



Abercrombie & Fitch

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Abercrombie & Fitch Co.

CHAIRMAN'S LETTER

Abercrombie & Fitch had an amazing year. In 1997, we surpassed all of our financial goals, outpacing even the most generous forecasts. Our growth is managed and healthy—a foundation is in place, a brand-centered foundation that will support unparalleled growth and development. More on that later.

ABERCROMBIE'S BRAND-POWERED MOMENTUM IS FUELED BY COORDINATED LIFESTYLE REINFORCEMENT

Stores—The in-store experience has never been more potent. Every aspect of our stores—the music, the marketing and photos, the clothing and overall aesthetic, even the Brand Representatives who work there—create a fun, exciting atmosphere. We achieved a 21% comparable store sales increase in 1997. Customers clearly want to be part of the experience, hanging out with friends, listening to music, adding to the store's character. Our Brand Reps and customers want to be and be seen in our stores.

Our customers visit not only to find the highest quality clothing, but to have the A&F experience—they come to be part of the lifestyle. The brand is at once relevant and aspirational.

A&F Quarterly—With a rapidly growing distribution, the *A&F Quarterly* has matured from an innovative notion into a sourcebook of what's cool and new. In addition to A&F clothing, our customers turn to the *Quarterly* for everything from destination travel to inventive technology. While being a powerful brand reinforcement, the *Quarterly* has also surpassed aggressive sales and response rate forecasts.

Internet—Abercrombie.com is designed to reinforce the lifestyle represented in the *Quarterly* and in our stores. Like the *A&F Quarterly*, abercrombie.com is considered by our customers as a source for what's new and cool.

Abercrombie & Fitch Co.

One year ago abercrombie.com was receiving 150,000 hits per month—the site now garners better than 2.5 million hits per month and has emerged as a dynamic and interactive brand-building tool.

Our market focus dictates a uniquely interactive relationship with our customers. Each of the over 2,000 e-mails we receive every month, filled with suggestions, comments, and insight, is responded to personally, creating an open forum of communication.

Our merchants, marketers, and designers travel to college campuses and hot spots all over the country seeing and talking to our customers—we know what they wear, listen to, read, watch, how they spend their time, what's hot, and what's not. It's a relationship that empowers the Abercrombie brand with credibility, an elusive quality to our competitors, a quality that intensifies the value of the brand.

ABERCROMBIE & FITCH IS POSITIONED FOR LONG-TERM GROWTH As previously mentioned, our expansion plan limits store growth to a disciplined 20% each year, a strategy designed to prevent dilution of the brand.

Our ability to make the Abercrombie lifestyle relevant and meaningful in the lives of our customers comes, in part, from our unique ability to vertically integrate. Unlike many of our competitors, we control every aspect of our brand and can direct each detail consumers come in contact with, from the greeting they receive at the door, to the music they hear in-store.

Perhaps more than any other one factor, quality sets A&F apart. Our tradition of producing the highest quality goods adds built-in value to everything we do. Key factory relationships translate into the most profitable quality/price relationship in the industry,

which in turn, means consistent growth. Quality, without a doubt, instills an unparalleled sense of loyalty and value in Abercrombie consumers.

LOOKING AHEAD Abercrombie & Fitch achieved a 96% increase in net income in 1997, and we have now enjoyed 22 consecutive quarters of increased profits. Having said that, how do we plan to top our past performance?

We will continue to focus on growing our core men's and women's businesses. More importantly, we will continue to invest in quality throughout the business, in order to maintain and strengthen the A&F brand. That means investing to add quality in our stores, our merchandise and our associates.

Our brand has never been stronger. Our focus, strategy and planning are tuned for long-term, consistent growth. As we move forward I can say with absolute confidence and enthusiasm that our future has never been more promising.

A handwritten signature in black ink that reads "MIKE". The letters are bold and slightly irregular, with a horizontal line underneath the name.

Michael S. Jeffries
Chairman and Chief Executive Officer

Abercrombie & Fitch Co.

FINANCIAL SUMMARY

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

Fiscal Year	1997	1996	1995*	1994	1993	1992	1991
Summary of Operations							
Net Sales	\$521,617	\$335,372	\$235,659	\$165,463	\$110,952	\$ 85,301	\$ 62,583
Gross Income	\$201,080	\$123,766	\$ 79,794	\$ 56,820	\$ 30,562	\$ 13,413	\$ 9,665
Operating Income (Loss)	\$ 84,125	\$ 45,993	\$ 23,798	\$ 13,751	\$ (4,064)	\$ (10,190)	\$ (11,603)
Operating Income (Loss) as a Percentage of Sales	16.1%	13.7%	10.1%	8.3%	(3.7%)	(11.9%)	(18.5%)
Net Income (Loss)	\$ 48,322	\$ 24,674	\$ 14,298	\$ 8,251	\$ (2,464)	\$ (6,090)	\$ (7,003)
Net Income (Loss) as a Percentage of Sales	9.3%	7.4%	6.1%	5.0%	(2.2%)	(7.1%)	(11.2%)
Per Share Results							
Net Income (Loss) Per Basic Share	\$.95	\$.54	\$.33	\$.19	\$ (.06)	\$ (.14)	\$ (.16)
Net Income (Loss) Per Diluted Share	\$.94	\$.54	\$.33	\$.19	\$ (.06)	\$ (.14)	\$ (.16)
Weighted Average Diluted Shares Outstanding	51,478	45,760	43,000	43,000	43,000	43,000	43,000
Other Financial Information							
Total Assets	\$183,238	\$105,761	\$ 87,693	\$ 58,018	\$ 48,882	\$ 61,626	\$ 47,967
Return on Average Assets	33%	26%	20%	15%	(4%)	(11%)	—
Capital Expenditures	\$ 29,486	\$ 24,323	\$ 24,526	\$ 12,603	\$ 4,694	\$ 10,351	\$ 7,931
Long-Term Debt	\$ 50,000	\$ 50,000	—	—	—	—	—
Shareholders' Equity (Deficit)	\$ 58,775	\$ 11,238	\$ (22,622)	\$ (37,070)	\$ (45,341)	\$ (42,877)	\$ (36,787)
Comparable Store Sales Increase	21%	13%	5%	15%	6%	8%	10%
Retail Sales per Average Selling Square Foot	\$ 462	\$ 373	\$ 354	\$ 350	\$ 301	\$ 276	\$ 261
Stores and Associates at End of Year							
Total Number of Stores Open	156	127	100	67	49	40	36
Selling Square Feet	1,234,000	1,006,000	792,000	541,000	405,000	332,000	287,000
Number of Associates	6,700	4,900	3,000	2,300	1,300	900	700

*Fifty-three week fiscal year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS Net sales for the fourth quarter were \$212.1 million, an increase of 52% from \$139.2 million for the fourth quarter a year ago. Operating income was \$59.1 million, up 67% compared to \$35.3 million last year. Earnings per diluted share were \$.68, up 70%, from \$.40 last year.

Net sales for the fiscal year ended January 31, 1998 increased 56% to \$521.6 million from \$335.4 million last year. Operating income for the year increased 83% to \$84.1 million from \$46.0 million in 1996. Earnings per diluted share were \$.94 compared to \$.48 on an adjusted basis a year ago, an increase of 96%.

The results of operations shown below are adjusted for both the historical number of shares outstanding to reflect post-initial public offering shares outstanding and interest expense to reflect the Company's ongoing capital structure and seasonal borrowings. The following assumptions were used to derive the adjusted amounts: 1) 51.05 million post-initial public offering shares outstanding for the periods presented; prior to the initial public offering on October 1, 1996, there were 43 million shares outstanding; 2) interest expense on the Company's seasonal borrowings which were funded from The Limited's intercompany cash management system; prior to July 11, 1996, the intercompany cash management account was noninterest bearing; and 3) interest expense on the Company's ongoing capital structure which included interest expense on a \$50 million mirror note distributed to The Limited prior to the initial public offering but excluded interest expense on the Company's \$150 million credit agreement, entered into on July 2, 1996, and repaid in the fourth quarter of 1996.

Year Ended	Actual January 31, 1998	Adjusted February 1, 1997	Actual February 1, 1997
Operating income	\$84,125	\$45,993	\$45,993
Interest expense, net	3,583	5,016	4,919
Income before income taxes	80,542	40,977	41,074
Provision for income taxes	32,220	16,400	16,400
Net income	\$48,322	\$24,577	\$24,674
Net income per share:			
Basic	\$.95	\$.48	\$.54
Diluted	\$.94	\$.48	\$.54
Weighted average shares outstanding:			
Basic	51,011	51,050	45,749
Diluted	51,478	51,050	45,760

FINANCIAL SUMMARY The following summarized financial data compares 1997 to the comparable periods for 1996 and 1995:

	1997	1996	1995	% Change	
				1997- 1996	1996- 1995
Net sales (millions)	\$521.6	\$335.4	\$235.7	56%	42%
Increase in comparable store sales	21%	13%	5%		
Retail sales increase attributable to new and remodeled stores	34%	29%	37%		
Retail sales per average selling square foot	\$ 462	\$ 373	\$ 354	24%	5%
Retail sales per average store (thousands)	\$3,653	\$2,955	\$2,823	24%	5%
Average store size at year end (selling square feet)	7,910	7,921	7,920	0%	0%
Selling square feet at year end (thousands)	1,234	1,006	792	23%	27%
Number of stores					
Beginning of year	127	100	67		
Opened	30	29	33		
Closed	(1)	(2)	-		
End of year	156	127	100		

NET SALES Fourth quarter 1997 net sales as compared to net sales for the fourth quarter 1996 increased 52% to \$212.1 million, due to a 23% increase in comparable store sales and sales attributable to new and remodeled stores. Comparable store sales increases were strong in both the men's and women's businesses as both were driven by a very strong knit business. Additionally, fourth quarter 1997 net sales included results from the first Holiday issue of the A&F Quarterly, a catalogue/magazine, which accounted for 1.7% of total net sales.

Thirteen-week fourth quarter 1996 net sales as compared to net sales for the fourteen-week fourth quarter 1995 increased 31% to \$139.2 million, due to an 8% increase in comparable store sales and sales attributable to new and remodeled stores. Comparable store sales increases were strong in both the men's and women's businesses. Sweaters were the best performing category in each business.

Net sales for 1997 increased 56% to \$521.6 million over the same period in 1996. The sales increase was attributable to the net addition of 29 stores and a 21% comparable store sales increase. Comparable store sales increases were equally strong in both men's and women's businesses and their performance strength was broadly based across all major merchandise categories. Net sales per selling square foot for the total

Company increased 24%, driven principally by an increase in the number of transactions per store.

Net sales for 1996 increased 42% to \$335.4 million over the fifty-three week 1995 fiscal year. The sales increase was attributable to the net addition of 27 stores and a 13% comparable store sales increase. Consistent with the Company's strategy, the women's business continued to increase as a proportion of the total business, with sweaters and pants the strongest performing categories. The men's business also achieved significant growth with its strongest categories being sweaters, pants and denim. Net sales per selling square foot for the total Company increased 5%.

GROSS INCOME Gross income increased, expressed as a percentage of net sales, to 45.4% for the fourth quarter of 1997 from 43.0% for the same period in 1996. The increase was attributable to improved merchandise margins (representing gross income before the deduction of buying and occupancy costs) resulting from higher initial markups (IMU) and a lower markdown rate. As a result of improved inventory turnover, fewer markdowns, expressed as a percentage of net sales, were needed in the fourth quarter of 1997 to clear season-end merchandise as compared to the same period in 1996.

Gross income increased, expressed as a percentage of net sales, to 43.0% for the fourth quarter of 1996 from 37.4% for the same period in 1995. The increase was due to a significant increase in merchandise margins and a reduction in buying and occupancy costs, expressed as a percentage of net sales. The increase in merchandise margins was the result of higher IMU. The decrease in buying and occupancy costs was primarily attributable to higher sales productivity associated with the 8% increase in comparable store sales.

For the year, the gross income rate increased to 38.5% in 1997 from 36.9% in 1996. The improvement was the result of higher merchandise margins, expressed as a percentage of net sales. Improved IMU in both the men's and women's businesses drove the increase in merchandise margins. Buying and occupancy costs, expressed as a percentage of net sales, declined slightly due to leverage achieved from comparable store sales increases.

In 1996, the gross income rate increased to 36.9% from 33.9% in 1995. Merchandise margins, expressed as a percentage of net

sales, improved due to a higher IMU in both the men's and women's businesses. Buying and occupancy costs, expressed as a percentage of net sales, declined due to a 13% increase in comparable store sales, including a 5% increase in net sales per selling square foot.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES General, administrative and store operating expenses, expressed as a percentage of net sales, were 17.5% in the fourth quarter of 1997 and 17.6% in the comparable period in 1996. The improvement resulted primarily from favorable leveraging of expenses due to higher sales volume. Included in these expenses for the fourth quarter of 1997 was approximately \$2.6 million of compensation expense associated with restricted stock grants awarded to key executives of the Company.

For the year, general, administrative and store operating expenses, expressed as a percentage of net sales, were 22.4%, 23.2% and 23.8% for 1997, 1996 and 1995. The improvement during the three-year period resulted from management's continued emphasis on expense control and favorable leveraging of expenses, primarily stores expenses, due to higher sales volume.

OPERATING INCOME Operating income, expressed as a percentage of net sales, was 27.9%, 25.4% and 19.8% for the fourth quarter of 1997, 1996 and 1995 and 16.1%, 13.7% and 10.1% for fiscal years 1997, 1996 and 1995. The improvement was the result of higher merchandise margins coupled with lower general, administrative and store operating expenses, expressed as a percentage of net sales. Sales volume and gross income have increased at a faster rate than general, administrative and store operating expenses as the Company continues to emphasize cost controls.

INTEREST EXPENSE Fourth quarter 1997 net interest expense of \$305 thousand improved \$820 thousand from 1996 fourth quarter net interest expense of \$1.1 million. Interest expense in the fourth quarter of 1997 and 1996 included \$975 thousand associated with \$50 million of long-term debt. The balance represented net interest income from temporary investments in the fourth quarter of 1997, while net interest expense in the fourth quarter of 1996 was primarily due to higher borrowing levels.

The Company's year-to-date interest expense was \$3.6 million, down \$1.3 million from \$4.9 million in 1996 due primarily to lower average borrowing levels.

FINANCIAL CONDITION The Company's continuing growth in operating income provides evidence of financial strength and flexibility. A more detailed discussion of liquidity, capital resources and capital requirements follows.

LIQUIDITY AND CAPITAL RESOURCES Cash provided by operating activities and cash funding from The Limited's centralized cash management system provided the resources to support operations, including seasonal requirements and capital expenditures. A summary of the Company's working capital position and capitalization follows (thousands):

	1997	1996	1995
Cash provided by operating activities	\$100,195	\$46,836	\$ 12,714
Working capital	\$ 42,000	\$ 1,288	\$(70,940)
Capitalization:			
Long-term debt	\$ 50,000	\$50,000	—
Shareholders' equity (deficit)	58,775	11,238	\$(22,622)
Total capitalization	\$108,775	\$61,238	\$(22,622)

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

	1997	1996	1995
Debt-to-capitalization ratio (long-term debt divided by total capitalization)	46%	82%	n/m
Cash flow to capital investment (net cash provided by operating activities divided by capital expenditures)	340%	193%	52%

n/m=not meaningful

Net cash provided by operating activities totaled \$100.2 million, \$46.8 million and \$12.7 million for 1997, 1996 and 1995.

In 1997, the \$100.2 million net cash provided by operating activities increased from the comparable period last year due primarily to the increase in net income before depreciation and amortization. Accounts payable and accrued expenses increased in 1997 as a result of the increases of \$7.8 million in merchandise payables due to the timing of receipts for Spring goods and \$2.3 million of accrued rent. Cash requirements for

inventory decreased in 1997 consistent with the Company's strategy to improve inventory turnover.

Investing activities were for capital expenditures, which were primarily for new stores.

Financing activities in 1997 consisted primarily of activity through The Limited's centralized cash management system. Financing activities in 1996 include \$150 million in proceeds from borrowings under a bank credit agreement, which, along with the \$8.6 million working capital note, were later repaid with funds made available from the IPO and cash flow from operations. Proceeds of the \$150 million bank credit agreement were used to repay \$91 million of intercompany debt and \$32 million of trademark obligations and fund a \$27 million dividend to The Limited. Other financing activities were due to intercompany and cash management account activity (see Note 8).

In connection with the plan to establish Abercrombie & Fitch as a fully independent company (see Note 11), the Company is in the process of negotiating credit facilities that will be separate and independent of The Limited.

CAPITAL EXPENDITURES Capital expenditures, primarily for new and remodeled stores, amounted to \$29.5 million, \$24.3 million and \$24.5 million for 1997, 1996 and 1995.

The Company anticipates spending \$40 to \$50 million in 1998 for capital expenditures, of which \$35 to \$42 million will be for new stores, remodeling and/or expansion of existing stores and related improvements. The Company intends to add approximately 235,000 selling square feet in 1998, which will represent a 19% increase over year end 1997. It is anticipated the increase will result from the addition of 30 new stores and the remodeling and/or expansion of four stores. The Company estimates that the average cost for leasehold improvements, furniture and fixtures for stores opened in 1998 will approximate \$750,000 per store, after giving effect to landlord allowances. In addition, inventory purchases are expected to average approximately \$275,000 per store.

Additionally, the Company plans to open 10 to 15 children's stores in 1998. The planned store size is approximately 3,200 selling square feet and the average cost for leasehold improvements, furniture and fixtures will be approximately \$470,000.

The Company expects that substantially all future capital expenditures will be funded by net cash provided by operating activities.

INFORMATION SYSTEMS AND “YEAR 2000” COMPLIANCE

The Company recently completed a comprehensive review of its information systems and is involved in a program to update computer systems and applications in preparation for the year 2000. The Company will incur internal staff costs as well as outside consulting and other expenditures related to this initiative. Total expenditures related to remediation, testing, conversion, replacement and upgrading system applications are expected to range from \$3.0 to \$4.0 million from 1997 through 2000. Total incremental expenses, including depreciation and amortization of new package systems, remediation to bring current systems into compliance and writing off legacy systems are not expected to have a material impact on the Company’s financial condition in any year during the conversion process from 1997 through 2000.

The Company is attempting to contact vendors and others on whom it relies to ensure that their systems will be converted in a timely fashion. However, there can be no assurance that the systems of other companies on which the Company’s systems rely will also be converted in a timely fashion or that any such failure to convert by another company would not have an adverse effect on the Company’s systems. Furthermore, no assurance can be given that any or all of the Company’s systems are or will be Year 2000 compliant, or that the ultimate costs required to address the Year 2000 issue or the impact of any failure to achieve substantial Year 2000 compliance will not have a material adverse effect on the Company’s financial condition.

REGISTRATION STATEMENT FOR EXCHANGE OFFER

The Company and The Limited will enter into certain service agreements upon the consummation of the Exchange Offer (see Note 11) which will include among other things, tax, information technology and store design and construction. These agreements generally will be for a term of one year. Service agreements will also be entered into for the continued use by the Company of its distribution and home office space and transportation and logistic services. These agreements generally will be for a term of three years. Costs for these services will generally be the costs and expenses incurred by The Limited plus 5% of such amounts. Upon expiration of these agreements with The Limited, the Company may bring certain services in-house, contract with other outside parties or take other actions the Company deems appropriate at that time.

The Company does not anticipate that costs associated with these service agreements or costs to be incurred upon their expiration will have a material impact on its financial condition.

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.

ADOPTION OF NEW ACCOUNTING STANDARDS During the fourth quarter of 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, “Earnings Per Share” which requires the Company to disclose earnings per basic and diluted share for all periods presented.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 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 Report, the Company’s Form 10-K or made by management of the Company involve risks and uncertainties, and are subject to change based on various important factors. The following factors, among others, in some cases have affected and in the future could affect the Company’s financial performance and actual results and could cause actual results for 1998 and beyond to differ materially from those expressed or implied in any such forward-looking statements: changes in consumer spending patterns, consumer preferences and overall economic conditions, the impact of competition and pricing, changes in weather patterns, political stability, currency and exchange risks and changes in existing or potential duties, tariffs or quotas, availability of suitable store locations at appropriate terms, ability to develop new merchandise and ability to hire and train associates.

Abercrombie & Fitch Co.

CONSOLIDATED STATEMENTS OF INCOME

<i>(Thousands except per share amounts)</i>	1997	1996	1995
Net Sales	\$521,617	\$335,372	\$235,659
Cost of Goods Sold, Occupancy and Buying Costs	320,537	211,606	155,865
Gross Income	201,080	123,766	79,794
General, Administrative and Store Operating Expenses	116,955	77,773	55,996
Operating Income	84,125	45,993	23,798
Interest Expense, Net	3,583	4,919	–
Income Before Income Taxes	80,542	41,074	23,798
Provision for Income Taxes	32,220	16,400	9,500
Net Income	\$ 48,322	\$ 24,674	\$ 14,298
Net Income Per Share:			
Basic	\$.95	\$.54	\$.33
Diluted	\$.94	\$.54	\$.33

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

<i>(Thousands)</i>	<u>Common Stock</u>			Retained Earnings (Deficit)	Treasury Stock, at Cost	Total Shareholders' Equity(Deficit)
	Shares Outstanding	Par Value	Paid-In Capital			
Balance, January 28, 1995	43,000	–	\$ 155	\$ (37,225)	–	\$ (37,070)
Net Income	–	–	–	14,298	–	14,298
Other	–	–	150	–	–	150
Balance, February 3, 1996	43,000	–	\$ 305	\$ (22,927)	–	\$ (22,622)
Transfer of Equity to Debt (\$50,000 Long-Term Debt and \$32,000 Short-Term Borrowings)	–	–	–	(82,000)	–	(82,000)
Cash Dividend to Parent Prior to Initial Public Offering	–	–	–	(27,000)	–	(27,000)
Sale of Common Stock in Initial Public Offering	8,050	\$511	117,667	–	–	118,178
Net Income	–	–	–	24,674	–	24,674
Other	–	–	8	–	–	8
Balance, February 1, 1997	51,050	\$511	\$117,980	\$ (107,253)	–	\$ 11,238
Purchase of Treasury Stock	(50)	–	–	–	\$(929)	(929)
Net Income	–	–	–	48,322	–	48,322
Exercise of Stock Options and Other	9	–	(8)	–	152	144
Balance, January 31, 1998	51,009	\$511	\$117,972	\$ (58,931)	\$ (777)	\$ 58,775

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

Abercrombie & Fitch Co.

CONSOLIDATED BALANCE SHEETS

<i>(Thousands)</i>	January 31, 1998	February 1, 1997
Assets		
Current Assets		
Cash and Equivalents	\$ 42,667	\$ 1,945
Accounts Receivable	1,695	2,102
Inventories	33,927	34,943
Store Supplies	5,592	5,300
Intercompany Receivable	23,785	–
Other	1,296	588
Total Current Assets	108,962	44,878
Property and Equipment, Net	70,517	58,992
Deferred Income Taxes	3,759	1,885
Other Assets	–	6
Total Assets	\$183,238	\$105,761
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	\$ 15,968	\$ 6,414
Accrued Expenses	35,143	22,388
Income Taxes Payable	15,851	9,371
Intercompany Payable	–	5,417
Total Current Liabilities	66,962	43,590
Long-Term Debt	50,000	50,000
Other Long-Term Liabilities	7,501	933
Shareholders' Equity		
Common Stock	511	511
Paid-In Capital	117,972	117,980
Retained Earnings (Deficit)	(58,931)	(107,253)
	59,552	11,238
Less: Treasury Stock, at Cost	(777)	–
Total Shareholders' Equity	58,775	11,238
Total Liabilities and Shareholders' Equity	\$183,238	\$105,761

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

Abercrombie & Fitch Co.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Thousands)</i>	1997	1996	1995
Cash Flows from Operating Activities			
Net Income	\$48,322	\$24,674	\$14,298
Impact of Other Operating Activities on Cash Flows			
Depreciation and Amortization	16,342	11,759	9,104
Non Cash Charge for Deferred Compensation	6,219	–	–
Change in Assets and Liabilities			
Inventories	1,016	(4,555)	(13,837)
Accounts Payable and Accrued Expenses	22,309	9,943	4,069
Income Taxes	4,606	4,218	(2,525)
Other Assets and Liabilities	1,381	797	1,605
Net Cash Provided by Operating Activities	100,195	46,836	12,714
Cash Used for Investing Activities			
Capital Expenditures	(29,486)	(24,323)	(24,526)
Financing Activities			
Increase (Decrease) in Intercompany Balance	(29,202)	18,988	11,944
Dividend Paid to Parent	–	(27,000)	–
Net Proceeds from Issuance of Common Stock	–	118,178	–
Proceeds from Credit Agreement	–	150,000	–
Repayment of Credit Agreement	–	(150,000)	–
Repayment of Trademark Obligations	–	(32,000)	–
Repayment of Intercompany Debt	–	(91,000)	–
Repayment of Working Capital Note	–	(8,616)	–
Purchase of Treasury Stock	(929)	–	–
Other Changes in Shareholders' Equity	144	8	150
Net Cash Provided by (Used for) Financing Activities	(29,987)	(21,442)	12,094
Net Increase in Cash and Equivalents	40,722	1,071	282
Cash and Equivalents, Beginning of Year	1,945	874	592
Cash and Equivalents, End of Year	\$42,667	\$ 1,945	\$ 874

In 1996, noncash financing activities included the distribution of a note representing preexisting obligations of the Company's operating subsidiary in respect of certain trademarks in the amount of \$32 million by the Company's trademark subsidiary to The Limited, Inc., distribution of the \$50 million in long-term debt and the conversion of \$8.6 million of intercompany debt into a working capital note.

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

Abercrombie & Fitch Co.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION Abercrombie & Fitch Co. (the “Company”) was incorporated on June 26, 1996, and on July 15, 1996 acquired the stock of Abercrombie & Fitch Holdings, the parent company of the Abercrombie & Fitch business, and A&F Trademark, Inc., in exchange for 43 million shares of Class B common stock issued to The Limited, Inc. (“The Limited”). The Company is a specialty retailer of high quality, casual apparel for men and women with an active, youthful lifestyle. The business was established in 1892 and subsequently acquired by The Limited in 1988.

An initial public offering (the “Offering”) of 8.05 million shares of the Company’s Class A common stock, including the sale of 1.05 million shares pursuant to the exercise by the underwriters of their options to purchase additional shares, was consummated on October 1, 1996. As a result of the Offering, 84.2% of the outstanding common stock of the Company is owned by The Limited.

The net proceeds received by the Company from the Offering, approximating \$118.2 million, and cash from operations were used to repay the borrowings under a \$150 million credit agreement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and all significant subsidiaries that are more than 50% owned and controlled. All significant intercompany balances and transactions have been eliminated in consolidation.

FISCAL YEAR The Company’s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year commences. The results for fiscal years 1997 and 1996 represent the fifty-two week periods ended January 31, 1998 and February 1, 1997. The results for fiscal year 1995 represent the fifty-three week period ended February 3, 1996.

CASH AND EQUIVALENTS Cash and equivalents include amounts on deposit with financial institutions and investments with maturities of less than 90 days.

INVENTORIES Inventories are principally valued at the lower of average cost or market, on a first-in first-out basis, utilizing the retail method.

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

PROPERTY AND EQUIPMENT Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 10-15 years for building improvements and 3-10 years for other property and equipment. Beneficial leaseholds represent the present value of the excess of fair market rent over contractual rent of existing stores at the 1988 purchase of the Company by The Limited and are being amortized over the lives of the related leases. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments that extend service lives are capitalized. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that full recoverability is questionable. Factors used in the valuation include, but are not limited to, management’s plans for future operations, recent operating results and projected cash flows.

INCOME TAXES Income taxes are calculated in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes,” which requires the use of the 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.

Abercrombie & Fitch Co.

Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is included in The Limited's consolidated federal and certain state income tax groups for income tax reporting purposes and is responsible for its proportionate share of income taxes calculated upon its federal taxable income at a current estimate of the annual effective tax rate.

SHAREHOLDERS' EQUITY At January 31, 1998, there were 150 million of \$.01 par value Class A shares authorized, of which 8.01 million and 8.05 million shares were outstanding at January 31, 1998 and February 1, 1997 and 150 million of \$.01 par value of Class B shares authorized, of which 43 million shares were issued and outstanding. In addition, there were 15 million of \$.01 par value preferred shares authorized, none of which have been issued.

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. Each share of Class B common stock is convertible while held by The Limited or any of its subsidiaries into one share of Class A common stock (see Note 11).

REVENUE RECOGNITION Sales are recorded upon purchase by customers.

CATALOGUE AND ADVERTISING COSTS Costs related to the A&F Quarterly, which premiered in 1997, primarily consist of catalogue production and mailing costs and are expensed as incurred. Advertising costs consist of in-store photographs and advertising in selected national publications and are expensed when the photographs or publications first appear. Catalogue and advertising costs amounted to \$13.7 million in 1997, \$4.1 million in 1996 and \$3.1 million in 1995.

STORE PREOPENING EXPENSES Preopening expenses related to new store openings are charged to operations as incurred.

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

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturity. The estimated fair value of the Company's long-term debt was \$52.2 million at January 31, 1998 and \$50.6 million at February 1, 1997.

EARNINGS PER SHARE Net income per share is computed in accordance with SFAS No. 128, "Earnings Per Share," which the Company adopted in the fourth quarter of 1997. Earnings per basic share are computed based on the weighted average number of outstanding common shares. Earnings per diluted share include the weighted average effect of dilutive stock options and restricted stock. The common stock issued to The Limited (43 million Class B shares) in connection with the incorporation of the Company is assumed to have been outstanding for all periods.

Weighted Average Common Shares Outstanding (thousands):

	1997	1996	1995
Common shares issued	51,050	45,749	43,000
Treasury shares	(39)	—	—
Basic shares	51,011	45,749	43,000
Dilutive effect of options and restricted shares	467	11	—
Diluted shares	51,478	45,760	43,000

Options to purchase 228,000 and 240,000 shares of common stock were outstanding at year end 1997 and 1996, but were not included in the computation of earnings per diluted share because the options' exercise price was greater than the average market price of the common shares.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

RECLASSIFICATIONS

Certain amounts in previously reported financial statement captions have been reclassified to conform with current year presentation.

3. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of (thousands):

	1997	1996
Furniture, fixtures and equipment	\$104,671	\$ 88,248
Beneficial leaseholds	7,349	7,925
Leasehold improvements	11,615	5,565
Construction in progress	365	181
Total	\$124,000	\$101,919
Less: accumulated depreciation and amortization	53,483	42,927
Property and equipment, net	\$ 70,517	\$ 58,992

4. 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. Rent expense also includes charges from The Limited and its subsidiaries for space under formal agreements which approximate market rates (see Note 8).

A summary of rent expense for 1997, 1996 and 1995 follows (thousands):

	1997	1996	1995
Store rent:			
Fixed minimum	\$34,402	\$24,599	\$17,465
Contingent	2,138	1,620	1,322
Total store rent	\$36,540	\$26,219	\$18,787
Buildings, equipment and other	1,400	1,229	1,058
Total rent expense	\$37,940	\$27,448	\$19,845

At January 31, 1998, the Company was committed to non-cancelable leases with remaining terms of one to fifteen years. These commitments include store leases with initial terms ranging primarily from ten to fifteen years and offices and a distribution center leased from an affiliate of The Limited with an initial term of fifteen years. A majority of the Company's store leases are guaranteed by The Limited. A summary of minimum rent commitments under noncancelable leases follows (thousands):

1998	\$40,775	2001	\$42,170
1999	41,747	2002	42,254
2000	41,866	Thereafter	181,769

5. ACCRUED EXPENSES

Accrued expenses consisted of the following (thousands):

	1997	1996
Rent and landlord charges	\$ 8,105	\$ 5,624
Compensation and benefits	8,357	4,638
Catalogue and advertising costs	4,012	1,449
Interest	986	2,162
Taxes, other than income	1,827	1,761
Other	11,856	6,754
Total	\$35,143	\$22,388

6. INCOME TAXES

The provision for income taxes consisted of (thousands):

	1997	1996	1995
Currently payable:			
Federal	\$29,620	\$13,800	\$6,900
State	3,470	1,300	1,700
	\$33,090	\$15,100	\$8,600
Deferred:			
Federal	(3,200)	(400)	700
State	2,330	1,700	200
	\$ (870)	\$ 1,300	\$ 900
Total provision	\$32,220	\$16,400	\$9,500

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

	1997	1996	1995
Federal income tax rate	35.0%	35.0%	35.0%
State income tax, net of Federal income tax effect	4.7%	4.7%	5.2%
Other items, net	0.3%	0.2%	(0.3)%
	40.0%	39.9%	39.9%

Income taxes payable included net current deferred tax assets of \$2.3 million and \$1.2 million at January 31, 1998 and February 1, 1997.

Current income tax obligations are treated as having been settled through the intercompany accounts as if the Company were filing its income tax returns on a separate company basis. Such amounts were \$27.6 million, \$10.6 million and \$7.5 million in 1997, 1996 and 1995.

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

	1997	1996
Depreciation and amortization	\$1,540	\$1,480
Rent	1,510	(413)
Accrued expenses	3,450	1,343
Other, net	(450)	683
Total deferred income taxes	\$6,050	\$3,093

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

7. LONG-TERM DEBT Long-term debt consists of a 7.80% unsecured note in the amount of \$50 million that matures May 15, 2002, and represents the Company's proportionate share of certain long-term debt of The Limited. The interest rate and maturity of the note parallels that of corresponding debt of The Limited. The note is to be automatically prepaid concurrently with any prepayment of the corresponding debt of The Limited.

8. RELATED PARTY TRANSACTIONS Transactions between the Company, The Limited, and its subsidiaries and affiliates commonly occur in the normal course of business and principally consist of the following:

- Merchandise purchases
- Real estate management and leasing
- Capital expenditures
- Inbound and outbound transportation
- Corporate services

Information with regard to these transactions is as follows: Significant purchases are made from Mast, a wholly-owned subsidiary of The Limited. Purchases are also made from Gryphon, an indirect subsidiary of The Limited. Mast is a contract manufacturer and apparel importer while Gryphon is a developer of fragrance and personal care products and also a contract manufacturer. Prices are negotiated on a competitive basis by merchants of the Company with Mast, Gryphon and the manufacturers.

The Company's real estate operations, including all aspects of lease negotiations and ongoing dealings with landlords and developers, are handled centrally by the Real Estate Division of The Limited ("Real Estate Division"). Real Estate Division expenses are allocated to the Company based on a combination of new and remodeled store construction projects and open selling square feet.

The Company's store design and construction operations are coordinated centrally by the Store Planning Division of The Limited ("Store Planning Division"). The Store Planning Division facilitates the design and construction of the stores and upon completion transfers the stores to the Company at actual cost. Store Planning Division expenses are charged to the Company based on a combination of new and remodeled store construction projects and open selling square feet.

The Company's inbound and outbound transportation expenses are managed centrally by Limited Distribution Services ("LDS"), a wholly-owned subsidiary of The Limited. Inbound freight is charged to the Company based on actual receipts, while outbound freight is charged on a percentage of cartons shipped basis.

The Limited provides certain services to the Company including, among other things, aircraft, tax, treasury, legal, corporate secretary, accounting, auditing, corporate development, risk management, associate benefit plan administration, human resource and compensation, government affairs and public relation services. Identifiable costs are charged directly to the Company. All other services-related costs not specifically attributable to the business have been allocated to the Company based upon a percentage of sales.

The Company participates in The Limited's centralized cash management system whereby cash received from operations is transferred to The Limited's centralized cash accounts and cash disbursements are funded from the centralized cash accounts on a daily basis. Prior to the initial capitalization of the Company, the intercompany cash management account was noninterest bearing. After the initial capitalization of the Company on July 11, 1996, the intercompany cash management account became an interest earning asset or interest bearing liability of the Company depending upon the level of cash receipts and disbursements. Interest on the intercompany cash management account is calculated based on 30-day commercial paper rates for "AA" rated companies as reported in the Federal Reserve's H.15 statistical release. The average outstanding balance of the noninterest bearing intercompany payable to The Limited in the twenty-six week period ending August 3, 1996 and fifty-three weeks ended February 3, 1996 approximated \$64.5 million and \$89.8 million. A summary of the intercompany payment activity during the noninterest bearing periods follows:

	Twenty-six weeks ended August 3, 1996	Fifty-three weeks ended February 3, 1996
Balance at beginning of period	\$86,045	\$74,101
Mast and Gryphon purchases	23,178	35,167
Other transactions with related parties	9,667	33,546
Centralized cash management	(16,417)	(64,269)
Settlement of current period income taxes	5,700	7,500
Payment to The Limited	(91,000)	-
Conversion to Working Capital Note	(8,616)	-
Balance at end of period	<u>\$ 8,557</u>	<u>\$86,045</u>

The Company is charged rent expense, common area maintenance charges and utilities for stores shared with other consolidated subsidiaries of The Limited. The charges are based on square footage and represent the proportionate share of the underlying leases with third parties.

The Company is also charged rent expense and utilities for the distribution and home office space occupied (which approximates fair market value).

The Company and The Limited have entered into intercompany agreements that establish the provision of services in accordance with the terms described above. The prices charged to the Company for services provided under these agreements may be higher or lower than prices that may be charged by third parties. It is not practicable, therefore, to estimate what these costs would be if The Limited were not providing these services and the Company was required to purchase these services from outsiders or develop internal expertise. Management believes the charges and allocations described above are fair and reasonable.

The following table summarizes the related party transactions between the Company and The Limited and its subsidiaries, for the years indicated (thousands):

	1997	1996	1995
Mast and Gryphon purchases	\$ 89,892	\$61,776	\$35,167
Capital expenditures	27,012	20,839	20,280
Inbound and outbound transportation	5,524	3,326	2,869
Corporate charges	6,857	3,989	4,019
Store leases and other occupancy, net	1,184	1,509	1,397
Distribution center, IT and home office expenses	3,102	2,696	2,564
Centrally managed benefits	3,596	3,136	2,417
Interest charges	3,583	2,190	-
	<u>\$140,750</u>	<u>\$99,461</u>	<u>\$68,713</u>

The Company and The Limited are parties to a corporate agreement under which the Company granted to The Limited a continuing option to purchase, under certain circumstances, additional shares of Class B common stock or shares of nonvoting capital stock of the Company.

The Company has no arrangements with The Limited which result in the Company's guarantee, pledge of assets or stock to provide security for The Limited's debt obligations.

The Company's proprietary credit card processing is performed by Alliance Data Systems which is approximately 40% owned by The Limited.

9. STOCK OPTIONS AND RESTRICTED STOCK Under the Company's stock plan, associates may be granted up to a total of 3.5 million restricted shares and options to purchase the Company's common stock at the market price on the date of grant. In 1997, associates of the Company were granted approximately 1.7 million options, most of which are expected to vest on a graduated basis over six years, subject to certain performance goals. The remaining options generally vest 25% per year over the first four years of the grant. A total of 12,000 shares have been issued to nonassociate directors, all of which vest over four years. All options have a maximum term of ten years.

The Company adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," effective with the 1996 financial statements, but elected to continue to measure compensation expense in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense for stock options has been recognized. If compensation expense had been determined based on the estimated fair value of options granted in 1997 and 1996, consistent with the methodology in SFAS No. 123, the effect on net income and earnings per diluted share would have been a reduction of approximately \$1.7 million, or \$.03 per share in 1997. In 1996, the pro forma effect would have no impact on net income and earnings per diluted share. The weighted average fair value of options granted during fiscal 1997 and 1996 was \$8.50 and \$6.67. The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for 1997 and 1996: no expected dividends, price volatility of 35%, risk-free interest rates of 6.0% and 6.25%, assumed forfeiture rate of 10% and expected lives of 6.5 and 5 years.

The pro forma effect on net income for 1997 and 1996 is not representative of the pro forma effect on net income in future years because it takes into consideration pro forma compensa-

tion expense related only to those grants made subsequent to the Company's initial public offering.

A summary of option activity for 1997 and 1996 follows:

	1997		1996	
	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price
Outstanding at beginning of year	240,000	\$16.00	-	-
Granted	1,669,000	18.03	240,000	\$16.00
Exercised	(4,000)	16.00	-	-
Canceled	(21,000)	16.00	-	-
Outstanding at end of year	1,884,000	\$17.81	240,000	\$16.00
Options exercisable at year end	35,000	\$16.00	-	-

Approximately 88% of the options outstanding at year end are at \$16 per share. Most of the remaining options outstanding are at \$31 per share.

A total of 547,000 restricted shares were granted in 1997, with a total market value at grant date of \$8.7 million. Of this total, 500,000 shares were subject to performance requirements and a defined vesting schedule over six years. The remaining restricted stock grants generally vest either on a graduated scale over four years or 100% at the end of a fixed vesting period, principally five years. The market value of restricted stock, subject to adjustment at the measurement date for shares with performance requirements, is being amortized as compensation expense over the vesting period, generally four to six years. Compensation expenses related to restricted stock awards amounted to \$6.2 million, \$.5 million and \$.4 million in 1997, 1996 and 1995.

10. RETIREMENT BENEFITS The Company participates in a qualified defined contribution retirement plan and a non-qualified supplemental retirement plan sponsored by The Limited. 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 \$1.6 million in 1997, \$753 thousand in 1996 and \$564 thousand in 1995.

11. REGISTRATION STATEMENT FOR EXCHANGE OFFER

On February 17, 1998, a registration statement was filed with the Securities and Exchange Commission in connection with a plan to establish the Company as a fully independent company via a tax-free exchange offer pursuant to which The Limited shareholders will be given an opportunity to exchange shares of The Limited for shares of the Company. At year end, The Limited owned 43 million of the Company's shares.

12. SUBSEQUENT EVENTS (UNAUDITED) On April 15, 1998, the Company repaid the \$50 million unsecured note plus accrued interest through issuance of 600,000 shares of Class B common stock to The Limited at \$43.125 per share with the remaining balance of \$25 million paid in cash.

On April 30, 1998, the Company entered into a \$150 million unsecured revolving credit agreement (the "Agreement"). Borrowings under the Agreement are due April 30, 2003. The Agreement had several borrowing options, including interest rates which are based on either the lender's "Alternate Base Rate," as defined, a LIBO based rate or at a rate submitted under a bidding process. Facilities fees payable under the Agreement are based on the Company's "Leverage Ratio," as defined. The Agreement contains provisions which (i) limit the incurrence of additional indebtedness and certain other transactions and (ii) limit the payment of dividends to shareholders. The Agreement also contains covenants relating to the Company's interest coverage and debt.

In connection with the registration statement discussed in Note 11, the exchange offer was completed in May, 1998.

13. QUARTERLY FINANCIAL DATA (UNAUDITED) Summarized quarterly financial results for 1997 and 1996 follow (thousands except per share amounts):

1997 Quarter	First	Second	Third	Fourth
Net sales	\$74,316	\$86,640	\$148,516	\$212,145
Gross income	23,941	27,786	52,990	96,363
Net income	565	2,053	10,403	35,301
Net income per basic share	\$.01	\$.04	\$.20	\$.69
Net income per diluted share	\$.01	\$.04	\$.20	\$.68

1996 Quarter				
Net sales	\$51,020	\$57,431	\$87,688	\$139,233
Gross income	14,894	18,052	30,957	59,863
Net income (loss)	(199)	374	3,982	20,517
Net income (loss) per basic share	\$.00	\$.01	\$.09	\$.40
Net income (loss) per diluted share	\$.00	\$.01	\$.09	\$.40

MARKET PRICE INFORMATION The following is a summary of market price since the Company was originally listed on the New York Stock Exchange ("ANF") on September 26, 1996:

	Market Price	
	High	Low
Fiscal Year End 1997		
4th Quarter	\$34 ¹ / ₆	\$25 ¹ / ₆
3rd Quarter	\$27 ¹ / ₄	\$19 ¹ / ₄
2nd Quarter	\$20 ¹ / ₂	\$15 ¹ / ₄
1st Quarter	\$17 ¹ / ₂	\$12 ¹ / ₂
Fiscal Year End 1996		
4th Quarter	\$23 ¹ / ₄	\$12 ¹ / ₄
3rd Quarter	\$26 ¹ / ₄	\$21 ¹ / ₄

On January 31, 1998, there were approximately 180 shareholders of record. However, when including active associates who participate in the Company's stock purchase plan, associates who own shares through Company sponsored retirement plans and others holding shares in broker accounts under street name, the Company estimates the shareholder base at approximately 3,300.

Abercrombie & Fitch Co.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ABERCROMBIE & FITCH CO.

We have audited the accompanying consolidated balance sheets of Abercrombie & Fitch Co. and subsidiaries as of January 31, 1998 and February 1, 1997 and the related consolidated statements of income, shareholders' equity (deficit) and cash flows for each of the three fiscal years in the period ended January 31, 1998 (appearing on pages 20 through 29). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Abercrombie & Fitch Co. and subsidiaries as of January 31, 1998 and February 1, 1997 and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 31, 1998, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.
Columbus, Ohio
February 20, 1998

Abercrombie & Fitch Co.

CORPORATE INFORMATION

Abercrombie & Fitch
Four Limited Parkway East
Reynoldsburg, Ohio 43068
(614) 577-6500
www.abercrombie.com

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 10:00 A.M., Thursday, July 16, 1998 at Abercrombie & Fitch, Four Limited Parkway East, Reynoldsburg, Ohio 43068.

STOCK EXCHANGE LISTING

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

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P., Columbus, Ohio

10-K REPORT

A copy of form 10-K is available without charge upon written request to Lonnie Fogel, Director of Investor Relations & Communications, Abercrombie & Fitch, Four Limited Parkway East, Reynoldsburg, Ohio 43068.

STOCK TRANSFER AGENT, REGISTRAR AND DIVIDEND AGENT

First Chicago Trust Company of New York
P.O. Box 2500, Jersey City, New Jersey 07303-2500

INFORMATION REQUESTS

Please call (614) 577-6493 or write
Lonnie Fogel, Director of Investor Relations & Communications
at the Corporate Offices address listed above.

ABERCROMBIE & FITCH

Initial Public Offering: September 26, 1996
Number of Associates: 6,700
Approximate Shareholder Base: 3,300

CORPORATE OFFICERS

MICHAEL S. JEFFRIES
Chairman and Chief Executive Officer

MICHELE S. DONNAN-MARTIN
Vice President - General Merchandising Manager - Women's

SETH R. JOHNSON
Vice President - Chief Financial Officer

DAVID L. LEINO
Vice President - Director of Stores

CHARLES W. MARTIN
Vice President - Men's Design

LESLEE K. O'NEILL
Vice President - Merchandise Control

BOARD OF DIRECTORS

MICHAEL S. JEFFRIES
Chairman and Chief Executive Officer

GEORGE FOOS
Management Consultant

JOHN A. GOLDEN
Limited Partner, The Goldman Sachs Group L.P.

SETH R. JOHNSON
Vice President - Chief Financial Officer

JOHN W. KESSLER
Chairman, The New Albany Company

SAMUEL SHAHID
President/Creative Director, Shahid & Company

DOUGLAS L. WILLIAMS
Partner, Vorys, Sater, Seymour and Pease LLP