Abercrombie & Fitch

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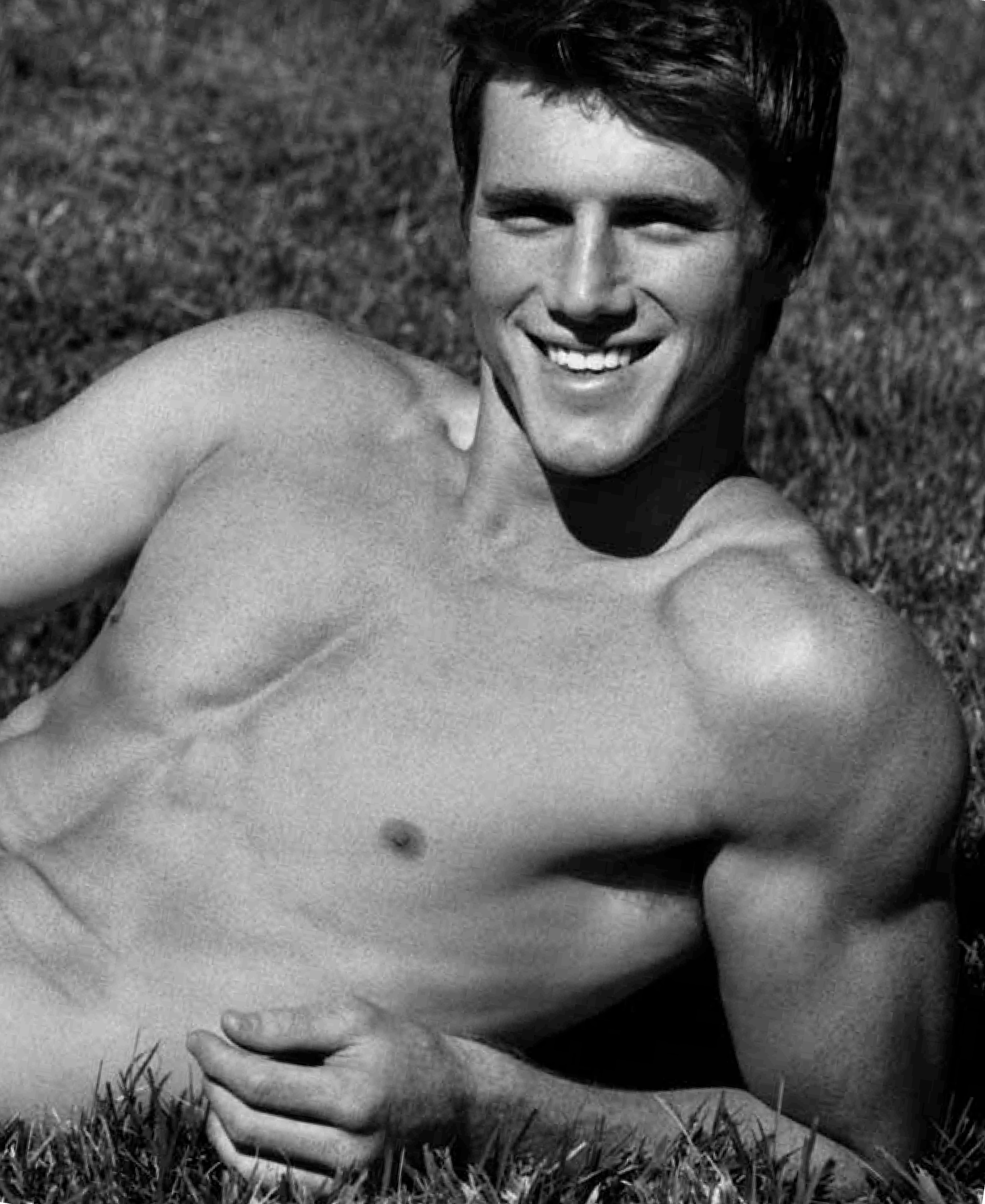


CHAIRMAN'S LETTER

Fiscal 2005 was an outstanding year for Abercrombie & Fitch by almost every financial or operational measure. Not only did we produce record sales and earnings, but we also strategically positioned ourselves for continued success over the long-term. We like to think that our achievements during Fiscal 2005 are the result of our ongoing and long-term commitment to protecting and enhancing the strength of our brands.

As we have often stated, to succeed in our business we must strike a balance between reporting near-term profit growth and investing in the organization. Even as we were generating exceptional results during Fiscal 2005, we continued to make essential investments, initially focusing on the stores' presentation and service, which drastically improved the shopping experience of our customers. What was not so visible were the changes made at the home office, including broadening our merchandising and design organization. These actions, at the store level and to our infrastructure, will serve us well in the future.

Even with these major investments, our results this year were outstanding. Net income per share rose to $3.66, an increase of 61%, on net sales of $2.785 billion, up 38%. The gross margin rate reached an industry-leading 66.5% of net sales. We also used our strong cash position to further enhance shareholder value by repurchasing 1.8 million shares of common stock and paying dividends totaling $0.60 per share, an increase of 20% over last year.

But, that was Fiscal 2005; what about the future?

Our store investment program, which was initiated in late Fiscal 2004, is designed to enhance the shopping experience of customers primarily by increasing on-floor staff coverage, but also by improving operational efficiencies at the store level. Product replenishment and store presentation standards were enhanced through a newly-developed merchandise filling system supported by the reengineering of our stock rooms.

The broadening of our merchandising and design groups resulted in greater expertise at the product category level and these benefits are evident now. We also made investments in our information technology infrastructure and established a Brand Protection Team, which focuses on defending our intellectual property through an aggressive anti-counterfeit program.

Looking at the specific details for Fiscal 2005, you will find that each of our brands performed very well. Hollister, one of our major growth vehicles, has only reached half of its maximum U.S. store potential. Over the next few years, we expect Hollister's iconic status to continue to strengthen. We opened our first Hollister stores in Canada in late Fiscal 2005, with productivity at or above that of their average U.S. counterparts. The results achieved at this brand during Fiscal 2005 demonstrate how solid this concept performs, achieving net sales of approximately one billion dollars and $528 per square foot. For Fiscal 2005, net sales at Hollister increased 72% with comparable store sales increasing 29%.

Our Abercrombie & Fitch brand achieved a comparable store sales increase of 18%, demonstrating excellent growth for a relatively mature business. With limited opportunity to secure additional domestic mall locations,

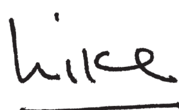
expanding the A&F business will be driven by opening select flagship stores combined with international expansion. Late in Fiscal 2005, we opened the first Abercrombie & Fitch flagship store on Fifth Avenue in New York City. The store performed extremely well, exceeding our initial sales productivity expectations. We also opened our first Abercrombie & Fitch stores in Canada late in the year. The stores are off to an amazing start with productivity above that of our average Abercrombie & Fitch stores in the United States. In addition, we are planning to open flagship stores in the Grove at Farmer's Market in Los Angeles in the Summer of Fiscal 2006, followed by the London flagship store in the Spring of Fiscal 2007.

Our kids business, abercrombie, generated an incredible comparable store sales increase of 54% in Fiscal 2005. The abercrombie brand not only achieved the greatest productivity increase among our brands, but also had a gross profit rate above both Abercrombie & Fitch and Hollister.

We are excited about the progress we have made in RUEHL, our newest brand. We ended the year with eight stores, and are planning to open eight additional stores in Fiscal 2006. RUEHL performed well, achieving solid productivity and gross margin improvements in Fiscal 2005.

Going forward, we remain committed to making appropriate investments in major areas of the business. Initiatives to the stores' organization in Fiscal 2006 will be focused on achieving an efficient relationship between variable store expenses, particularly store payroll, and maintaining an in-store experience that reflects the aspirational positioning of the brands. From an infrastructure standpoint, we will expand our home office complex to support our growth initiatives. In addition, we plan to enhance our existing technology platform by implementing systems intended to increase efficiencies by reducing manual tasks at both the stores and home office.

After posting such exceptional results, we are faced with the challenge of reporting the same kind of growth achieved in Fiscal 2005. Despite raising the bar higher, we believe that we can continue to report strong results. While it is difficult to predict what business trends for Fiscal 2006 will be, we believe that the strength of our brands and our ability to bring our stores and formats to new markets, combined with the improvements we have made in a number of our disciplines, will enable us to continue to achieve growth in our sales and earnings. In that regard, it is our intent to operate the business as we always have - striking that balance of reporting solid growth for the short-term while continuing to enhance investor value for the longer term.



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	2005	2004	2003	2002	2001
Summary of Operations					
Net Sales	$2,784,711	$2,021,253	$1,707,810	$1,595,757	$1,364,853
Gross Profit	$1,851,416	$1,341,224	$1,083,170	$ 980,555	$ 817,325
Operating Income	$ 542,738	$ 347,635	$ 331,180	$ 312,315	$ 268,004
Operating Income as a Percentage of Net Sales	19.5%	17.2%	19.4%	19.6%	19.6%
Net Income	$ 333,986	$ 216,376	$ 204,830	$ 194,754	$ 166,600
Net Income as a Percentage of Net Sales	12.0%	10.7%	12.0%	12.2%	12.2%
Dividends Declared Per Share	$ 0.60	$ 0.50	–	–	–
Net Income Per Weighted-Average Share Results					
Basic	$ 3.83	$ 2.33	$ 2.12	$ 1.98	$ 1.68
Fully-Diluted	$ 3.66	$ 2.28	$ 2.06	$ 1.94	$ 1.62
Fully-Diluted Weighted-Average Shares Outstanding	91,221	95,110	99,580	100,631	102,524
Other Financial Information					
Total Assets	$1,789,718	$1,386,791	$1,401,369	$1,190,615	$ 929,978
Return on Average Assets	21%	16%	16%	18%	20%
Capital Expenditures	$ 256,422	$ 185,065	$ 159,777	$ 145,662	$ 171,673
Long-Term Debt	–	–	–	–	–
Shareholders' Equity	$ 995,117	$ 669,326	$ 857,765	$ 736,307	$ 582,395
Return on Average Shareholders' Equity	40%	28%	26%	30%	34%
Comparable Store Sales*	26%	2%	(9%)	(5%)	(9%)
Net Retail Sales Per Average Gross Square Foot	$ 464	$ 360	$ 345	$ 379	$ 401
Stores at End of Year and Average Associates					
Total Number of Stores Open	851	788	700	597	491
Gross Square Feet	6,025,000	5,590,000	5,016,000	4,358,000	3,673,000
Average Number of Associates	69,100	48,500	30,200	22,000	16,700

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

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the Annual Report by the calendar year in which the fiscal year commences. All references herein to "Fiscal 2005" represent the results of the 52-week fiscal year ended January 28, 2006; to "Fiscal 2004" represent the 52-week fiscal year ended January 29, 2005; and to "Fiscal 2003" represent the 52-week fiscal year ended January 31, 2004. In addition, references herein to "Fiscal 2006" represent the 53-week fiscal year that will end on February 3, 2007.

OVERVIEW Beginning with the first quarter of Fiscal 2005, the Company reclassified its condensed consolidated statements of net income and comprehensive income. In prior periods, the Company included buying and occupancy costs as well as certain home office expenses as part of the gross profit calculation. The Company believes that presenting gross profit as a function of sales reduced solely by cost of goods sold, as well as presenting stores and distribution expense and marketing, general and administrative expense as individual expense categories, provides a clearer and more transparent representation of gross selling margin and operating expenses. Prior period results have been reclassified accordingly.

The Company had net sales of $2.785 billion in Fiscal 2005, up 37.8% from $2.021 billion in Fiscal 2004. Operating income for Fiscal 2005 increased 56.1% to $542.7 million from $347.6 million for Fiscal 2004. Operating income results in Fiscal 2005 and Fiscal 2004 included the impact of non-recurring charges of $13.5 million related to a severance agreement of an executive officer and $40.9 million related to a legal settlement, respectively. Net income was $334.0 million in Fiscal 2005, up 54.3% from $216.4 million in Fiscal 2004. Net income per fully-diluted weighted-average share was $3.66 for Fiscal 2005 compared to $2.28 in Fiscal 2004, an increase of 60.5%. The non-recurring charges, net of the related tax effect, reduced reported net income per fully-diluted share by $0.09 and $0.27 in Fiscal 2005 and Fiscal 2004, respectively.

The Company generated cash from operations of $453.6 million in Fiscal 2005 versus $423.8 million in Fiscal 2004, resulting primarily from strong sales and income. During Fiscal 2005, the Company used cash from operations to finance its growth strategy, opening 57 new Hollister stores, 15 new Abercrombie & Fitch stores, five new abercrombie stores and four new RUEHL stores, as well as remodeling 14 Abercrombie & Fitch stores.

Further, the Company used excess cash to repurchase 1.8 million shares of common stock for $103.3 million and pay dividends of $0.60 per share for a total of $52.2 million. The Company believes that share repurchases and dividends are an important way for the Company 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. The Company continues to be committed to maintaining sufficient cash on the balance sheet to support the needs of the business and withstand unanticipated business volatility.

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

	2005	2004	2003
Net Sales	100.0%	100.0%	100.0%
Cost of Goods Sold	33.5	33.6	36.6
Gross Profit	66.5	66.4	63.4
Stores and Distribution Expense	35.9	36.5	35.0
Marketing, General and Administrative Expense	11.3(1)	12.9(2)	9.1
Other Operating Income, Net	(0.2)	(0.2)	(0.1)
Operating Income	19.5	17.2	19.4
Interest Income, Net	(0.2)	(0.3)	(0.2)
Income Before Income Taxes	19.7	17.5	19.6
Provision for Income Taxes	7.7	6.8	7.6
Net Income	12.0%	10.7%	12.0%

(1) *Includes 0.5% related to a severance agreement.*

(2) *Includes 2.0% related to a legal settlement.*

FINANCIAL SUMMARY The following summarized financial and operational data compares Fiscal 2005 to Fiscal 2004 and Fiscal 2004 to Fiscal 2003:

	2005	2004	2003	% Change 2004-2005	% Change 2003-2004
Net sales (thousands)	$2,784,711	$2,021,253	$1,707,810	38%	18%
Net sales by brand (thousands)					
Abercrombie & Fitch	$1,424,013	$1,210,222	$1,180,646	18%	3%
abercrombie	$ 344,938	$ 227,204	$ 212,276	52%	7%
Hollister	$ 999,212	$ 579,687	$ 314,888	72%	84%
RUEHL*	$ 16,548	$ 4,140	n/a	300%	n/a
Net retail sales per average store (thousands)					
Abercrombie & Fitch	$ 3,784	$ 3,103	$ 3,184	22%	(3)%
abercrombie	$ 1,957	$ 1,241	$ 1,194	58%	4%
Hollister	$ 3,442	$ 2,740	$ 2,594	26%	6%
RUEHL*	$ 2,903	$ 1,255	n/a	131%	n/a
Increase (decrease) in comparable store sales**					
Abercrombie & Fitch	18%	(1)%	(11)%		
abercrombie	54%	1%	(6)%		
Hollister	29%	13%	7%		
Net sales increase attributable to new and remodeled stores, catalogue and web sites	12%	16%	16%		
Net retail sales per average gross square foot					
Abercrombie & Fitch	$ 432	$ 352	$ 358	23%	(2)%
abercrombie	$ 446	$ 282	$ 270	58%	4%
Hollister	$ 528	$ 423	$ 404	25%	5%
RUEHL*	$ 315	$ 136	n/a	132%	n/a
Transactions per average store					
Abercrombie & Fitch	49,685	45,941	51,234	8%	(10)%
abercrombie	30,356	21,740	22,128	40%	(2)%
Hollister	64,913	56,687	57,593	15%	(2)%
RUEHL*	26,215	12,913	n/a	103%	n/a
Average transaction value					
Abercrombie & Fitch	$ 76.16	$ 67.54	$ 62.15	13%	9%
abercrombie	$ 64.47	$ 57.10	$ 53.98	13%	6%
Hollister	$ 53.03	$ 48.33	$ 45.04	10%	7%
RUEHL*	$ 110.74	$ 97.16	n/a	14%	n/a
Average units per transaction					
Abercrombie & Fitch	2.18	2.22	2.24	(2)%	1%
abercrombie	2.66	2.68	2.68	(1)%	nm
Hollister	2.21	2.18	2.14	1%	2%
RUEHL*	2.28	2.17	n/a	5%	n/a
Average unit retail sold					
Abercrombie & Fitch	$ 34.94	$ 30.42	$ 27.75	15%	10%
abercrombie	$ 24.24	$ 21.31	$ 20.14	14%	6%
Hollister	$ 24.00	$ 22.17	$ 21.05	8%	5%
RUEHL*	$ 48.57	$ 44.77	n/a	8%	n/a

** Net sales for RUEHL during Fiscal 2004 and Fiscal 2005, and the related statistics, reflect the activity of three stores opened in September 2004, one store opened in December 2004, and four stores opened in 2005; as a result, year-to-year comparisons may not be meaningful.*

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

CURRENT TRENDS AND OUTLOOK During Fiscal 2005, the Company made important expenditures in order to continue to develop, enhance and protect the aspirational position of its brands. Initially, the Company focused on its store base by completing the roll out across all brands of the store investment program that started in late Fiscal 2004. The Company added more sales floor coverage by increasing the brand representative hours at the stores, which the Company believes enhanced the customer's in-store experience and helped lower inventory shrink. Additionally, the Company implemented a new store merchandise filling system and organized the store stock rooms to improve merchandise replenishment efficiency. Finally, the Company invested in its home office organization by broadening the merchandising and design groups, providing the Company with greater expertise at the product category level across all brands, while creating leverage with its supplier base. Other home office investments included the creation and launch of the Abercrombie & Fitch Brand Protection Team, the Company's new anti-counterfeiting program, the development of its international support group, as well as investments in its design and technical design groups.

During the fourth quarter of Fiscal 2005, the Company opened the first Abercrombie & Fitch flagship store on 5th Avenue in New York City. The store performed well throughout the fourth quarter of Fiscal 2005, exceeding management's initial sales productivity expectations. During January 2006, the Company also opened its first Abercrombie & Fitch and Hollister stores in Canada. These stores are off to a strong start with productivity above that of their respective average U.S. counterparts. The Company plans to open additional flagship locations in Los Angeles during Fiscal 2006 and London in early 2007.

The Company views the Hollister brand as a significant growth vehicle for the Company in the future, with the brand having reached only half of its maximum store potential; Abercrombie & Fitch is a maturing brand with its opportunity for future growth and contribution depending on securing prime locations for its stores and expanding the brand and its presence outside of the United States; abercrombie is viewed as having growth opportunities within the United States; management continues to refine RUEHL's merchandise mix, marketing strategy and store presentation to position the brand for long-term profitability.

For Fiscal 2006, the Company will be faced with the challenge of improving on Fiscal 2005's successful business. The Company has begun to annualize the strong comparable store sales growth, which started in January 2005. While the Company believes it can sustain positive comparable store sales increases in Fiscal 2006, the increases are not expected to be at the level reported during Fiscal 2005. Management will operate the business as it always has – it will protect and enhance the brands and work to ensure their long-term success.

While the Company has been able to improve its Initial Markup ("IMU") in the past, management does not anticipate any IMU improvements in its forecasts or projections. The Company ended the fourth quarter of Fiscal 2005 with inventories, at cost, up 59% per gross square foot versus the fourth quarter of Fiscal 2004 as a result of the Company's investment in the jeans business and other basic categories. The Company will continue to invest in key inventory categories to drive business while actively managing its markdown exposure. The Company believes it will end the first quarter of Fiscal 2006 with a slightly lower increase in inventory per gross square foot, at cost, when compared to the fourth quarter of Fiscal 2005.

During Fiscal 2006, the Company will continue to focus on the customer's in-store experience. The Company expects that the on-going management of the store investment program initiatives will be evaluated primarily by store sales performance, with consideration for customer service, shrink and other aspects of the customer's in-store experience. Additionally, the Company plans to continue to make capital expenditures to invest strategically in the appearance of its stores, primarily in Abercrombie & Fitch and Hollister stores. These investments will allow the Company to update some of its older stores without having to do full remodels.

The Company plans to make an investment during Fiscal 2006 in home office organizations and information technology infrastructure to enhance and increase efficiencies in its systems. The Company expects its payroll expense, excluding the impact of stock option expensing, to increase at a lower rate during Fiscal 2006 than it did during Fiscal 2005. Additionally, the Company also expects depreciation and amortization expense for the home office to increase during Fiscal 2006 as a result of the capital expenditures it incurred during Fiscal 2005, primarily due to the addition of a new office building.

Historically, the Company has reported stock-based compensation through the disclosure-only requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, *"Accounting for Stock-Based Compensation,"* as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation–Transition and Disclosure–an Amendment of FASB Statement No. 123,"* but elected to measure compensation 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 have been granted at fair market value at the grant date. In accordance with SFAS No. 123(Revised 2004), *"Share-Based Payment,"* the Company will begin to recognize expense for stock options granted to the Company's associates and non-associate directors beginning with the first quarter of Fiscal 2006, which will have an adverse impact on the Company's reported net income. Based on stock options previously issued, but not fully vested, and an estimate of stock options to be granted during Fiscal 2006, the Company expects that the implementation of SFAS No. 123(R) will result in a charge of approximately $0.10 per fully-diluted share for Fiscal 2006.

The following measurements are among the key business indicators that management reviews regularly to gauge the Company's results:

- Comparable store sales, defined as year-over-year sales for a store that has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year, by brand, by product category and by store;
- IMU;
- Selling margin, defined as sales price less original cost, by brand and by product category;
- Store metrics such as sales per gross square foot, average unit retail, average transaction values, store contribution, defined as store sales less direct costs of running the store, and average units per transaction;
- Markdown rates;
- Gross profit;
- Operating income;
- Net income; and
- Cash flow and liquidity determined by Company's current ratio and cash provided by operations.

While not all of these metrics are disclosed publicly by the Company, due in some cases to their proprietary nature, the Company does publicly disclose and discuss several of these metrics as part of its financial summary and in several sections of this Management's Discussion and Analysis.

FISCAL 2005 COMPARED TO FISCAL 2004: FOURTH QUARTER RESULTS: NET SALES Net sales for the fourth quarter of Fiscal 2005 were $961.4 million, up 39.9% versus last year's fourth quarter net sales of $687.3 million. The net sales increase was primarily attributable to a comparable store sales increase of 28% for the quarter and the net addition of 63 stores during Fiscal 2005 and an increase in the direct-to-consumer business net sales (including shipping and handling revenue) of $8.1 million versus the comparable period in the fourth quarter of Fiscal 2004.

By merchandise brand, comparable store sales for the quarter were as follows: Abercrombie & Fitch increased 18% with women's comparable store sales increasing by a low-twenties percentage and men's increasing by a mid-teen percentage. abercrombie, the kids' business, achieved a 59% increase in comparable store sales with girls achieving a high-sixties increase and boys posting a high-thirties increase. In Hollister, comparable store sales increased by 34% for the fourth quarter with bettys increasing comparable store sales by a mid-thirties percentage and dudes realizing an increase in the low-thirties.

On a regional basis, comparable store sales increases for the Company ranged from the mid-twenties to the low-thirties across the United States. Stores located in the North Atlantic and Southwest had the best comparable store sales performance on a consolidated basis.

In Abercrombie & Fitch, the women's comparable store sales increase for the quarter was driven by strong performances in polos, fleece, outerwear and sweaters. The men's comparable store sales growth was driven by increases in polos, graphic tees, jeans and personal care, offset by decreases in woven shirts and accessories.

In the kids' business, the girls' comparable store sales increased as a result of strong sales performances across the majority of the categories, led by polos, fleece, graphic tees and jeans. Boys' comparable store sales increase was driven by the following categories: polos, jeans, graphic tees and fleece, offset by slight decreases in the woven shirt and activewear categories.

In Hollister, bettys had strong comparable store sales increases in polos, fleece, sweaters and graphic tees. The increase in the dudes' comparable store sales was the result of strong performance in polos, graphic tees, fleece and personal care categories for the quarter, offset by decreases in woven shirts and sweaters.

Direct-to-consumer merchandise net sales, which are sold through the Company's web sites and catalogue, in the fourth quarter of Fiscal 2005 were $47.5 million, an increase of 18.5% versus last year's fourth quarter net sales of $40.1 million. Shipping and handling revenue for the corresponding periods was $6.2 million in Fiscal 2005 and $5.5 million in Fiscal 2004. The direct-to-consumer business, including shipping and handling revenue, accounted for 5.6% of net sales in the fourth quarter of Fiscal 2005 compared to 6.6% in the fourth quarter of Fiscal 2004. The decrease in sales penetration was due to the implementation of brand protection initiatives that reduced the amount of sale merchandise available on the web sites and limit the customer's ability to purchase large quantities of the same item.

GROSS PROFIT Gross profit during the fourth quarter of Fiscal 2005 was $639.4 million compared to $455.8 million in Fiscal 2004. The gross profit rate (gross profit divided by net sales) for the fourth quarter of Fiscal 2005 was 66.5%, up 20 basis points from last year's fourth quarter rate of 66.3%. The increase in gross profit rate resulted largely from a higher IMU during the fourth quarter of Fiscal 2005 and a reduction in shrink versus the fourth quarter of Fiscal 2004, partially offset by a slightly higher markdown rate. The improvement in IMU during the fourth quarter was a result of higher average unit retail pricing across all brands. Abercrombie & Fitch, abercrombie and Hollister all operated at similar IMU margins.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for the fourth quarter of Fiscal 2005 was $293.5 million compared to $223.8 million for the comparable period in Fiscal 2004. The stores and distribution expense rate (stores and distribution expense divided by net sales) for the fourth quarter of Fiscal 2005 was 30.5% compared to 32.6% in the fourth quarter of Fiscal 2004. Stores and distribution expense was as follows:

	Thirteen Weeks Ended			
	January 28, 2006		January 29, 2005	
	(millions)	% of net sales	(millions)	% of net sales
Store Payroll Expense	$101.5	10.6%	$ 74.6	10.9%
Store Management Expense[1]	12.4	1.3%	7.7	1.1%
Rent, Utilities and Other Landlord Expense	75.0	7.8%	57.5	8.4%
Depreciation and Amortization	29.4	3.1%	28.1	4.1%
Repairs and Maintenance Expense	8.5	0.9%	8.3	1.2%
Other Store Expenses[2]	45.9	4.8%	30.8	4.5%
Total Stores Expense	$272.7	28.4%	$207.0	30.1%
Direct-to-Consumer Expense	13.1	1.4%	10.6	1.5%
Distribution Center Expense	7.7	0.8%	6.2	0.9%
Total Stores and Distribution Expense	$293.5	30.5%	$223.8	32.6%

[1] *Previously reported within Store Payroll Expense.*
[2] *Includes packaging, supplies, credit card fees and other store support functions.*

The Company's total store expense, as a percent of net sales, during the fourth quarter of Fiscal 2005 decreased 170 basis points versus the comparable period during Fiscal 2004 as a result of the Company's ability to leverage fixed costs due to significant comparable store sales increases partially offset by increases in store management and loss prevention programs during Fiscal 2005. The Company believes that the increases in store management and loss prevention programs were key in driving sales and reducing shrink levels during the quarter, which had a favorable impact on the Company's gross profit rate.

The distribution center productivity level, measured in units processed per labor hour ("UPH"), was 20% lower in the fourth quarter of Fiscal 2005 versus the fourth quarter of Fiscal 2004. The UPH rate decrease resulted from increases in inventory and from a change in the way the Company flowed merchandise to its stores. Merchandise was routed to the stores in a more gradual process in order to avoid stockroom congestion at the stores. This resulted in the distribution center approaching capacity levels, which in turn resulted in a lower productivity rate due to the increased inventory handling. Although the Company expects the UPH level to continue to decrease in the near term, it is building a second distribution center at the Company's New Albany campus to address capacity issues and support future store growth. The second distribution center, which is currently under construction, is expected to be fully functional in late Fiscal 2006.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE Marketing, general and administrative expense during the fourth quarter of Fiscal 2005 was $80.8 million compared to $66.1 million during the same period in Fiscal 2004. For the fourth quarter of Fiscal 2005, the marketing, general and administrative expense rate (marketing, general and administrative expense divided by net sales) was 8.4% compared to 9.6% in the fourth quarter of Fiscal 2004. The decrease in the marketing, general and administrative expense rate was due to the Company's ability to leverage home office payroll, a reduction in sample expenses and marketing expenses due to timing of photo shoots, offset by increases in outside services mostly due to legal costs.

OTHER OPERATING INCOME, NET Fourth quarter other operating income for Fiscal 2005 was $2.3 million compared to $4.3 million for the fourth quarter of Fiscal 2004. The decrease was related to the amount of the gift card liability recognized as other income for gift cards for which the Company has determined the likelihood of redemption to be remote.

OPERATING INCOME Operating income during the fourth quarter of Fiscal 2005 increased to $267.5 million from $170.2 million in Fiscal 2004, an increase of 57.2%. The operating income rate (operating income divided by net sales) for the fourth quarter of Fiscal 2005 was 27.8% compared to 24.8% for the fourth quarter of Fiscal 2004.

INTEREST INCOME AND INCOME TAXES Fourth quarter net interest income was $2.4 million in Fiscal 2005 compared to $1.3 million during the comparable period in Fiscal 2004. The increase in net interest income was due to higher rates on investments, partially offset by lower average investment balances during the fourth quarter of Fiscal 2005 when compared to the same period in Fiscal 2004. The Company continued to invest in investment grade municipal notes and bonds and investment grade auction rate securities. The effective tax rate for the fourth quarter of Fiscal 2005 was 39.0% compared to 39.2% for the Fiscal 2004 comparable period.

NET INCOME AND NET INCOME PER SHARE Net income for the fourth quarter of Fiscal 2005 was $164.6 million versus $104.3 million for the fourth quarter of Fiscal 2004, an increase of 57.8%. Net income per fully-diluted weighted-average share outstanding for the fourth quarter of Fiscal 2005 was $1.80 versus $1.15 for the same period last year, an increase of 56.5%.

FISCAL 2005 RESULTS: NET SALES Net sales for Fiscal 2005 were $2.785 billion, an increase of 37.8% versus Fiscal 2004 net sales of $2.021 billion. The net sales increase was attributable to an increase in comparable stores sales of 26% for the year, the net addition of 63 stores during Fiscal 2005 and a $13.9 million increase in net sales (including shipping and handling revenue) for the direct-to-consumer business.

For the fiscal year, comparable store sales by brand were as follows: Abercrombie & Fitch increased 18%; abercrombie increased 54%;

Hollister increased 29%. In addition, the women's, girls' and bettys' businesses continued to be more significant than the men's, boys' and dudes'. During Fiscal 2005, women, girls and bettys represented over 60% of the net sales for each of their corresponding brands. abercrombie girls achieved a mid-sixties increase, Hollister bettys achieved a low-thirties increase and Abercrombie & Fitch women had a high-teens increase.

Direct-to-consumer merchandise net sales in Fiscal 2005 were $122.5 million, an increase of 10.8% versus last year's net sales of $110.6 million for the comparable period. Shipping and handling revenue was $17.6 million in Fiscal 2005 and $15.7 million in Fiscal 2004. The direct-to-consumer business, including shipping and handling revenue, accounted for 5.0% of net sales in Fiscal 2005 compared to 6.2% of net sales in Fiscal 2004. The decrease in sales penetration during Fiscal 2005 was due to the implementation of brand protection initiatives throughout the year that reduced the amount of sale merchandise available on the web sites and limited the customer's ability to purchase large quantities of the same item.

GROSS PROFIT For Fiscal 2005, gross profit increased to $1.851 billion from $1.341 billion in Fiscal 2004. The gross profit rate for Fiscal 2005 was 66.5% versus 66.4% the previous year. The gross profit rate increase of 10 basis points reflects higher initial markup and a reduction in shrink, partially offset by a slightly higher markdown rate than last year.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for Fiscal 2005 was $1.001 billion compared to $738.2 million for Fiscal 2004. For Fiscal 2005, the stores and distribution expense rate was 35.9% compared to 36.5% in the previous year. Stores and distribution expense was as follows:

	Fifty-Two Weeks Ended			
	January 28, 2006		January 29, 2005	
	(millions)	% of net sales	(millions)	% of net sales
Store Payroll Expense	$ 338.2	12.1%	$218.4	10.8%
Store Management Expense[1]	41.1	1.5%	26.7	1.3%
Rent, Utilities and Other Landlord Expense	277.2	10.0%	224.4	11.1%
Depreciation and Amortization	110.7	4.0%	96.1	4.8%
Repairs and Maintenance Expense	43.1	1.5%	34.7	1.7%
Other Store Expenses[2]	125.2	4.5%	84.3	4.2%
Total Stores Expense	$ 935.5	33.6%	$684.6	33.9%
Direct-to-Consumer Expense	38.5	1.4%	33.1	1.6%
Distribution Center Expense	26.8	1.0%	20.5	1.0%
Total Stores and Distribution Expense	$1,000.8	35.9%	$738.2	36.5%

[1] *Previously reported within Store Payroll Expense.*
[2] *Includes packaging, supplies, credit card fees and other store support functions.*

The Company's total store expense, as a percent of net sales, during Fiscal 2005 decreased 30 basis points versus Fiscal 2004 as a result of the Company's ability to leverage fixed costs, due to significant comparable store sales increases, partially offset by increased store payroll and store management expense.

The distribution center's UPH rate for the year was 7% lower in Fiscal 2005 versus Fiscal 2004. The UPH rate decrease resulted from increases in inventory and from a change in the way the Company flowed merchandise to its stores. Merchandise was routed to the stores in a more gradual process in order to avoid stockroom congestion at the stores. This resulted in the distribution center approaching capacity levels, which in turn resulted in a lower productivity rate due to the increased inventory handling. Although the Company expects the UPH level to continue to decrease in the near term, it is building a second distribution center at the Company's New Albany campus to address capacity issues and support future store growth. The second distribution center, which is currently under construction, is expected to be fully functional in late Fiscal 2006.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE Marketing, general and administrative expense during Fiscal 2005 was $313.5 million compared to $259.8 million in Fiscal 2004. For the current year, the marketing, general and administrative expense rate was 11.3% compared to 12.9% in Fiscal 2004. The decrease in the marketing, general and administrative expense rate was due to a non-recurring charge of $40.9 million in Fiscal 2004 related to a legal settlement and leverage in the home office payroll expense, offset by a non-recurring charge of $13.5 million in Fiscal 2005 related to a severance agreement of an executive officer and legal costs.

OTHER OPERATING INCOME, NET Other operating income for Fiscal 2005 was $5.5 million compared to $4.5 million for Fiscal 2004. The increase in other operating income was related to the favorable settlement of a class action lawsuit related to credit card fees in which the Company was a class member and lease buyout payments from landlords, partially offset by a lower amount of gift card liability recognized as other income for gift cards for which the Company has determined the likelihood of redemption to be remote.

OPERATING INCOME Fiscal 2005 operating income was $542.7 million compared to $347.6 million for Fiscal 2004, an increase of 56.1%. The operating income rate for Fiscal 2005 was 19.5% versus 17.2% in the previous year.

INTEREST INCOME AND INCOME TAXES Net interest income for Fiscal 2005 was $6.7 million compared to $5.2 million for the previous year. The increase in net interest income was due to the Company receiving higher rates on its investments, partially offset by lower average investment balances during Fiscal 2005 when compared to Fiscal 2004. The effective tax rate for Fiscal 2005 was 39.2% compared to 38.7% for Fiscal 2004. The increase in the annual effective tax rate was due to the Company's change of estimates in the potential outcomes and favorable settlements of certain state tax matters in Fiscal 2005.

NET INCOME AND NET INCOME PER SHARE Net income for Fiscal 2005 was $334.0 million versus $216.4 million in Fiscal 2004, an increase of 54.3%. Net income included after-tax non-recurring charges of $8.2 million in Fiscal 2005 related to a severance agreement of an executive officer and $25.6 million in Fiscal 2004 related to a legal settlement. Net income per fully-diluted weighted-average share was $3.66 in Fiscal 2005 versus $2.28 in Fiscal 2004, an increase of 60.5%. The percentage increase in net income per fully-diluted shares outstanding was greater than the percentage increase in net income due to the impact of the Company's share repurchase program. In Fiscal 2005, the Company repurchased 1.8 million shares.

FISCAL 2004 COMPARED TO FISCAL: 2003 FOURTH QUARTER RESULTS: NET SALES Net sales for the fourth quarter of Fiscal 2004 were $687.3 million, a 22.6% increase versus Fiscal 2003 fourth quarter net sales of $560.4 million. The net sales increase was attributable to the net addition of 88 stores during Fiscal 2004, a comparable store sales increase of 9% for the quarter and an increase of $11.1 million in net sales (including shipping and handling revenue) for the direct-to-consumer business versus the comparable period in Fiscal 2003.

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

On a regional basis, comparable store sales results across all three brands were strongest in the Northeast and in the West and weakest in the Midwest. However, all regions reported positive comparable store sales for the quarter.

The Company committed to a strategy that included fewer promotions in early Fiscal 2004, and maintained this strategy throughout the fiscal year. As such, the Company did not anniversary the direct mail promotions used during the fourth quarter of Fiscal 2003 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, jeans, and woven shirts. Women's comparable store sales growth was driven by an increase in polos, jeans and fleece, offset by a decrease in sweaters.

In the abercrombie business, for the quarter, girls had comparable store sales increases across most of the categories, especially polos, jeans and graphic tees. Boys' comparable store sales increases were driven by graphic tees, jeans and fleece.

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

Direct-to-consumer merchandise net sales through the Company's web sites and catalogue for the fourth quarter of Fiscal 2004 were $40.1 million, an increase of 29.4% versus Fiscal 2003 fourth quarter net sales of $31.0 million. Shipping and handling revenue for the corresponding periods was $5.5 million in Fiscal 2004 and $3.5 million in Fiscal 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 PROFIT Gross profit for the fourth quarter of Fiscal 2004 was $455.8 million compared to $355.4 million in the corresponding period in Fiscal 2003. The gross profit rate for the fourth quarter of Fiscal 2004 was 66.3%, up 290 basis points from the Fiscal 2003 rate of 63.4%. The increase in the gross profit rate resulted largely from lower markdowns and an increase in IMU during the fourth quarter of Fiscal 2004 versus the 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 average unit retail pricing in Abercrombie & Fitch, abercrombie and Hollister. The three brands had IMU improvements compared to the fourth quarter of Fiscal 2003 and operated at similar margins.

The Company ended the fourth quarter of Fiscal 2004 with inventories, at cost, up 11% per gross square foot versus the fourth quarter of Fiscal 2003. The inventory increase reflected a planned acceleration of Spring and jeans merchandise deliveries.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for the fourth quarter of Fiscal 2004 was $223.8 million compared to $164.0 million for the comparable period in Fiscal 2003. For the fourth quarter of Fiscal 2004, the stores and distribution expense rate was 32.6% compared to 29.3% in the fourth quarter of Fiscal 2003. Stores and distribution expense was as follows:

	Thirteen Weeks Ended			
	January 29, 2005		January 31, 2004	
	(millions)	% of net sales	(millions)	% of net sales
Store Payroll Expense	$ 74.6	10.9%	$ 45.2	8.1%
Store Management Expense[1]	7.7	1.1%	5.0	0.9%
Rent, Utilities and Other Landlord Expense	57.5	8.4%	51.1	9.1%
Depreciation and Amortization	28.1	4.1%	21.8	3.9%
Repairs and Maintenance Expense	8.3	1.2%	5.1	0.9%
Other Store Expenses[2]	30.8	4.5%	22.4	4.0%
Total Stores Expense	$207.0	30.1%	$150.6	26.9%
Direct-to-Consumer Expense	10.6	1.5%	8.3	1.5%
Distribution Center Expense	6.2	0.9%	5.1	0.9%
Total Stores and Distribution Expense	$223.8	32.6%	$164.0	29.3%

[1] *Previously reported within Store Payroll Expense.*

[2] *Includes packaging, supplies, credit card fees and other store support functions.*

The Company's total store expense for the fourth quarter of Fiscal 2004, as a percent of net sales, increased versus the comparable period during Fiscal 2003 as a result of the Company beginning to implement its store investment program during this period, offset by leverage of rent, utilities and other landlord expense as a result of the increase in comparable store sales. In the fourth quarter of Fiscal 2004, the distribution center's UPH increased 10% over Fiscal 2003 fourth quarter results.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE Marketing, general and administrative expense during the fourth quarter of Fiscal 2004 was $66.1 million compared to $37.1 million during the same period in Fiscal 2003. For the fourth quarter of Fiscal 2004, the marketing, general and administrative expense rate was 9.6% compared to 6.6% in the fourth quarter of Fiscal 2003. The increase in the marketing, general and administrative expense rate was due to higher home office payroll expense as a result of additional headcount in the home office, incentive compensation and legal expense.

OTHER OPERATING INCOME, NET Fourth quarter other operating income for Fiscal 2004 was $4.3 million compared to $459,000 for the fourth quarter of Fiscal 2003. The increase was related to the amount of gift card liability recognized as other income for gift cards for which the Company has determined the likelihood of redemption to be remote.

OPERATING INCOME Operating income for the fourth quarter of Fiscal 2004 increased to $170.2 million from $154.8 million in Fiscal 2003. The operating income rate was 24.8% for the fourth quarter of Fiscal 2004 compared to 27.6% for the fourth quarter of Fiscal 2003.

INTEREST INCOME AND INCOME TAXES Fourth quarter net interest income for Fiscal 2004 was $1.3 million compared with net interest income of $1.1 million for the comparable period in Fiscal 2003. The increase in net interest income was due to higher rates during the fourth quarter of Fiscal 2004 when compared to the same period in Fiscal 2003. 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 Fiscal 2003 comparable period.

NET INCOME AND NET INCOME PER SHARE Net income for the fourth quarter of Fiscal 2004 was $104.3 million versus $94.6 million for the same period in Fiscal 2003, an increase of 10.3%. Net income per fully-diluted weighted-average share outstanding for the fourth quarter of Fiscal 2004 was $1.15 versus $0.97 for the fourth quarter of Fiscal 2003, an increase of 18.6%. The percentage increase in net income per fully-diluted shares outstanding was greater than the percentage increase in net income due to the Company's share repurchase program. In the fourth quarter of Fiscal 2004 the Company had fully-diluted weighted-average shares outstanding of 90.8 million versus 97.8 million in the fourth quarter of Fiscal 2003.

FISCAL 2004 RESULTS: NET SALES Net sales for Fiscal 2004 reached $2.021 billion, an increase of 18.3% versus Fiscal 2003 net sales of $1.708 billion. The net sales increase was attributable to the net addition of 88 stores during Fiscal 2004, an increase in comparable store sales of 2% for the year and an increase in the direct-to-consumer business net sales (including shipping and handling revenue) of $35.6 million versus Fiscal 2003.

For the fiscal year, comparable store sales by brand were as follows: Abercrombie & Fitch declined 1%; abercrombie increased 1%; Hollister increased 13%. The women's, girls' and bettys' businesses in each brand continued to be more significant than the men's, boys' and dudes'. During Fiscal 2004, women, bettys and girls represented over 60% of the net sales for each of the brands. Hollister bettys achieved a mid-teens increase and abercrombie girls posted a mid-single digit increase in comparable store sales for Fiscal 2004, while Abercrombie & Fitch women had a low-single digit decrease.

Direct-to-consumer merchandise net sales through the Company's web sites and catalogue for Fiscal 2004 were $110.6 million, an increase of 37.6% versus net sales of $80.4 million in Fiscal 2003. The Company added a Hollister direct-to-consumer business during the 2003 Back-to-School selling season. Shipping and handling revenue for the corresponding periods 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% for Fiscal 2004 and Fiscal 2003, respectively.

GROSS PROFIT For Fiscal 2004, gross profit increased to $1.341 billion from $1.083 billion in Fiscal 2003. The gross profit rate in Fiscal 2004 was 66.4% versus 63.4% in Fiscal 2003. The increase was driven by improvements in IMU across Abercrombie & Fitch, abercrombie and Hollister due to higher average unit retail pricing, especially in Abercrombie & Fitch.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for Fiscal 2004 was $738.2 million compared to $597.4 million for Fiscal 2003. For Fiscal 2004, the stores and distribution expense rate was 36.5% compared to 35.0% in Fiscal 2003. Stores and distribution expense was as follows:

	Fifty-Two Weeks Ended			
	January 29, 2005		January 31, 2004	
	(millions)	% of net sales	(millions)	% of net sales
Store Payroll Expense	$218.4	10.8%	$158.5	9.3%
Store Management Expense[(1)]	26.7	1.3%	18.5	1.1%
Rent, Utilities and Other Landlord Expense	224.4	11.1%	197.5	11.6%
Depreciation and Amortization	96.1	4.8%	78.1	4.6%
Repairs and Maintenance Expense	34.7	1.7%	25.6	1.5%
Other Store Expenses[(2)]	84.3	4.2%	66.0	3.9%
Total Stores Expense	$684.6	33.9%	$544.2	31.9%
Direct-to-Consumer Expense	33.1	1.6%	34.8	2.0%
Distribution Center Expense	20.5	1.0%	18.4	1.1%
Total Stores and Distribution Expense	$738.2	36.5%	$597.4	35.0%

[(1)] *Previously reported within Store Payroll Expense.*
[(2)] *Includes packaging, supplies, credit card fees and other store support functions.*

The Company's total store expense for Fiscal 2004, as a percent of net sales, increased versus Fiscal 2003 as a result of the Company beginning to implement its store investment program during the fourth quarter of Fiscal 2004, offset by leverage of rent, utilities and other landlord expense as a result of the increase in comparable store sales. In Fiscal 2004, the distribution center's UPH increased 10% over the Fiscal 2003 results.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE Marketing, general and administrative expense during Fiscal 2004 was $259.8 million compared to $155.6 million during Fiscal 2003. For Fiscal 2004, the marketing, general and administrative expense rate was 12.9% compared to 9.1% in Fiscal 2003. The increase in the marketing, general and administrative expense rate was due to a non-recurring charge of $40.9 million in Fiscal 2004, which represented 0.9% of net sales, related to a legal settlement and higher incentive compensation accruals resulting from the improved financial performance during the fiscal year.

OTHER OPERATING INCOME, NET Other operating income for Fiscal 2004 was $4.5 million compared to $979,000 for Fiscal 2003. The increase was related to the amount of the gift card liability recognized as other income for gift cards for which the Company has determined the likelihood of redemption to be remote.

OPERATING INCOME For Fiscal 2004, operating income was $347.6 million compared to $331.2 million for Fiscal 2003. The operating income rate for Fiscal 2004 was 17.2% versus 19.4% in Fiscal 2003.

INTEREST INCOME AND INCOME TAXES Net interest income for Fiscal 2004 was $5.2 million compared to $3.7 million in Fiscal 2003. The increase in net interest income was due to an increase in interest rates and average cash balances for Fiscal 2004 when compared to Fiscal 2003. 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 Fiscal 2004 was 38.7% compared to 38.8% for Fiscal 2003.

NET INCOME AND NET INCOME PER SHARE Net income for Fiscal 2004 was $216.4 million versus $204.8 million for Fiscal 2003, an increase of 5.7%. Net income for Fiscal 2004 included the after-tax impact of the legal settlement of $25.6 million. Net income per fully-diluted weighted-average share was $2.28 in Fiscal 2004 versus $2.06 in Fiscal 2003, an increase of 10.7%. The percentage increase in net income per fully-diluted share was greater than the percentage increase in net income due to the Company's repurchase program in Fiscal 2004. The Company repurchased 11.2 million shares in Fiscal 2004.

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 continue to 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 $0.175 per share per quarter. The Board of Directors will review the Company's cash position and results of operations and approve the appropriateness of future dividend amounts.

A summary of the Company's working capital (current assets less current liabilities) position and capitalization for the last three fiscal years follows (thousands):

	2005	2004	2003
Working capital	$455,530	$241,572	$466,970
Capitalization:			
Shareholders' equity	$995,117	$669,326	$857,765

The increase in working capital in Fiscal 2005 versus Fiscal 2004 was the result of higher cash and marketable securities resulting primarily from the Company's net sales increase and the increase in inventory, partially offset by an increase in income taxes payable. 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 Company considers the following to be measures of its liquidity and capital resources for the last three fiscal years:

	2005	2004	2003
Current ratio (current assets divided by current liabilities)	1.93	1.56	2.63
Net cash provided by operating activities (in thousands)	$453,590	$423,784	$340,814

OPERATING ACTIVITIES Net cash provided by operating activities, the Company's primary source of liquidity, increased to $453.6 million for Fiscal 2005 from $423.8 million in Fiscal 2004 primarily due to increases in net income, income taxes payable and tax benefit of stock option exercises, partially offset by an increase in inventory and a decrease in accounts payable and accrued expenses. The increase in net income and income taxes payable was a result of the net sales growth during Fiscal 2005. The increase in tax benefit of stock option exercises was the result of approximately 3.3 million stock options exercised during Fiscal 2005. The Company ended Fiscal 2005 with higher inventory levels in key product categories to ensure size, color and style integrity. The decrease in accounts payable and accrued expenses was due to payment of a legal settlement in Fiscal 2005 that was settled and accrued for in Fiscal 2004.

The increase in cash provided by operating activities in Fiscal 2004 compared to Fiscal 2003 was primarily driven by an increase in accounts payable and accrued expenses. The increase in accrued expenses was primarily due to the accrual for the settlement of three related class action employment discrimination lawsuits and the increase in accounts payable was due to the purchase of inventory. Inventories increased from the net addition of 103 stores representing an increase of 658,000 gross square feet in Fiscal 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 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 in the second and third fiscal quarters as the Company builds inventory in anticipation of these selling periods.

INVESTING ACTIVITIES Cash outflows for Fiscal 2005 and Fiscal 2003 were primarily for purchases of marketable securities and capital expenditures. Cash inflows for Fiscal 2004 were primarily the result of proceeds from sales of marketable securities, offset by capital expenditures. See "Capital Expenditures and Lessor Construction Allowances" for additional information. As of January 28, 2006, the Company held $411.2 million of marketable securities with original maturities of greater than 90 days; as of January 29, 2005, all investments had original maturities of less than 90 days and accordingly were classified as cash equivalents. As of January 31, 2004, the Company held $464.7 million of marketable securities with original maturities of greater than 90 days.

FINANCING ACTIVITIES Cash outflows related to financing activities consisted primarily of the repurchase of the Company's Class A Common Stock in Fiscal 2005, Fiscal 2004 and Fiscal 2003 and the payment of dividends in Fiscal 2005 and Fiscal 2004. Cash inflows consisted of stock option exercises, restricted stock issuances and the change in overdrafts. The overdrafts are outstanding checks reclassified from cash to accounts payable.

The Company repurchased 1,765,000 shares, 11,150,500 shares and 4,401,000 shares of its Class A Common Stock pursuant to previously authorized stock repurchase programs in Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively. As of January 28, 2006, the Company had 5,683,500 shares remaining available to repurchase under the 6,000,000 shares authorized by the Board of Directors in August 2005.

Effective December 15, 2004, the Company entered into an amended and restated $250 million syndicated unsecured credit agreement (the "Amended Credit Agreement"). The Amended Credit Agreement will expire on December 15, 2009. The primary purpose of the Amended Credit Agreement is to support letters of credit (trade and standby) and finance working capital. The Amended Credit Agreement has several borrowing options, including an option where interest rates are based on the agent bank's "Alternate Base Rate," and another using the LIBO rate. The facility fees payable under the Amended Credit Agreement are based on the Company's 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. The facility fees are projected to accrue between 0.15% and 0.175% on the committed amounts per annum.

Letters of credit totaling approximately $45.1 million and $49.6 million were outstanding under the Amended Credit Agreement at January 28, 2006 and January 29, 2005, respectively. No borrowings were outstanding under the Amended Credit Agreement at January 28, 2006 or January 29, 2005.

The Company has standby letters of credit in the amount of $4.5 million that are set to expire during the fourth quarter of Fiscal 2006. 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 28, 2006, 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 Leases Obligations	$1,417,827	$187,674	$365,992	$325,526	$538,635
Purchase Obligations	$ 303,683	$303,683	–	–	–
Other Obligations	$ 49,739	$ 48,185	$ 1,554	–	–
Totals	$1,771,249	$539,542	$367,546	$325,526	$538,635

Operating lease obligations consist primarily of future minimum lease commitments related to store operating leases (See Note 6 of the Notes to Consolidated Financial Statements). Operating lease obligations do not include common area maintenance ("CAM"), insurance or tax payments for which the Company is also obligated. Total expense related to CAM, insurance and taxes for Fiscal 2005 was $96.5 million. The purchase obligations category represents purchase orders for merchandise to be delivered during Spring 2006 and commitments for fabric to be used during the next several seasons. Other obligations represent preventative maintenance contracts for Fiscal 2006 and letters of credit outstanding as of January 28, 2006 (See Note 9 of the Notes to Consolidated Financial Statements).

STORES AND GROSS SQUARE FEET Store count and gross square footage by brand were as follows for the thirteen weeks ended January 28, 2006 and January 29, 2005, respectively:

Store Activity	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
October 30, 2005	354	163	297	6	820
New	6	2	17	2	27
Remodels/Conversions (net activity)	1	–	4	–	5
Closed	–	(1)	–	–	(1)
January 28, 2006	361	164	318	8	851

Gross Square Feet (thousands)	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
October 30, 2005	3,077	713	1,941	58	5,789
New	76	8	112	11	207
Remodels/Conversions (net activity)	4	–	30	–	34
Closed	–	(5)	–	–	(5)
January 28, 2006	3,157	716	2,083	69	6,025
Average Store Size	8,745	4,366	6,550	8,625	7,080

Store Activity	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
October 31, 2004	363	174	224	3	764
New	5	4	32	1	42
Closed	(11)	(7)	–	–	(18)
January 29, 2005	357	171	256	4	788

Gross Square Feet (thousands)	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
October 31, 2004	3,191	767	1,452	28	5,438
New	31	16	211	9	267
Closed	(84)	(31)	–	–	(115)
January 29, 2005	3,138	752	1,663	37	5,590
Average Store Size	8,790	4,398	6,496	9,250	7,094

Store count and gross square footage by brand were as follows for the fifty-two weeks ended January 28, 2006 and January 29, 2005, respectively:

Store Activity	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
January 30, 2005	357	171	256	4	788
New	15	5	57	4	81
Remodels/Conversions (net activity)	(1)	(1)	6	–	4
Closed	(10)[1]	(11)	(1)[1]	–	(22)
January 28, 2006	361	164	318	8	851

Gross Square Feet (thousands)	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
January 30, 2005	3,138	752	1,663	37	5,590
New	146	20	389	32	587
Remodels/Conversions (net activity)	(46)	(4)	38	–	(12)
Closed	(81)[1]	(52)	(7)[1]	–	(140)
January 28, 2006	3,157	716	2,083	69	6,025
Average Store Size	8,745	4,366	6,550	8,625	7,080

[1] *Includes one Abercrombie & Fitch and one Hollister store temporarily closed due to hurricane damage*

Store Activity	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
February 1, 2004	357	171	172	–	700
New	16	9	84	4	113
Closed	(16)	(9)	–	–	(25)
January 29, 2005	357	171	256	4	788

Gross Square Feet (thousands)	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
February 1, 2004	3,152	753	1,111	–	5,016
New	105	37	552	37	731
Closed	(119)	(38)	–	–	(157)
January 29, 2005	3,138	752	1,663	37	5,590
Average Store Size	8,790	4,398	6,496	9,250	7,094

CAPITAL EXPENDITURES AND LESSOR CONSTRUCTION ALLOWANCES Capital expenditures totaled $256.4 million, $185.1 million and $159.8 million for Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively.

In Fiscal 2005, $204.7 million was used for store related projects, including new store construction, remodels, conversions and other projects. The remaining $51.7 million was used for projects at the home office, including home office expansion, information technology investments, distribution center improvements and other projects.

In Fiscal 2004, $169.7 million was used for store related projects, including new store construction, remodels, conversions and other projects. The remaining $15.4 million was used for projects at the home office, including home office improvements, information technology investments, distribution center improvements and other projects.

In Fiscal 2003, $124.8 million was used for store related projects, including new store construction, remodels and other projects. The remaining $35.0 million was used for projects at the home office, including home office improvements, information technology investments, distribution center improvements and other 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 $42.3 million, $55.0 million and $60.6 million in construction allowances during Fiscal 2005, Fiscal 2004 and Fiscal 2003, 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 $400 million to $420 million in Fiscal 2006 for capital expenditures, including $205 million to $210 million for the construction of approximately 100 to 110 new stores and the remodeling of 10 to 20 existing stores; $100 million to $105 million to build a second distribution center and an additional building on the home office campus; $40 million to $45 million for upgrades to its information technology infrastructure and other home office and distribution center projects; and $55 million to $60 million for various store projects that the Company believes are necessary to enhance the customer's in-store experience, which is the centerpiece of the Company's marketing strategy. The Company believes periodic investments in the in-store experience are necessary to maintain the long-term positioning of the brands.

The Company intends to add approximately 700,000 to 750,000 gross square feet of stores during Fiscal 2006, which will represent an increase of approximately 10% to 12% over Fiscal 2005. Management anticipates the increase during Fiscal 2006 will be primarily due to the addition of approximately 60 to 70 new Hollister stores, 15 to 20 abercrombie stores, five to ten Abercrombie & Fitch stores and five to eight RUEHL stores. Additionally, the Company plans to remodel five to 15 Abercrombie & Fitch stores, including the opening of the flagship store in the Grove at Farmer's Market in Los Angeles in the summer of 2006 and to convert a total of four Abercrombie & Fitch stores to Hollister stores.

In Fiscal 2006, the Company expects the average construction cost per square foot, net of construction allowances, for new Hollister stores to increase from last year's actual of approximately $114 to approximately $130. The Company expects the average construction cost per square foot, net of construction allowances, for new abercrombie stores to increase from last year's actual of approximately $154 to approximately $169. The change from last year's estimates for Hollister and abercrombie were driven by a number of factors, including store location, construction material pricing, landlord allowance levels, and furniture and fixture additions. In addition, varying allowance levels for the small number of abercrombie stores added in Fiscal 2005 prevent a meaningful comparison with Fiscal 2006 expected costs. Due to variances in landlord allowances and other characteristics unique to the three new Abercrombie & Fitch locations currently identified for Fiscal 2006, the construction costs, net of construction allowances, of these stores are also higher than last year's actual per store costs. The Company believes that the construction costs of the three identified Abercrombie & Fitch stores are not representative of the costs the Company expects to incur for the remaining Abercrombie & Fitch stores planned in Fiscal 2006. The Company expects initial inventory purchases for the stores to average approximately $371,000, $148,000 and $243,000 per store for Abercrombie & Fitch, abercrombie and Hollister, respectively.

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 Amended 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 in a sale transaction are classified as revenue and the related direct shipping costs are classified as stores and distribution expense. 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's gift cards do not expire or lose value over periods of inactivity. The Company accounts for gift cards by recognizing a liability at the time a gift card is sold. The liability remains on the Company's books until the earlier of redemption (recognized as revenue) or when the Company determines the likelihood of redemption is remote (recognized as other operating income). The Company considers the probability of the gift card being redeemed to be remote for 50% of the balance of gift cards at 24 months after the date of issuance and remote for the remaining balance at 36 months after the date of issuance and at that time recognizes the remaining balance as other operating income. At January 28, 2006 and January 29, 2005, the gift card liability on the Company's Consolidated Balance Sheet was $53.2 million and $41.7 million, respectively.

The Company is not required by law to escheat the value of unredeemed gift cards to the states in which it operates. During Fiscal 2005 and Fiscal 2004, the Company recognized other operating income for adjustments to the gift card liability of $2.4 million and $4.3 million, respectively. No income for adjustments to the gift card liability was recognized during Fiscal 2003.

Inventory Valuation - Inventories are principally valued at the lower of average cost or market 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. At the end of the first and third fiscal quarters, the Company reduces inventory value by recording a markdown reserve that represents the estimated future anticipated selling price decreases necessary to sell-through the current season inventory.

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. The Company performs physical inventories throughout the year and adjusts the shrink reserve accordingly. Inherent in the retail method calculation are certain significant judgments and estimates including, among others, IMU, 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 ten years or the life of the lease for leasehold improvements and three to ten years for other property and equipment. 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 results of operations 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. Deferred tax assets and liabilities are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. 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. 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.

Equity Compensation Expense - The Company reports stock-based compensation through the disclosure-only requirements of SFAS No. 123, *"Accounting for Stock-Based Compensation,"* as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation–Transition and Disclosure–an Amendment of FASB Statement No. 123,"* but elects to measure compensation 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 because all options are granted at fair market value on the grant date. The Company recognizes compensation expense related to restricted stock unit awards to associates and non-associate directors.

For the disclosure requirement of SFAS No. 123, the Company's equity compensation expense related to stock options is estimated using the Black-Scholes option-pricing model to determine the fair value of the stock option grants, which requires the Company to estimate the expected term of the stock option grants and expected future stock price volatility over the term. The Company uses the vesting period of the stock option as a proxy for the term of the option. Estimates of expected future stock price volatility are based on the historic volatility of the Company's stock for the period equal to the expected term of the stock option. The Company calculates the historic volatility as the annualized standard deviation of the differences in the natural logarithms of the weekly stock closing price, adjusted for dividends and stock splits.

The fair market value calculation under the Black-Scholes valuation model is particularly sensitive to changes in the term and volatility assumptions. Increases in term or volatility will result in a higher fair market valuation of stock option grants. Assuming all other assumptions disclosed in Note 2 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies - Stock Based Compensation," being equal, a 10% increase in term will yield a 4% increase in the Black-Scholes valuation, while a 10% increase in volatility will yield a 8% increase in the Black-Scholes valuation. The Company believes that changes in term and volatility will not have a material effect on the Company's results since the number of stock options granted during the period was not material.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R). This standard is a revision of SFAS No. 123 and requires all share-based payments to employees, including grants of employee stock options and similar awards, to be recognized in the financial statements based on their fair values measured at the grant date.

In April 2005, the Security And Exchange Commission delayed the effective date of SFAS No. 123(R) to annual periods beginning after June 15, 2005 for public companies. Based on stock options previously issued, but not fully vested, and an estimate of stock options to be granted during Fiscal 2006, the Company expects that the implementation of SFAS No. 123(R) will result in a charge of approximately $0.10 per fully-diluted share for Fiscal 2006.

Effective January 28, 2006, the Company adopted FASB Interpretation No. 47 ("FIN 47,") *"Conditional Asset Retirement Obligations,"* which clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, *"Accounting for Asset Retirement Obligations",* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The adoption of FIN 47 did not have any effect on the Company's results of operations or its financial position.

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 net sales 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 consist primarily of investment grade municipal notes and bonds and investment grade auction rate securities, all classified as available-for-sale and could have maturities ranging from three months to 40 years. These securities are consistent with the investment objectives contained within the investment policy established by the Company's Board of Directors. The basic objectives of the investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing net after-tax yield.

Investments in municipal notes and bonds have early redemption provisions at predetermined prices. Taking these provisions into account none of these investments extend beyond five years. The Company believes that a significant increase in interest rates could result in a material loss if the Company sells the investment prior to the early redemption provision. For Fiscal 2005, there were no realized gains or losses, and as of January 28, 2006, net unrealized holding losses were $718,000.

Despite the underlying 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 through an auction process at predetermined periods ranging from one to 49 days. Failed auctions rarely occur. As of January 28, 2006, the Company held approximately $411.2 million in marketable securities.

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

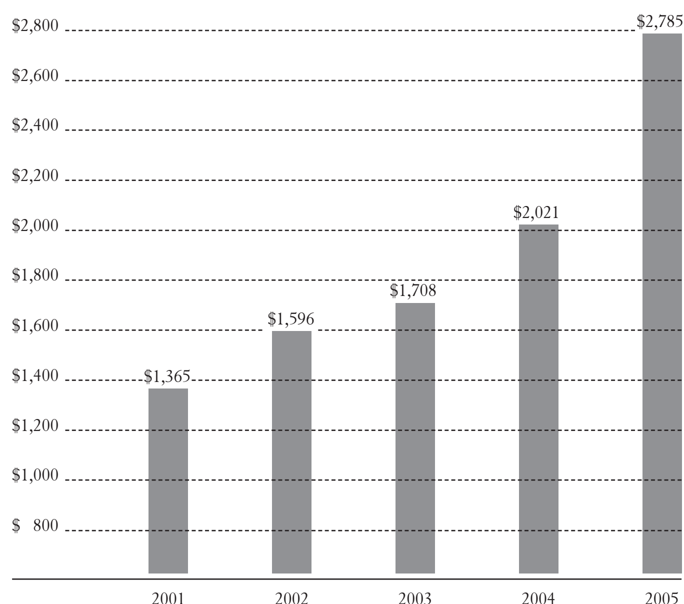
As of January 28, 2006, the Company had no long-term debt outstanding. Future borrowings would bear interest at negotiated rates and would be subject to interest rate risk.

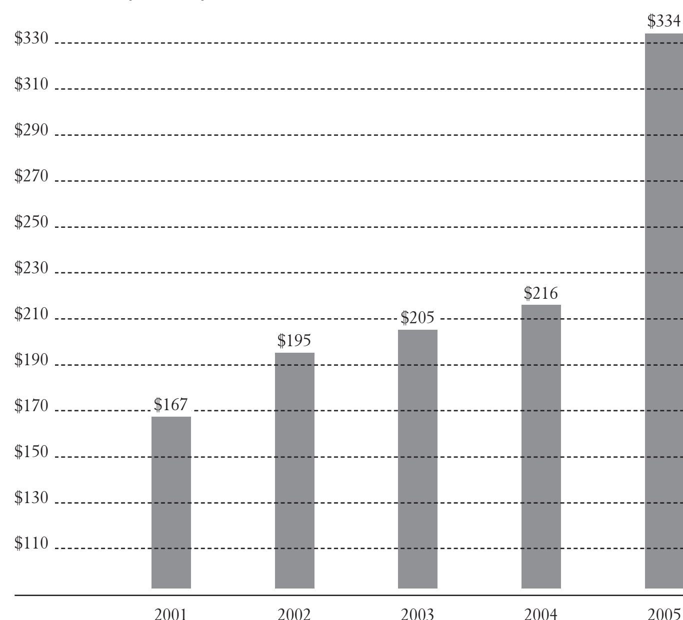
The Company's market risk profile as of January 28, 2006 has not significantly changed since January 29, 2005.

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Thousands except per share amounts)	2005	2004	2003
Net Sales	$2,784,711	$2,021,253	$1,707,810
Cost of Goods Sold	933,295	680,029	624,640
Gross Profit	1,851,416	1,341,224	1,083,170
Stores and Distribution Expense	1,000,755	738,244	597,416
Marketing, General & Administrative Expense	313,457	259,835	155,553
Other Operating Income, Net	(5,534)	(4,490)	(979)
Operating Income	542,738	347,635	331,180
Interest Income, Net	(6,674)	(5,218)	(3,708)
Income Before Income Taxes	549,412	352,853	334,888
Provision for Income Taxes	215,426	136,477	130,058
Net Income	$ 333,986	$ 216,376	$ 204,830
Net Income Per Share:			
Basic	$3.83	$2.33	$2.12
Fully-Diluted	$3.66	$2.28	$2.06
Weighted-Average Shares Outstanding:			
Basic	87,161	92,777	96,833
Fully-Diluted	91,221	95,110	99,580
Dividends Declared Per Share	$0.60	$0.50	-
Other Comprehensive Income			
Cumulative Foreign Currency Translation Adjustments	$ (78)	-	-
Unrealized Gains (Losses) on Marketable Securities	(718)	-	-
Other Comprehensive Income (Loss)	(796)	-	-
Comprehensive Income	$ 333,190	$ 216,376	$ 204,830

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





Abercrombie & Fitch

CONSOLIDATED BALANCE SHEETS

(Thousands)	January 28, 2006	January 29, 2005
Assets		
Current Assets		
Cash and Equivalents	$ 50,687	$ 338,735
Marketable Securities	411,167	-
Receivables	41,855	37,760
Inventories	362,536	211,198
Deferred Income Taxes	29,654	39,090
Other Current Assets	51,185	44,001
Total Current Assets	947,084	670,784
Property and Equipment, Net	813,603	687,011
Other Assets	29,031	28,996
Total Assets	$1,789,718	$1,386,791
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	$ 86,572	$ 83,760
Outstanding Checks	58,741	53,577
Accrued Expenses	215,034	205,153
Deferred Lease Credits	31,727	31,135
Income Taxes Payable	99,480	55,587
Total Current Liabilities	491,554	429,212
Long-Term Liabilities		
Deferred Income Taxes	38,496	50,032
Deferred Lease Credits	191,225	177,923
Other Liabilities	73,326	60,298
Total Long-Term Liabilities	303,047	288,253
Shareholders' Equity		
Class A Common Stock – $.01 par value: 150,000,000 shares authorized and 103,300,000 shares issued at January 28, 2006 and January 29, 2005, respectively	1,033	1,033
Paid-In Capital	161,678	140,251
Retained Earnings	1,357,791	1,076,023
Accumulated Other Comprehensive Income	(796)	-
Deferred Compensation	26,206	15,048
Treasury Stock, at Average Cost 15,573,789 and 17,262,943 shares at January 28, 2006 and January 29, 2005, respectively	(550,795)	(563,029)
Total Shareholders' Equity	995,117	669,326
Total Liabilities and Shareholders' Equity	$1,789,718	$1,386,791

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock					Treasury Stock		
(Thousands)	Shares Outstanding	Par Value	Paid-In Capital	Retained Earnings	Deferred Compensation	Shares	At Average Cost	Total Shareholders' Equity
Balance, February 1, 2003	97,269	$1,033	$142,577	$701,255	$6,184	6,030	$(114,743)	$736,307
Purchase of Treasury Stock	(4,401)	–	–	–	–	4,401	(115,670)	(115,670)
Net Income	–	–	–	204,830	–	–	–	204,830
Restricted Stock Unit Issuance	149	–	83	–	(5,230)	(149)	2,862	(2,285)
Restricted Stock Unit Expense	–	–	–	–	5,311	–	–	5,311
Stock Option Exercises	1,590	–	(13,026)	–	–	(1,590)	32,793	19,767
Tax Benefit from Exercise of Stock Options and Issuance of Restricted Stock Units	–	–	9,505	–	–	–	–	9,505
Balance, January 31, 2004	94,607	$1,033	$139,139	$906,085	$6,265	8,692	$(194,758)	$857,765
Purchase of Treasury Stock	(11,151)	–	–	–	–	11,151	(434,658)	(434,658)
Net Income	–	–	–	216,376	–	–	–	216,376
Restricted Stock Unit Issuance	24	–	108	–	(1,578)	(24)	542	(928)
Restricted Stock Unit Expense	–	–	–	–	10,361	–	–	10,361
Stock Option Exercises	2,556		(16,304)	–	–	(2,556)	65,845	49,541
Dividends ($0.50 per share)	–	–	–	(46,438)	–	–	–	(46,438)
Tax Benefit from Exercise of Stock Options and Issuance of Restricted Stock Units	–	–	17,308	–	–	–	–	17,308
Balance, January 29, 2005	86,036	$1,033	$140,251	$1,076,023	$15,048	17,263	$(563,029)	$669,326
Purchase of Treasury Stock	(1,765)	–	–	–	–	1,765	(103,296)	(103,296)
Net Income	–	–	–	333,986	–	–	–	333,986
Restricted Stock Unit Issuance	166	–	(4,297)	–	(12,966)	(166)	5,650	(11,613)
Restricted Stock Unit Expense	–	–	–	–	24,124	–	–	24,124
Stock Option Exercises	3,289	–	(26,985)	–	–	(3,289)	109,880	82,895
Dividends ($0.60 per share)	–	–	–	(52,218)	–	–	–	(52,218)
Unrealized Gains (Losses) on Marketable Securities	–	–	–	(718)	–	–	–	(718)
Cumulative Foreign Currency Translation Adjustments	–	–	–	(78)	–	–	–	(78)
Tax Benefit from Exercise of Stock Options and Issuance of Restricted Stock Units	–	–	52,709	–	–	–	–	52,709
Balance, January 28, 2006	87,726	$1,033	$161,678	$1,356,995	$26,206	15,574	$(550,795)	$995,117

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	2005	2004	2003
Operating Activities:			
Net Income	$ 333,986	$ 216,376	$ 204,830
Impact of Other Operating Activities on Cash Flows:			
Depreciation and Amortization	124,206	105,814	89,539
Amortization of Deferred Lease Credits	(32,527)	(32,794)	(24,774)
Non-cash Charge for Deferred Compensation	29,347	17,378	11,186
Deferred Taxes	(2,099)	3,942	7,126
Non-cash Charge for Asset Impairment	272	1,190	–
Loss on Disposal of Assets	7,386	4,664	–
Lessor Construction Allowances	42,336	55,009	60,649
Changes in Assets and Liabilities:			
Inventories	(146,314)	(34,445)	(27,397)
Accounts Payable and Accrued Expenses	(2,912)	99,388	15,551
Income Taxes	43,893	1,659	954
Tax Benefit of Stock Option Exercises	52,709	17,308	9,505
Other Assets and Liabilities	3,307	(31,705)	(6,355)
Net Cash Provided by Operating Activities	453,590	423,784	340,814
Investing Activities:			
Capital Expenditures	(256,422)	(185,065)	(159,777)
Marketable Securities Activity:			
Purchases	(1,016,986)	(4,314,070)	(3,849,077)
Proceeds from Sales	605,101	4,778,770	3,771,085
Net Marketable Securities Activity	(411,885)	464,700	(77,992)
Net Cash (Used for) Provided by Investing Activities	(668,307)	279,635	(237,769)
Financing Activities:			
Change in Outstanding Checks	5,164	20,404	4,145
Purchases of Treasury Stock	(103,296)	(434,658)	(115,670)
Stock Option Exercises and Other	77,019	48,927	19,767
Dividends Paid	(52,218)	(46,438)	–
Net Cash Used For Financing Activities	(73,331)	(411,765)	(91,758)
Net (Decrease) Increase in Cash and Equivalents	(288,048)	291,654	11,287
Cash and Equivalents, Beginning of Year	338,735	47,081	35,794
Cash and Equivalents, End of Year	$ 50,687	$ 338,735	$ 47,081
Significant Non-Cash Investing Activities:			
Change in Accrual for Contruction in Progress	$ 3,754	$ (15,513)	$ 18,589

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

NOTES TO 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.

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. All references herein to "Fiscal 2005" represent the results for the 52-week fiscal year ended January 28, 2006; to "Fiscal 2004" represent the 52-week fiscal year ended January 29, 2005; and to "Fiscal 2003" represent the 52-week fiscal year ended January 31, 2004. In addition, references herein to "Fiscal 2006" represent the 53-week fiscal year that will end on February 3, 2007.

RECLASSIFICATIONS Certain amounts have been reclassified to conform with the current year presentation. Amounts reclassified did not have an effect on the Company's results of operations or total shareholders' equity. On the Consolidated Balance Sheet for the year ended January 29, 2005, the Company reclassified (a) deferred income tax assets ($44.4 million) that were previously netted against income tax payable to current assets; (b) the long-term portion of straight-line rent ($32.9 million) from an accrued expense to other long-term liabilities and the corresponding deferred income tax asset ($13.2 million) from current to long-term deferred income taxes; (c) the long-term portion of executive severance ($6.6 million) from accrued expense to other long-term liabilities; (d) the portion of gift card liabilities ($10.4 million) that was previously classified in other long-term liabilities to accrued expense; (e) a portion of store supplies ($20.6 million) from current assets to other non-current assets and the corresponding deferred income tax liability ($7.8 million) from current to long-term deferred income taxes; (f) deferred compensation ($15.0 million) to be shown as a separate component of shareholders' equity; and (g) third-party credit card receivables ($11.6 million) from cash equivalents to receivables. On the Consolidated Statements of Cash Flows, the reclassification of third-party credit card receivables during Fiscal 2004 and Fiscal 2003 decreased the ending cash balance and other assets and liabilities by $11.6 million and $9.3 million, respectively. All other reclassifications were within the operating activity section of the Consolidated Statements of Cash Flows.

Beginning with the first quarter of the fiscal year ending January 28, 2006, the Company reclassified the condensed consolidated statements of net income and comprehensive income. In prior periods, the Company included buying and occupancy costs as well as certain home office expenses as part of the gross profit calculation. The Company believes that presenting gross profit as a function of sales reduced solely by cost of goods sold, as well as presenting stores and distribution expense and marketing, general and administrative expense, as individual expense categories, provides a clearer and more transparent representation of gross selling margin and operating expenses. Prior period results have been reclassified accordingly.

SEGMENT REPORTING In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, *"Disclosures about Segments of an Enterprise and Related Information,"* the Company determined its operating segments on the same basis that it uses internally to evaluate performance. The operating segments identified by the Company, Abercrombie & Fitch, abercrombie, Hollister and RUEHL, have been aggregated and are reported as one reportable financial segment. The Company aggregates its operating segments because they meet the aggregation criteria set forth in paragraph 17 of SFAS No. 131. The Company believes its operating segments may be aggregated for financial reporting purposes because they are similar in each of the following areas: class of consumer, economic characteristics, nature of products, nature of production processes and distribution methods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

MARKETABLE SECURITIES Investments with original maturities greater than 90 days are accounted for in accordance with SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* and are classified accordingly by the Company at the time of purchase. At January 28, 2006, the Company's investments in marketable securities consisted primarily of investment grade municipal notes and bonds and investment grade auction rate securities, all classified as available-for-sale and reported at fair value, with maturities that could range from three months to 40 years.

The Company began investing in municipal notes and bonds during Fiscal 2005. These investments have early redemption provisions at predetermined prices. For the fiscal year ended January 28, 2006, there were no realized gains or losses and as of January 28, 2006, net unrealized holding losses were $718,000.

For the Company's investments in auction rate securities, the interest rates reset through an auction process at predetermined periods ranging

from one to 49 days. Due to the frequent nature of the reset feature, the investment's market price approximates its fair value; therefore, there are no realized or unrealized gains or losses associated with these marketable securities.

At January 28, 2006, the Company held approximately $411.2 million in marketable securities and at January 29, 2005, the Company had no investments in marketable securities.

CREDIT CARD RECEIVABLES As part of the normal course of business, the Company has approximately two to three days of sales transactions outstanding with its third-party credit card vendors at any point. The Company classifies these outstanding balances as receivables. At January 28, 2006 and January 29, 2005, credit card receivables were $17.3 million and $11.6 million, respectively.

INVENTORIES Inventories are principally valued at the lower of average cost or market 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 a markdown reserve that represents the estimated future anticipated selling price decreases necessary to sell through the inventory for 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 Company performs physical inventories throughout the year and adjusts the shrink reserve accordingly.

The markdown reserve was $10.0 million and $6.6 million at January 28, 2006 and January 29, 2005, respectively. The shrink reserve was $3.8 million and $2.9 million at January 28, 2006 and January 29, 2005, respectively.

STORE SUPPLIES The initial inventory of supplies for new stores including, but not limited to, security tags, hangers and miscellaneous supplies are capitalized at the store opening date. In lieu of amortizing the initial balances over their estimated useful lives, the Company expenses all subsequent replacements and adjusts the balance, as appropriate, for changes in quantities or cost. This policy approximates the expense that would have been recognized under generally accepted accounting principles ("GAAP"). Store supply categories are classified as current or non-current based on their estimated useful lives. Packaging is expensed as used. Current store supplies were $16.1 million and $16.0 million at January 28, 2006 and January 29, 2005, respectively. Non-current store supplies were $20.6 million at both January 28, 2006 and January 29, 2005.

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 ten years or the life of the lease for leasehold improvements and three to ten years for other property and equipment. 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 results of operations and projected cash flows. The Company incurred impairment charges of $272,000 and $1.2 million in Fiscal 2005 and Fiscal 2004, respectively.

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. Deferred tax assets and liabilities are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Inherent in the measurement of deferred balances are certain judgments and interpretations of the enacted tax law and published guidance with respect to applicability to the Company's operations. 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.

SHAREHOLDERS' EQUITY At January 28, 2006 and January 29, 2005, there were 150 million shares of $0.01 par value Class A Common Stock authorized, of which 87.7 million and 86.0 million shares were outstanding at January 28, 2006 and January 29, 2005, respectively, and 106.4 million shares of $0.01 par value Class B Common Stock authorized, none of which were outstanding at January 28, 2006 and January 29, 2005, respectively. In addition, 15 million shares of

$0.01 par value Preferred Stock were authorized, none of which have been issued. See Note 14 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. Direct-to-consumer 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 stores and distribution expense. 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's gift cards do not expire nor lose value over periods of inactivity.

The Company accounts for gift cards by recognizing a liability at the time a gift card is sold. The liability remains on the Company's books until the earlier of redemption (recognized as revenue) or when the Company determines the likelihood of redemption is remote (recognized as other operating income). The Company considers the probability of the gift card being redeemed to be remote for 50% of the balance of gift cards at 24 months after the date of issuance and remote for the remaining balance at 36 months after the date of issuance and at that time recognizes the remaining balance as other operating income. At January 28, 2006 and January 29, 2005, the gift card liability on the Company's Consolidated Balance Sheet was $53.2 million and $41.7 million, respectively.

The Company is not required by law to escheat the value of unredeemed gift cards to the states in which it operates. During Fiscal 2005 and Fiscal 2004, the Company recognized other operating income for adjustments to the gift card liability of $2.4 million and $4.3 million, respectively. No income for adjustments to the gift card liability was recognized during Fiscal 2003.

The Company does not include tax amounts collected as part of the sales transaction in its net sales results.

COST OF GOODS SOLD Cost of goods sold includes cost of merchandise, markdowns, inventory shrink and valuation reserves and outbound freight expenses.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense includes store payroll, store management, rent, utilities and other landlord expenses, depreciation and amortization, repairs and maintenance, other store support functions, direct-to-consumer and distribution center expenses.

MARKETING, GENERAL & ADMINISTRATIVE EXPENSE Marketing, general and administrative expense includes photography and media ads, store marketing, home office payroll, except for those departments included in stores and distribution expense, information technology, outside services such as legal and consulting, relocation and employment and travel expenses.

OTHER OPERATING INCOME, NET Other operating income consists primarily of gift card balances whose likelihood of redemption the Company has determined to be remote and are therefore recognized as income.

CATALOGUE AND ADVERTISING COSTS Catalogue costs, consist primarily of catalogue production and mailing costs and are expensed as incurred as a component of "Stores and Distribution Expense." Advertising costs consist of in-store photographs and advertising in selected national publications and billboards and are expensed as part of "Marketing, General and Administrative Expense" when the photographs or publications first appear. Catalogue and advertising costs, which include photo shoot costs, amounted to $36.1 million in Fiscal 2005, $33.8 million in Fiscal 2004 and $33.6 million in Fiscal 2003.

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 of rent expense on the consolidated statement of net income and comprehensive 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 net income and comprehensive 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 PRE-OPENING 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 "Marketing, General and Administrative Expense."

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, *"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 compensation 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 because all options are granted at fair market value on the grant date. The Company recognizes 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 Fiscal 2005, Fiscal 2004 and Fiscal 2003, consistent with the methodology in SFAS 123, the pro forma effect on net income and net income per basic and fully-diluted share would have been as follows:

(Thousands except per share amounts)	2005	2004	2003
Net Income:			
As reported	$333,986	$216,376	$204,830
Stock-based compensation expense included in reported net income, net of tax [1]	14,716	6,358	3,250
Stock-based compensation expense determined under fair value based method, net of tax	(36,689)	(27,720)	(27,274)
Pro forma	$312,013	$195,014	$180,806
Basic net income per share:			
As reported	$3.83	$2.33	$2.12
Pro forma	$3.58	$2.10	$1.87
Fully-diluted net income per share:			
As reported	$3.66	$2.28	$2.06
Pro forma	$3.38	$2.05	$1.83

(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 value of options were $23.01, $15.05 and $14.18 for Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively. 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:

	2005	2004	2003
Dividend yield	1.1%	1.3%	–
Price volatility	47%	56%	63%
Risk-free interest rate	4.0%	3.2%	3.0%
Annual forfeiture rate	5.7%	6.4%	5.3%
Expected life (years)	4	4	4

For options granted to non-associate directors during Fiscal 2005, the weighted-average fair value of the options was $8.42. 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 1.23% dividend yield; stock price volatility over the expected term of 37%; risk-free interest rate of 3.33%; annual forfeiture rate of 9%; and expected term of one year.

EARNINGS 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 fully-diluted share includes the weighted-average effect of dilutive stock options and restricted shares.

Weighted–Average Shares Outstanding (thousands):

	2005	2004	2003
Shares of Class A Common Stock issued	103,300	103,300	103,300
Treasury shares oustanding	(16,139)	(10,523)	(6,467)
Basic shares outstanding	87,161	92,777	96,833
Dilutive effect of options and restricted shares	4,060	2,333	2,747
Fully-diluted shares outstanding	91,221	95,110	99,580

Options to purchase 150,500, 5,213,000 and 6,151,000 shares of Class A Common Stock were outstanding at the end of Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively, but were not included in the computation of net income per fully-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 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.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), *"Share-Based Payment."* This standard is a revision of SFAS No. 123 and requires all share-based payments to employees, including grants of employee stock options and similar awards, to be recognized in the financial statements based on their fair values measured at the grant date.

In April 2005, the Securities and Exchange Commission delayed the effective date of SFAS No. 123(R) to annual periods beginning after June 15, 2005 for public companies. The Company adopted SFAS 123(R) at the beginning of the first quarter of Fiscal 2006 using the modified prospective application transition method. Based on

stock options previously issued, but not fully vested, and an estimate of stock options to be granted during Fiscal 2006, the Company expects that the implementation of SFAS No. 123(R) will result in a charge of approximately $0.10 per fully-diluted share for Fiscal 2006.

Effective January 28, 2006, the Company adopted FASB Interpretation No. 47 ("FIN 47"), *"Conditional Asset Retirement Obligations",* which clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, *"Accounting for Asset Retirement Obligations,"* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The adoption of FIN 47 did not have any effect on the Company's results of operations or its financial position.

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

	2005	2004
Land	$ 15,985	$ 15,985
Building	117,398	110,971
Furniture, fixtures and equipment	444,540	509,349
Leasehold improvements	625,732	402,535
Construction in progress	79,480	27,782
Other	3,248	6,790
Total	$1,286,383	$1,073,412
Less: Accumulated depreciation and amortization	472,780	386,401
Property and equipment, net	$ 813,603	$ 687,011

5. DEFERRED LEASE CREDITS, NET Deferred lease credits are derived from payments received from landlords to partially offset store construction costs and are reclassified between current and long-term liabilities. The amounts, which are amortized over the life of the related leases, consisted of the following (thousands):

	2005	2004
Deferred lease credits	$376,460	$334,175
Amortized deferred lease credits	(153,508)	(125,117)
Total deferred lease credits, net	$222,952	$209,058

6. 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):

	2005	2004	2003
Store rent:			
Fixed minimum	$170,009	$141,450	$122,001
Contingent	16,178	6,932	5,194
Total store rent	$186,187	$148,382	$127,195
Buildings, equipment and other	3,241	1,663	1,219
Total rent expense	$189,428	$150,045	$128,414

At January 28, 2006, the Company was committed to non-cancelable leases with remaining terms of one to 15 years. A summary of operating lease commitments under non-cancelable leases follows (thousands):

2006	$187,674	**2009**	$169,856
2007	$187,397	**2010**	$155,670
2008	$178,595	**Thereafter**	$538,635

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

	2005	2004
Rent and landlord charges	$ 23,847	$ 13,843
Gift card liability	53,150	41,707
Employee salaries and bonus	30,250	21,985
Accrual for construction in progress	19,510	15,756
Property, franchise and other taxes	13,600	9,228
Other	74,677	102,634
Total	$215,034	$205,153

Other accrued expenses in Fiscal 2004 included $49.1 million related to the settlement of three related class action employment discrimination lawsuits.

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

	2005	2004	2003
Currently payable:			
Federal	$184,884	$112,537	$101,692
State	32,641	19,998	18,248
	$217,525	$132,535	$119,940
Deferred:			
Federal	$ (5,980)	$ 2,684	$ 8,601
State	3,881	1,258	1,517
	$ (2,099)	$ 3,942	$ 10,118
Total provision	$215,426	$136,477	$130,058

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

	2005	2004	2003
Federal income tax rate	35.0%	35.0%	35.0%
State income tax, net of Federal income tax effect	4.3%	3.9%	3.8%
Other items, net	(0.1%)	(0.2%)	—
Total	39.2%	38.7%	38.8%

Amounts paid directly to taxing authorities were $122.0 million, $114.0 million and $113.0 million in Fiscal 2005, Fiscal 2004, and Fiscal 2003, respectively.

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

	2005	2004
Deferred tax assets:		
Deferred compensation	$ 24,046	$ 16,205
Rent	88,399	98,793
Accrued expenses	11,340	7,194
Inventory	3,982	3,268
Legal expense	2,977	15,288
Total deferred tax assets	$ 130,744	$ 140,748
Deferred tax liabilities:		
Store supplies	$ (10,851)	$ (10,542)
Property and equipment	(128,735)	(141,147)
Total deferred tax liabilities	$ (139,586)	$ (151,689)
Net deferred income tax liabilities	$ (8,842)	$ (10,941)

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.

9. LONG-TERM DEBT On December 15, 2004, the Company entered into an amended and restated $250 million syndicated unsecured credit agreement (the "Amended Credit Agreement"). The primary purposes of the Amended Credit Agreement are for trade, stand-by letters of credit and working capital. The Credit Agreement has several borrowing options, including an option where interest rates are based on the agent bank's "Alternate Base Rate," and another using the LIBO rate. The facility fees payable under the Amended Credit Agreement are based on the Company's 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. The facility fees are projected to accrue between 0.15% and 0.175% on the committed amounts per annum. The Amended 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 $45.1 million and $49.6 million were outstanding under the Amended Credit Agreement at January 28, 2006 and January 29, 2005, respectively. No borrowings were outstanding under the Amended Credit Agreement at January 28, 2006 and January 29, 2005.

10. RELATED PARTY TRANSACTIONS Shahid & Company, Inc. has provided advertising and design services for the Company since 1995. Sam N. Shahid, Jr., who served on A&F's Board of Directors until June 15, 2005, has been President and Creative Director of Shahid & Company, Inc. since 1993. Fees paid to Shahid & Company, Inc. for services provided during his tenure as a Director in Fiscal 2005, Fiscal 2004 and Fiscal 2003 were approximately $863,000, $2.1 million and $2.0 million, respectively. These amounts do not include reimbursements to Shahid & Company, Inc. for expenses incurred while performing these services.

11. STOCK OPTIONS AND RESTRICTED STOCK UNITS Under the Company's stock plans, associates and non-associate directors may be granted up to a total of 25.9 million restricted shares and options to purchase A&F's common stock at the market price on the date of grant. In Fiscal 2005, associates of the Company were granted options covering approximately 479,900 shares, with a vesting period of four years. Options covering a total of 20,000 shares were granted to non-associate directors in Fiscal 2005. 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 28, 2006			Options Exercisable at January 28, 2006	
Range of Exercise Prices	Number Outstanding	Weighted–Average Remaining Contractual Life	Weighted–Average Exercise Price	Number Exercisable	Weighted–Average Exercise Price
$ 8-$23	320,143	3.0	$15.06	233,393	$17.29
$23-$38	3,627,288	5.6	$27.43	2,612,387	$27.52
$38-$53	4,651,400	3.7	$44.04	3,435,750	$43.96
$53-$71	383,000	7.8	$57.80	2,500	$59.98
$71-$75	79,000	9.5	$71.10	—	—
$ 8-$75	9,060,831	4.6	$37.18	6,284,030	$36.14

A summary of option activity for Fiscal 2005, Fiscal 2004 and Fiscal 2003 follows:

2005	Shares	Weighted–Average Option Price
Outstanding at beginning of year	12,029,900	$32.44
Granted	499,900	59.67
Exercised	(3,288,612)	23.16
Canceled	(180,357)	32.63
Outstanding at end of year	9,060,831	$37.18
Options exercisable at year-end	6,284,030	$36.14

2004	Shares	Weighted–Average Option Price
Outstanding at beginning of year	14,839,900	$30.03
Granted	484,000	36.48
Exercised	(2,556,000)	19.49
Canceled	(738,000)	31.67
Outstanding at end of year	12,029,900	$32.44
Options exercisable at year-end	6,862,000	$31.09

2003	Shares	Weighted–Average Option Price
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

Approximately 627,100, 507,500 and 78,000 restricted shares were granted in Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively, with a total market value at grant date of $36.3 million, $16.0 million and $2.1 million, respectively. The restricted share grants primarily vest on a graduated scale over four years for associates or over one year for non-associate directors. The market value of restricted shares is amortized as compensation expense over the vesting period. Compensation expenses related to restricted share awards amounted to $24.1 million, $10.4 million and $5.3 million in Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively.

12. RETIREMENT BENEFITS The Company maintains a qualified defined contribution retirement plan and a nonqualified 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 $10.5 million in Fiscal 2005, $9.9 million in Fiscal 2004 and $7.0 million in Fiscal 2003.

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 August 15, 2005, between the Company and its Chairman.

13. CONTINGENCIES A&F is a defendant in lawsuits arising in the ordinary course of business.

A&F is aware of 20 actions that have been filed against A&F and certain of its current and former officers and directors on behalf of a purported, but as yet uncertified, class of shareholders who purchased A&F's Class A Common Stock between October 8, 1999 and October 13, 1999. These 20 actions have been filed in the United States District Courts for the Southern District of New York and the Southern District of Ohio, Eastern Division, alleging violations of the federal securities laws and seeking unspecified damages. On April 12, 2000, the Judicial Panel on Multidistrict Litigation issued a Transfer Order transferring the 20 pending actions to the Southern District of New York for consolidated pretrial proceedings under the caption In re Abercrombie & Fitch Securities Litigation. On November 16, 2000, the Court signed an Order appointing the Hicks Group, a group of seven unrelated investors in A&F's Common Stock, as lead plaintiff, and appointing lead counsel in the consolidated action. On December 14, 2000, plaintiffs filed a Consolidated Amended Class Action Complaint (the "Amended Complaint") in which they did not name as defendants Lazard Freres & Co. and Todd Slater, who had formerly been named as defendants in certain of the 20 complaints. On February 14, 2001, A&F and the other defendants filed motions to dismiss the Amended Complaint. On November 14, 2003, the motions to dismiss the Amended Complaint were denied as to all defendants except Michelle Donnan-Martin. On December 2, 2003, A&F and the other defendants moved for reconsideration or reargument of the November 14, 2003 order denying the motions to dismiss. On February 23, 2004, the motions for reconsideration or reargument were denied. On April 1, 2004, plaintiffs filed a motion for class certification. On April 8, 2005, A&F and the other defendants filed their opposition to plaintiffs' motion for class certification. The Court has yet to rule on the plaintiffs' motion for class certification. The parties are currently conducting merits discovery.

Five class actions have been 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 Melissa Mitchell, et al. v. Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc., which was filed on June 13, 2003 in the United States District Court for the Southern District of Ohio, the plaintiffs allege that assistant managers and store managers were not paid overtime compensation in violation of the Fair Labor Standards Act and Ohio law. The plaintiffs

filed an amended complaint to add Scott Oros as a named plaintiff on October 28, 2004. On June 17, 2005, plaintiffs filed a motion to further amend the complaint to add claims under the laws of a number of states, and the United States District Court for the Southern District of Ohio granted that motion on November 8, 2005. On June 24, 2005, the defendants filed motions seeking summary judgment on all of the claims of each of the three plaintiffs. On July 1, 2005, the plaintiffs filed a Rule 23 Motion for Certification of a Class of State Wage Act Claimants and a Motion for Designation of FLSA Claims as Collective Action and Authority to Send Notice to Similarly Situated Employees. The defendants filed their opposition to both motions on December 8, 2005. On March 27, 2006, the Court issued an order indicating that it intended to rule on the defendants' motions for summary judgment forthwith and, for purposes of docket administration, denied the plantiffs motions to certify their class. The Court also indicated that it will reactivate, as appropriate, the motions to certify following resolution of the defendants' motions for summary judgment. On March 31, 2006, the Court issued an order granting defendants' motions for summary judgment on all of the claims of each of the three plaintiffs. These cases have been consolidated with the Fuller case described in the following paragraph.

In Casey Fuller, Individually and on Behalf of All Others Similarly Situated v. Abercrombie & Fitch Stores, Inc., which was filed on December 28, 2004 in the United States District Court for the Eastern District of Tennessee, the plaintiff alleges that he and other similarly situated assistant managers and managers in training were not paid properly calculated overtime during their employment and seeks overtime pay under the Fair Labor Standards Act. Because of its similarities to the Mitchell case, on April 19, 2005, the defendant filed a motion to stay the Fuller case pending the outcome of the Mitchell case or, in the alternative, transfer the Fuller case to the United States District Court for the Southern District of Ohio. On May 31, 2005, the United States District Court for the Eastern District of Tennessee transferred the Fuller case to the United States District Court for the Southern District of Ohio. On September 2, 2005, the Fuller case was consolidated with the Mitchell case for all purposes. Unlike the Mitchell case described above, defendants have not moved for summary judgment in the Fuller case and it remains pending.

In Bryan T. Kimbell, Individually and on Behalf of All Others Similarly Situated and on Behalf of the Public v. Abercrombie & Fitch Stores, Inc., which was filed on July 10, 2002 in the California Superior Court for Los Angeles County, the plaintiffs alleged that California general and store managers were entitled to receive overtime pay as "non-exempt" employees under California wage and hour laws. The parties have agreed to a settlement of this matter, which was finally approved by the California Superior Court for Los Angeles County on January 12, 2006. The settlement did not have a material effect on the Company's consolidated financial statements.

On October 25, 2005, a purported class action, styled Gibson v. Hollister Co., was filed in the Superior Court of Orange County, California. The plaintiff alleges the following claims for herself and a purported class and subclasses of hourly employees employed by Hollister in the State of California: failure to provide and maintain uniforms; failure to pay regular and overtime wages; failure to provide rest periods and meal periods or compensation in lieu thereof; failure to timely pay wages due at termination; failure to itemize wage statements; conversion; and violation of unfair competition law. The Complaint cites various California statutes, orders and regulations. The Complaint seeks compensatory damages for alleged unpaid wages due to the plaintiff and the purported class, penalties, injunctive relief, attorneys' fees, interest and costs. The defendant filed an answer to the complaint on January 25, 2006.

In Eltrich v. Abercrombie & Fitch Stores, Inc., a purported class action which was filed on November 22, 2005 in the Washington Superior Court of King County, the plaintiff alleges that store managers, assistant managers and managers in training were misclassified as exempt from the overtime compensation requirements of the State of Washington, and improperly denied overtime compensation. Plaintiff filed an Amended Complaint on November 30, 2005. The Amended Complaint seeks compensatory damages for alleged unpaid wages due to the plaintiff and the purported class, penalties, injunctive relief, attorneys' fees, interest and costs. The defendant filed an answer to the Amended Complaint on or about January 27, 2006.

On September 2, 2005, a purported class action, styled Robert Ross v. Abercrombie & Fitch Company, et al., was filed against A&F and certain of its officers in the United States District Court for the Southern District of Ohio on behalf of a purported class of all persons who purchased or acquired shares of Class A Common Stock of A&F between June 2, 2005 and August 16, 2005. In September and October of 2005, five other purported class actions were subsequently filed against A&F and other defendants in the same Court. All six cases allege claims under the federal securities laws, and seek unspecified monetary damages, as a result of a decline in the price of A&F's Class A Common Stock in the summer of 2005. On November 1, 2005, a motion to consolidate all these purported class actions into the first-filed case was filed by some of the plaintiffs. A&F joined in that motion. On March 22, 2006, the motions to consolidate were granted, and these actions (together with the federal court derivative cases described in the following paragraph) were consolidated for purposes of motion practice, discovery and pretrial proceedings.

On September 16, 2005, a derivative action, styled The Booth Family Trust v. Michael S. Jeffries, et al., was filed in the United States District Court for the Southern District of Ohio, naming A&F as a nominal defendant and seeking to assert claims for unspecified damages against nine of A&F's present and former directors, alleging various breaches of the directors' fiduciary duty. In the following three months (October, November and December of 2005), four similar derivative actions were filed (three in the United States District Court for the Southern District of Ohio and one in the Court of Common Pleas for Franklin County, Ohio) against present and former directors of A&F alleging various breaches of the directors' fiduciary duty and seeking equitable and monetary relief. A&F is also a

nominal defendant in each of the four later derivative actions. On November 4, 2005, a motion to consolidate all of the federal court derivative actions with the purported securities law, and seek unspecified monetary damages, class actions described in the preceding paragraph was filed. On March 22, 2006, the motion to consolidate was granted, and the federal court derivative actions have been consolidated with the aforesaid purported securities law class actions for purposes of motion practice, discovery and pretrial proceedings.

In December 2005, the SEC issued a formal order of investigation concerning trading in shares of A&F's Class A Common Stock. The SEC has requested information from A&F and certain of its current and former officers and directors. The Company and its personnel are cooperating fully with the SEC.

On December 9, 2005, a purported class action, styled Rankin, et al. v. Abercrombie & Fitch Stores, Inc., was filed by plaintiff Will Rankin in the Circuit Court of the State of Oregon for the County of Multnomah. By a First Amended Complaint dated January 9, 2006, two additional plaintiffs were named – Chris Masagatani and Kayti Kersten. The plaintiffs allege, on behalf of themselves and a purported class of in-store managers and hourly employees, that they were required to purchase clothing and that the costs of purchases reduced actual wages earned in violation of Oregon's minimum wage laws. The First Amended Complaint seeks payment of alleged wages due to plaintiffs and the purported class, civil penalties under Oregon statutes, a permanent injunction, attorneys' fees and prejudgment interest. The defendant filed an answer to the First Amended Complaint on February 8, 2006.

Management intends to vigorously defend the aforesaid matters, as appropriate, and believes that the outcome of its pending litigation and administrative investigation will not have a material adverse effect upon the financial condition or results of operations of the Company. However, management's assessment of the Company's current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries or other finders of fact that are not in accord with management's evaluation of the claims. Should management's evaluation prove incorrect, particularly in regard to the overtime compensation claims and the Securities Matters, the Company's exposure could have a material adverse effect upon the financial condition or results of operations of the Company

14. PREFERRED STOCK PURCHASE RIGHTS On July 16, 1998, A&F's Board of Directors declared a dividend of one Series A Participating Cumulative Preferred Stock Purchase Right (the "Rights") for each outstanding share of Class A Common Stock, par value $.01 per share (the "Common Stock"), of A&F. The dividend was paid on July 28, 1998 to shareholders of record on that date. Shares of Common Stock issued after July 28, 1998 and prior to May 25, 1999 were issued with one Right attached. A&F's Board of Directors declared a two-for-one stock split (the "Stock Split") on A&F's Common Stock, payable on June 15, 1999 to the holders of record at the close of business on May 25, 1999. In connection with the Stock Split, the number of Rights associated with each share of Common Stock outstanding as of the close of business on May 25, 1999, or issued or delivered after May 25, 1999 and prior to the "Distribution Date" (as defined below), was proportionately adjusted from one Right to 0.50 Right. Each share of Common Stock issued after May 25, 1999 and prior to the Distribution Date has been and will be issued with 0.50 Right attached so that all shares of Common Stock outstanding prior to the Distribution Date will have 0.50 Right attached.

The Rights initially will be attached to the shares of Common Stock. The Rights will separate from the Common Stock after a Distribution Date occurs. The "Distribution Date" generally means the earlier of (i) the close of business on the 10th day after the date (the "Share Acquisition Date") of the first public announcement that a person or group (other than A&F or any of A&F's subsidiaries or any employee benefit plan of A&F or any of A&F's subsidiaries) has acquired beneficial ownership of 20% or more of A&F's outstanding shares of Common Stock (an "Acquiring Person") or (ii) the close of business on the 10th business day (or such later date as A&F's Board of Directors may designate before any person has become an Acquiring Person) after the date of the commencement of a tender or exchange offer by any person which would, if consummated, result in such person becoming an Acquiring Person. The Rights are not exercisable until the Distribution Date. After the Distribution Date, each whole Right may be exercised to purchase, at an initial exercise price of $250, one one-thousandth of a share of Series A Participating Cumulative Preferred Stock.

At any time after any person becomes an Acquiring Person (but before the occurrence of any of the events described in the immediately following paragraph), 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 of twice 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 of Common Stock or the occurrence of any of the events described in the immediately following paragraph), 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 0.50 Right.

If, after any person has become an Acquiring Person, (i) A&F is involved in a merger or other business combination transaction in which A&F is not the surviving corporation or A&F's Common Stock is exchanged for other securities or assets or (ii) A&F and/or one or more of A&F's subsidiaries sell or otherwise transfer 50% or more of the assets or earning power of A&F and its subsidiaries, taken as a whole, each holder of a Right (other than the Acquiring Person and certain affiliated persons) 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 (or in certain circumstances, an affiliate) which at the time of such transaction will have a market value of twice the exercise price of the Right.

The Rights will expire on July 16, 2008, unless earlier exchanged or redeemed. A&F may redeem all of the Rights at a price of $.01 per whole Right at any time before any 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.

15. COMPREHENSIVE INCOME Comprehensive income consists of cumulative foreign currency translation adjustments and unrealized gains and losses on marketable securities.

16. QUARTERLY FINANCIAL DATA (UNAUDITED) Summarized quarterly financial results for Fiscal 2005 and Fiscal 2004 follow (thousands except per share amounts):

Fiscal 2005 Quarter	First	Second	Third	Fourth
Net sales	$546,810	$571,591	$704,918	$961,392
Gross profit	$357,252	$389,660	$465,086	$639,418
Operating income	$ 68,289	$ 91,087	$115,874	$267,488
Net income	$ 40,359	$ 57,401	$ 71,600	$164,626
Net income per basic share	$0.47	$0.66	$0.81	$1.88
Net income per fully-diluted share	$0.45	$0.63	$0.79	$1.80

Fiscal 2004 Quarter	First	Second	Third	Fourth
Net sales	$411,930	$401,346	$520,724	$687,254
Gross profit	$267,924	$280,917	$336,617	$455,767
Operating income	$ 46,722	$ 68,762	$ 61,978	$170,175
Net income	$ 29,317	$ 42,888	$ 39,911	$104,260
Net income per basic share	$0.31	$0.45	$0.43	$1.19
Net income per fully-diluted share	$0.30	$0.44	$0.42	$1.15

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes and in accordance with generally accepted accounting principles.

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.

Management evaluated the effectiveness of the Company's internal control over financial reporting as of January 28, 2006 using criteria established in Internal Control-Intergrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment of the Company's internal control over financial reporting, management has concluded that, as of January 28, 2006, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 28, 2006 as stated in their report, which is included herein.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES 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 Fiscal 2005 and Fiscal 2004:

	Sales Price	
	High	Low
Fiscal 2005		
4th Quarter	$68.25	$50.25
3rd Quarter	$72.66	$44.17
2nd Quarter	$74.10	$52.51
1st Quarter	$59.98	$49.74
Fiscal 2004		
4th Quarter	$53.03	$38.51
3rd Quarter	$39.94	$27.42
2nd Quarter	$39.46	$30.93
1st Quarter	$36.38	$25.53

Beginning in Fiscal 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 2004. A quarterly dividend, of $0.125 per share, was paid in March and June 2005. In August 2005, the Board of Directors increased the quarterly dividend to $0.175 per share, which was paid in September and December of Fiscal 2005. The Company expects to continue to pay a dividend, subject to Board of Directors review of the Company's cash position and results of operations.

As of April 1, 2006, there were approximately 5,340 shareholders of record. However, when including investors holding shares in broker accounts under street name, active associates who participate in A&F's stock purchase plan and associates who own shares through A&F-sponsored retirement plans, A&F estimates that there are approximately 60,150 shareholders.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ABERCROMBIE & FITCH CO.: We have completed integrated audits of Abercrombie & Fitch Co.'s fiscal 2005 and fiscal 2004 consolidated financial statements and of its internal control over financial reporting as of January 28, 2006, and an audit of its fiscal 2003 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 net income and comprehensive income, of shareholders' equity and of cash flows, present fairly, in all material aspects, the financial position of Abercrombie & Fitch Co. and its subsidiaries at January 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2006 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, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of January 28, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control - Integrated Framework issued by the 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.

PricewaterhouseCoopers LLP

Columbus, Ohio

April 3, 2006

ABERCROMBIE & FITCH
Initial Public Offering: September 26, 1996
Number of Associates: 76,100
Approximate Shareholder Base: 60,150

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
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.

ANNUAL MEETING
The Annual Meeting of Shareholders is scheduled for 10:00 A.M., Wednesday, June 14, 2006 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.

STOCK TRANSFER AGENT, REGISTRAR AND DIVIDEND AGENT
National City Bank
Corporate Trust Operations
Dept 5352, P.O. Box 92301
Cleveland, Ohio 44193.

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

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATIONS The certifications of Abercrombie & Fitch Co.'s Chief Executive Officer and Chief Financial Officer, required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed with the Securities and Exchange Commission as exhibits to the Company's 2005 Annual Report on Form 10-K. In addition, in 2005, the Company's Chief Executive Officer submitted an annual certification to the New York Stock Exchange regarding the Company's compliance with the NYSE's corporate governance listing standards.

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

DIANE CHANG * Executive Vice President - Sourcing

LESLEE K. HERRO * Executive Vice President - Planning and Allocation

JOHN W. LOUGH * Executive Vice President - Distribution Center Logistics

MARK S. BREITBART Senior Vice President and General Manager of RUEHL

ROGER E. COVILLE Senior Vice President - Chief Information Officer

BEVERLY R. HOUSE Senior Vice President and General Manager

CHARLES F. KESSLER Senior Vice President and General Manager of Hollister

MICHAEL W. KRAMER * Senior Vice President and Chief Financial Officer

REBECCA F. LEE Senior Vice President - Allocation

DAVID L. LEINO Senior Vice President - Stores Human Resources

THOMAS D. MENDENHALL * Senior Vice President and General Manager of Abercrombie & Fitch and abercrombie

JEFFREY R. SINKEY Senior Vice President - Real Estate

JAMES A. YANO * Senior Vice President and General Counsel

BOARD OF DIRECTORS

MICHAEL S. JEFFRIES Chairman and Chief Executive Officer

JAMES B. BACHMANN Retired Columbus Managing Partner, Ernst & Young LLP

DANIEL J. BRESTLE Chief Operating Officer, Estée Lauder Companies, Inc.

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.

ALLAN A. TUTTLE Retired General Counsel, Gucci Group N.V.

*Executive Officer of the Company