

Dear Partner,

As I sat down to write this year's letter, I realized that it needed to be about much more than 2004. In fact, it really needed to be about the fundamental strategy of the business and its progression.

We've done a lot over these last few years. We have re-visioned the business. We have sorted our portfolio of businesses and re-thought our talent. Now, we are turning to offense, and we can apply our specialty retailing skills to deliver high-value, branded consumer packaged goods through channels of distribution we control. And we can deliver dramatically greater growth.

Clearly, 2004 was a year where we communicated enormous faith in Limited Brands' future. Faith demonstrated financially and through our people. Our actions were deliberate and well thought out. And I believe that we have laid the groundwork for the outstanding growth story in consumer branding.

The year included share repurchases that collectively exceeded \$3 billion, and a special dividend to shareholders of \$500 million, or \$1.23 per share. Clearly, these transactions returned value to shareholders, but they were just one significant step in a much larger program, one that recognizes the dramatic evolution of Limited Brands over the past several years.

Let me explain.

Historically, as you know, we've been viewed as a multi-divisional, largely apparel-based, popular-priced retailer. Ten years ago that was true. Lingerie and personal care and beauty products made up less than 30% of our sales.

Today's reality is very different. Over the past 10 years we've reinvented ourselves completely. We are now predominantly a personal care, beauty and lingerie company, with over 70% of our sales coming from those areas, primarily through two great brands, Victoria's Secret and Bath & Body Works. That's significant because these categories perform more like the best packaged goods businesses than traditional retailers.

In the packaged goods industry, innovation, speed to market, brand loyalty, repeat purchase, market share and shelf life drive consistent, predictable profit growth. The same is true with Victoria's Secret and Bath & Body Works. There are also enormous opportunities for customers to trade up to higher margin items and complementary product lines—fragrance to body and face care, candles to home fragrance. Much like the best packaged goods companies.

Still, we have an important and unique advantage over other upscale branded consumer packaged goods companies. Our products are distributed through our own channels, both stores and direct. We control them, from store environment to inventory to display to sales associates. Few packaged goods companies can

say that, and none can say it in thousands of stores. Big advantage.

Plus our brands are extraordinarily compelling.

Victoria's Secret is the most powerful lingerie brand in the world, and I believe we are just at the beginning of what it can be—but more about that later. The same is true of Bath & Body Works, a brand that entered a saturated market and carved out a niche with over \$2 billion in sales. Both are predictable growth businesses with powerful launches and on-going product lines that drive repeat business and strong earnings, year after year.

### **THE NEW LIMITED BRANDS ORGANIZATION: THREE GROUPS...ONE ENTERPRISE**

We are determined to dramatically accelerate the growth of both our lingerie and beauty businesses.

We are also determined to return our fashion businesses to significant levels of profitability. To that end, we recently announced the restructuring of Limited Brands into three distinct business groups; lingerie, beauty and personal care, and apparel. This is a significant step and a clear acknowledgement of the strategic direction of the enterprise. Instead of the old model, where all divisions and parts of the businesses reported directly to me, each group will be led by a group leader who will have oversight for the brands, as well as product categories across all distribution channels.

Each group leader has a significant track record in their own right and, I believe, can get us to accelerated growth rates faster by focusing efforts across tightly defined categories. The groups will all benefit from a centralized infrastructure and shared transactional services as well as a shared set of values and human resource capabilities. They will all derive even greater benefit from more focused attention on the unique demands of their competitive marketplaces. Each group has different competitors...different characteristics... different product lifecycles. Each requires responses customized to their context.

I will continue to lead the lingerie group, mainly through the Victoria's Secret mega-brand. It's clearly a job I'm comfortable with, and one I've been doing for a number of years.

In addition to his many responsibilities as Vice Chairman and Chief Operating Officer for Limited Brands, Len Schlesinger assumed group leader responsibilities for beauty and personal care. Len has been a board member for nine years and a valued day-to-day partner over the last six. I have every confidence that he can bring talent and great vision to our beauty and personal care group.

Jay Margolis leads the apparel group. Jay is new to Limited Brands, but not new

to anyone familiar with the fashion apparel business. He was President and COO of Reebok International and Vice Chairman of Liz Claiborne. Jay brings valuable experience and leadership to a category of our business that has enormous potential.

This new structure gives Limited Brands the strength of leadership that can take advantage of growth opportunities both within and outside the business, through our own brands and through new third-party partnerships.

To provide further leadership for the enterprise agenda, Martyn Redgrave has joined Limited Brands as Executive Vice President and Chief Administrative Officer. Martyn is an outstanding executive with world-class experience at Carlson Companies and PepsiCo. He has been responsible for acquisitions, joint ventures and transactions in all parts of the world, and has led significant enterprise level business transformations. Clearly Martyn has accomplished a lot, and he will bring an even greater level of stability and experience to Limited Brands.

### **ENTERPRISE INFRASTRUCTURE: “EFFICIENCY RULES”**

As we concentrate on the growth of our brands, we're also focusing on the strategic initiatives necessary to support that growth.

With that in mind, we continue to develop enterprise capabilities that will fuel the development of a “family of the world's best fashion brands.”

We believe that “efficiency rules” for functions that do not touch the customer directly. Our recently created shared services center creates value by combining, standardizing and executing at an enterprise level much of our essential transactional work. This creates enormous efficiencies, enabling brands and center functions to spend more time on their core brand building objectives...and get even closer to the customer.

For years, we had deliberately put systems and technology on the back burner believing that, with time, quantum improvements in capability and speed would come. Frankly, we had pushed our systems to the edge. We are now in the midst of dramatic leaps forward, and are creating very real competitive weapons. We are engaged in a thorough overhaul of our information and technology systems and operating processes.

This overhaul represents a multi-year initiative to improve information architecture, business and technology systems, and processes related to merchandise planning and allocation, demand chain, customer marketing and finance. It will provide all of our brands with the necessary information, processes and support for future growth.

We're positioning the enterprise to meet the needs of tomorrow, and we will

continue to look for any opportunity to leverage strengths and efficiencies that currently exist across the business while accelerating our evolution into the Limited Brands of the future.

**THE BEAUTY AND PERSONAL CARE GROUP: BATH & BODY WORKS, HENRI BENDEL, C.O. BIGELOW AND VICTORIA'S SECRET BEAUTY**

When we talk about the future, let's start with Bath & Body Works. Calling what Bath & Body Works has gone through in the last few years a "repositioning" doesn't begin to describe it. It's been a reinvention and a revolution. If you haven't walked into a Bath & Body Works in the last three years, you'd be astonished at what you'd find today. Dramatically better assortments, better quality and high quality brand-wide introductions like Le Couvent Des Minimes and Tutti Dolci have altered the landscape significantly. And we still have the most successful and best candle in the world in Henri Bendel.

Bath & Body Works' transition is all the more remarkable because customers have been so readily willing to make the move with them. Trading up to quality, as we knew they would. That repositioning, that trade up, I believe is important to all the brands, and something that we've been practicing for the last several years. It's certainly inherent in the two beauty concepts we recently introduced.

The first is Henri Bendel. We've made dramatic shifts in the mix at the flagship Fifth Avenue store, ones that have made it more provocative and productive. One change that I would invite you to review for yourself is the third floor lingerie department. Yes, the whole third floor. Sales have been strong, customers find it fun, we're getting significant repeat business and it's an important lead indicator of sales trends in lingerie that can be applied to the Victoria's Secret brand. An excellent lab that also happens to be a good standalone business, and an interesting addition to Fifth Avenue shopping

I believe that up to two-thirds of Bendel's future sales could be in lingerie and beauty products. Again, a branded packaged goods approach. We've also opened our first satellite Bendel's at Easton Town Center, selling scents and color exclusively. The store is beautiful, compelling and is attracting a new, upscale customer base. To date, results have been encouraging.

I also think that Bigelow—the store and the C.O. Bigelow brand—are big opportunities. C.O. Bigelow, the legendary Greenwich Village apothecary, has been around since 1838 as a single store. Always a must stop for sophisticated travelers to New York, it has attracted a clientele as diverse as Mark Twain and Eleanor Roosevelt. We saw in Bigelow the same type of white space opportunity that we saw in PINK: a chance to position an upscale apothecary that not only carries a superb line of its own products, but the best of what the world has to offer.

We opened a Bigelow store at Easton Town Center last October. Some have already called it “the best specialty beauty store in the world.” It really is something to see. And, it’s working. I expect we’ll open a number of standalone Bigelows in the coming year. The full line of Bigelow beauty and skin care products has been introduced to the entire Bath & Body Works 1,600-store chain and Henri Bendel. Bigelow was always well-known to a select few. It’s our intention to make it as well-known to the world as Victoria’s Secret, and as well-respected. A terrific brand and a great growth opportunity.

It shouldn’t be a surprise that Victoria’s Secret Beauty has shown an incredible ability to introduce new products and scents that are instantly successful. Victoria’s Secret now has five of the top 20 prestige women’s fragrances sold in the United States. Amazing for a business that’s only sold through our channels of distribution—our stores and direct.

We recently announced the merging of our Victoria’s Secret Beauty store activities into the lingerie store operations. This allows us to leverage the power of an integrated store operations model, and it provides our customers with a captivating, single in-store experience. That’s important. Vivid brands deliver a consistent customer experience. It also enables Victoria’s Secret Beauty to focus all its efforts on accelerated innovation so it can continue its goal of becoming a world-class full-line beauty destination. I wanted the Victoria’s Secret Beauty people totally focused on product and innovation. Now they can be.

We believe that sales in the total beauty and personal care group—Bath & Body Works, Bendel, Bigelow, Victoria’s Secret Beauty—can more than double in the next five years to over \$6 billion

### **THE LINGERIE GROUP: PINK & HENRI BENDEL**

Now let me speak a bit about the future growth of our lingerie group.

Clearly, Victoria’s Secret is the strongest lingerie brand in the world. It truly has no equal in terms of growth, name recognition or positive customer experience. Victoria’s Secret sells 1 in 4 bras to women under 30 in the United States. In fact, Victoria’s total U.S. sales are almost as large as the entire domestic lingerie market just ten years ago. In other words, we completely redefined the market.

Truly astonishing, but only the beginning. I believe we simply see the lingerie market differently. No one would have predicted the extraordinary growth we were able to wrest from the lingerie category, but we weren’t looking at what was. We were looking at what could be. And that’s exactly the way I’m looking at the brand today.

The Victoria’s Secret mega-brand has the capacity to double its sales and profit over the next five years,

and that is our clear goal.

Victoria's Secret's design capabilities, launch strategies, glamorous supermodels, advertising, public relations programs and new product introductions are the strongest in the industry. PINK is just the latest and best example. Developed under my direction, and with the Center's creative team, PINK has been an astonishing first year success story, and one that has dramatic future potential—so much so that we recently named Deborah Fine PINK's first ever Chief Executive Officer. Deborah, the founder and former President of Avon Future, will be responsible for developing PINK into a fully articulated lifestyle brand.

I'm confident that PINK, on its own, will be the second largest specialty lingerie brand in the United States, just behind Victoria's Secret itself. It has that much potential and it's already proving it. As I said, first year sales were very strong and, more importantly, PINK continues to introduce a new, younger customer to the brand. That is what I had envisioned for PINK when I originally gave Marie Rao, President of Limited Design Services, the assignment to develop the brand three years ago. I saw white space for a younger, more casual lingerie assortment.

To date, PINK has exceeded our most aggressive projections.

The Victoria's Secret mega-brand continues to have significant growth. And one of the principal sources of that growth has been Victoria's Secret Direct, with three years of record breaking sales and profitability. A real testament to Sharen Turney and her team, who've simply reinvented what a direct business could be. Our direct skills in catalogue and Internet are highly leveragable...to our other brands and worldwide with the Web. You'll be hearing much more about opportunities for growth through our direct channel during the year ahead. We see growth in the total lingerie group—Victoria's Secret, PINK, Bendel—sales that can exceed \$7 billion over the next five years.

### **THE APPAREL GROUP: EXPRESS AND THE LIMITED**

Opportunity is also what I see in both of our fashion apparel brands, Express and The Limited.

Some have suggested to me that we should think about selling both of them. Let me be crystal clear:

Express and The Limited are not for sale. They both have significant growth opportunities ahead of them, and they are both important parts of our strategic platform of vivid apparel, lingerie and beauty brands.

I believe that both apparel businesses can double their volume, and can again achieve operating profits of 8-10%. Yes, Express had a tough year, but even within that performance, I saw signs of major opportunity.

One pant alone, The Editor, will sell five million units this year, a \$250 million standalone business. It speaks to the vast potential of our fashion businesses when they have the right product.

The Editor pant, clearly, is the right product, and this year we've introduced a second pant to complement it, along with the tops and related items that should begin to bring momentum back to the brand. We are redesigning the pants category with a long life cycle, "packaged goods" point of view—an architecture of fashion brands with loyal consumers and stable fits—and increased likelihood of repeat purchase.

The story is much the same at The Limited, where there have been significant successes across a number of categories, especially pants. Their inventories are tightly managed and their real estate portfolio is in its best shape in years. I believe the turnaround at The Limited has already begun, and they will have a healthy and profitable year.

Both Express and The Limited have the customer base and positive reputation to grow quickly and dramatically when the fashion is right. They have been given the necessary execution skills and should have accelerated growth in sales and extraordinary profit growth...without any significant investment. We are committed to these businesses being a part of the growth story.

### **LIMITED BRANDS LIMITLESS OPPORTUNITIES**

I am more optimistic about the potential of each of our businesses than I've ever been. We have the strongest leadership teams in place, at both the Center and Brands, in our history. Inventories are controlled, real estate managed efficiently. And we continue to look for major growth opportunities, internally or through third parties. We have the resources, the capital and the appetite.

The Center Creative Team continues to work on new concepts, ones that will rival PINK or the Henri Bendel candle, businesses that are already achieving several hundred million dollars in sales.

As I said, I see virtually limitless opportunities for Limited Brands, and I'm more optimistic than ever that we can take advantage of them.

The business has gone through ten years of dramatic and constant change. Change that has brought us to a position no competitor has ever seen. When will the change stop? Never. Change is a sign of progress, and we are making real progress across all brands and disciplines. We will continue to change and

evolve our organization to meet our aggressive growth goals.

It's a truly exciting time for all of us at Limited Brands and the customers we serve.

Sincerely,

Leslie H. Wexner  
Chairman and CEO