

Dear Partner:

Over the past few years, I've said repeatedly that it was not a time to be aggressive or take great risks. The economy didn't suggest it, nor did the world situation. The times suggested a conservative approach to business. An approach that, frankly, is not my nature. But one that was clearly the right thing, the prudent thing to do.

The world was risky. The economy was tough. Our brands were in transformation.

Still, there was much to be done. Prudent didn't mean docile. We used the time to aggressively sort our portfolio and financially restructure our business through spins, splits, sell-offs and store closings (over 1,700 in the past eight years). Those actions left us with an excellent cash position, free to pursue opportunities and rigorously build the remaining brands. Through it all, we stayed focused on our principle goal: Increased shareholder value through a family of the world's best fashion brands. It's what we said we'd do. It's exactly what we're doing.

Our single-minded focus on brand building has dramatically altered the way we look at everything in our businesses and, concurrently, the Center's role in brand planning and execution. Everything. We've brought brand disciplines to every part of the enterprise, reconsidered the way we open stores and markets, significantly increased our interest in and participation with, third party partners, even rethought the basic notion of where ideas come from. All dramatically altered.

While we've been engaged in this work, the economy has been improving. I see signs of optimism and consumer interest at virtually every level and across all categories. I wish I could take credit for the timing of our brand repositioning and emerging consumer optimism. Together, they've reinforced my belief that it's time for us to shift the business from defense to offense.

We are positioned to do it.

Our financial position is the healthiest in our history. Our careful, prudent financial management has left us with the strongest balance sheet in specialty retailing, with over \$3 billion in cash at fiscal year-end. Subsequent to the end of our fiscal year, we increased our dividend by 20% and repurchased \$1 billion of our stock. These actions continue our strategy of enhancing shareholder value and allow us to return capital to our investors, while maintaining the flexibility to use our strong financial position to aggressively pursue any significant emerging growth opportunities inside or outside our portfolio.

We remain as focused as ever on our strategic agenda of brands, talent and capability. And we are making progress across all three. Still, with every major initiative, I ask myself the same question: "Is the light worth the candle?" That is, are the potential rewards commensurate with the effort? Across a number of significant efforts this year, the light was very bright indeed.

I've thought for some time that the organization needed a Center-based, creatively oriented team of specialists that could work on new strategic ideas and initiatives. Ideas that could grow the business now and have legs long into the future. I've been a fan of Disney's Imagineering

group in the past, and I believe that best talent positioned against substantial opportunities will inevitably produce a positive outcome.

It's proving to be true.

Over the past two years, our Center-based creative team has developed some remarkable ideas and product extensions. Ones that are already being offered in our stores.

This is outside our experience, or that of most specialty brands. Traditionally, individual brands, including ours, develop their own products. And are limited by their resource base. Clearly, there was an opportunity to apply more talent on a more consistent basis.

And that's what the Center creative team is doing. Marie Holman-Rao's design group has led strategic initiatives that already have hundreds of millions of dollars in sales potential. They are brand right, aspirational extensions that have proven themselves in the marketplace. I want to highlight three from the past year.

“Marie Holman-Rao's design group has led strategic initiatives that already have hundreds of millions of dollars in sales potential.”

The first is Victoria's Secret's Pink. Let me explain how we got to it: Some time ago, I could see that there was clear white space for a younger, more fun-oriented casual lingerie line at Victoria's Secret. A way to introduce people to the brand, if you will. I asked Marie and her design team to develop a label and a product line as a skunk works. Her answer, developed in remarkably short fashion, was Pink, which was introduced last fall in a number of Victoria's Secret stores, on the website and in a few catalogues.

The results are very encouraging and Pink is rolling to an even larger number of stores this spring. We anticipate that by fall '04, Pink will be in all Victoria's Secret stores and play a prominent role in the Direct business. It not only has proven to be an excellent way to get younger customers to experience the brand, it's become a fun add-on purchase for our more traditional customer base, and a way to keep the business young. Something I'm determined to do across the board.

In its first six months, The Editor sold well over one million units.

Express Design Studio was also an outgrowth of the Center creative team. I've believed for some time that the Express customer needed wear-to-work clothing that fit her lifestyle. The Express Design Studio clearly fits the bill. Working in collaboration with talented designers, the Center creative team developed a wear-to-work clothing assortment with great quality and sophistication.

One pant, The Editor, has been particularly successful. In its first six months, it sold well over one million units with virtually no markdowns. Remarkable. Probably the most successful pant in Express' history. We are working hard to develop a second, third and fourth pant to complement The Editor, and we are placing special emphasis on the fit. It's working. Now repeat customers come into Express and buy more Editor pants without even trying them on. That's predictive reliability, an important component of any brand.

The creative team also turned its talents to the development of a new line of candles for Bath & Body Works and The White Barn Candle Company. Once *The New York Times* wrote about what we'd been calling "The World's Best Candle," there was no stopping it, and sales went through the roof. It even became a best seller at Henri Bendel, and it has enormous potential. There are 12 scents now, but we'll have 24 by May. We will develop complementary hand soaps, room sprays, any number of extensions. It energizes the brand, and it's a very big deal.

These are but three examples of Center-led new growth developmental initiatives across marketing, design, merchandising, display and store design. I believe that we can, and must, develop a steady stream of new strategic ideas that can live for five to ten years or longer, with potential for hundreds of millions of dollars in sales growth. I'm confident that the three mentioned here fit that criteria, and I'm determined to develop and constantly test three to four new strategic growth concepts annually as a basic activity in the enterprise.

It just has to be.

We are in the business of "new." Customers want a continuous stream of fresh ideas. And they, not us, drive our pace of change. We have to give the customer what she wants today, and what she's going to want tomorrow.

To ensure success, we need multiple ideas, coming from multiple places. The pace of our brands requires more curiosity, more big ideas. And those ideas need to be more rapidly developed and proved.

It is what best brands and companies do.

Which gets me to the next subject: Price promotion.

To be completely candid, I was frustrated by the level of promotion that was being done in our brands, particularly in our apparel businesses. Cheap tricks and gimmicks were not only eroding our brand positions, but habituating a customer base that only shopped on sale. In our fashion businesses, there was a deal on virtually everything, every week. I was determined that it would stop.

Which is exactly what we did.

Last fall. Cold turkey. One fell swoop.

No more tricks, no more "fast cash," no more super Tuesdays, no constant storewide promotions. That stuff doesn't build brands. It erodes them. It had to stop. It has.

We've replaced it with a model that has been working very successfully at Victoria's Secret over the last several years, the end of season sale. Victoria's Secret semi-annual sales are a major brand weapon, in what is an extraordinarily effective brand marketing arsenal that includes powerful television advertising, supermodels and the world's most famous fashion show.

The semi-annual sales, like all Victoria's Secret marketing, are brand building events. Ones that customers anticipate and value. And they drive a dramatic amount of volume through two three-week periods annually. They also bring new customers to the brand who, once introduced, become regulars.

I was convinced that the Victoria's Secret end of season sale was the right model. And I was determined that all of our brands could replicate the model in their own way. Which is exactly what we did.

Now, Express and Limited Stores have planned sales that allow them to clear inventory early and get to the next season promptly. These sales have been successful, and the businesses, after a period of adjustment, have begun to see value in real pricing and less promotion. It's a "sale" model that works at Victoria's Secret, works at Bath & Body Works, and now works at Express and Limited Stores.

The days of constant sale and discount promotions are over. They won't be back.

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Our stores are one of our most important brand assets, and we continue to refresh and remodel our fleet. We focus on best stores and best markets, our top 160, because that's where the money is.

In the past, I was disappointed in the way we did store openings. The store opening wasn't an event to anyone except maybe the store manager. That's not the case anymore.

Today, we distort marketing efforts, public relations efforts, merchandising efforts, management efforts and dollars to open our stores with major impact. We want to get them to third or fourth year volume levels in year one, and it's working, and we're learning.

Over the last year, we've opened a number of Victoria's Secret stores at volume levels that would have been unheard of just a few years ago. Really fascinating, and something I think we've only begun to tap. A major initiative for the brands.

Another big initiative is Christmas at Victoria's Secret Direct. Remarkably, there was a theology in the Direct business that Holiday was not a significant sales opportunity. Sharen Turney, CEO

and President of Victoria's Secret Direct, didn't buy it. She planned for, and delivered, one of Direct's best Holidays ever.

Fresh thinking, new techniques. And it's only the beginning.

I also think we're being more agile with our distribution. I said earlier that we've tested "The World's Best Candle" at Henri Bendel. We've used Victoria's Secret products as gifts with purchase at Limited. And we're selling Aura Science very well at Victoria's Secret. You can do that when you have strong brands and strong products. They cross lines and make stores, and brands, more interesting, while growing profits.

We continue to search for new ideas no matter what the source. I was intrigued by Procter & Gamble's concept of looking outside the company for ideas, and we too have adopted that idea enthusiastically. Not just through our own Center creative team, but through manufacturers, designers and third party brands that make our brands more interesting. Take Bath & Body Works. In the past year, we've added products from multiple partners, including Burt's Bees, Murad and a number of other brands, that have enhanced the store and increased sales. They not only expand the Bath & Body Works customer base, they make the store more interesting and get us closer to our concept of Bath & Body Works as the "Modern Apothecary of Beauty and Well-Being." A far cry from the "heartland" position of just a few years ago. A position that was good at the time, but less relevant today.

I try to never underestimate the sophistication of our customer. I believe that if I'm interested in something they will be too. And a lot of what we sell at Bath & Body Works today are things I've seen, and been intrigued with, over the last few years from my travels around the world.

Third party brands are becoming eager to work with us. In many cases we've become by far their largest customer. We've simplified their distribution and supply chain and, by working through us, I think it's safe to say their lives and their businesses have gotten dramatically better.

We will continue to be open and inquisitive, and look for new, fresh ideas everywhere. I frankly don't care where they come from. Just as long as they come. A constant flow of fresh thinking.

In fashion, beauty and personal care we're looking for best brands, worldwide. And we have a compelling, dramatic story for them. One that can offer them growth and longevity on a difficult playing field, and instant, large scale distribution.

There's been a lot of talk lately about profiting from the core and moving to adjacencies beyond the core. Nothing new really. It's what I've tried to practice since I got into business in 1963. Being a specialist. Doing something well. Finding things that work with it, maximizing our strengths and expanding into them, as only a specialist can.

That was the concept of the original Limited store, a business dedicated to sportswear. And virtually every business we've developed since then has been pursued with the same relentless focus. What are we best at? How do we dominate it? Over and over. Relentlessly.

I was asked recently where I thought we could have done better with some of the businesses we closed in the past.

My honest answer was that, in every case, the ideas were good, and I believe they still are. What they needed, what all brands need, is organization, execution and talent. You simply can't do it without talented people.

When I look back on the business concepts that we opened and later closed, I'd say that the primary thing that stopped us from moving forward was talent – and talent retention. And that never changes.

We've been called the most talent-rich organization in retail, but we can and must do better.

It's imperative that we develop, retain and attract new talent on a continuing basis to expand the broad band of ideas that are so critical to the continued growth of Limited Brands. It is a major focus of Len Schlesinger, our Vice Chairman, and Sandy West, our head of Human Resources. And it's important for me. People and strategy are my "must-do's."

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Associates contributed books and toys to nearly 30,000 children.

I believe in creating a teachable point of view. Something that works for merchants and for executives. I personally teach on a monthly basis. And I'm now insisting that those who report to me do the same. Do they know what skills their direct reports must have to be successful? Are they consistently teaching those skills? Complete leaders must have the skill set and use it.

I'm determined that we continue to be smart and disciplined in the management of our business. By nature I'm not risk averse. You can't be in the pack. You have to lead, with product and speed. We'll be aggressive in looking for ideas to develop, both inside and outside the business. We have a strong appetite to invest more. To fund good ideas and grow. And we have the resources to do it.

We are also a company that lives our values. I've said before that I value whole people, those who achieve a balance between work, family and community. And I believe that those of us who've been so fortunate in our lives and in our careers are obligated to give back. At Limited Brands we do. To United Way, to Columbus Reads, to The Giving Tree. Last year, through The Giving Tree Holiday Program, Limited Brands' associates contributed books and toys to nearly 30,000 children, touching at least 9,000 families through 500 domestic violence shelters. And we were, again, a nationwide leader in United Way giving.

Something to be very proud of.

Our story continues to evolve. The brands are getting better, the processes are getting better and the year was a good one.

We are not constrained by financial resources. We have the talent to develop new ideas, and the real estate, and brand positions, to make them resonate.

The business is in its best position in years, and it couldn't have come at a better time. I said earlier that I am optimistic about our country and our economy, and optimistic about our opportunities to grow potential business ideas with vigor. A deliberate shift to offense and growth.

Truly, we're in the early stages of the development of our brands. Which is a wonderful thing to say about a fashion business that celebrated its 40th birthday this year. We have no constraints on accelerated growth. It's in our hearts and minds. The future looks bright to me. I'm more convinced than ever that our strategy is working, and the best is yet to come.

Sincerely,

A handwritten signature in black ink, appearing to read 'Les', written in a cursive style.

Leslie H. Wexner
Chairman and CEO