

Finance Director's Review

2007/08 has been another exceptional year for ASOS. Our investment in people, marketing, systems and warehousing has allowed us to continue to expand and improve our product ranges and to cope with a

60% increase in order volumes. Profit (before tax) for the year ended March 2008 increased from £3.4m to £7.3m, or by 117%. Our underlying profits increased by 176% from £3.0m to £8.2m.

REVENUES

An analysis of revenues is shown below:

£'000	2007/08	2006/07	Increase
Retail sales	71,685	37,720	90%
Delivery receipts	8,117	4,238	92%
Third party revenues*	1,242	656	89%
Total revenues	81,044	42,614	90%

* Third party revenues arise from onsite advertising, marketing inserts into outgoing parcels and advertising in the ASOS magazine.

Trading during the year accelerated from the first half to the second. Having increased 83% in the first half, sales advanced 95% in the second half.

Third party revenues increased in line with sales.

GROSS MARGIN

Our retail sales margin improved from 44.3% to 47.6% in 2007/08 driven by better inventory management and improved terms with our suppliers.



“OUR UNDERLYING PROFITS BEFORE TAX INCREASED 176% YEAR ON YEAR TO £8.2M”

ASOS PLC

The total gross margin increased from 42.5% in 2006/07 to 46.0% in 2007/08.

During 2008/09, we are planning improvements to our delivery proposition, the cost of which we are not planning to pass on to our customers.

OPERATING COSTS

During the year there was a non-recurring charge of £0.9m relating to a provision taken on our old warehouse to cover future rent and rates charges and the estimated cost of dilapidations. On an underlying basis, before the provision for our old warehouse, costs increased by £14.1m to £29.4m.

£'000	2007/08	2006/07	Increase
Payroll & staff costs	10,279	5,813	77%
Warehousing	9,992	5,435	84%
Marketing	5,117	1,867	174%
Other operating costs	3,954	1,680	135%
Depreciation	980	467	110%
Statutory operating costs	30,322	15,262	99%
Less provision for warehouse	(934)	—	100%
Underlying operating costs	29,388	15,262	93%
% of sales	36.3%	35.8%	



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As planned, we strengthened all of the key disciplines across the business resulting in a 77% increase in payroll and staff costs. Our headcount increased from 124 at the start of the year to 222 at the end of the year.

We are planning further recruitment this year in order to support and maintain our growth rates. Headcount will rise to approximately 370 by the end of March 2009.

Warehousing costs before the warehouse provision increased by £3.6m from the prior year. The fixed element of warehousing costs rose from £0.6m to £1.3m as a result of taking on a new warehouse with six times the capacity of the old one. Efficiency within the warehouse operation improved and variable warehousing costs fell from 12.9% to 10.8% of retail sales.

Marketing costs rose significantly in the year, mostly as a result of an increased investment in our magazine. We increased the number of issues in the year from 5 to 11, the number of pages and its circulation. By March 2008 we were dispatching 400,000 copies per month. Marketing costs also include the cost of creating imagery for the website and this rose in line with the increase in product choice over the year. Marketing costs represented 6.3% of sales.

Other operating costs include IT, head office costs and credit card fulfilment costs. The most significant change in 2007/08 resulted from a head office move in May 2007, when we increased our office space by nearly four times to 24,000 square feet. During 2008/09 we will require additional office capacity and have secured space on a short-term licence in order to maintain our flexibility. Credit card fulfilment costs increased in line with retail sales.

Whilst we are mindful of the current economic background and the increasing costs for businesses, we are confident that we will be able to manage our growth and our costs as we have done in the past. In total we anticipate that our operating costs will increase broadly in line with retail sales in 2008/09 as we continue to invest in building and supporting our growing business.

OPERATING PROFIT

Operating profit for the year ended March 2008 increased from £3.2m to £7.0m, or by 114%. However, adjusted for the provision for our old warehouse, underlying operating profit increased 176% to £7.9m. The underlying operating margin for the year amounted to 9.7%, which compares to 6.7% in the prior year.

INTEREST

Financial income increased from £0.1m in 2006/07 to £0.3m in the year ended March 2008.

TAXATION

The effective tax rate for the Group was 30.9%.

EARNINGS PER SHARE

Fully diluted earnings per share grew by 100% to 6.6p. Fully diluted earnings per share on an underlying basis grew by 154% to 7.4p.

CAPITAL EXPENDITURE

Capital expenditure in the year amounted to £4.7m and comprised:

£'000	Actual	Indicative
	2007/08	2008/09
IT	944	4,000
Warehouse	2,942	3,200
Office fixtures and fit-out	854	300
Total	4,740	7,500

The majority of this expenditure in 2007/08 related to the first phase of the fit-out of our new warehouse in Hemel Hempstead.

Capital expenditure for 2008/09 is expected to rise to approximately £7.5m, of which £3.2m will be required for phase two of our warehouse fit-out. Further investment will be required in future years in order to maximise the capacity of the site.

We are also currently reviewing our IT systems and infrastructure in order to ensure we are in a strong position to maximise our growth potential, and exploit new opportunities as they arise. We have allocated £4.0m in 2008/09 for this purpose.

CASH FLOW AND NET CASH

The Group continues to be cash generative and all investment continues to be funded from cash flow. Between 31 March 2007 and 31 March 2008, the Group's cash position increased by £5.0m to £10.4m. Major sources of cash inflow included cash from operations, which consisted of EBITDA of £7.9m and an increase in other creditors of £8.7m. We anticipate that half of the increase in other creditors will unwind during the current year.

During the period, share options under the Group's share option schemes were exercised raising £0.2m.

Surplus funds are invested in short-term deposits with the objective of maximising fixed interest rate returns whilst providing the flexibility to fund ongoing operations. It is not the Group's policy to engage in speculative activity or to use complex financial instruments.

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RECONCILIATION OF STATUTORY TO UNDERLYING OPERATING PROFITS

£'000	2007/08	2006/07	Increase
Operating profit	6,962	3,246	115%
— Plus warehouse provision	934	—	—
— Less insurance proceeds	—	570	—
— Plus goodwill	—	188	—
Underlying operating profit	7,896	2,864	176%

RECONCILIATION OF STATUTORY TO UNDERLYING PROFITS BEFORE TAX

£'000	2007/08	2006/07	Increase
Profit before tax	7,311	3,370	117%
— Plus warehouse provision	934	—	—
— Less insurance proceeds	—	570	—
— Plus goodwill	—	188	—
Underlying profit before tax	8,245	2,988	176%

RECONCILIATION OF STATUTORY TO UNDERLYING NET PROFIT AND EPS

£'000 (except where otherwise stated)	2007/08	2006/07	Increase
Net profit	5,053	2,419	109%
Plus warehouse provision, taxed at effective tax rate	646	—	—
Less insurance proceeds, taxed at effective tax rate	—	409	—
Plus goodwill	—	188	—
Underlying net profit	5,699	2,198	160%
Weighted average number of shares, fully diluted (millions)	77.140	75.522	—
EPS, fully diluted	6.6p	3.3p	99%
Underlying EPS, fully diluted	7.4p	2.9p	154%



Jon Kamaluddin Finance Director