per weighted-average diluted share was \$2.06 in the fiscal 2003 year versus \$1.94 in the fiscal 2002 year, an increase of 6.2%. The increase in net income per diluted share outstanding versus net income was due to the Company’s repurchase program in fiscal 2003. The Company repurchased 4.4 million shares in fiscal 2003 versus 1.9 million shares in fiscal 2002.

FINANCIAL CONDITION Continued growth in net income resulted in higher cash provided by operating activities. A more detailed discussion of liquidity, capital resources and capital requirements follows.

LIQUIDITY AND CAPITAL RESOURCES The Company believes cash provided by operating activities and cash on hand will provide adequate resources to support operations, including projected growth, seasonal requirements and capital expenditures. Furthermore, the Company expects that cash from operating activities will fund dividends currently being paid at a rate of \$0.125 per quarter. The Board of Directors will review and approve the appropriateness of future dividend amounts. A summary of the Company's working capital (current assets less current liabilities) position and capitalization follows (in thousands):

	2004	2003	2002
Working capital	\$238,412	\$441,583	\$357,585
Capitalization: Shareholders’ equity	\$669,326	\$857,765	\$736,307

The decrease in working capital in fiscal 2004 versus fiscal 2003 was the result of lower cash and marketable securities resulting primarily from the Company’s repurchase of 11.2 million shares of common

stock at a cost of \$434.7 million. The increase in working capital in fiscal 2003 versus fiscal 2002 was the result of higher cash and marketable securities.

The Company considers the following to be measures of liquidity and capital resources:

	2004	2003	2002
Current ratio (current assets divided by current liabilities)	1.58	2.42	2.32
Net cash provided by operating activities (in thousands)	\$426,125	\$342,545	\$345,832

The increase in cash provided by operating activities in the 2004 fiscal year from the 2003 fiscal year was primarily driven by increases in net income, accounts payable and accrued expenses, lessor construction allowances received and income taxes. The increase in accounts payable and accrued expenses was primarily due to the accrual for the settlement of three related class action employment discrimination lawsuits, for rent due to the net addition of 88 stores, representing an increase of 574,000 gross square feet in 2004, and increases in accounts payable for the purchase of merchandise.

The decrease in cash provided by operating activities in the 2003 fiscal year from the 2002 fiscal year was primarily driven by an increase in inventories not offset by commensurate increases in net income, lessor construction allowances, accounts payable and accrued expenses. Inventories increased from the net addition of 103 stores representing an increase of 658,000 gross square feet in 2003. Inventories at fiscal year-end were 3% higher on a per gross square foot basis than at the end of the 2002 fiscal year.

The increase in cash provided by operating activities in the 2002 fiscal year from the 2001 fiscal year was primarily due to increases in lessor construction allowances, accounts payable and accrued expenses, and income taxes payable. Accounts payable increased in the 2002 fiscal year due to both the increased level of inventory and timing of payments. Accrued expenses increased in the 2002 fiscal year primarily due to higher store expenses, consistent with the increase in store openings. The increase in income taxes payable was driven by higher pre-tax income and timing of payments.

The Company’s operations are seasonal in nature and typically peak during the Back-to-School and Holiday selling periods. Accordingly, cash requirements for inventory expenditures are highest during these periods.

Cash outflows during the 2004 fiscal year related to investing activities were primarily for purchase of marketable securities and for capital expenditures related to new stores, the remodeling of existing stores, expenditures in home office, improvements in the distribution center, and information technology expenditures. See

“Capital Expenditures and Lessor Construction Allowances”. Cash inflows from investing activities consisted of proceeds from the sale of marketable securities. As of January 29, 2005, all investments had original maturities of less than 90 days and accordingly were classified as cash equivalents.

Cash outflows during the 2003 fiscal year also related to purchases of marketable securities and capital expenditures related to new stores with approximately \$35 million invested in the completion of the home office expansion, improvements in the distribution center and information technology expenditures for a new point-of-sale system. This system was completely rolled-out to all stores during the third quarter of the 2003 fiscal year. Cash inflows from investing activities consisted of proceeds from the sale of marketable securities. As of January 31, 2004, the Company held \$464.7 million of marketable securities with original maturities of greater than 90 days.

Financing activities during the 2004, 2003 and 2002 fiscal years consisted primarily of the repurchase of 11,150,500 shares, 4,401,000 shares, and 1,850,000 shares, respectively, of A&F’s Class A Common Stock pursuant to previously authorized stock repurchase programs. After the repurchases in 2004, the Company had 1,448,500 shares available to repurchase as of January 29, 2005 of the 6,000,000 shares authorized by the Board of Directors in November 2004. In addition to stock repurchases, financing activities also consisted of stock option exercises, restricted stock issuances and overdrafts. These overdrafts are outstanding checks reclassified from cash to accounts payable.

Effective December 15, 2004, the Company entered into an amended and restated \$250 million syndicated unsecured credit agreement, (the "Amended Credit Agreement") which extended the original agreement, dated November 14, 2002 (the "Original Credit Agreement"). The Amended Credit Agreement will expire on December 15, 2009. The primary purpose of the Amended Credit Agreement is for letters of credit (trade and stand-by) and working capital. The Amended Credit Agreement has several borrowing options, including interest rates that are based on the agent banks “Alternate Base Rate,” or a LIBO rate. The facility fees payable under the Amended Credit Agreement are based on the Company’s ratio (the “leverage ratio”) of the sum of total debt plus 600% of forward minimum rent commitments to consolidated earnings before interest, taxes, depreciation, amortization and rent (“EBITDAR”) for the trailing four-fiscal-quarter period. The facility fees are projected to accrue at .175% on the committed amounts per annum. The remaining terms of the Amended Credit Agreement are similar to the Original Credit Agreement. Additional details regarding the Credit Agreement can be found in the Notes to Consolidated Financial Statements (see Note 8).

Letters of credit totaling approximately \$49.6 million and

\$42.8 million were outstanding under the Credit Agreement at January 29, 2005 and January 31, 2004, respectively. No borrowings were outstanding under the Credit Agreement at January 29, 2005 or January 31, 2004.

The Company has standby letters of credit in the amount of \$4.7 million that are set to expire during the fourth quarter of the 2005 fiscal year. The beneficiary, a merchandise supplier, has the right to draw upon the standby letters of credit if the Company authorizes or files a voluntary petition in bankruptcy. To date, the beneficiary has not drawn upon the standby letters of credit.

OFF-BALANCE SHEET ARRANGEMENTS The Company does not have any off-balance sheet arrangements or debt obligations.

CONTRACTUAL OBLIGATIONS As of January 29, 2005, the Company’s contractual obligations were as follows:

		Payments due by period (thousands):			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations	\$1,256,107	\$164,577	\$323,255	\$282,525	\$485,750
Purchase Obligations	\$ 222,404	\$215,971	\$ 6,433	–	–
Other Obligations	\$ 65,167	\$ 64,372	\$ 795	–	–
Totals	\$1,543,678	\$444,920	\$330,483	\$282,525	\$485,750

The majority of the Company’s contractual obligations are made up of operating leases for its stores (see Note 5 of the Notes to Consolidated Financial Statements). The purchase obligations category represents purchase orders for merchandise to be delivered during Spring 2005 and commitments for fabric to be used during the next several seasons. Other obligations represent preventive maintenance contracts for the 2005 fiscal year and letters of credit outstanding as of January 29, 2005 (see Note 8 of the Notes to Consolidated Financial Statements). The Company expects to fund all of these obligations with cash provided from operations.

STORES AND GROSS SQUARE FEET Store count and gross square footage by brand were as follows:

Number of Stores	January 29, 2005	January 31, 2004
Abercrombie & Fitch	357	357
abercrombie	171	171
Hollister	256	172
RUEHL	4	–
Total	788	700

Gross square feet at period-end (thousands)	January 29, 2005	January 31, 2004
Abercrombie & Fitch	3,138	3,152
abercrombie	752	753
Hollister	1,663	1,111
RUEHL	37	–
Total	5,590	5,016
Average store size at period-end (gross square feet)	January 29, 2005	January 31, 2004
Abercrombie & Fitch	8,790	8,828
abercrombie	4,399	4,401
Hollister	6,495	6,461
RUEHL	9,350	–
Total	7,094	7,165

CAPITAL EXPENDITURES AND LESSOR CONSTRUCTION ALLOWANCES Capital expenditures totaled \$185.1 million, \$159.8 million and \$145.7 million for the 2004, 2003 and 2002 fiscal years, respectively. Additionally, the non-cash accrual for construction in progress decreased \$15.5 million and \$12.7 million in fiscal 2004 and fiscal 2002, respectively, and increased \$18.6 million in fiscal 2003. Capital expenditures in the 2004 fiscal year related primarily to new store construction in addition to approximately \$15.4 million invested in information technology, home office expansion and distribution center projects. Capital expenditures in the 2003 fiscal year related primarily to new store construction with approximately \$35.0 million invested in home office expansion, information technology, including a new point-of-sale system and distribution center projects. Capital expenditures in the 2002 fiscal year related primarily to new store construction with approximately \$20.0 million invested in information technology and distribution center projects.

Lessor construction allowances are an integral part of the decision making process for assessing the viability of new store leases. In making the decision whether to invest in a store location, the Company calculates the estimated future return on its investment based on the cost of construction, less any construction allowances to be received from the landlord. The Company received \$55.0 million, \$60.6 million and \$52.7 million in construction allowances during the 2004, 2003 and 2002 fiscal years, respectively. For accounting purposes, the Company treats construction allowances as a deferred lease credit which is amortized to reduce rent expense on a straight-line basis over the life of the leases in accordance with Statement of Financial Accounting Standards No.13, “Accounting for Leases” and Financial Accounting Standards Board Technical Bulletin No. 88-1, “Issues Relating to Accounting for Leases”.

The Company anticipates spending \$240 million to \$250 million in the 2005 fiscal year for capital expenditures, of which \$205 million

to \$215 million is planned to be for the construction of approximately 87 new stores as well as the remodeling of 25 to 35 existing stores. The balance of the capital expenditures will primarily relate to a new home office building and other miscellaneous home office and distribution center projects.

The Company intends to add approximately 520,000 gross square feet of stores in the 2005 fiscal year, which will represent a 9% increase over year-end 2004. Management anticipates the increase during fiscal 2005 will be due to the net addition of approximately 67 new Hollister stores, 5 RUEHL stores and 5 international stores. Additionally, the Company plans to remodel 25 to 35 Abercrombie & Fitch stores and convert a total of 9 Abercrombie & Fitch and abercrombie stores to 8 Hollister stores and one RUEHL store. In addition the Company plans to open a new 34,000 gross square foot flagship store on the corner of Fifth Avenue and 56th Street in Manhattan, New York and expand its store in The Grove in Los Angeles by approximately 14,000 gross square feet.

The Company estimates that the average cost for leasehold improvements and furniture and fixtures for new Abercrombie & Fitch stores, excluding the above mentioned New York and Los Angeles flagship stores, opened during the 2005 fiscal year will approximate \$618,000 per store, net of construction allowances. In addition, initial inventory purchases for the stores are expected to average approximately \$270,000 per store.

The Company estimates that the average cost for leasehold improvements and furniture and fixtures for new abercrombie stores opened during the 2005 fiscal year will approximate \$581,000, net of construction allowances, per store. In addition, initial inventory purchases are expected to average approximately \$130,000 per store.

The Company estimates that the average cost for leasehold improvements and furniture and fixtures for new Hollister stores opened during the 2005 fiscal year will approximate \$613,000, net of construction allowances, per store. In addition, initial inventory purchases are expected to average approximately \$190,000 per store.

Although the Company opened four RUEHL stores during the 2004 fiscal year, it believes that the costs it has incurred to-date for the stores are not representative of the future average cost of opening a store.

The Company expects that substantially all future capital expenditures will be funded with cash from operations. In addition, the Company has \$250 million available (less outstanding letters of credit) under its Credit Agreement to support operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES The Company’s discussion and analysis of its financial condition and

results of operations are based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

The Company’s significant accounting policies can be found in the Notes to Consolidated Financial Statements (see Note 2 of the Notes to Consolidated Financial Statements). The Company believes that the following policies are most critical to the portrayal of the Company’s financial condition and results of operations.

Revenue Recognition - The Company recognizes retail sales at the time the customer takes possession of the merchandise and purchases are paid for, primarily with either cash or credit card. Catalogue and e-commerce sales are recorded upon customer receipt of merchandise. Amounts relating to shipping and handling billed to customers are classified as revenue and the direct shipping costs are classified as cost of goods sold. Employee discounts are classified as a reduction of revenue. The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable.

The Company accounts for gift cards by recognizing a liability at the time when a gift card is sold. Revenue is recognized when the gift card is redeemed for merchandise. The Company reviews its gift card liability at least annually and adjusts the liability based on historical redemption patterns as required.

Inventory Valuation - Inventories are principally valued at the lower of average cost or market, on a first-in first-out basis, utilizing the retail method. The retail method of inventory valuation is an averaging technique applied to different categories of inventory. At the Company, the averaging is determined at the stock keeping unit (“SKU”) level by averaging all costs for each SKU. An initial markup is applied to inventory at cost in order to establish a cost-to-retail ratio. Permanent markdowns, when taken, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship. The use of the retail method and the recording of markdowns effectively values inventory at the lower of cost or market. The Company further reduces inventory by recording an additional markdown reserve using the retail carrying value of inventory from the season just passed. Markdowns on this carryover inventory represent estimated future anticipated selling price declines.

Additionally, as part of inventory valuation, an inventory shrinkage estimate is made each period that reduces the value of inventory for lost or stolen items. Inherent in the retail method

calculation are certain significant judgments and estimates including, among others, initial markup, markdowns and shrinkage, which could significantly impact the ending inventory valuation at cost as well as the resulting gross margins. Management believes that this inventory valuation method is appropriate since it preserves the cost-to-retail relationship in ending inventory.

Property and Equipment - Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 30 years for buildings, the lesser of 10 years or the life of the lease for leasehold improvements and 3 to 10 years for other property and equipment. Beneficial leaseholds represent the present value of the excess of fair market rent over contractual rent of existing stores at the 1988 purchase of the Abercrombie & Fitch business by The Limited, Inc. (now known as Limited Brands, Inc., “The Limited”) and are being amortized over the lives of the related leases. The cost of assets sold or retired and the related accumulated depreciation or amortizations are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major remodels and improvements that extend service lives of the assets are capitalized. Long-lived assets are reviewed at the store level at least annually for impairment or whenever events or changes in circumstances indicate that full recoverability is questionable. Factors used in the evaluation include, but are not limited to, management's plans for future operations, recent operating results and projected cash flows.

Income Taxes - Income taxes are calculated in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to the Company's operations. Significant examples of this concept include capitalization policies for various tangible and intangible costs, income and expense recognition and inventory valuation methods. No valuation allowance has been provided for deferred tax assets because management believes the full amount of the net deferred tax assets will be realized in the future. The effective tax rate utilized by the Company reflects management's judgment of the expected tax liabilities within the various taxing jurisdictions.

Contingencies - In the normal course of business, the Company must make continuing estimates of potential future legal obligations and liabilities, which requires the use of management's judgment on the outcome of various issues. Management may also use outside legal advice to assist in the estimating process. However, the

ultimate outcome of various legal issues could be different than management estimates, and adjustments may be required.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R ("SFAS 123R"), "Share-Based Payment," a revision of FASB issued Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123R requires an entity to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. See Note 2 of the Notes to Consolidated Financial Statements for the pro forma net income and earnings per share amounts for fiscal 2002 through fiscal 2004, as if the Company had used a fair-value based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock-based compensation awards. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. The Company is still in the process of determining the impact on the results of operations and financial position upon the adoption of SFAS 123R.

IMPACT OF INFLATION The Company's results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, the Company believes that the effects of inflation, if any, on its results of operations and financial condition have been minor.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Form 10-K or made by management involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond its control. Words such as “estimate,” “project,” “plan,” “believe,” “expect,” “anticipate,” “intend,” and similar expressions may identify forward-looking statements. The following factors in some cases have affected and in the future could affect the Company's financial performance and could cause actual results to differ materially from those expressed or implied in any of the forward-looking statements included in this report or otherwise made by management:

- changes in consumer spending patterns and consumer preferences;
- the impact of competition and pricing;
- disruptive weather conditions;

- availability and market prices of key raw materials;
- currency and exchange risks and changes in existing or potential duties, tariffs or quotas;
- availability of suitable store locations on appropriate terms;
- ability to develop new merchandise;
- ability to hire, train and retain associates; and
- the effects of political and economic events and conditions domestically and in foreign jurisdictions in which the Company operates, including, but not limited to, acts of terrorism or war.

Future economic and industry trends that could potentially impact revenue and profitability are difficult to predict. Therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate and the inclusion of such information should not be regarded as a representation by the Company, or any other person, that its objectives will be achieved. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements.

Because forward-looking statements involve risks and uncertainties, the Company cautions that there are important factors, in addition to those listed above, that may cause actual results to differ materially from those contained in the forward-looking statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The Company maintains its cash equivalents in financial instruments with original maturities of 90 days or less. The Company also holds investments in marketable securities, which primarily consist of investment grade auction rate securities classified as available-for-sale. These securities are consistent with the investment objectives contained within the investment policy established by the Company's Board of Directors. The basic objectives are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing net after-tax yield. Despite the long-term maturity of auction rate securities, from the investor's perspective, such securities are priced and subsequently traded as short-term investments because of the interest rate reset feature. Interest rates are reset at predetermined periods ranging from 7 to 49 days. Failed auctions occur rarely. As of January 29, 2005, the Company held no auction rate securities.

The Company does not enter into financial instruments for trading purposes.

As of January 29, 2005, the Company had no long-term debt outstanding. Future borrowings would bear interest at negotiated rates and would be subject to interest rate risk. The Company does not believe that an adverse change in interest rates would have a material affect on the Company's financial condition.

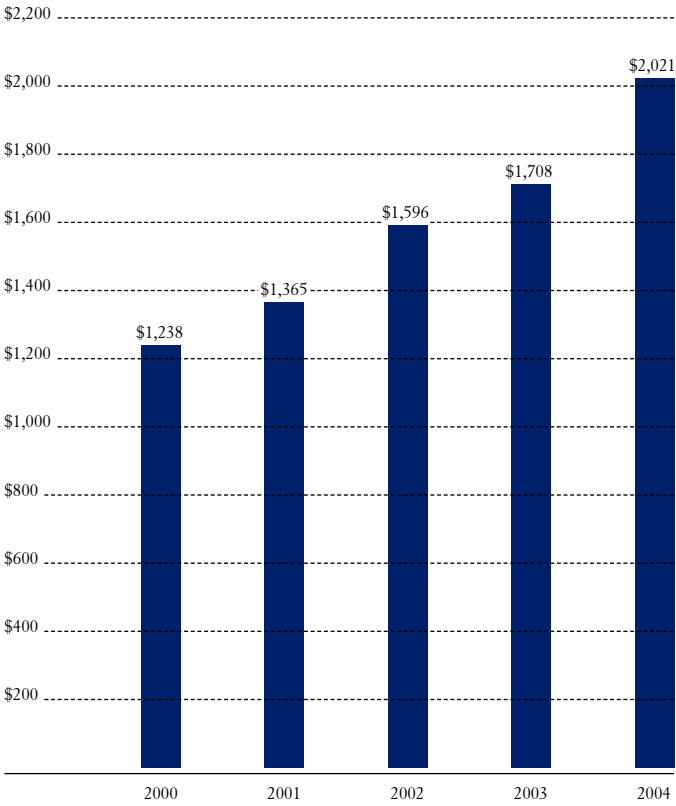
Abercrombie & Fitch

CONSOLIDATED STATEMENTS OF INCOME

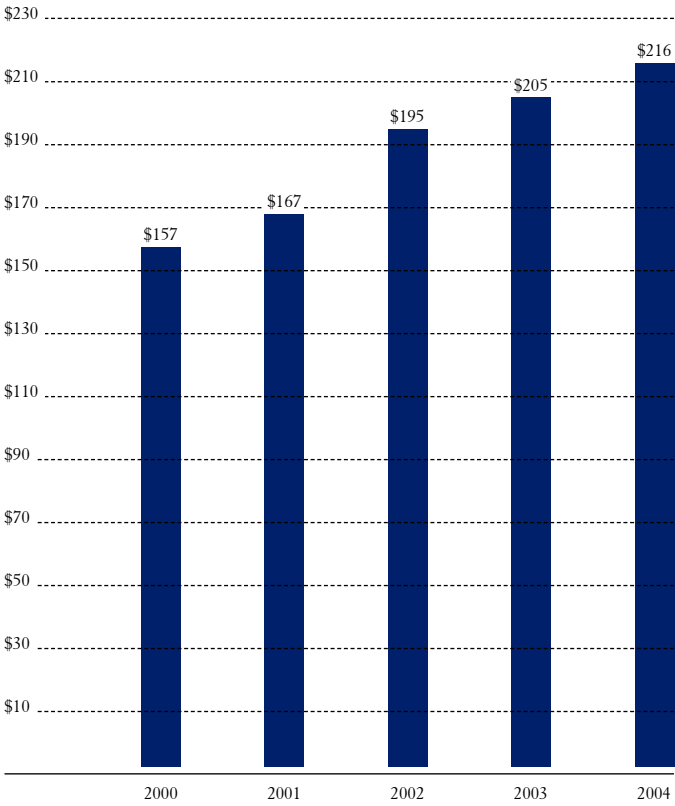
<i>(Thousands except per share amounts)</i>	2004	2003	2002
Net Sales	\$2,021,253	\$1,707,810	\$1,595,757
Cost of Goods Sold, Occupancy and Buying Costs	1,111,460	990,866	940,010
Gross Income	909,793	716,944	655,747
General, Administrative and Store Operating Expenses	562,158	385,764	343,432
Operating Income	347,635	331,180	312,315
Interest Income, Net	(5,218)	(3,708)	(3,768)
Income Before Income Taxes	352,853	334,888	316,083
Provision for Income Taxes	136,477	130,058	121,329
Net Income	\$ 216,376	\$ 204,830	\$ 194,754
Net Income Per Share:			
Basic	\$ 2.33	\$ 2.12	\$ 1.98
Diluted	\$ 2.28	\$ 2.06	\$ 1.94
Weighted-Average Shares Outstanding:			
Basic	92,777	96,833	98,171
Diluted	95,110	99,580	100,631
Dividends Per Share:	\$ 0.50	—	—

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Net Sales (\$ in Millions)



Net Income (\$ in Millions)



Abercrombie & Fitch

CONSOLIDATED BALANCE SHEETS

<i>(Thousands)</i>	January 29, 2005	January 31, 2004
Assets		
Current Assets		
Cash and Equivalents	\$ 350,368	\$ 56,373
Marketable Securities	—	464,700
Receivables	26,127	7,197
Inventories	211,198	170,703
Store Supplies	36,536	29,993
Other	28,048	23,689
Total Current Assets	652,277	752,655
Property and Equipment, Net	687,011	630,022
Other Assets	8,413	552
Total Assets	\$1,347,701	\$1,383,229

Liabilities and Shareholders' Equity

Current Liabilities		
Accounts Payable	\$ 83,760	\$ 58,191
Outstanding Checks	53,577	33,173
Accrued Expenses	234,210	163,389
Deferred Lease Credits	31,135	26,627
Income Taxes Payable	11,183	29,692
Total Current Liabilities	413,865	311,072
Long Term Liabilities		
Deferred Income Taxes	\$ 55,346	\$ 31,236
Deferred Lease Credits	177,923	154,768
Other Liabilities	31,241	28,388
Total Long-Term Liabilities	264,510	214,392

Shareholders' Equity

Class A Common Stock – \$.01 par value: 150,000,000 shares authorized and 103,300,000 shares issued at January 29, 2005 and January 31, 2004, respectively	\$ 1,033	\$ 1,033
Paid-In Capital	140,251	139,139
Retained Earnings	1,076,023	906,085
Treasury Stock, at Average Cost 17,262,943 and 8,692,501 shares at January 29, 2005 and January 31, 2004, respectively	(547,981)	(188,492)
Total Shareholders' Equity	\$ 669,326	\$ 857,765
Total Liabilities and Shareholders' Equity	\$1,347,701	\$1,383,229

The accompanying Notes are an integral part of these Consolidated Financial Statements.

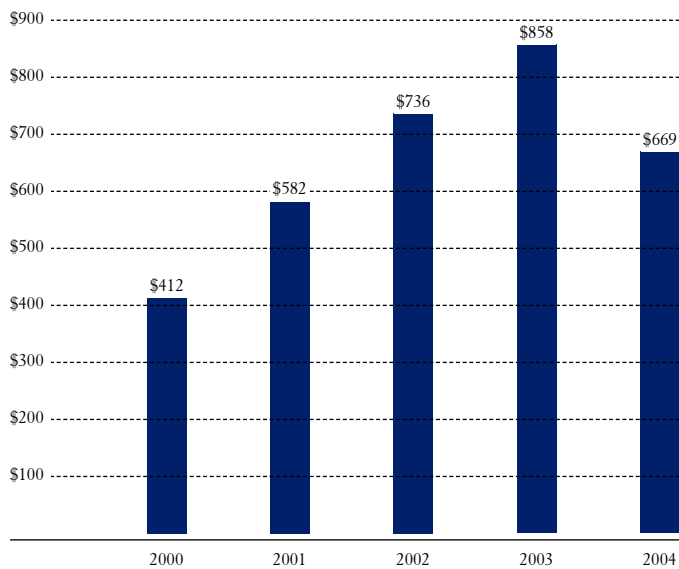
Abercrombie & Fitch

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

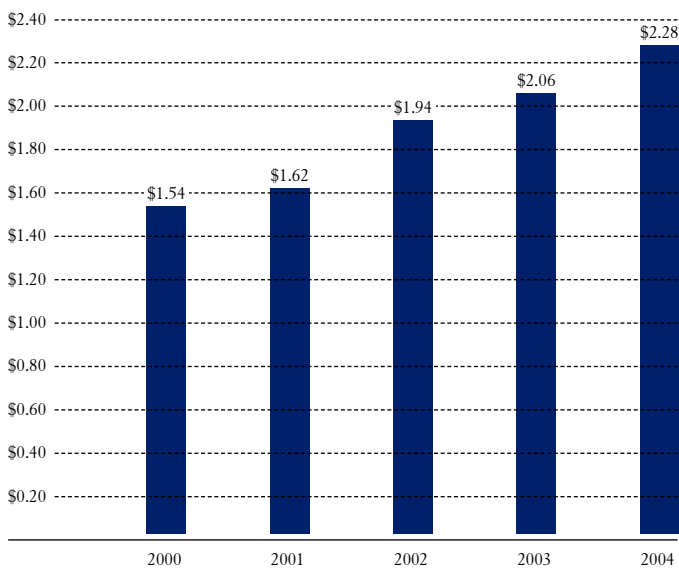
(Thousands)	Common Stock				Treasury Stock		Total Shareholders' Equity
	Shares Outstanding	Par Value	Paid-In Capital	Retained Earnings	Shares	At Average Cost	
Balance, February 2, 2002	98,873	\$1,033	\$141,394	\$ 506,501	4,426	\$ (66,533)	\$582,395
Purchase of Treasury Stock	(1,850)	—	—	—	1,850	(42,691)	(42,691)
Net Income	—	—	—	194,754	—	—	194,754
Tax Benefit from Exercise of Stock Options and Vesting of Restricted Stock	—	—	164	—	—	—	164
Stock Options, Restricted Stock and Other	246	—	1,019	—	(245)	666	1,685
Balance, February 1, 2003	97,269	\$1,033	\$142,577	\$ 701,255	6,031	\$(108,558)	\$736,307
Purchase of Treasury Stock	(4,401)	—	—	—	4,401	(115,670)	(115,670)
Net Income	—	—	—	204,830	—	—	204,830
Tax Benefit from Exercise of Stock Options and Vesting of Restricted Stock	—	—	9,505	—	—	—	9,505
Stock Options, Restricted Stock and Other	1,739	—	(12,943)	—	(1,740)	35,736	22,793
Balance, January 31, 2004	94,607	\$1,033	\$139,139	\$ 906,085	8,692	\$(188,492)	\$857,765
Purchase of Treasury Stock	(11,151)	—	—	—	11,151	(434,658)	(434,658)
Net Income	—	—	—	216,376	—	—	216,376
Dividends (\$0.50 per share)	—	—	—	(46,438)	—	—	(46,438)
Tax Benefit from Exercise of Stock Options and Vesting of Restricted Stock	—	—	17,308	—	—	—	17,308
Stock Options, Restricted Stock and Other	2,580	—	(16,196)	—	(2,580)	75,169	58,973
Balance, January 29, 2005	86,036	\$1,033	\$140,251	\$1,076,023	17,263	\$(547,981)	\$669,326

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Shareholders' Equity (\$ in Millions)



Net Income per Diluted Share



Abercrombie & Fitch

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	2004	2003	2002
Operating Activities			
Net Income	\$ 216,376	\$ 204,830	\$ 194,754
Impact of Other Operating Activities on Cash Flows			
Depreciation and Amortization	105,814	89,539	75,951
Amortization of Deferred Lease Credits	(32,794)	(24,774)	(21,061)
Non-cash Charge for Deferred Compensation	10,372	5,310	2,295
Deferred Taxes	3,942	7,126	21,092
Non-cash Charge for Asset Impairment	1,190	—	1,251
Loss on Disposal of Assets	4,664	—	—
Lessor Construction Allowances	55,009	60,649	52,686
Changes in Assets and Liabilities			
Inventories	(34,445)	(27,397)	(34,430)
Accounts Payable and Accrued Expenses	105,524	8,054	43,301
Income Taxes	18,967	10,459	17,022
Other Assets and Liabilities	(28,494)	8,749	(7,029)
Net Cash Provided by Operating Activities	426,125	342,545	345,832
Investing Activities			
Capital Expenditures	(185,065)	(159,777)	(145,662)
Purchases of Marketable Securities	(4,314,070)	(3,849,077)	(2,729,271)
Proceeds from Sales of Marketable Securities	4,788,770	3,771,085	2,418,661
Collection of Note Receivable	—	—	4,954
Net Cash Provided by (Used for) Investing Activities	279,635	(237,769)	(451,318)
Financing Activities			
Change in Outstanding Checks	20,404	4,145	4,047
Purchases of Treasury Stock	(434,658)	(115,670)	(42,691)
Stock Option Exercises and Other	48,927	19,767	(282)
Dividends Paid	(46,438)	—	—
Net Cash Used For Financing Activities	(411,765)	(91,758)	(38,926)
Net Increase in Cash and Equivalents	293,995	13,018	(144,412)
Cash and Equivalents, Beginning of Year	56,373	43,355	187,767
Cash and Equivalents, End of Year	\$ 350,368	\$ 56,373	\$ 43,355
Significant Non-Cash Investing Activities			
Change in Accrual for Construction in Progress	\$ (15,513)	\$ 18,589	\$ (12,658)

The accompanying Notes are an integral part of these Consolidated Financial Statements.

1. BASIS OF PRESENTATION Abercrombie & Fitch Co. (“A&F”), through its wholly-owned subsidiaries (collectively, A&F and its wholly-owned subsidiaries are referred to as “Abercrombie & Fitch” or the “Company”), is a specialty retailer of high quality, casual apparel for men, women and kids with an active, youthful lifestyle. The business was established in 1892.

The accompanying consolidated financial statements include the historical financial statements of, and transactions applicable to, A&F and its wholly-owned subsidiaries and reflect the assets, liabilities, results of operations and cash flows on a historical cost basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of A&F and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

FISCAL YEAR The Company’s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year commences. The results for fiscal years 2004, 2003 and 2002 represent the fifty-two week periods ended January 29, 2005, January 31, 2004 and February 1, 2003, respectively.

CASH AND EQUIVALENTS Cash and equivalents include amounts on deposit with financial institutions and investments with original maturities of less than 90 days. Outstanding checks at year end are reclassified in the balance sheet from cash to accounts payable to be reflected as liabilities. At fiscal year end 2004 and 2003, the outstanding checks reclassified were \$53.6 million and \$33.2 million, respectively.

MARKETABLE SECURITIES All investments with original maturities of greater than 90 days are accounted for in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” The Company determines the appropriate classification at the time of purchase. At January 29, 2005, the Company had no investments in marketable securities and at January 31, 2004 had \$464.7 million of investments in marketable securities. The marketable securities consisted of auction rate securities classified as available-for-sale. Investments in these securities are recorded at cost, which approximates fair value due to their variable interest rates, which reset every 7 to 49 days. Despite the long-term nature of their stated contractual maturities, there is a readily liquid market for these securities. As a result, there are no cumulative gross unrealized holding gains

(losses) or gross realized gains (losses) from marketable securities. All income generated from these marketable securities was recorded as interest income.

INVENTORIES Inventories are principally valued at the lower of average cost or market, on a first-in-first-out basis, utilizing the retail method. An initial markup is applied to inventory at cost in order to establish a cost-to-retail ratio. Permanent markdowns, when taken, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship.

The fiscal year is comprised of two principal selling seasons: Spring (the first and second quarters) and Fall (the third and fourth quarters). The Company further reduces inventory at season end by recording an additional markdown reserve using the retail carrying value of inventory from the season just passed. Markdowns on this carryover inventory represent estimated future anticipated selling price declines. Additionally, inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns for the total season. Further, as part of inventory valuation, inventory shrinkage estimates are made, based on historical trends, that reduce the inventory value for lost or stolen items.

The markdown reserve was \$6.6 million and \$5.5 million at January 29, 2005 and January 31, 2004, respectively. The shrink reserve was \$2.9 million and \$3.3 million at January 29, 2005 and January 31, 2004, respectively.

STORE SUPPLIES The initial inventory of supplies for new stores including, but not limited to, hangers, signage, security tags and point-of-sale supplies are capitalized at the store opening date. Subsequent shipments are expensed except for new merchandise presentation programs, which are capitalized.

PROPERTY AND EQUIPMENT Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 30 years for buildings, the lesser of 10 years or the life of the lease for leasehold improvements and 3 to 10 years for other property and equipment. Beneficial leaseholds represent the present value of the excess of fair market rent over contractual rent of existing stores as of the 1988 purchase of the Abercrombie & Fitch business by The Limited, Inc. (now known as Limited Brands, Inc., “The Limited”) and are being amortized over the lives of the related leases. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in

net income. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments that extend service lives are capitalized.

Long-lived assets are reviewed at the store level at least annually for impairment or whenever events or changes in circumstances indicate that full recoverability of net assets through future cash flows is in question. Factors used in the evaluation include, but are not limited to, management's plans for future operations, recent operating results and projected cash flows. The Company incurred impairment charges of \$1.2 million and \$1.3 million in fiscal 2004 and fiscal 2002, respectively. There were no impairment charges taken in fiscal 2003.

INCOME TAXES Income taxes are calculated in accordance with SFAS No. 109 (“SFAS 109”), "Accounting for Income Taxes," which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Under SFAS 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

CONTINGENCIES In the normal course of business, the Company must make continuing estimates of potential future legal obligations and liabilities, which requires the use of management’s judgment on the outcome of various issues. Management may also use outside legal advice to assist in the estimating process. However, the ultimate outcome of various legal issues could be different than management estimates, and adjustments may be required.

SHAREHOLDERS' EQUITY At January 29, 2005 and January 31, 2004, there were 150 million shares of \$.01 par value Class A Common Stock authorized, of which 86.0 million and 94.6 million shares were outstanding at January 29, 2005 and January 31, 2004, respectively, and 106.4 million shares of \$.01 par value Class B Common Stock authorized, none of which were outstanding at January 29, 2005 and January 31, 2004, respectively. In addition, 15 million shares of \$.01 par value Preferred Stock were authorized, none of which have been issued. See Note 13 for information about Preferred Stock Purchase Rights.

Holders of Class A Common Stock generally have identical rights to holders of Class B Common Stock, except that holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to three votes per

share on all matters submitted to a vote of shareholders.

REVENUE RECOGNITION The Company recognizes retail sales at the time the customer takes possession of the merchandise and purchases are paid for, primarily with either cash or credit card. Catalogue and e-commerce sales are recorded upon customer receipt of merchandise. Amounts relating to shipping and handling billed to customers in a sale transaction are classified as revenue and the related direct shipping costs are classified as cost of goods sold. Employee discounts are classified as a reduction of revenue. The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable. The Company accounts for gift cards by recognizing a liability at the time when a gift card is sold. Revenue is recognized when the gift card is redeemed for merchandise. The Company reviews its gift card liability at least annually and adjusts the liability based on historical redemption patterns as required.

COST OF GOODS SOLD, OCCUPANCY AND BUYING COSTS The following expenses are included as part of Cost of Goods Sold, Occupancy and Buying Costs: landed cost of merchandise, freight, payroll and related costs associated with merchandise, design, procurement, inspection, store rents and other real estate costs, store asset depreciation, inventory shrink and markdowns, and catalogue production and mailing costs.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES General, Administrative and Store Operating Expenses include distribution center costs including receiving and warehouse costs, store payroll and expenses, home office payroll and expenses (not related to merchandise procurement) and advertising.

CATALOGUE AND ADVERTISING COSTS Costs related to the catalogue, primarily consist of catalogue production and mailing costs and are expensed as incurred as a component of “Cost of Goods Sold, Occupancy and Buying Costs.” Advertising costs consist of in-store photographs and advertising in selected national publications and billboards and are expensed as part of “General, Administrative and Store Operating Expenses” when the photographs or publications first appear. Catalogue and advertising costs, which include photo shoot costs, amounted to \$33.8 million in 2004, \$33.6 million in 2003 and \$33.4 million in 2002.

OPERATING LEASES The Company leases property for its stores under operating leases. Most lease agreements contain construction allowances, rent escalation clauses and/or contingent rent provisions.

For construction allowances, the Company records a deferred lease credit on the consolidated balance sheet and amortizes the deferred lease credit as a reduction to rent expense on the consolidated statement of income over the terms of the leases. For scheduled rent escalation clauses during the lease terms, the Company records minimum rental expenses on a straight-line basis over the terms of the leases on the consolidated statement of income. The term of the lease over which the Company amortizes construction allowances and minimum rental expenses on a straight-line basis begins on the date of initial possession, which is generally when the Company enters the space and begins to make improvements in preparation of intended use.

Certain leases provide for contingent rents, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in accrued expenses on the consolidated balance sheets and the corresponding rent expense when management determines that achieving the specified levels during the fiscal year is probable.

STORE PREOPENING EXPENSES Pre-opening expenses related to new store openings are charged to operations as incurred.

DESIGN AND DEVELOPMENT COSTS Costs to design and develop the Company’s merchandise are expensed as incurred and are reflected as a component of “Cost of Goods Sold, Occupancy and Buying Costs.”

FAIR VALUE OF FINANCIAL INSTRUMENTS The recorded values of current assets and current liabilities, including receivables, marketable securities and accounts payable, approximate fair value due to the short maturity and because the average interest rate approximates current market origination rates.

STOCK-BASED COMPENSATION The Company reports stock-based compensation through the disclosure-only requirements of SFAS No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation–Transition and Disclosure—an Amendment of FASB No. 123,” but elects to measure compensa-

tion expense using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Accordingly, no compensation expense for options has been recognized as all options are granted at fair market value at the grant date. The Company does recognize compensation expense related to restricted share awards. If compensation expense related to options had been determined based on the estimated fair value of options granted in 2004, 2003 and 2002, consistent with the methodology in SFAS 123, the pro forma effect on net income and net income per basic and diluted share would have been as follows:

<i>(Thousands except per share amounts)</i>	2004	2003	2002
Net Income:			
As reported	\$216,376	\$204,830	\$194,754
Stock-based compensation expense included in reported net income, net of tax	6,358	3,250	1,414
Stock-based compensation expense determined under fair value based method, net of tax ⁽¹⁾	(27,720)	(27,274)	(27,673)
Pro forma	\$195,014	\$180,806	\$168,495
Basic net income per share:			
As reported	\$2.33	\$2.12	\$1.98
Pro forma	\$2.10	\$1.87	\$1.72
Diluted net income per share:			
As reported	\$2.28	\$2.06	\$1.94
Pro forma	\$2.05	\$1.83	\$1.68

(1) Includes stock-based compensation expense related to restricted share awards actually recognized in earnings in each period presented using the intrinsic value method.

The average weighted-average fair values of options were \$15.05, \$14.18 and \$12.07 for the 2004, 2003 and 2002 fiscal years, respectively. The fair value of each option was estimated using the Black-Scholes option-pricing model, which are included in the pro forma results above. For purposes of the valuation, the following weighted-average assumptions were used: a 1.28% dividend yield in the 2004 fiscal year and no expected dividends in the 2003 and 2002 fiscal years; average price volatility of 56%, 63% and 53% in the 2004, 2003 and 2002 fiscal years, respectively; average risk-free interest rates of 3.2%, 3.0% and 4.3% in the 2004, 2003 and 2002 fiscal years, respectively; assumed average forfeiture rates of 28%, 23% and 15%

for the 2004, 2003 and 2002 fiscal years; and vesting lives of 4 years in the 2004, 2003 and 2002 fiscal years.

For options granted to non-associates directors during 2004, the average weighted-average fair value of the options was \$5.22. The fair value of each option was estimated using the Black-Scholes option-pricing model, which is included in the pro forma results above. For purposes of the valuation, the following weighted-average assumptions were used: a 1.28% dividend yield; average price volatility of 37%; average risk-free interest rate of 2.0%; assumed average forfeiture rate of 12%; and vesting life of 1 year.

NET INCOME PER SHARE Net income per share is computed in accordance with SFAS No. 128, “Earnings Per Share.” Net income per basic share is computed based on the weighted-average number of outstanding shares of common stock. Net income per diluted share includes the weighted-average effect of dilutive stock options and restricted shares.

Weighted–Average Shares Outstanding (thousands):

	2004	2003	2002
Shares of Class A Common stock issued	103,300	103,300	103,300
Treasury shares outstanding	(10,523)	(6,467)	(5,129)
Basic shares outstanding	92,777	96,833	98,171
Dilutive effect of options and restricted shares	2,333	2,747	2,460
Diluted shares outstanding	95,110	99,580	100,631

Options to purchase 5,213,000, 6,151,000 and 9,218,000 shares of Class A Common Stock were outstanding at year-end 2004, 2003 and 2002, respectively, but were not included in the computation of net income per diluted share because the options’ exercise prices were greater than the average market price of the underlying shares.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

RECLASSIFICATIONS Certain amounts have been reclassified to conform to current year presentation. The amounts reclassified did not have an effect on the Company’s results of operations or shareholders’ equity.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R ("SFAS 123R"), "Share-Based Payment," a revision of FASB issued Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123R requires an entity to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. See Note 2 of the Notes to Consolidated Financial Statements for the pro forma net income and earnings per share amounts for fiscal 2002 through fiscal 2004, as if the Company had used a fair-value based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock-based compensation awards. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. The Company is still in the process of determining the impact on the results of operations and financial position upon the adoption of SFAS 123R.

4. PROPERTY AND EQUIPMENT Property and equipment, at cost, consisted of (thousands):

	2004	2003
Land	\$ 15,985	\$ 15,985
Building	110,971	110,726
Furniture, fixtures and equipment	516,127	469,135
Leasehold improvements	402,535	332,231
Construction in progress	27,782	27,901
Beneficial leaseholds	12	5,839
Total	\$1,073,412	\$961,817
Less: Accumulated depreciation and amortization	386,401	331,795
Property and equipment, net	\$ 687,011	\$630,022

5. LEASED FACILITIES AND COMMITMENTS Annual store rent is comprised of a fixed minimum amount, plus contingent rent based on a percentage of sales exceeding a stipulated amount. Store lease terms generally require additional payments covering taxes, common area costs and certain other expenses.

A summary of rent expense follows (thousands):

	2004	2003	2002
Store rent:			
Fixed minimum	\$141,450	\$122,001	\$106,053
Contingent	6,932	5,194	4,886
Total store rent	\$148,382	\$127,195	\$110,939
Buildings, equipment and other	1,663	1,219	1,133
Total rent expense	\$150,045	\$128,414	\$112,072

At January 29, 2005, the Company was committed to noncancelable leases with remaining terms of one to fifteen years. These commitments include store leases with initial terms ranging primarily from ten to fifteen years. A summary of minimum commitments under noncancelable leases follows (thousands):

2005	\$164,577	2008	145,506
2006	166,688	2009	137,019
2007	156,567	Thereafter	485,750

6. ACCRUED EXPENSES Accrued expenses consisted of the following (thousands):

	2004	2003
Legal	\$ 54,252	\$ 9,248
Rent and landlord charges	46,739	42,846
Current portion of unredeemed gift card revenue	31,283	20,417
Accrual for construction in progress	15,756	31,269
Employee bonuses and incentive compensation	13,959	1,742
Other	72,221	57,867
Total	\$234,210	\$163,389

The accrued legal expense included \$49.1 million related to the

settlement of three related class action employment discrimination lawsuits.

7. INCOME TAXES The provision for income taxes consisted of (thousands):

	2004	2003	2002
Currently payable:			
Federal	\$112,537	\$101,692	\$ 88,238
State	19,998	18,248	13,865
	\$132,535	\$119,940	\$102,103
Deferred:			
Federal	\$ 2,684	\$ 8,601	\$ 16,629
State	1,258	1,517	2,597
	\$ 3,942	\$ 10,118	\$ 19,226
Total provision	\$136,477	\$130,058	\$121,329

A reconciliation between the statutory Federal income tax rate and the effective income tax rate follows:

	2004	2003	2002
Federal income tax rate	35.0%	35.0%	35.0%
State income tax, net of Federal income tax effect	3.9%	3.8%	3.5%
Other items, net	(0.2%)	0.0%	(0.1%)
Total	38.7%	38.8%	38.4%

Income taxes payable included net current deferred tax assets of \$44.4 million and \$24.2 million at January 29, 2005 and January 31, 2004, respectively.

Under a tax sharing arrangement with The Limited, which owned 84.2% of the outstanding Common Stock through May 19, 1998, the Company was responsible for and paid to The Limited its proportionate share of income taxes calculated upon its separate taxable income at the estimated annual effective tax rate for periods prior to May 19, 1998. In 2002, a final tax sharing payment was made to The Limited pursuant to an agreement to terminate the tax sharing agreement. As a result, the Company has been indemnified by The Limited for any federal, state or local taxes asserted with

respect to The Limited for all periods prior to May 19, 1998. Amounts paid to The Limited totaled \$1.4 million in 2002.

Amounts paid directly to taxing authorities were \$114.0 million, \$113.0 million and \$82.3 million in 2004, 2003, and 2002, respectively.

The effect of temporary differences which give rise to deferred income tax assets (liabilities) was as follows (thousands):

	2004	2003
Deferred tax assets:		
Deferred compensation	\$ 16,205	\$ 10,208
Rent	98,793	86,746
Accrued expenses	7,194	2,502
Inventory	3,268	1,717
Legal expense	15,288	3,234
Total deferred tax assets	\$ 140,748	\$ 104,407

Deferred tax liabilities:		
Store supplies	\$ (10,542)	\$ (9,384)
Property and equipment	(141,147)	(102,022)
Total deferred tax liabilities	\$(151,689)	\$(111,406)
Net deferred income tax liabilities	\$ (10,941)	\$ (6,999)

No valuation allowance has been provided for deferred tax assets because management believes that it is more likely than not that the full amount of the net deferred tax assets will be realized in the future.

8. LONG-TERM DEBT On December 15, 2004, the Company entered into an amended and restated \$250 million syndicated unsecured credit agreement (the “Credit Agreement”). The primary purposes of the Credit Agreement are for trade, stand-by letters of credit and working capital. The Credit Agreement has several borrowing options, including interest rates that are based on the agent bank’s “Alternate Base Rate”. Facility fees payable under the Amended Credit Agreement will be based on the Company’s ratio (the “leverage ratio”) of the sum of total debt plus 600% of forward minimum rent commitments to consolidated EBITDAR for the trailing four-fiscal-quarter period and the facility fees are projected to accrue at .175% of the committed amounts per annum. The Credit Agreement contains limitations on indebtedness, liens, sale-leaseback transactions, significant

corporate changes including mergers and acquisitions with third parties, investments, restricted payments (including dividends and stock repurchases), hedging transactions and transactions with affiliates. The Amended Credit Agreement will mature on December 15, 2009. Letters of credit totaling approximately \$49.6 million and \$42.8 million were outstanding under the Credit Agreement at January 29, 2005 and at January 31, 2004. No borrowings were outstanding under the Credit Agreement at January 29, 2005 and at January 31, 2004.

9. RELATED PARTY TRANSACTIONS Shahid & Company, Inc. has provided advertising and design services for the Company since 1995. Sam N. Shahid Jr., who serves on A&F’s Board of Directors, has been President and Creative Director of Shahid & Company, Inc. since 1993. Fees paid to Shahid & Company, Inc. for services provided during the 2004, 2003 and 2002 fiscal years were approximately \$2.1 million, \$2.0 million and \$1.9 million, respectively. These amounts do not include reimbursements to Shahid & Company, Inc. for expenses incurred while performing these services.

On January 1, 2002, A&F loaned \$4,953,833 to its Chairman, pursuant to the terms of a replacement promissory note, which provided that such amount was due and payable on December 31, 2002. The outstanding principal under the note did not bear interest as the net sales threshold, per the terms of the note, was met. This note was paid in full by the Chairman on December 31, 2002. This note constituted a replacement of, and substitute for, several promissory notes dated from November 17, 1999 through May 18, 2001.

10. STOCK OPTIONS AND RESTRICTED SHARES Under the Under the Company’s stock plans, associates and non-associate directors may be granted up to a total of 24.0 million restricted shares and options to purchase A&F’s common stock at the market price on the date of grant. In 2004, associates of the Company were granted options covering approximately 444,000 shares, with a vesting period of four years. Options covering a total of 40,000 shares were granted to non-associate directors in 2004. Options granted to the non-associate directors vest on the first anniversary of the grant date. All options have a maximum term of ten years.

Options Outstanding at January 29, 2005			Options Exercisable at January 29, 2005		
Range of Exercise Prices	Number Outstanding	Weighted– Average Remaining Contractual Life	Weighted– Average Exercise Price	Number Exercisable	Weighted– Average Exercise Price
\$ 8-\$23	991,000	3.3	\$12.26	613,000	\$13.00
\$23-\$38	6,130,000	5.9	\$26.56	3,804,000	\$25.86
\$38-\$51	4,908,000	4.6	\$43.85	2,445,000	\$43.76
\$ 8-\$51	12,029,000	5.2	\$32.44	6,862,000	\$31.09

A summary of option activity for fiscal 2004, 2003 and 2002 follows:

2004	Number of Shares	Weighted–Average Option Price
Outstanding at beginning of year	14,839,900	\$30.03
Granted	484,000	36.48
Exercised	(2,564,000)	19.49
Canceled	(730,000)	31.67
Outstanding at end of year	12,029,900	\$32.44
Options exercisable at year-end	6,862,000	\$31.09

2003		
Outstanding at beginning of year	16,059,000	\$28.31
Granted	640,000	27.89
Exercised	(1,586,600)	12.39
Canceled	(272,500)	27.04
Outstanding at end of year	14,839,900	\$30.03
Options exercisable at year-end	6,191,000	\$27.04

2002		
Outstanding at beginning of year	12,961,000	\$28.65
Granted	3,583,000	26.53
Exercised	(93,000)	16.44
Canceled	(392,000)	26.31
Outstanding at end of year	16,059,000	\$28.31
Options exercisable at year-end	4,556,000	\$19.10

A total of 507,500, 78,000 and 1,046,000 restricted shares were granted in fiscal 2004, 2003 and 2002, respectively, with a total market value at grant date of \$16.0 million, \$2.1 million and \$28.0 million, respectively. Of the restricted shares granted in 2002, 1,000,000 shares were awarded to the Company’s Chairman, which become vested on December 31, 2008 provided the Chairman remains continuously employed by the Company through such date. The remaining restricted share grants either vest on a graduated scale over four years for associates or over one year for the non-associate directors. The market value of restricted shares is being amortized as compensation expense over the vesting period, which excluding

the above mentioned grants to the Chairman and the non-associate directors is generally four years. Compensation expenses related to restricted share awards amounted to \$10.4 million, \$5.3 million and \$2.3 million in 2004, 2003 and 2002, respectively.

11. RETIREMENT BENEFITS The Company maintains a qualified defined contribution retirement plan and a nonqualified supplemental retirement plan. Participation in the qualified plan is available to all associates who have completed 1,000 or more hours of service with the Company during certain 12-month periods and attained the age of 21. Participation in the nonqualified plan is subject to service and compensation requirements. The Company’s contributions to these plans are based on a percentage of associates’ eligible annual compensation. The cost of these plans was \$9.1 million in 2004, \$6.4 million in 2003 and \$5.6 million in 2002.

Effective February 2, 2003, the Company established a Supplemental Executive Retirement Plan (the “SERP”) to provide additional retirement income to its Chairman. Subject to service requirements, the Chairman will receive a monthly benefit equal to 50% of his final average compensation (as defined in the SERP) for life. The SERP has been actuarially valued by an independent third party and the expense associated with the SERP is being accrued over the stated term of the Amended and Restated Employment Agreement, dated as of January 30, 2003, between the Company and its Chairman.

Effective May 17, 2004, the Company established a Supplemental Executive Retirement Plan (the “SERP”) to provide additional retirement income to its President and Chief Operating Officer. Subject to service requirements, upon retirement at age 57 the President and Chief Operating Officer would receive a monthly annuity of \$8,333.33 for life. The monthly amount would be actuarially increased for retirement after age 57, or reduced 20% per year for retirement prior to age 57. The SERP has been actuarially valued by an independent third party and the expense associated with the SERP is being accrued over the stated term of the Employment Agreement, dated as of May 17, 2004, between the Company and its President and Chief Operating Officer.

12. CONTINGENCIES The Company is involved in a number of legal proceedings that arise out of, and are incidental to, the conduct of its business.

In 2003, five actions were filed in different state courts under various states’ laws on behalf of purported classes of employees and former employees of the Company alleging that the Company required its associates to wear and pay for a “uniform” in violation of applicable law. In each case, the plaintiff, on behalf of his or her purported class, sought injunctive relief and unspecified amounts of

economic and liquidated damages. Two of the actions were ordered coordinated in November of 2003 and on February 28, 2005, were settled and dismissed with prejudice as to the individual claims and without prejudice as to the putative class claims. Two other cases were stayed in the state court proceedings and the plaintiffs in those cases joined in the action in federal court described in the immediately following paragraph. In connection with the settlement of that federal court action, the two related state court cases were dismissed with prejudice. The Company has filed an answer in the remaining state court action. The plaintiffs in that action filed, and the Company opposed, a motion to certify a class of employees in the State of Washington. The Court granted the plaintiffs’ motion and the Company has commenced a discretionary appeal thereof.

In 2003, an action was filed in the United States District Court for the Western District of Pennsylvania, in which the plaintiff alleged that the “uniform,” when purchased, drove associates’ wages below the federal minimum wage. The complaint purported to state a collective action on behalf of part-time associates under the Fair Labor Standards Act. On November 17, 2004, the Court gave final approval of the settlement of this case and the two state court cases whose plaintiffs had joined in the federal court action, and dismissal of the case with prejudice was entered. The settlement is not material to the consolidated financial statements of the Company.

As previously mentioned, five of the above-described cases have been settled. The Company does not believe it is feasible to predict the outcome of the remaining state court legal proceeding described above and intends to vigorously defend against it. The timing of the final resolution of that proceeding is also uncertain. Accordingly, the Company cannot estimate a range of potential loss, if any, for that legal proceeding.

In each of 2004, 2003 and 2002, one action was filed against the Company involving overtime compensation. In each action, the plaintiffs, on behalf of their respective purported class, seek injunctive relief and unspecified amounts of economic and liquidated damages. In the action which was filed in state court under California law in 2002, the parties are in the process of discovery, and the trial court has ordered a class of store managers in California certified for limited purposes. In the action which was filed in the United States District Court for the Southern District of Ohio in 2003, the Company has filed a motion to dismiss which was denied as to certain of the plaintiffs and remains pending as to certain claims of a third plaintiff. The parties in this action have commenced discovery.

In the remaining case, which was filed on December 28, 2004 in the United States District Court for the Eastern District of Tennessee, the Company has filed an answer. The Company does not believe it is feasible to predict the outcome of the legal proceedings described in this paragraph and intends to defend vigorously against them. The

timing of the final resolution of each of these proceedings is also uncertain. Accordingly, the Company cannot estimate a range of potential loss, if any, for any of these legal proceedings.

In 2003, an action was filed in the United States District Court for the Northern District of California on behalf of a purported class alleged to be discriminated against in hiring or employment decisions due to race and/or national origin. The plaintiffs in this action sought, on behalf of their purported class, injunctive relief and unspecified amounts of economic, compensatory and punitive damages. Two other purported class action employment discrimination lawsuits were subsequently filed in the United States District Court for the Northern District of California, both on November 8, 2004. One alleged gender (female) discrimination in hiring or employment decisions and sought, on behalf of the purported class, injunctive relief and unspecified amounts of economic, compensatory and punitive damages. The other was brought by the Equal Employment Opportunity Commission (the “EEOC”) alleging race, ethnicity and gender (female) discrimination in hiring or employment decisions. The EEOC complaint sought injunctive relief and, on behalf of the purported class, unspecified amounts of economic, compensatory and punitive damages. On November 8, 2004, the Company signed a consent decree settling these three related class action discrimination lawsuits, subject to judicial review and approval. The monetary terms of the consent decree provided that the Company would set aside \$40.0 million to pay to the class, approximately \$7.5 million for attorneys’ fees, and approximately \$2.5 million for monitoring and administrative costs to carry out the settlement. As a result, the Company accrued a non-recurring charge of \$32.9 million, which was included in general, administrative and store operating expenses for the third quarter of fiscal 2004. This was in addition to amounts accrued during the first quarter of fiscal 2004 when the Company recorded an \$8.0 million charge (net of expected proceeds of \$10 million from insurance) resulting from an increase in expected defense costs related to the case filed in 2003. The preliminary approval order was signed by Judge Susan Illston of the United States District Court for the Northern District of California on November 16, 2004, and that order scheduled a final fairness and approval hearing for April 14, 2005.

The Company accrues amounts related to legal matters if reasonably estimable and reviews these amounts at least quarterly.

13. PREFERRED STOCK PURCHASE RIGHTS On July 16, 1998, A&F’s Board of Directors declared a dividend of .50 of a Series A Participating Cumulative Preferred Stock Purchase Right (Right) for each outstanding share of Class A Common Stock, par value \$.01 per share (Common Stock), of A&F. The dividend was paid to shareholders of record on July 28, 1998. Shares of Common

Stock issued after July 28, 1998 and prior to the Distribution Date described below will be issued with a Right attached. Under certain conditions, each whole Right may be exercised to purchase one one-thousandth of a share of Series A Participating Cumulative Preferred Stock at an initial exercise price of \$250. The Rights initially will be attached to the shares of Common Stock. The Rights will separate from the Common Stock and a Distribution Date will occur upon the earlier of 10 business days after a public announcement that a person or group has acquired beneficial ownership of 20% or more of A&F’s outstanding shares of Common Stock and become an “Acquiring Person” (Share Acquisition Date) or 10 business days (or such later date as the Board shall determine before any person has become an Acquiring Person) after the date of the commencement of a tender or exchange offer which, if consummated, would result in a person or group beneficially owning 20% or more of A&F’s outstanding Common Stock. The Rights are not exercisable until the Distribution Date.

In the event that any person becomes an Acquiring Person, each holder of a Right (other than the Acquiring Person and certain affiliated persons) will be entitled to purchase, upon exercise of the Right, shares of Common Stock having a market value two times the exercise price of the Right. At any time after any person becomes an Acquiring Person (but before any person becomes the beneficial owner of 50% or more of the outstanding shares), A&F’s Board of Directors may exchange all or part of the Rights (other than Rights beneficially owned by an Acquiring Person and certain affiliated persons) for shares of Common Stock at an exchange ratio of one share of Common Stock per Right. In the event that, at any time following the Share Acquisition Date, A&F is involved in a merger or other business combination transaction in which A&F is not the surviving corporation, the Common Stock is exchanged for other securities or assets or 50% or more of the assets or earning power of A&F and its subsidiaries, taken as a whole, is sold or transferred, the holder of a Right will be entitled to buy, for the exercise price of the Rights, the number of shares of common stock of the other party to the business combination or sale which at the time of such transaction will have a market value of two times the exercise price of the Right.

The Rights, which do not have any voting rights, expire on July 16, 2008, and may be redeemed by A&F at a price of \$.01 per whole Right at any time before a person becomes an Acquiring Person.

Rights holders have no rights as a shareholder of A&F, including the right to vote and to receive dividends.

14. SUBSEQUENT EVENTS In February 2005, two substantially similar actions were filed in the Court of Chancery of the State of Delaware by A&F stockholders challenging the compensation received by A&F’s Chief Executive Officer, Michael S. Jeffries.

The complaints allege, among other things, that the Board of Directors of A&F and the members of the Compensation Committee of the Board breached their fiduciary duties in granting stock options and an increase in cash compensation to Mr. Jeffries in February 2002 and in approving Mr. Jeffries’s current employment agreement in January 2003 (the “Amended and Restated Employment Agreement”). The complaints further assert that A&F’s disclosures with respect to Mr. Jeffries’ compensation were deficient. The complaints seek, among other things, to rescind the purportedly wrongful compensation and to set aside the current employment agreement. The actions have been consolidated under the caption, In re Abercrombie & Fitch Co. Shareholder Derivative Litigation., C.A. No. 1077 (the “Litigation”). A&F has formed a special committee of independent directors (the “Special Committee”) to determine what action to take with respect to the Litigation. A&F and the defendant members of the Board of Directors have denied, and continue to deny, any liability or wrongdoing with respect to all claims alleged in the Litigation. Nevertheless, the Special Committee, A&F and the other defendants have determined that it is desirable to settle the Litigation and thereby eliminate the substantial burden, expense, inconvenience and distraction that the Litigation would entail and to dispel any uncertainty that may exist as a result of the Litigation.

Pursuant to a stipulation of settlement dated April 8, 2005, and subject to the approval of the Court, the parties have agreed to settle the Litigation on the following terms: (i) Mr. Jeffries’s Amended and Restated Employment Agreement will be amended to reduce his “stay bonus” from twelve million dollars to six million dollars and to condition receipt of the stay bonus on A&F’s achieving defined performance criteria (except in certain circumstances), (ii) Mr. Jeffries will not receive any award of stock options during calendar years 2005 and 2006 and in subsequent years will receive stock options only in the discretion of the Compensation Committee, (iii) Mr. Jeffries will hold the Career Shares awarded under Section 4(b) of his Amended and Restated Employment Agreement for a period of one year after he ceases to be an executive officer of A&F (the “Holding Period”), and (iv) Mr. Jeffries will hold one half of the A&F shares received from the first one million stock options exercised following this settlement, net of shares equal to the amount of withholding taxes and exercise price, until the expiration of the Holding Period. Also as part of the settlement, the Special Committee has agreed to recommend to the full Board that the Board cause A&F to take, subject to the directors' fiduciary duties, and A&F has agreed to use its best efforts to take, each of the following actions, with the actions described in clauses (i) through (iv) to be achieved not later than the one year anniversary of the settlement becoming final: (i) A&F shall conduct a full review of its

corporate governance practices and procedures, (ii) at least a majority of the members of the Compensation Committee shall be directors who were not members of the Compensation Committee at the time of the events giving rise to the Litigation and who have no substantial business or professional relationship with A&F other than their status as directors, (iii) the Compensation Committee shall retain independent counsel and an independent compensation expert, (iv) A&F shall adopt FAS 123 providing for the expensing of stock option compensation, (v) for a period of five years A&F shall not nominate for election to the Board any director who does not meet the New York Stock Exchange standards for director independence (provided, however, this provision shall not apply to any current member of the Board or to up to three members of A&F’s senior management), (vi) one member of the Board who does not meet such standards shall not be nominated for re-election in connection with the 2005 annual meeting, and (vii) the Company shall review the disclosures to appear in A&F’s proxy statement for its 2005 Annual Meeting relating to executive compensation and will provide plaintiffs’ counsel with an opportunity to comment on the disclosures. The stipulation of settlement provides for a release of all claims that A&F has or may have against any of the defendants relating to the matters and claims that were or could have been raised in the Litigation. The plaintiffs will apply to the Court for an award of attorneys’ fees.

15. QUARTERLY FINANCIAL DATA (UNAUDITED) Summarized quarterly financial results for 2004 and 2003 follow (thousands except per share amounts):

2004 Quarter	First	Second	Third	Fourth
Net sales	\$411,930	\$401,346	\$520,724	\$687,254
Gross income	164,991	181,643	226,537	336,624
Operating income	46,722	68,762	61,978	170,175
Net income	29,317	42,888	39,911	104,261
Net income per basic share	\$0.31	\$0.45	\$0.43	\$1.19
Net income per diluted share	\$0.30	\$0.44	\$0.42	\$1.15

2003 Quarter	First	Second	Third	Fourth
Net sales	\$346,722	\$355,719	\$444,979	\$560,389
Gross income	128,578	143,850	182,993	261,523
Operating income	40,680	55,134	80,578	154,788
Net income	25,785	34,528	49,934	94,583
Net income per basic share	\$0.26	\$0.36	\$0.52	\$0.98
Net income per diluted share	\$0.26	\$0.34	\$0.50	\$0.97

MARKET PRICE AND DIVIDEND INFORMATION A&F’s Class A Common Stock (the “Common Stock”) is traded on the New York Stock Exchange under the symbol “ANF.” The table below sets forth the high and low sales prices of A&F’s Common Stock on the New York Stock Exchange for the 2004 and 2003 fiscal years:

	Sales Price	
	High	Low
2004 Fiscal Year		
4th Quarter	\$52.13	\$39.09
3rd Quarter	\$39.18	\$28.00
2nd Quarter	\$39.12	\$31.07
1st Quarter	\$36.10	\$25.54
2003 Fiscal Year		
4th Quarter	\$29.82	\$23.49
3rd Quarter	\$31.47	\$26.77
2nd Quarter	\$32.80	\$26.14
1st Quarter	\$33.11	\$26.98

In February 2004, the Board of Directors voted to initiate a cash dividend, at an annual rate of \$0.50 per share. A quarterly dividend, of \$0.125 per share, was paid in March, June, September and December of 2004. The Company currently expects to continue to pay an annual dividend of \$0.50 per share, subject to Board of Directors review and approval of the appropriateness of future dividend amounts.

As of April 1, 2005, there were approximately 5,300 shareholders of record. However, when including active associates who participate in A&F’s stock purchase plan, associates who own shares through A&F-sponsored retirement plans and others holding shares in broker accounts under street name, A&F estimates that there are approximately 53,000 shareholders.

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ABERCROMBIE & FITCH CO.: We have completed an integrated audit of Abercrombie & Fitch Co.'s fiscal 2004 consolidated financial statements and of its internal control over financial reporting as of January 29, 2005 and audits of its fiscal 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

CONSOLIDATED FINANCIAL STATEMENTS In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Abercrombie & Fitch Co. ("the Company") and its subsidiaries at January 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

INTERNAL CONTROL OVER FINANCIAL REPORTING Also, we have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Abercrombie & Fitch Co. did not maintain effective internal control over financial reporting as of January 29, 2005, because the Company's controls over the selection and application of its lease accounting policies related to construction allowances and the recording of rent between the date the Company takes possession of the property and the commencement date of the lease were ineffective based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

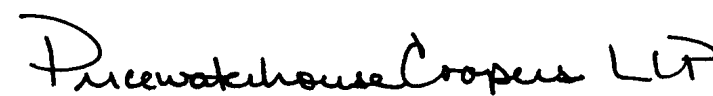
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail,

accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. As of January 29, 2005, the Company's controls over the selection and application of its lease accounting policies related to construction allowances and the recording of rent between the date the Company takes possession of the property and the commencement date of the lease were ineffective to ensure that such leasing transactions were recorded in accordance with generally accepted accounting principles. Specifically, because of the deficiency in the Company's controls over the selection and application of its lease accounting policies, the Company failed to properly classify and account for property and equipment, deferred lease credits from landlords, rent expense, depreciation expense and the related impact of these items on cash provided by operating activities and cash used for investing activities in the consolidated statements of cash flows, which resulted in restatements of the Company's 2003, 2002 and 2001 annual financial statements and 2004 and 2003 interim consolidated financial statements. Additionally, if the control deficiency is not remediated it could result in a misstatement of the aforementioned financial statement accounts and disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management of the Company has concluded that this control deficiency constitutes a material weakness. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal 2004 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management's assessment that Abercrombie & Fitch Co. did not maintain effective internal control over financial reporting as of January 29, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Abercrombie & Fitch Co. has not maintained effective internal control over financial reporting as of January 29, 2005, based on criteria established in Internal Control – Integrated Framework issued by the COSO.



Columbus, Ohio
April 11, 2005



Abercrombie & Fitch

CORPORATE INFORMATION

Abercrombie & Fitch
6301 Fitch Path, New Albany, Ohio 43054
(614) 283-6500
www.abercrombie.com

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 10:00 A.M., Wednesday, June 15, 2005 at Abercrombie & Fitch Headquarters, 6301 Fitch Path, New Albany, Ohio 43054.

STOCK EXCHANGE LISTING

New York Stock Exchange (Trading Symbol “ANF”), commonly listed in newspapers as AberFit.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP, Columbus, Ohio

INVESTOR RELATIONS

For further information on Abercrombie & Fitch, additional copies of this report, Form 10-K or other financial information, contact:
Investor Relations & Corporate Communications
Abercrombie & Fitch
P.O. Box 182168
Columbus, Ohio 43218

You may also contact us by sending an e-mail to Investor_Relations@abercrombie.com or by visiting the Investor Relations section of A&F’s Web site.

STOCK TRANSFER AGENT, REGISTRAR AND DIVIDEND AGENT

National City Bank, Corporate Trust Operations, Dept 5352
P.O. Box 92301, Cleveland, Ohio 44193.

ABERCROMBIE & FITCH

Initial Public Offering: September 26, 1996
Number of Associates: 48,500
Approximate Shareholder Base: 53,000

OUR COMMITMENT TO INCLUSION

At Abercrombie & Fitch we are committed to increasing and leveraging the diversity of our associates and management across the organization. We support those differences through a culture of inclusion, so that we understand our customers, enhance organizational effectiveness, capitalize on the talents of our workforce and represent the communities in which we do business.

SENIOR MANAGEMENT	
MICHAEL S. JEFFRIES*	Chairman and Chief Executive Officer
ROBERT S. SINGER*	President and Chief Operating Officer
DIANE CHANG*	Executive Vice President - Sourcing
LESLEE K. O'NEILL*	Executive Vice President - Planning and Allocation
ROGER E. COVILLE	Senior Vice President - Chief Information Officer
REBECCA F. LEE	Senior Vice President - Allocation
DAVID L. LEINO*	Senior Vice President - Stores
JOHN LOUGH	Senior Vice President - Distribution and Logistics
THOMAS D. MENDENHALL*	Senior Vice President and General Manager Abercrombie & Fitch and abercrombie
JEFFREY R. SINKEY	Senior Vice President - Real Estate
BOARD OF DIRECTORS	
MICHAEL S. JEFFRIES	Chairman and Chief Executive Officer
JAMES B. BACHMANN	Retired Columbus Managing Partner, Ernst & Young LLP
LAUREN J. BRISKY	Vice Chancellor for Administration and Chief Financial Officer, Vanderbilt University
RUSSELL M. GERTMENIAN	Partner, Vorys, Sater, Seymour and Pease LLP
JOHN A. GOLDEN	President, John A. Golden Associates, Inc.
ARCHIE M. GRIFFIN	President and Chief Executive Officer, The Ohio State University Alumni Association, Inc.
JOHN W. KESSLER	Chairman, The New Albany Company
EDWARD F. LIMATO	Co-President, International Creative Management, Inc.
SAMUEL N. SHAHID, JR.	President/Creative Director, Shahid & Company, Inc.
ROBERT S. SINGER	President and Chief Operating Officer

* Executive Officer of the Company

