

Lbrands

Proxy Statement for the
2017 Annual Meeting of Stockholders
and 2016 Annual Report

Dear Partner,

After record results in 2015, this past year was an important transformational one for L Brands. Although 2016 adjusted EPS declined 6 percent against last year's record, we continued to see momentum in our PINK and Bath & Body Works businesses, and we accomplished a lot of important and necessary progress at Victoria's Secret Lingerie and Beauty.

Specifically:

- Our PINK business continued its strong performance with low double-digit sales growth over last year. At well over \$1,000 in sales per square foot, PINK is our most productive business and continues to deliver significant growth ... driven by an exceptionally close connection to the customer, excellent leadership and a focused team, and speed in our supply chain. We continue to invest in square footage growth for the PINK business, in order to provide the full assortment in more locations. These investments continue to drive strong returns.
- At Bath & Body Works, effective leadership and a strong team contributed to the delivery of another record year on top of last year's record performance ... sales increased 7 percent and operating income increased 6 percent. We ended the year with 240 new concept stores which include the White Barn design for our home fragrance assortment. While the investment in these stores results in near-term financial pressure, they continue to drive significant sales increases and importantly present a new, compelling store design to our customers.
- We made a number of significant strategic changes at Victoria's Secret to focus the business and stimulate accelerated growth. We reorganized into three separate business units (Victoria's Secret Lingerie, PINK and Victoria's Secret Beauty) – integrating the direct channel into those businesses – and appointed new leaders in Victoria's Secret Lingerie and Victoria's Secret Beauty. We eliminated the non-core merchandise categories of swim and apparel in order to increase focus and resources for growth in our core categories; and we changed how the business connects with customers through more emphasis on brand-building and loyalty-enhancing marketing. We eliminated an obsolete print catalogue and brand-eroding promotional offers. These changes were important, necessary and overdue – all critical to continuing to focus on the core and position Victoria's Secret more effectively for substantial future growth ... with our priority in North America.
- We are a global business! In 2016, we opened more than 100 new stores outside of North America to end the year with 830 stores in 78 countries. China is a top priority ... we acquired 26 stores in China from our franchise partner. The China market is too big and too important for us not to own it. We built the capability and infrastructure to support accelerated future growth in China, launched our online business on TMall Global and opened our first two full-assortment Victoria's Secret stores just after year-end ... we will have 6 full-assortment stores by the end of this year. I was in China for the opening of these first stores in Shanghai and Chengdu – and was thrilled by the store experience, customer response and demand for Victoria's Secret. Our opportunity for growth in China is very large ... we are building the organization needed to support accelerated growth.
- We are committed to returning value to our shareholders through a combination of dividends and share repurchase programs. In 2016, we increased our regular annual dividend 20 percent from \$2.00 to \$2.40 per share, paid a \$2.00 per share special dividend and repurchased \$438 million of our stock.
- Our leadership and global team are exceptional. Talent is key to our success, and I'm confident that we have one of the best teams in retail – experienced, focused and aligned.

2016 was our second best year ever – and we undertook some tough and important actions. Major change is difficult – and yet foundationally necessary for renewal and growth. Today it looks like these changes were sound decisions ... and I can see the progress and the opportunity of these actions. As I reflect on 2016 and all that we accomplished, and consider our position today, I am confident and optimistic.

I don't undertake the challenge of change lightly, but I do it enthusiastically, knowing that fashion is the ultimate change industry. We have “best brands” ... Victoria's Secret, Bath & Body Works, PINK ... world-leading; positively received around the world; with strong, emotional connections to our customers – and we have capable and experienced leadership – strong teams. Foundationally, abundant opportunities for growth. A strong culture, a sense of doing what is right and the determination to excel.

The idea of solid, industry-leading performance is simple ... but the execution isn't easy. It IS tried and true: To be the best ... we must be FOCUSED – on our core, our priorities and executing excellently. We must be FAST – agile, change-eager, quick thinking. And we must be FRUGAL – distorting resources to what gives us the highest return on investment (both time and money). Deciding what not to do! In a broad sense, we've rebooted the business ... and reaffirmed our goals and core values – our culture.

We have great brands ... solid leaders and wonderful people ... we are determined to achieve the significant growth goals we have for our business. We are better positioned than we've ever been. We are prepared for the future – and confident about tomorrow.

Sincerely,

A handwritten signature in black ink, reading "Leslie H. Wexner". The signature is written in a cursive, flowing style.

Leslie H. Wexner
Chairman and CEO

Notice of Annual Meeting of Stockholders and Proxy Statement

May 18, 2017

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 18, 2017: The proxy statement and annual report to stockholders are available at www.proxyvote.com.

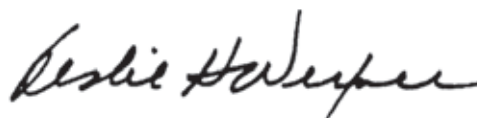
April 6, 2017

DEAR STOCKHOLDER:

You are cordially invited to attend our 2017 annual meeting of stockholders to be held at **8:30 a.m., Eastern Time**, on May 18, 2017, at our offices located at Three Limited Parkway, Columbus, Ohio 43230. Our Investor Relations telephone number is (614) 415-7585 should you require assistance in finding the location of the meeting. The formal Notice of Annual Meeting of Stockholders and proxy statement are attached. If you plan to attend, please bring the Admittance Slip located at the back of this booklet and a picture I.D., and review the attendance information provided. I hope that you will be able to attend and participate in the meeting, at which time I will have the opportunity to review the business and operations of our company.

The matters to be acted upon by our stockholders are discussed in the Notice of Annual Meeting of Stockholders. It is important that your shares be represented and voted at the meeting. Accordingly, after reading the attached proxy statement, would you kindly sign, date and return the enclosed proxy card or vote by telephone or via the Internet as described on the enclosed proxy card. Your vote is important regardless of the number of shares you own.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Leslie H. Wexner". The signature is fluid and cursive, written in a professional style.

Leslie H. Wexner
Chairman of the Board

[THIS PAGE INTENTIONALLY LEFT BLANK]

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 18, 2017

April 6, 2017

TO THE STOCKHOLDERS OF L BRANDS, INC.:

We are pleased to invite you to attend our 2017 annual meeting of stockholders to:

- Elect the four nominees proposed by the Board of Directors as directors to serve for a three-year term.
- Ratify the appointment of our independent registered public accountants.
- Hold an advisory vote to approve named executive officer compensation.
- Hold an advisory vote on the frequency of future advisory votes on named executive officer compensation.
- Vote on the stockholder proposal to change certain voting requirements, if properly presented at the meeting.
- Transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on March 24, 2017 may vote at the meeting. **If you plan to attend, please bring the Admittance Slip located at the back of this booklet and a picture I.D., and review the attendance information provided.** Your vote is important. Stockholders of record can give proxies by calling a toll-free telephone number, by using the Internet or by mailing their signed proxy cards. Whether or not you plan to attend the meeting, please vote by telephone or via the Internet or sign, date and return the enclosed proxy card in the envelope provided. Instructions are included on your proxy card. You may change your vote by submitting a later dated proxy (including a proxy via telephone or the Internet) or by attending the meeting and voting in person.

By Order of the Board of Directors,



Leslie H. Wexner
Chairman of the Board

PROXY STATEMENT TABLE OF CONTENTS

	<u>PAGE</u>
INFORMATION ABOUT THE ANNUAL MEETING AND VOTING	1
PROPOSAL 1: ELECTION OF DIRECTORS	5
PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS	13
PROPOSAL 3: ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION	14
PROPOSAL 4: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON NAMED EXECUTIVE OFFICER COMPENSATION	16
PROPOSAL 5: STOCKHOLDER PROPOSAL TO CHANGE CERTAIN VOTING REQUIREMENTS	17
COMPENSATION-RELATED MATTERS	20
Compensation Discussion and Analysis	20
2016 Summary Compensation Table	36
Grants of Plan-Based Awards for Fiscal 2016	38
Outstanding Equity Awards at Fiscal Year-End for Fiscal 2016	40
Option Exercises and Stock Vested Information for Fiscal 2016	43
Retirement and Other Post-Employment Benefits	44
Non-qualified Deferred Compensation for Fiscal 2016	44
Fiscal 2016 Director Compensation	49
COMPENSATION COMMITTEE REPORT	50
SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT	51
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	53
SHARE OWNERSHIP OF PRINCIPAL STOCKHOLDERS	54
REPORT OF THE AUDIT COMMITTEE	55
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS	56
OTHER MATTERS	57
STOCKHOLDER PROPOSALS FOR NEXT YEAR	57
SOLICITATION EXPENSES	57

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

The Board of Directors (the “Board”) is soliciting your proxy to vote at our 2017 annual meeting of stockholders (or at any adjournment of the meeting). This proxy statement summarizes the information you need to know to vote at the meeting. In this proxy statement, “we,” “our,” “L Brands” and the “Company” refer to L Brands, Inc.

We began mailing this proxy statement and the enclosed proxy card, or the Notice of Internet Availability of Proxy Materials (the “Notice”), on or about April 7, 2017 to all stockholders entitled to vote. The Company’s 2016 Annual Report on Form 10-K, which includes our financial statements, is being sent with this proxy statement and is available in paper copy by request or in electronic form.

Date, Time and Place of Meeting

Date: May 18, 2017
Time: 8:30 a.m., Eastern Time
Place: Three Limited Parkway, Columbus, Ohio 43230

Attending the Meeting

Stockholders who plan to attend the meeting in person must bring photo identification and the Admittance Slip located at the back of this booklet. Because of necessary security precautions, bags, purses and briefcases may be subject to inspection. To speed the admissions process, stockholders are encouraged to bring only essential items. Cameras, camcorders or videotaping equipment are not allowed.

Shares Entitled to Vote

Stockholders entitled to vote are those who owned Company common stock (which we refer to throughout this proxy statement as “Common Stock”) at the close of business on the record date, March 24, 2017. As of the record date, there were 284,809,090 shares of Common Stock outstanding. Each share of Common Stock that you own entitles you to one vote.

Voting Your Shares

Whether or not you plan to attend the annual meeting, we urge you to vote. Stockholders of record can give proxies by calling a toll-free telephone number, by using the Internet or by mailing their signed proxy cards. The telephone and Internet voting procedures are designed to authenticate stockholders’ identities, to allow stockholders to give their voting instructions and to confirm that stockholders’ instructions have been recorded properly. If you are voting by mail, please complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you are voting by telephone or via the Internet, please use the telephone or Internet voting procedures set forth on the enclosed proxy card. Returning the proxy card or voting via telephone or the Internet will not affect your right to attend the meeting and vote.

The enclosed proxy card indicates the number of shares that you own.

Voting instructions are included on your proxy card. If you properly fill in your proxy card and send it to us or vote via telephone or the Internet in time to vote, one of the individuals named on your proxy card (your “proxy”) will vote your shares as you have directed. If you sign the proxy card or vote via telephone or the Internet but do not make specific choices, your proxy will follow the Board’s recommendations and vote your shares in the following manner:

- “FOR” the election of the Board’s four nominees for director (as described on pages 5 and 6);

- “FOR” the ratification of the appointment of our independent registered public accountants (as described on page 13);
- “FOR” on the advisory vote to approve named executive officer compensation (as described on pages 14 and 15);
- “1 Year” on the advisory vote on the frequency of future advisory votes on named executive officer compensation (as described on page 16); and
- “AGAINST” the stockholder proposal (as described on pages 17 to 19).

If any other matter is properly presented at the meeting, your proxy will vote in accordance with his or her best judgment. At the time this proxy statement went to press, we knew of no other matters to be acted on at the meeting. See “—Vote Necessary to Approve Proposals” for a discussion of the votes required to approve these items.

Certain stockholders received a Notice containing instructions on how to access this proxy statement and our 2016 Annual Report on Form 10-K via the Internet. Those stockholders should refer to the Notice for instructions on how to vote.

Revoking Your Proxy

You may revoke your proxy by:

- submitting a later dated proxy (including a proxy via telephone or the Internet);
- notifying our Secretary at our principal executive offices at Three Limited Parkway, Columbus, Ohio 43230, in writing before the meeting that you have revoked your proxy; or
- voting in person at the meeting.

Voting in Person

If you plan to vote in person, a ballot will be available when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, you must bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares at the close of business on March 24, 2017, the record date for voting, as well as a proxy, executed in your favor, from the nominee.

Appointing Your Own Proxy

If you want to give your proxy to someone other than the individuals named as proxies on the proxy card, you may cross out the names of those individuals and insert the name of the individual you are authorizing to vote. Either you or that authorized individual must present the proxy card at the meeting.

Quorum Requirement

A quorum of stockholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of holders of shares representing at least one-third of the votes of the Common Stock entitled to vote constitutes a quorum. Abstentions and “broker non-votes” are counted as present for establishing a quorum. A broker non-vote occurs on an item when a broker is not permitted to vote on that item absent instruction from the beneficial owner of the shares and no instruction is given.

Vote Necessary to Approve Proposals

- Pursuant to the Company’s Bylaws, each director will be elected by a majority of the votes cast with respect to such director. A majority of the votes cast means that the number of votes “for” a director’s

election must exceed 50% of the votes cast with respect to that director's election. Any "against" votes will count as a vote cast, but "abstentions" will not count as a vote cast with respect to that director's election. Under Delaware law, if the director is not elected at the annual meeting, the director will continue to serve on the Board as a "holdover director." As required by the Company's Bylaws, each director has submitted an irrevocable letter of resignation as director that becomes effective if he or she does not receive a majority of votes cast in an election and the Board accepts the resignation. If a director is not elected, the Nominating & Governance Committee will consider the director's resignation and recommend to the Board whether to accept or reject the resignation.

- The ratification of Ernst & Young LLP as our independent registered public accountants requires the affirmative vote of a majority of the votes present in person or by proxy and voting thereon.
- The advisory vote to approve named executive officer compensation requires the affirmative vote of a majority of the votes present in person or by proxy and voting thereon. While this vote is required by law, it will neither be binding on the Company or the Board, nor will it create or imply any change in the fiduciary or other duties of, or impose any additional fiduciary or other duties on, the Company or the Board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions.
- With respect to the advisory vote on the frequency of future advisory votes on named executive officer compensation, the voting option, if any, that receives the affirmative vote of a majority of the votes present in person or by proxy and voting thereon will be the option adopted by the stockholders. While this vote is required by law, it will neither be binding on the Company or the Board, nor will it create or imply any change in the fiduciary or other duties of, or impose any additional fiduciary or other duties on, the Company or the Board. However, the Compensation Committee and the Nominating & Governance Committee will take into account the outcome of the vote in making a determination on the frequency of future advisory votes on named executive officer compensation. If none of the three voting options receives a majority, the Board will consider the voting option that receives the plurality of votes cast.
- The stockholder proposal requires the affirmative vote of a majority of the votes present in person or by proxy and voting thereon.

Impact of Abstentions and Broker Non-Votes

You may "abstain" from voting for any nominee in the election of directors and on the other proposals. Abstentions with respect to the election of directors and on the other proposals will be excluded entirely from the vote and will have no effect.

In addition, under New York Stock Exchange ("NYSE") rules, if your broker holds your shares in its name, your broker is permitted to vote your shares on the proposal to ratify Ernst & Young LLP as our independent registered public accountants, even if it did not receive voting instructions from you. Your broker may not vote your shares on any of the other matters without specific instruction. A "broker non-vote" occurs when a broker submits a proxy but refrains from voting. Shares represented by broker non-votes are counted as present or represented for purposes of determining the presence of a quorum but are not counted as otherwise present or represented.

Obtaining Additional Copies of the Proxy Materials

We have adopted a procedure called "householding." Under this procedure, stockholders who share the same last name and reside at the same mailing address will receive one Notice or one set of proxy materials (if they have elected to receive hard copies of the proxy materials), unless one of the stockholders at that address has notified us that they wish to receive individual copies. Stockholders who participate in householding continue to receive separate control numbers for voting. Householding does not in any way affect dividend check mailings.

If you hold Common Stock and currently are subject to householding, but prefer to receive separate copies of proxy materials and other stockholder communications from the Company, or if you are sharing an address with another stockholder and would like to consent to householding, you may revoke or grant your consent to householding as appropriate at any time by calling toll-free at 1-866-540-7095 or notifying our Secretary at our principal executive offices at Three Limited Parkway, Columbus, Ohio 43230.

A number of brokerages and other institutional holders of record have implemented householding. If you hold your shares beneficially in street name, please contact your broker or other intermediary holder of record to request information about householding.

Michael G. Morris

Director since 2012

Age 70

Mr. Morris served as the Chairman of the Board of American Electric Power Company, Inc., one of the largest electric utilities in the United States, from 2012 to April 2014. From January 2004 until November 2011, Mr. Morris served as the President, Chief Executive Officer and Chairman of American Electric Power Company, Inc. From 1997 until 2003, he served as the Chief Executive Officer of Northeast Utilities, the largest electric utility in New England. Mr. Morris currently serves as a director of Spectra Energy Corp., one of North America's leading natural gas infrastructure companies, and of The Hartford Financial Services Group, Inc., an investment and insurance company, and as the Chairman of the board of directors of Alcoa Corporation, a producer of bauxite, alumina and aluminum. Mr. Morris served as a director of Alcoa Inc., a producer of aluminum, from 2008 to 2016, until Alcoa Inc.'s separation into two standalone, publicly-traded companies, Alcoa Corporation and Arconic Inc. Mr. Morris's nomination was supported by his broad business experience and management expertise.

Raymond Zimmerman

Director since 1984

Age 84

Mr. Zimmerman is the Chief Executive Officer of Service Merchandise LLC, a retail company. Mr. Zimmerman was Chairman of the Board and Chief Executive Officer of 99¢ Stuff, LLC from 1999 to 2003 and the Chairman of the Board and Chief Executive Officer of 99¢ Stuff, Inc. from 2003 to 2008. Mr. Zimmerman's nomination was supported by his financial expertise and broad business experience, particularly in the retail sector.

Directors Whose Terms Continue until the 2018 Annual Meeting

E. Gordon Gee

Director since 2012

Age 73

Dr. Gee is currently the President of West Virginia University, a large public research institution. Prior to his current service at West Virginia University, he led several other major universities, including The Ohio State University (2007—2013, 1990—1998), Vanderbilt University (2000—2007), Brown University (1998—2000), the University of Colorado (1985—1990), and West Virginia University (1981—1985). Dr. Gee also currently serves as a director of the National 4-H Council. He previously served as a director of the Company from 1992 to 2008, as a director of Hasbro, Inc., a branded-play company, from 1999 until 2010, and as a director of Bob Evans Farms, Inc., an owner and operator of family restaurants, from 2009 until 2014. Dr. Gee's nomination was supported by his extensive executive and management experience, as well as his legal expertise and knowledge of the Company gained through his prior service as a director.

Stephen D. Steinour

Director since 2014

Age 58

Mr. Steinour has been the Chairman, President & Chief Executive Officer of Huntington Bancshares Incorporated, a regional bank holding company, since 2009. From 2008 to 2009, Mr. Steinour was a Managing Partner in CrossHarbor Capital Partners, LLC, a recognized leading manager of alternative investments. Mr. Steinour was with Citizens Financial Group from 1992 to 2008, where he served in various executive roles, including President from 2005 to 2007 and Chief Executive Officer from 2007 to 2008. Mr. Steinour currently serves as a director of Exelon Corporation, a utility services holding company. He previously served as a trustee of Liberty Property Trust, a real estate investment trust, from 2010 to 2014. Mr. Steinour's nomination was supported by his executive experience, financial expertise and service on several boards of directors.

Allan R. Tessler

Director since 1987

Age 80

Mr. Tessler has been Chairman of the Board and Chief Executive Officer of International Financial Group, Inc., an international merchant banking firm, since 1987 and is the Chairman and Chief Executive Officer of Teton Financial Services, a financial services company. He previously served as Chairman of the Board of Epoch Holding Corporation, an investment management company, from 2004 to 2013 and as Chairman of the Board of

J Net Enterprises Inc., a technology holding company, from 2000 to 2004. Mr. Tessler also served as Chairman of the Board of InterWorld Corporation from 2001 to 2004 and as Chairman of Checker Holdings Corp. IV from 1997 to 2009. Mr. Tessler currently serves as Chairman of the Board of Rocky Mountain Bank, a Wyoming bank. He has served as a director of TD Ameritrade Holding Corporation, a securities brokerage company, since November 2006, as a director of Steel Partners Holdings GP Inc., a general partner of a global diversified holding company, since 2010, as a director of BioCardia, Inc., a clinical-stage regenerative medicine company, since 2012 and as a director of Imperva, Inc., a provider of cyber security solutions, since 2015. Mr. Tessler currently serves on the Audit Committee of Imperva, Inc. and as Chair of the Audit Committee of BioCardia, Inc. Mr. Tessler's nomination was supported by his broad business experience and financial expertise, together with his involvement in various public policy issues.

Abigail S. Wexner

Director since 1997

Age 55

Mrs. Wexner is the chairman and CEO of Whitebarn Associates, a private investment company. She serves on the boards of Advanced Drainage Systems, Inc., a manufacturer of high performance thermoplastic corrugated pipe, The Ohio State University, Nationwide Children's Hospital, the Columbus Downtown Development Corporation, the Columbus Partnership, Pelotonia, The Ohio State University Wexner Medical Center, The Wexner Foundation, The Columbus Jewish Federation and the United States Equestrian Team Foundation. She is founder and chair of the board for The Center for Family Safety and Healing, founding board member and vice chair of the board for KIPP Columbus and a past chair of the Governing Committee of the Columbus Foundation. Mrs. Wexner is the wife of Leslie H. Wexner. Mrs. Wexner's nomination was supported by her executive and legal experience, as well as her expertise with respect to a wide range of diversity, philanthropic and public policy issues.

Directors Whose Terms Continue until the 2019 Annual Meeting

Dennis S. Hersch

Director since 2006

Age 70

Mr. Hersch is President of N.A. Property, Inc., through which he acts as a business advisor to Mr. and Mrs. Wexner, and has done so since February 2008. He also serves as a trustee of several trusts established by Mr. and Mrs. Wexner. He was a Managing Director of J.P. Morgan Securities Inc., an investment bank, from December 2005 through January 2008, where he served as the Global Chairman of its Mergers & Acquisitions Department. Mr. Hersch was a partner of Davis Polk & Wardwell LLP, a New York law firm, from 1978 until December 2005. Mr. Hersch served as a director of Clearwire Corporation, a telecommunications company, from 2008 until 2013, NBCUniversal Enterprise, Inc., a media related company, from 2013 until 2014, Sprout Foods, Inc., a producer of organic baby food, from 2009 until 2015 and has served as a director of PJT Partners Inc., a financial advisory firm, since 2015. Mr. Hersch's nomination was supported by his legal and financial expertise, as well as his considerable experience with corporate governance matters, strategic issues and corporate transactions.

David T. Kollat

Director since 1976

Age 78

Dr. Kollat has been Chairman of 22, Inc., a management consulting firm, since 1987. He has served as director of Select Comfort Corporation, a designer, manufacturer and retailer of premium beds and bedding accessories, since 1994, and Wolverine World Wide, Inc., a global footwear, athletic apparel and accessories designer, manufacturer and retailer, since 1992. Dr. Kollat also served as director of Big Lots, Inc., a retailer, from 1990 to 2012. In addition to his broad business experience (including service on several boards of directors) and marketing expertise, Dr. Kollat's nomination was supported by his particular experience in the retail, apparel and other related industries, both at the management and board levels.

Mr. Wexner has been Chief Executive Officer of the Company since he founded the Company in 1963, and Chairman of the Board for 41 years. Mr. Wexner is the husband of Abigail S. Wexner. Mr. Wexner's nomination was supported by his effective leadership of the Company since its inception.

Director Independence

The Board has determined that each of the individuals nominated to serve on the Board, together with each of the members of the Board who will continue to serve after the 2017 annual meeting of stockholders (except for Dennis S. Hersch, Abigail S. Wexner and Leslie H. Wexner), has no material relationship with the Company other than in his or her capacity as a director of the Company and that each is "independent" in accordance with applicable NYSE standards. If all director nominees are elected to serve as our directors, independent directors will constitute more than two-thirds of our Board.

In making these determinations, the Board took into account all factors and circumstances that it considered relevant, including, where applicable, the existence of any employment relationship between the director (or nominee) or a member of the director's (or nominee's) immediate family and the Company; whether within the past three years the director (or nominee) has served as an executive officer of the Company; whether the director (or nominee) or a member of the director's (or nominee's) immediate family has received, during any twelve-month period within the last three years, direct compensation from the Company in excess of \$120,000; whether the director (or nominee) or a member of the director's (or nominee's) immediate family has been, within the last three years, a partner or an employee of the Company's internal or external auditors; and whether the director (or nominee) or a member of the director's (or nominee's) immediate family is employed by an entity that is engaged in business dealings with the Company. The Board has not adopted categorical standards with respect to director independence. The Board believes that it is more appropriate to make independence determinations on a case-by-case basis in light of all relevant factors.

Board Leadership Structure

Mr. Leslie H. Wexner serves as Chairman of the Board and Chief Executive Officer ("CEO") of the Company. Mr. Wexner is the founder of the Company and has served as its Chairman and/or Chief Executive Officer for over fifty years. Mr. Wexner (through his personal holdings and associated trusts) is also the Company's largest stockholder. The Board believes that Mr. Wexner's experience and expertise in the Company's business and operations is unrivaled and that he is uniquely qualified to lead the Company. Accordingly, the Company believes that Mr. Wexner's service as both Chairman of the Board and Chief Executive Officer is a significant benefit to the Company and provides more effective leadership than could be achieved in another leadership structure.

Allan R. Tessler currently serves as the lead independent director. In July 2012, the Board determined that the lead independent director should be appointed solely by the independent directors, as they deem appropriate, and Mr. Tessler was subsequently reappointed as the lead independent director by them. As lead independent director, Mr. Tessler has the authority to call meetings of the independent directors, at which he serves as the chairman. Mr. Tessler also approves information sent to the Board, including the agenda for Board meetings, and is responsible for approving meeting schedules in order to assure that there is sufficient time for discussion of all agenda items.

The Company believes that the lead independent director structure, including Mr. Tessler's service as lead independent director, offers independent oversight of the Company's management to complement the leadership that Mr. Wexner provides to the Board as its Chairman.

Risk Oversight; Certain Compensation Matters

The Board, directly and through the Audit Committee and other committees of the Board, takes an active role in the oversight of the Company's policies with respect to the assessment and management of enterprise risk. Among other things, the Board has policies in place for identifying the senior executive responsible for key risks as well as the Board committees with oversight responsibility for particular key risks. In a number of cases, oversight is conducted by the full Board.

Among other things, the Company, including the Compensation Committee of the Board, has evaluated the Company's compensation structure from the perspective of enterprise risk. The Company, including the Compensation Committee, believes that the Company's compensation structures are appropriate and do not incentivize inappropriate taking of business risks.

Review of Strategic Plans and Capital Structure

The Board regularly reviews the Company's strategic plans and capital structure with a view toward long-term value creation. The Board also conducts a strategic planning retreat at least annually with senior management.

Succession Planning

The Board and its Nominating & Governance Committee have developed policies and principles governing succession planning with respect to the CEO and senior management.

Information Concerning Board Meeting Attendance

Our Board held 8 meetings in fiscal year 2016. During fiscal year 2016, all of the directors attended 75% or more of the total number of meetings of the Board and of the committees of the Board on which they served (which were held during the period in which they served).

Committees of the Board***Audit Committee***

The Audit Committee of the Board is instrumental in the Board's fulfillment of its oversight responsibilities relating to (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the qualifications, independence and performance of the Company's independent auditors and (iv) the performance of the Company's internal audit function. The current members of the Audit Committee are Ms. James (Chair), Dr. Kollat and Messrs. Tessler and Zimmerman. The Board has determined that each of the Audit Committee members meets the independence, expertise and experience standards established by the NYSE and the Securities and Exchange Commission (the "Commission") for service on the Audit Committee of the Board and for designation as an "audit committee financial expert" within the meaning of the regulations promulgated by the Commission.

The Report of the Audit Committee can be found on page 55 of this proxy statement. The Audit Committee held 13 meetings in fiscal year 2016.

Compensation Committee

The Compensation Committee of the Board (i) oversees the Company's compensation and benefits philosophy and policies generally, (ii) evaluates the CEO's performance and oversees and sets compensation for the CEO, (iii) oversees the evaluation process and compensation structure for other members of the Company's senior management and (iv) fulfills the other responsibilities set forth in its charter. The current members of the

Compensation Committee are Dr. Kollat (Chair), Dr. Gee and Messrs. Miro and Morris. The Board has determined that each of the current Compensation Committee members is “independent” in accordance with applicable NYSE standards.

The Report of the Compensation Committee can be found on page 50 of this proxy statement. The Compensation Committee held 9 meetings in fiscal year 2016.

Nominating & Governance Committee

The Nominating & Governance Committee actively engages in the ongoing review of the composition of the Board and opportunities for Board refreshment. Based on its review, the Nominating & Governance Committee identifies and recommends to the Board candidates who are qualified to serve on the Board and its committees. The Nominating & Governance Committee also considers and reviews the qualifications of any individual nominated for election to the Board by stockholders. It is responsible for proposing a slate of candidates for election as directors at each annual meeting of stockholders. In the past five years, three new directors have been appointed to the Board who bring a diversity of skills, attributes and perspectives to the Board. In addition to periodic Board refreshment, we believe that a variety of director tenures is beneficial to ensure Board quality and continuity of experience, as reflected in the current composition of our Board.

The Nominating & Governance Committee develops and recommends to the Board criteria and procedures for the selection and evaluation of new individuals to serve as directors and committee members. In assessing director nominees, the Nominating & Governance Committee takes into account the qualifications of existing directors for continuing service or re-nomination, which may be affected by, among other things, the quality of their contributions, their attendance records, changes in their primary employment or other business affiliations, the number of boards of publicly held companies on which they serve or other competing demands on their time and attention. While the Board has not established any specific minimum qualifications for director nominees, as indicated in the Company’s corporate governance principles, the directors and any potential nominees should possess the integrity, judgment, skills, experience and other characteristics that are deemed necessary or desirable for the effective performance of the Board’s oversight function. Certain of the skills, qualifications and particular areas of expertise considered with respect to the members of the Board at the time each Director was nominated are summarized in the director biographies found on pages 5 through 8 of this proxy statement. Although the Nominating & Governance Committee does not use formal quantitative or similar criteria with regard to diversity in its selection process, the Company’s corporate governance principles provide that the Board will be composed of members of diverse backgrounds and, accordingly, the Committee considers the diversity of experience, background and expertise of the current directors and areas where new directors might add additional perspectives, as factors in the selection of Board nominees.

The Nominating & Governance Committee does not have a formal policy on the consideration of director candidates recommended by stockholders. The Board believes that it is more appropriate to provide the Nominating & Governance Committee flexibility in evaluating stockholder recommendations. In the event that a director nominee is recommended by a stockholder, the Nominating & Governance Committee will give due consideration to the director nominee and will use the same criteria used for evaluating Board director nominees, in addition to considering the information relating to the director nominee provided by the stockholder.

To date, the Company has not engaged third parties to identify or evaluate or assist in identifying potential director nominees, although the Company reserves the right in the future to retain a third-party search firm, if appropriate.

The Nominating & Governance Committee also develops and recommends to the Board, and regularly reviews, a set of corporate governance principles for the Company to ensure they reflect evolving best practices, monitors compliance with those principles and stays abreast of developments in the area of corporate governance. For example, a proxy access bylaw was adopted in November 2016, permitting up to 20

stockholders owning 3% or more of the outstanding shares of Common Stock continuously for at least three years to nominate the greater of two directors or up to 20% of the Board and include those nominees in our proxy materials. The Nominating & Governance Committee also reviews and periodically makes recommendations to the Board regarding the structure, practices, policies and activities of the Board and its committees. Each Board committee's charter is reviewed at least annually. To ensure that the Board, Board committees and individual directors remain effective, the Nominating & Governance Committee oversees a robust annual evaluation of the Board, each Board committee and each individual director and recommends ways to improve performance. At least annually, each of the Audit Committee, the Compensation Committee and the Nominating & Governance Committee evaluates its own performance and reports to the Board on such evaluation. The full Board also engages in self-evaluation at least annually. The current members of the Nominating & Governance Committee are Mr. Tessler (Chair), Ms. James, Dr. Kollat and Mr. Miro. The Board has determined that each of the current Nominating & Governance Committee members is "independent" in accordance with applicable NYSE standards.

The Nominating & Governance Committee held 4 meetings in fiscal year 2016.

Executive Committee

The Executive Committee of the Board may exercise, to the fullest extent permitted by law, all of the powers and authority granted to the Board. Among other things, the Executive Committee may declare dividends, authorize the issuance of stock and authorize the seal of the Company to be affixed to papers that require it. The current members of the Executive Committee are Messrs. Wexner (Chair) and Tessler.

Finance Committee

The Finance Committee of the Board periodically reviews the Company's financial position and financial arrangements with banks and other financial institutions. The Finance Committee also makes recommendations on financial matters that it believes are necessary, advisable or appropriate. The current members of the Finance Committee are Mr. Tessler (Chair), Mr. Hersch, Dr. Kollat, Mrs. Wexner and Mr. Zimmerman.

Inclusion Committee

The Inclusion Committee of the Board is instrumental in the Board's fulfillment of its oversight responsibilities relating to, among other things, (i) the Company's commitment to diversity and inclusion and (ii) the performance of the Company's Office of Inclusion. The current members of the Inclusion Committee are Mrs. Wexner (Chair), Dr. Gee and Ms. James.

Meetings of the Company's Non-Management Directors

The non-management directors of the Board meet in executive session in connection with each regularly scheduled Board meeting. Mr. Tessler serves as the chair of those meetings, which neither Mr. Wexner nor Mrs. Wexner attends.

Communications with Stockholders

The Board believes that it is important to understand stockholder perspectives on the Company and foster long-term relationships with stockholders and, to that end, we have a policy of robust engagement with stockholders, with continuing outreach to and dialogue with all of our major investors on a range of issues, including corporate governance matters. Such engagements with investors have been highly constructive. For example, based on stockholder feedback, we made a number of changes to our compensation program in the past few years, as discussed in more detail under "Compensation-Related Matters—Compensation Discussion and Analysis." The Board also provides a process for interested parties to send communications to the full Board, the

non-management members of the Board, the lead independent director and the members of the Audit Committee. Any director may be contacted by writing to him or her c/o L Brands, Inc., Three Limited Parkway, Columbus, Ohio 43230 or emailing at boardofdirectors@lb.com. Any stockholder wishing to contact Audit Committee members may send an email to auditcommittee@lb.com. Communications that are not related to a director's duties and responsibilities as a Board member, a non-management director or an Audit Committee member may be excluded by the Office of the General Counsel, including, without limitation, solicitations and advertisements; junk mail; product-related communications; job referral materials such as resumes; surveys; and any other material that is determined to be illegal or otherwise inappropriate. The directors to whom such information is addressed are informed that the information has been removed and that it will be made available to such directors upon request.

Attendance at Annual Meetings

The Company does not have a formal policy regarding attendance by members of the Board at the Company's annual meeting of stockholders. However, it encourages directors to attend and historically nearly all have done so. All of the then-current Board members attended the 2016 annual meeting. Each director is expected to dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties, including by attending meetings of the Board and the committees of which he or she is a member.

Code of Conduct, Related Person Transaction Policy and Associated Matters

The Company has a code of conduct that is applicable to all employees of the Company, including the CEO and Chief Financial Officer, and to members of the Board. Any amendments to the code or any waivers from any provisions of the code granted to executive officers or directors will be promptly disclosed to stockholders through posting on the Company's website at www.lb.com.

Under the Company's Related Person Transaction Policy (the "Policy"), subject to certain exceptions, directors and executive officers of the Company are required to notify the Company of the existence or potential existence of any financial or commercial transaction, agreement or relationship involving the Company in which a director or executive officer or his or her immediate family members has a direct or indirect material interest. Each such transaction must be approved by the Board or a committee consisting solely of independent directors after consideration of all material facts and circumstances.

The Company is engaged in several projects designed to increase our speed and agility in producing products that satisfy our customers. In the case of our beauty, personal care and home fragrance businesses, the development of supplier facilities in close proximity to our headquarters and distribution facilities in central Ohio has been an integral part of capturing the many business benefits of speed and agility. The New Albany Company, a business beneficially owned by Mr. and Mrs. Wexner, is in the business of developing real estate, including industrial parks, and has sold land (and may in the future sell land) to certain vendors or third party developers in connection with the continuing development of an industrial park focused on the foregoing business categories in New Albany, Ohio. The Audit Committee monitors such vendor and third party transactions on an ongoing basis to assure that they are in the best interests of the Company and its stockholders generally.

Copies of the Company's Code of Conduct, Corporate Governance Principles, Policy and Committee Charters

The Company's code of conduct, corporate governance principles and Policy, as well as the charters of the Audit Committee, Compensation Committee and Nominating & Governance Committee of the Board, are available on the Company's website at www.lb.com. Stockholders may also request a copy of any such document from: L Brands, Inc., Attention: Investor Relations, Three Limited Parkway, Columbus, Ohio 43230.

**PROPOSAL 2: RATIFICATION OF THE APPOINTMENT
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Audit Committee has appointed Ernst & Young LLP to serve as the Company's independent registered public accountants for the fiscal year ending February 3, 2018. Ernst & Young LLP has been retained as the Company's independent registered public accountants continuously since 2003.

The Audit Committee is responsible for the appointment, compensation, retention and oversight of the Company's independent registered public accountants. The Audit Committee is responsible for approving the fees associated with the Company's retention of Ernst & Young LLP. In accordance with Commission rules, Ernst & Young LLP's lead engagement partner rotates every five years. The Audit Committee is directly involved in the selection of Ernst & Young LLP's lead engagement partner. In addition, the Audit Committee evaluates Ernst & Young LLP's qualifications, performance and independence and presents its conclusions on these matters to the Board on at least an annual basis, and annually considers whether to continue its engagement of Ernst & Young LLP.

The members of the Audit Committee and the Board believe that the continued retention of Ernst & Young LLP to serve as the Company's independent registered public accountants is in the best interests of the Company and its stockholders. We are asking you to ratify Ernst & Young LLP's appointment, although your ratification is not required. A representative of Ernst & Young LLP will be present at the meeting, will have the opportunity to make a statement and will be available to respond to appropriate questions.

Additional information concerning the Company's engagement of Ernst & Young LLP is included on page 56.

The Board recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accountants.

PROPOSAL 3: ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires us to provide an advisory stockholder vote to approve the compensation of the Company's named executive officers ("NEOs"), as such compensation is disclosed pursuant to the disclosure rules of the Commission. After the Company's 2011 annual meeting, the Board determined to hold this advisory "say-on-pay" vote every year. Accordingly, the Company is providing its stockholders with the opportunity to cast an advisory vote on the fiscal 2016 compensation of our NEOs as disclosed in this proxy statement, including the Compensation Discussion and Analysis (the "CD&A"), the compensation tables and other narrative executive compensation disclosures.

Stockholders are being asked to vote on the following resolution:

"RESOLVED, that the stockholders approve the compensation of the Company's executive officers named in the 2016 Summary Compensation Table, as disclosed pursuant to Item 402 of Regulation S-K (which disclosure includes the Compensation Discussion and Analysis, the compensation tables and other narrative executive compensation disclosures)."

Our compensation program is designed to align NEO compensation with the performance of the company. Following five straight years of record-setting sales and earnings, financial performance for the year did not meet our high expectations and this is reflected in the significant decrease in 2016 compensation for our NEOs. CEO compensation decreased 46% and compensation for the other NEOs decreased on average approximately 21%.

The Compensation Committee took the following actions:

- No changes were made to Mr. Wexner's base salary or short term performance-based incentive compensation target.
- Awarded Mr. Wexner performance-based stock awards with a target value of \$9.4 million (45% lower than fiscal 2015) based on financial and strategic performance during fiscal 2016, including growth of the business in North America and overseas, execution of our fundamental strategy of being fast, focused and frugal and optimization of capital structure.
- As NEO base salaries and short term performance-based incentive compensation targets for fiscal 2016 were set in March 2016 based on record-setting fiscal 2015 performance:
 - increased the base salary for each of the NEOs other than Mr. Wexner based on our growth and accomplishments in the last several fiscal years, including record-setting sales and earnings performance in 2013, 2014 and 2015; and
 - increased short term performance-based incentive compensation targets for each of the NEOs other than Mr. Wexner to incent future performance and further leverage their compensation.
- Awarded performance-based Restricted Stock Units ("RSUs") to NEOs in March 2016 to recognize our record-setting financial performance in fiscal 2015, as well as to provide significant retentive value and to incent future performance.
- Set short term incentive compensation operating income goals at a challenging level, requiring 3% growth over record fiscal 2015 results when normalizing for expenses incurred for expansion in China and the new 5th Avenue Victoria's Secret store.
- Paid short-term incentive compensation below target for Messrs. Wexner, McGuigan, Burgdoerfer and Waters reflecting performance that did not meet our challenging goals.
- Continued to deliver long term equity compensation that is 100% performance-based in a mix of stock options and RSUs which must be earned based on achievement of a cumulative, long-term, relative performance measure.

- Beginning with performance-based RSUs awarded in March 2017, eliminated the provision for performance-based RSUs in which awards not earned in one period may be earned in subsequent periods if the cumulative performance metric is achieved.

The Company's change in stockholder return, including reinvested dividends, is aligned with changes in total CEO compensation (as disclosed in further detail in the CD&A).

Although the advisory stockholder vote on executive compensation is non-binding, the Compensation Committee has considered and will continue to consider the outcome of the vote and feedback received from stockholders when making compensation decisions for NEOs. We have a policy of robust engagement with stockholders, including continuing outreach to and dialogue with all of our major institutional stockholders. Based on feedback from such engagement, as noted above, we eliminated the provision for performance-based RSUs in which awards not earned in one period may be earned in subsequent periods if the cumulative performance metric is achieved. We continued the following compensation practices in accordance with our corporate governance principles and/or in response to stockholder and advisory group feedback, including:

- No tax gross-ups for NEOs upon a change in control.
- "No hedging" policy governing stock trading.
- Policy that discourages pledging of Company stock and requires advance approval of our General Counsel.
- No future issuances of "single trigger" equity awards.
- Clawback policy.
- Stock ownership guidelines set at five times base salary for our CEO and three times base salary for other NEOs. Members of our Board must maintain ownership of at least the number of shares of Common Stock received as Board compensation over the previous four years.

These changes, along with our historical performance record, were important factors in achieving 89% stockholder support for our 2016 advisory vote on executive compensation. Given this strong level of support, the Compensation Committee has concluded that a large majority of our stockholders support our existing compensation program.

Please refer to the CD&A for a detailed discussion of the Company's executive compensation principles and practices and the fiscal 2016 compensation of our NEOs.

Board Recommendation

Our performance in 2016 is reflected in the compensation for our NEOs, demonstrating our commitment to delivering pay for performance. CEO compensation decreased 46% and compensation for the other NEOs decreased on average approximately 21%. In summary, we see alignment between our performance, our stockholders' interests and our pay.

The Board recommends a vote FOR this proposal.

**PROPOSAL 4: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES
ON NAMED EXECUTIVE OFFICER COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires us to provide an advisory stockholder vote with respect to how often to present the advisory stockholder vote to approve the compensation of the Company's NEOs (the "say-on-pay vote"), i.e., how often to present a proposal similar to Proposal 3: Advisory Vote to Approve Named Executive Officer Compensation. We must solicit your advisory vote on whether to have the say-on-pay vote every 1, 2 or 3 years.

Accordingly, the Company is providing its stockholders with the opportunity to cast an advisory vote as to the appropriate frequency for the say-on-pay vote. Stockholders may vote as to whether the say-on-pay vote should occur every 1, 2 or 3 years, or may abstain from voting on the matter.

The Company values the opinion of its stockholders and believes that an annual say-on-pay vote will best reinforce the Company's desire to communicate with its stockholders. An annual say-on-pay vote will allow the Company's stockholders to regularly express a view on the Company's compensation policies and practices.

Although, as an advisory vote, this proposal is not binding upon the Company or the Board, the Compensation Committee, which is comprised solely of independent directors and is responsible for making decisions regarding the amount and form of compensation paid to the Company's executive officers, and the Nominating & Governance Committee, which is comprised solely of independent directors and is responsible for periodically reviewing the Company's corporate governance principles, will each carefully consider the stockholder vote on this matter, along with all other expressions of stockholder views received on this matter.

The Board Recommends a Vote of "1 Year" for the Frequency of Future Advisory Say-On-Pay Votes.

PROPOSAL 5: STOCKHOLDER PROPOSAL TO CHANGE CERTAIN VOTING REQUIREMENTS

John Chevedden, 2215 Nelson Ave., No. 205 Redondo Beach, CA 90278, owner of 90 shares of Common Stock, has notified the Company that he intends to submit the following proposal at this year's meeting:

Proposal 5—Simple Majority Vote

RESOLVED, Shareholders request that our board take the steps necessary so that each voting requirement in our charter and bylaws that calls for a greater than simple majority vote be eliminated, and replaced by a requirement for a majority of the votes cast for and against applicable proposals, or a simple majority in compliance with applicable laws. If necessary this means the closest standard to a majority of the votes cast for and against such proposals consistent with applicable laws. It is essential that our board take the steps necessary to adopt this proposal.

We gave 56% voting support to this same shareholder proposal at our 2015 annual meeting. However our management failed to take the steps necessary to adopt this proposal at our 2016 annual meeting. Plus our 2016 annual meeting proxy failed to give any management analysis of any special effort that might be needed to adopt the management version of this proposal or specify any special effort that management would take to adopt their proposal on this topic.

Shareowners are willing to pay a premium for shares of companies that have excellent corporate governance. Supermajority voting requirements have been found to be one of 6 entrenching mechanisms that are negatively related to company performance according to "What Matters in Corporate Governance" by Lucien Bebchuk, Alma Cohen and Allen Ferrell of the Harvard Law School. Supermajority requirements are used to block initiatives supported by most shareowners but opposed by a status quo management.

This proposal topic won from 74% to 88% support at Weyerhaeuser, Alcoa, Waste Management, Goldman Sachs, FirstEnergy, McGraw-Hill and Macy's. The proponents of these proposals included Ray T. Chevedden and William Steiner.

Currently a 1%-minority can frustrate the will of our 74%-shareholder majority. In other words a 1%-minority could have the power to prevent shareholders from improving our charter and bylaws.

Thus we are stuck with 3-year terms for directors which makes our directors significantly untouchable to shareholder frustration. Our stock fell from \$100 to \$65 in the year leading up to the submission of this proposal. Yet most of our directors do not have to worry about reelection at our 2017 annual meeting. This is like an employee with falling performance getting a job review once in 3-years.

Please vote to enhance shareholder value:

Simple Majority Vote—Proposal 5

Our Response—Statement in Opposition to Stockholder Proposal to Change Certain Voting Requirements

The Board has carefully considered the above proposal and believes that it is not in the best interests of our stockholders. Consequently, the Board recommends a vote AGAINST the proposal.

The Board has evaluated the Company's voting requirements on numerous occasions to ensure that they continue to be in the best interests of the Company and its stockholders. In this regard, the Board has consistently determined, and continues to believe after careful reconsideration of this issue, that the retention of a supermajority vote standard for certain extraordinary matters is the best way to ensure that the interests of all stockholders are fully protected.

Our Supermajority Vote Requirements Apply Only to a Small Number of Fundamental Matters. Under the Company's existing governance documents, a simple majority vote requirement already applies to most matters submitted for stockholder approval. Our certificate of incorporation only requires the affirmative vote of not less than 75% of the outstanding shares entitled to vote for a small number of fundamental matters of corporate structure and governance, which are as follows: (i) approval of certain business combinations with an individual, entity or group that collectively owns 20% or more of the Company's voting securities; (ii) approval of certain fundamental transactions, including mergers or a sale of substantially all of the Company's assets, with any corporation that, together with its affiliates, owns five percent or more of the Company's voting securities; (iii) dissolution of the Company; (iv) removal of a director for cause; (v) an alteration, amendment or repeal of the Company's bylaws or any amendment to the Company's certificate of incorporation that contravenes any existing bylaw of the Company; and (vi) an amendment to certain provisions in the Company's certificate of incorporation.

Our Supermajority Vote Requirements Serve Important Corporate Governance Objectives. Our Board believes that the requirement of a supermajority vote for a limited number of fundamental matters serves important corporate governance objectives. These include:

Ensuring Broad Stockholder Consensus for Key Actions. The Board strongly believes that extraordinary transactions and fundamental changes to corporate governance should have the support of a broad consensus of the Company's stockholders rather than just a simple majority. The Board also believes that the supermajority vote requirements protect stockholders, particularly minority stockholders, from the potentially self-interested actions of short-term investors. Without these provisions, it would be possible for a group of short-term stockholders to approve an extraordinary transaction that is not in the best interests of the Company and opposed by nearly half of the Company's stockholders. Targeted supermajority vote requirements, limited to a small number of critical matters, preserve and maximize long-term value for all stockholders.

Ensuring that Key Actions Reflect Stockholder Interests. Our Board is subject to fiduciary duties under the law to act in a manner that it believes to be in the best interests of the Company and its stockholders. Stockholders, on the other hand, do not have the same fiduciary duties. As a result, a group of stockholders—who may be acting in their own short-term or other interests not shared by stockholders generally—may vote in a manner that is detrimental to large numbers of stockholders. Accordingly, our supermajority voting standards safeguard the long-term interests of the Company and its stockholders.

Providing Protection Against Certain Takeovers. Our supermajority voting provisions further protect the Company's stockholders by encouraging persons or firms making unsolicited takeover proposals to negotiate directly with the Board, which provides the Board with increased leverage to maximize value for all stockholders. The Company believes that its independent Board is in the best position to evaluate proposed offers, consider alternatives and protect stockholders against potentially coercive or abusive tactics during a takeover process and, as appropriate, negotiate the best possible return for all stockholders. Elimination of these supermajority vote provisions would make it more difficult for the Company's independent, stockholder-elected Board to preserve and maximize value for all stockholders in the event of an unsolicited takeover bid.

Corporate Governance Practices. The Board regularly evaluates the Company's corporate governance practices and processes with a view toward ensuring that they continue to serve the best interests of the Company and its stockholders. For example, the Board adopted a proxy access bylaw in November 2016. The Board is also intensely focused on the relationship between governance and performance and on creating the proper governance structure in light of the particular circumstances of the Company. In addition, we have a policy of robust engagement with stockholders, with continuing outreach to and dialogue with all of our major investors on a range of issues, including corporate governance matters. The Board believes that the Company's current corporate governance principles and practices—of which the supermajority vote requirements are one part—are optimal for the Company and its stockholders and serve, among other things, to maximize long-term stockholder

value, align the interests of the Board and management with those of our stockholders and promote high ethical conduct among our directors and employees.

Board Recommendation

After careful consideration of this proposal, the Board has determined that retention of the supermajority voting requirements remains in the best interests of the Company and its stockholders. The Board believes that the substantial benefits of the Company’s supermajority voting requirements do not come at the expense of prudent corporate governance. To the contrary, the voting requirements serve to protect the interests of all stockholders.

The Board recommends a vote AGAINST the Stockholder Proposal to Change Certain Voting Requirements.

COMPENSATION-RELATED MATTERS

Compensation Discussion and Analysis

Executive Summary

Performance Overview

Our compensation program is designed to align NEO compensation with the performance of the Company. Following five straight years of record-setting sales and earnings, financial performance for the year did not meet our high expectations and this is reflected in the significant decrease in 2016 compensation for our NEOs. CEO compensation decreased 46% and compensation for the other NEOs decreased on average approximately 21%.

Although 2016 adjusted earnings per share declined 6% against last year's record performance, we accomplished a lot during the year and are well-positioned for future growth:

- At Bath & Body Works, sales increased 7% and operating income increased 6%. We ended the year with 240 new concept stores which include the White Barn design. While the investment in these stores results in near term financial pressure, they continue to drive significant sales increases and importantly present a new, compelling store design to our customers.
- Our PINK business continued its strong performance with low-double-digit sales growth over last year. We continue to invest in square footage growth for the PINK business, in order to provide the full assortment in more locations. These investments continue to drive strong returns.
- We made a number of important changes to our Victoria's Secret business to simplify the business and accelerate growth. Notably, we reorganized the business and integrated the direct channel into three separate business units (Lingerie, PINK and Beauty) and appointed new leaders in Lingerie and Beauty; we eliminated the non-core merchandise categories of swim and apparel in order to increase focus and accelerate growth in our core categories; and we evolved how the business connects with customers through more focus on brand-building and loyalty-enhancing marketing rather than traditional catalogues and offers.
- Outside of North America, we opened more than 100 new stores to end the year with 830 stores in 78 countries. In China, we acquired the business from our franchisee to pursue this market as Company-owned, built the capability and infrastructure to support future growth, launched our online business on TMall Global and opened our first two full-assortment Victoria's Secret stores just after year-end.

We are equipped for success—strong brands which lead their categories and an experienced and talented leadership team—with significant growth opportunities both in and outside of North America. Although the investments we are making in the business as noted above have and will put some pressure on results in the short term, we continue to lead the industry on a long term basis:

	<u>One Year (Fiscal 2016)</u>	<u>Three Year (Fiscal 2013-2016)</u>	<u>Five Year (Fiscal 2011-2016)</u>
Net Sales			
\$ increase	\$420 million	\$1,801 million	\$2,913 million
% increase	3%	17%	30%
Adjusted Operating Income ¹			
\$ increase/(decrease)	(\$155 million)	\$294 million	\$532 million
% increase/(decrease)	(7%)	17%	35%
Adjusted Earnings per Share ¹			
% increase/(decrease)	(6)%	23%	48%
Total Shareholder Return	(35%)	30%	86%
Stock Price			
% increase/(decrease)	(39%)	13%	42%

We are committed to returning value to our stockholders through a combination of dividends and share repurchase programs. In fiscal 2016, we increased our regular annual dividend 20% from \$2.00 to \$2.40 per share and paid a \$2.00 per share special dividend.

¹ The reconciliation of such measure to the comparable figure determined in accordance with accounting principles generally accepted in the United States (“GAAP”) is included on pages 23 to 24 of the Company’s 2016 Annual Report on Form 10-K (the “2016 10-K”).

2016 Compensation Decisions Overview

Fiscal 2016 compensation decision highlights include:

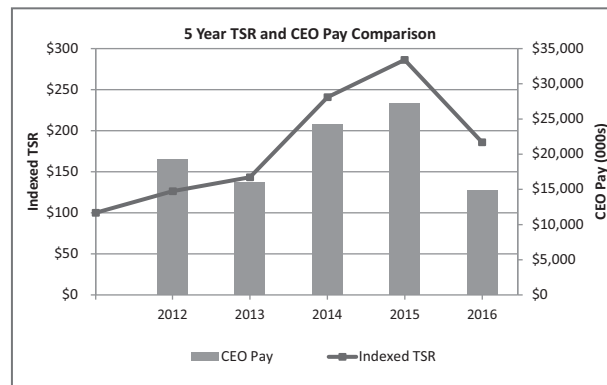
- No changes were made to Mr. Wexner’s base salary or short term performance-based incentive compensation target;
- Awarded Mr. Wexner performance-based stock awards with a target value of \$9.4 million (45% lower than fiscal 2015) based on financial and strategic performance during fiscal 2016, including growth of the business in North America and overseas, execution of our fundamental strategy of being fast, focused and frugal and optimization of capital structure;
- NEO base salaries and short term performance-based incentive compensation targets for fiscal 2016 were set in March 2016 based on record-setting fiscal 2015 performance.
 - Increased the base salary for each of the NEOs other than Mr. Wexner based on our growth and accomplishments in the last several fiscal years, including record-setting sales and earnings performance in 2013, 2014 and 2015;
 - Increased short term performance-based incentive compensation targets for each of the NEOs other than Mr. Wexner to incent future performance and further leverage their compensation;
- Awarded performance-based RSUs to NEOs in March 2016 to recognize our record-setting financial performance in fiscal 2015, as well as to provide significant retentive value and to incent future performance;
- Set short term incentive compensation operating income goals at a challenging level, requiring 3% growth over record fiscal 2015 results when normalizing for expenses incurred for expansion in China and the new 5th Avenue Victoria’s Secret store;
- Paid short-term incentive compensation below target for Messrs. Wexner, McGuigan, Burgdoerfer and Waters reflecting performance that did not meet our challenging goals;
- Continued to deliver long-term equity compensation that is 100% performance-based in a mix of stock options and RSUs which must be earned based on achievement of a cumulative, long-term, relative performance measure; and
- Beginning with performance-based RSUs awarded in March 2017, eliminated the provision for performance-based RSUs in which awards not earned in one period may be earned in subsequent periods if the cumulative performance metric is achieved.

Pay for Performance

Our compensation program requires superior performance for NEOs to earn performance-based incentives at target. The Company’s change in stockholder return, including reinvested dividends, is aligned with changes in total CEO compensation (as disclosed in the Summary Compensation Table):

- Over the last five years (since the beginning of fiscal 2012) our shareholder return was 13% on an annualized basis (86% in the aggregate) while our CEO’s compensation was reduced by 5% on an annualized basis; and
- Over the last year, the total shareholder return decreased 35% while total CEO compensation was reduced by 46%.

The following chart illustrates how stockholder return aligns with total CEO compensation:



The effectiveness of our compensation program at delivering pay for performance is further validated by an analysis conducted by the Compensation Committee’s independent compensation consultant to determine the alignment of pay and performance. The consultant reported to the Compensation Committee that NEO compensation is aligned with performance and appropriate based on the competitive market, achievement of performance goals and total returns delivered to our stockholders.

Stockholder Advisory Vote

In 2016, 89% of our stockholders voted in favor of our executive compensation program. The Compensation Committee considers this vote and other stockholder/advisory group feedback when making compensation decisions for NEOs. We have a policy of robust engagement with stockholders, with continuing outreach to and dialogue with all of our major investors on a range of issues, including executive compensation matters. Based on feedback from such engagement, beginning with performance-based RSUs awarded in March 2017, we eliminated the provision for performance-based RSUs in which awards not earned in one period may be earned in subsequent periods if the cumulative performance metric is achieved.

In addition, we continue the following compensation practices in accordance with our corporate governance principles and/or in response to stockholder and advisory group feedback:

- ✓ No tax gross-ups for NEOs upon a change in control.
- ✓ “No hedging” policy governing stock trading.
- ✓ Adopted a policy that discourages pledging of Company stock and requires advance approval by our General Counsel. None of our NEOs or Board members has pledged Company stock.
- ✓ No re-pricing of stock options without stockholder approval.
- ✓ Double trigger vesting of equity awards upon a change in control.
- ✓ Clawback policy as described under “—Compensation Governance—Recovery of Compensation.”
- ✓ Stock ownership guidelines set at five times base salary for our CEO and three times base salary for other NEOs. Members of our Board must maintain ownership of at least the number of shares of Common Stock received as Board compensation over the previous four years.
- ✓ Stock plan that requires a vesting period of at least one year:
 - ✓ Three year minimum vesting period for RSUs that are based on the passage of time; and

- ✓ One year minimum vesting period for stock options and for RSUs that are earned based on performance.
- ✓ While these are the minimum requirements under the plan, stock options and performance-based RSUs awarded to our NEOs generally vest over five years.

Conclusion

While we had segments of our business which continued to perform very well against record performance last year, the investments that we are making in the business—in real estate and in China—and the strategic changes at Victoria’s Secret put pressure on 2016 results. However, these strategic changes position us for future accelerated growth. Our performance in 2016 is reflected in the compensation for our NEOs. CEO compensation decreased 46% and compensation for the other NEOs decreased on average approximately 21%. In summary, we see alignment between our performance, our stockholders’ interests and our pay. Accordingly, we recommend stockholders vote FOR the executive compensation program as outlined in Proposal 3.

Executive Compensation Philosophy

Guiding Principles

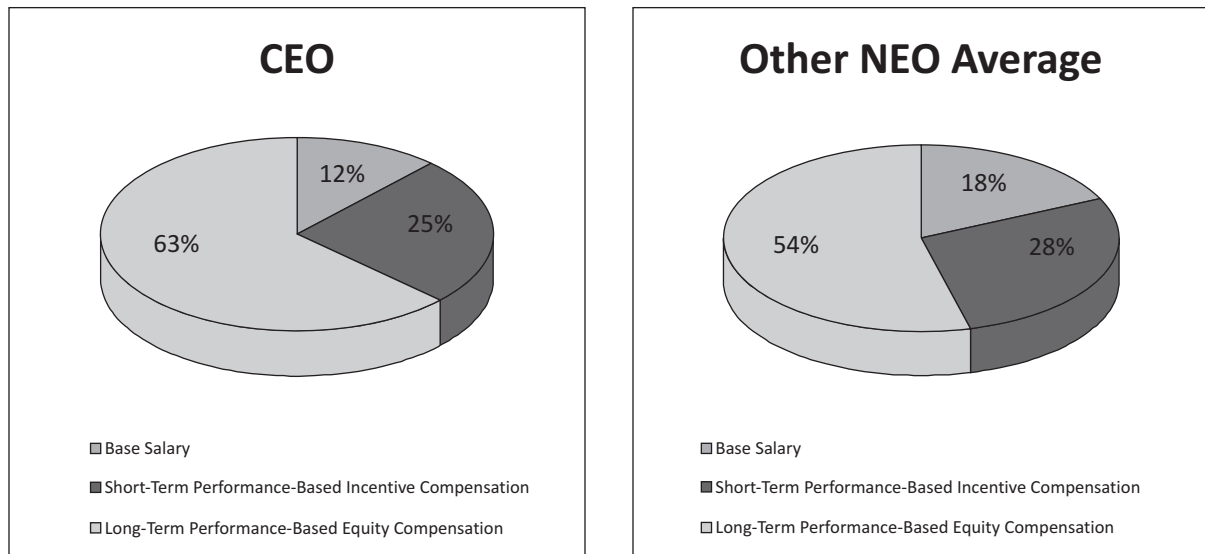
The Compensation Committee has built an executive compensation program on clear, purposeful guiding principles:

Compensation Component	Our Principles
Pay Level	<ul style="list-style-type: none"> • Attract and retain superior leaders in the highly competitive market for talent. • Pay competitively and equitably. • Recognize depth and scope of accountability and complexity of responsibility.
Pay Mix	<ul style="list-style-type: none"> • Emphasize performance-contingent, long term and equity-based compensation over fixed compensation.
Pay for Performance	<ul style="list-style-type: none"> • Recognize and reward enterprise, brand and individual performance. • Align executives’ interests with stockholders’ interests. • Require executives to own a significant amount of Common Stock. • Set Spring and Fall goals to reflect the seasonal nature of our business and incent goal achievement in each season. • Create long-term stockholder value through regular achievement of short-term goals while pursuing our longer-term strategy of growth in North America and internationally and increasing operating margins. • Retain and incent high-performers through long-term equity incentive awards.

Connecting Performance and Pay

Our challenging incentive goals require superior performance to achieve target pay. When our NEOs hit and exceed these goals, we compensate them accordingly. Conversely, disappointing results are also reflected in executive compensation.

To achieve pay for performance, we employ a pay mix philosophy that places greater emphasis on performance-based and equity compensation over base salary. In fact, our CEO has received only one increase in base salary since 2008, including no increase in fiscal 2016. The following charts illustrate our pay mix philosophy which consists of a lower percentage of base salary compared to performance-based pay at target for 2016:



To assess whether the Company's compensation program delivers pay for performance as designed, the Compensation Committee's independent compensation consultant, Willis Towers Watson, analyzed our performance-based long term equity and short term cash compensation for our NEOs across four key measures (operating income, earnings per share, total stockholder return and return on invested capital) relative to our peer group. The analysis shows that both pay and performance are in the top quartile of our peer group.

Based on this analysis, Willis Towers Watson and the Compensation Committee concluded that our NEO compensation is aligned with performance and appropriate based on the competitive market, achievement of performance goals and total returns delivered to our stockholders.

Compensation Comparison

We compare our NEO compensation with publicly available data on executive compensation.

We define our peer group, with the help of Willis Towers Watson, to generally include:

- Specialty and department store retailers;
- Companies with brands that have emotional content;
- Businesses that are generally similar to the Company in total revenue, market capitalization, global locations, business and/or merchandise focus; and
- Retailers that compete with the Company for executive talent.

We review our peer group annually and in 2016 replaced DSW, Inc. and Target Corporation with Bed Bath and Beyond Inc. and Ross Stores, Inc. These changes were made to add companies that more closely align with our size, in terms of revenue and market capitalization while meeting other selection criteria. Following our review, our peer group consists of the following companies:

Abercrombie & Fitch Co.	The Gap, Inc.	Ralph Lauren Corporation
American Eagle Outfitters, Inc.	J. C. Penney Company, Inc.	Ross Stores, Inc.
Avon Products, Inc.	Kohl's Corporation	Starbucks Corporation
Bed Bath & Beyond Inc.	Macy's, Inc.	The TJX Companies, Inc.
Coach, Inc.	NIKE, Inc.	Williams-Sonoma, Inc.
The Estee Lauder Companies Inc.	Nordstrom, Inc.	

We do not specifically benchmark our NEOs' compensation against our peer group. Instead, we consider peer comparisons as one of several factors in applying our pay philosophy and setting the pay of our NEOs. Our peer group is used by the Compensation Committee's independent compensation consultant to analyze the effectiveness of our compensation program at delivering pay for performance on a relative basis.

Stock Ownership Guidelines

The Compensation Committee encourages NEO Common Stock ownership through stock ownership guidelines which promote a long term focus, discourage inappropriate risk-taking and align the interests of our NEOs with those of our stockholders. Stock ownership guidelines can be met through direct or beneficial ownership of Common Stock, including Common Stock held under our stock and retirement plans.

Our CEO is required to maintain ownership of Common Stock with a value of five times his base salary. As the beneficial owner of 46,747,343 shares (16.36%) of Common Stock, Mr. Wexner's ownership well exceeds this minimum requirement.

Other NEOs are required to maintain beneficial ownership of Common Stock with a value of three times his or her base salary. All of these NEOs have beneficial ownership in excess of this guideline as of the end of fiscal 2016.

Members of our Board must maintain ownership of at least the number of shares of Common Stock received as Board compensation over the previous four years. All members of our Board are in compliance with this policy.

Compensation for NEOs

The Compensation Committee makes all decisions regarding compensation for Mr. Wexner. The Compensation Committee oversees the evaluation process and compensation structure for the other NEOs and approves all NEO stock awards.

Target compensation for the NEOs is reviewed annually and is designed to reward historical performance, incent future performance and be competitive with the external market for talent. The following fiscal 2015 accomplishments were considered in setting NEO target compensation for 2016:

- Increased sales 6% to \$12.2 billion driven by comparable sales increase of 5% and comparable store sales increase of 5%.
- Increased adjusted earnings per share by 14% to \$3.99¹.
- Increased merchandise margin rate.

¹ The reconciliation of such measure to the comparable figure determined in accordance with GAAP is included on page 24 of the 2016 10-K.

- Improved operating income rate to a record 18.0% from 17.1%.
- Delivered total shareholder return of 19%.
- Continued international expansion of our brands.
- Returned value to stockholders through regular and special dividends.

When setting target compensation for 2016, factors including the Company’s future challenges and goals, expectations of continued growth and improved margins, potential market challenges and continued international expansion efforts were also considered.

Compensation Components

The three principal elements of our executive compensation programs are base salary, short term performance-based cash incentive compensation and long term performance-based equity incentive compensation. Participation in the base salary, short term performance-based cash incentive compensation is the same for all of our NEOs, including our CEO. The size and grant timing of long-term performance-based equity incentive compensation for our CEO is different from the other NEOs but the key terms of the award are the same, including vesting and performance requirements. Other elements of compensation that may be paid to NEOs include retirement and other post-employment benefits and perquisites. Our CEO is not eligible for post-employment benefits under a severance or change in control agreement. Additional information about each of these compensation components is provided below.

Base Salary

The following factors are considered in determining base salary adjustments:

- Scope and responsibility of the NEO’s position;
- Achievement of seasonal and annual business goals;
- Level of overall compensation paid by competitors for comparable positions;
- Recruitment, retention and development of leadership talent;
- The Company’s challenging expectations for future growth; and
- The appropriate balancing of our NEOs’ base salary against their incentive compensation.

For 2016, Mr. Wexner did not receive an increase to his base salary. The other NEOs received base salary increases in recognition of their contributions to the continued success of the Company. Mr. Coe’s increase is based on his achievement of business goals for Bath & Body Works, recognizes his successful leadership and is intended to be highly competitive with the external market.

	<u>2016 Base Salary (\$)</u>	<u>2015 Base Salary (\$)</u>	<u>% Increase</u>
Mr. Wexner	2,000,000	2,000,000	0.0%
Mr. McGuigan	1,300,000	1,250,000	4.0%
Mr. Coe	1,100,000	1,000,000	10.0%
Mr. Burgdoerfer	900,000	852,800	5.5%
Mr. Waters	900,000	850,000	5.9%

Short Term Performance-Based Cash Incentive Compensation

This program focuses on achievement of six-month goals, reflecting the seasonal nature of our business and the fact that achievement of our short term goals season after season creates long term value for our stockholders.

Our operations consist of two principal selling seasons: Spring (the first and second quarters) and Fall (the third and fourth quarters). Fall, including the holiday season, is weighted more heavily because of its importance to our profitability.

Short term performance-based cash incentive compensation targets are set at a percentage of base salary with the amount earned ranging from zero to double the target incentive, based on the extent to which financial goals are achieved or exceeded.

The financial incentive provided by the short term performance-based incentive compensation plan is a key component in driving the exceptional performance of the Company and our NEOs to produce record-breaking success year after year. In 2016, target percentages for each of the NEOs other than Mr. Wexner’s were increased to incent future performance and place further emphasis on the performance-based component of their compensation package:

	<u>Fiscal 2016 Target</u>	<u>Fiscal 2015 Target</u>
Mr. Wexner	220%	220%
Mr. McGuigan	160%	150%
Mr. Coe	170%	160%
Mr. Burgdoerfer	160%	150%
Mr. Waters	160%	150%

The pre-established objective fiscal 2016 financial goals were based solely on operating income, subject to adjustment for extraordinary items pursuant to the 2015 Incentive Compensation Performance Plan (the “2015 ICPP”) and approved by the Compensation Committee. Operating income is used because it is a performance measure over which executives can have significant impact and is also directly linked to the Company’s long-range growth plan and to performance that drives stockholder value. When evaluating operating income goals, the Compensation Committee compares the increase in operating income relative to the change in the incentive payments to associates at target.

Operating income goals are set at the beginning of each six-month season based on:

- An analysis of historical performance;
- Income goals for that brand;
- Financial results of other comparable businesses; and
- Progress toward achieving our strategic plan.

NEO	Short Term Performance Incentive Goal Weighting and Metric
Mr. Wexner	80% weighted average of major brand performance: 55% Victoria’s Secret operating income 30% Bath & Body Works operating income 15% Other operating income 20% total L Brands operating income
Mr. Burgdoerfer	
Mr. McGuigan	
Mr. Coe	100% Bath & Body Works operating income
Mr. Waters	90% weighted average of international brand operating income 10% international home office expense

In fiscal 2016, the Compensation Committee set goals that challenged our NEOs to achieve outstanding performance and provided incentive to grow sales while maximizing margins and managing expenses. The goals generally require growth in operating income over the record-setting results we achieved in fiscal 2015 and consider the difficulty in beating these best-ever results.

Spring and Fall season operating income goals for Victoria’s Secret when compared to actual results for fiscal 2015 are generally flat due to projected expenses associated with the opening of the 5th Avenue store in New York City. In addition, operating income goals reflect increased expenses related to the opening of stores in China.

The table below shows the operating income goals required to earn short term performance-based incentive compensation at target and actual performance by season:

	Fiscal 2016 Spring Season		Fiscal 2016 Fall Season	
	Operating Income Goal	Actual Performance ¹	Operating Income Goal	Actual Performance ¹
Total L Brands	\$795 million	\$780 million	\$1,410 million	\$1,271 million
Victoria’s Secret	618 million	558 million	800 million	656 million
Bath & Body Works	243 million	262 million	653 million	659 million
L Brands International ²	9 million	2 million	18 million	13 million
Other ²	76 million	99 million	115 million	135 million

¹ Actual performance presents operating income on an adjusted basis which removes certain special items (subject to approval by the Compensation Committee) which are not indicative of Company ongoing operations due to their non-recurring and extraordinary nature. The Company uses adjusted financial information as key performance measures of results for purposes of evaluating performance internally, which may not correspond to amounts reported externally.

² L Brands International and Other include business unit operating income that is an internal performance measure and does not correspond to amounts reported externally.

Performance goals required to earn threshold payout range from approximately 85% to 90% of target and performance goals required to earn maximum payout range from approximately 110% to 120% of target. Performance below threshold results in no payout and performance between threshold and target and target and maximum is interpolated to determine payout percentage beginning at 20% at threshold up to 200% at maximum.

Payouts for fiscal 2016 performance are set forth below and in the “Non-Equity Incentive Plan Compensation” column of the 2016 Summary Compensation Table.

Total Fiscal 2016 Incentive Payout

	Fiscal 2016 Target Incentive	Fiscal 2016 Spring Incentive Payout	Fiscal 2016 Fall Incentive Payout	Total Fiscal 2016 Payout	% of Fiscal 2016 Target
Mr. Wexner	\$4,400,000	\$1,657,920	\$ 0*	\$1,657,920	66%
Mr. McGuigan	2,080,000	783,744	597,792	1,381,536	66%
Mr. Coe	1,870,000	1,249,160	1,254,396	2,503,556	134%
Mr. Burgdoerfer	1,440,000	542,592	413,856	956,448	66%
Mr. Waters	1,440,000	376,704	717,984	1,094,688	76%

* Pursuant to its exercise of negative discretion and with Mr. Wexner’s concurrence, the Compensation Committee determined not to pay Mr. Wexner’s incentive compensation, which would have been \$1,264,560 based on his incentive formula.

Long Term Performance-Based Equity Incentive Compensation

Stock awards are made to our NEOs under the 2015 Stock Options and Performance Incentive Plan (the “2015 Plan”). Our equity-based long term performance-based incentive program rewards past performance and encourages future performance with a challenging performance requirement for our NEOs. In addition, the vesting requirements increase the likelihood that we will be able to retain executives who are critical to our success.

For the NEOs other than Mr. Wexner, individual performance (including contribution to the achievement of business goals, execution of retail fundamentals and accomplishment of talent and cultural objectives),

competitive practice, the Company’s overall budget for equity compensation expense and stockholder dilution, internal equity and retention risk are all considered in determining the size of their fiscal 2016 equity awards. The size and timing of Mr. Wexner’s equity award is determined on a different basis, as described in detail below.

Stock Options

Stock options are intended to align executive interests with stockholder interests by creating a direct link between compensation and stockholder return, and to foster retention. Stock options granted to each NEO vest over five years, subject to continued employment. The exercise price is equal to the grant date closing price of Common Stock.

Performance-Based RSUs

Performance-based RSUs are intended to:

- Incent achievement of key performance metrics (through the performance requirement);
- Align executive rewards with those realized by stockholders (through the market value of our stock);
- Retain superior executive talent (through the time vesting requirements); and
- Reward exceptional individual performance (through annual determination of the size of the award).

Performance-based RSUs awarded to NEOs other than Mr. Wexner in March 2016 recognize record financial performance in fiscal 2015 and provide significant retentive value for NEOs. Below is a summary of the performance-based RSU awards and stock options awarded in fiscal 2016:

	<u>Value of Performance- Based RSU Award</u>	<u>Value of Stock Option Award</u>	<u>Total Fiscal 2016 Equity Award Value</u>
Mr. Wexner	\$7,159,010	\$2,231,003	\$9,390,013
Mr. McGuigan	3,154,443	117,924	3,272,367
Mr. Coe	2,426,441	90,705	2,517,146
Mr. Burgdoerfer	2,426,441	90,705	2,517,146
Mr. Waters	2,426,441	90,705	2,517,146

Note: While the performance requirement is the same, the amount and timing of Mr. Wexner’s equity award are determined on a different basis than that of our other NEOs, as described in detail below.

In order for performance-based RSUs to be earned, the Company’s cumulative adjusted operating income, as a percentage of cumulative sales, must be in the top one-third of the S&P Retailing Index (also determined on a cumulative and adjusted basis) beginning with the fiscal year of the award through the fiscal year immediately preceding each vest date.

We use operating income in our short term performance-based cash incentive program and as a component of our long term performance-based equity incentive program because operating income is an important focus for our NEOs and an appropriate metric for measuring performance. However, while operating income is a component of both incentive programs, there are notable differences in the performance metrics used in the two programs:

- Operating income is the sole performance metric used for our short term program while the long term program is based on a metric that uses both operating income and sales;
- The use of operating income as a percentage of sales for our long term program requires strong performance in both operating income and sales and measures the efficiency of our sales;

- The relative metric of the long term program requires that our performance significantly exceeds that of companies within our industry for the pre-determined performance goal to be achieved; and
- The cumulative performance metric of the long term program requires sustained performance over the five-year vesting period reflecting long term performance of the Company.

Performance-based RSUs vest over five years, with 20% vesting on each of the second and third anniversaries of the grant date, and 30% on each of the fourth and fifth anniversaries, in each case subject to the performance measure being satisfied and continued employment. To the extent any tranche of the award that is eligible for performance-based vesting does not vest in any fiscal year, such tranche may vest in future years, subject to satisfaction of the cumulative performance measure. The cumulative performance metric requires any performance shortfall in any period to be made up on a cumulative basis in any subsequent periods for any vesting tranche to be earned. All unvested performance-based RSUs not earned as of the end of the five-year performance period will be forfeited. Beginning with performance-based RSUs awarded in fiscal 2017, to the extent the performance metric is not met for any vesting tranche, the shares from such vesting tranche will be forfeited.

Equity awards are effective the later of the date the grant is approved or the date of hire or other relevant effective date.

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits consist of qualified and non-qualified defined contribution retirement plan benefits and termination benefits.

Qualified Defined Contribution Retirement Plan

The qualified plan is available to all associates who meet certain age and service requirements. Associates can contribute up to the amounts allowable under the Internal Revenue Code of 1986 (the “Code”). The Company matches associates’ contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates’ eligible annual compensation and years of service. Associates’ contributions and Company matching contributions to the qualified plan vest immediately. Additional Company contributions and the related investment earnings are subject to vesting based on years of service.

Non-Qualified Defined Contribution Supplemental Retirement Plan

The non-qualified plan is available to all associates who meet certain age, service, job level and compensation requirements. The non-qualified plan is an unfunded plan which provides benefits beyond the Code limits for qualified defined contribution plans. The Company does not set aside assets to fund liabilities of the non-qualified plan. Assets that may be used to satisfy such liabilities are general assets of the Company, subject to the claims of the Company’s creditors.

Associates can contribute to the non-qualified plan up to a maximum percentage of eligible compensation. The Company matches associates’ contributions and contributes additional amounts based on a percentage of the associates’ eligible compensation and years of service.

The plan also permits participating associates to defer additional compensation up to a maximum amount which the Company does not match.

Associates’ contributions to the non-qualified plan and the related interest accruals vest immediately. Company contributions and credits to the non-qualified plan and the related interest are subject to vesting based on years of service.

Termination Benefits: Severance and Change in Control Agreements

We have entered into severance and change in control agreements with our NEOs other than Mr. Wexner. See “Retirement and Other Post-Employment Benefits—Estimated Post-Employment Payments and Benefits” for a description of estimated benefits in certain termination situations, including a change in control.

Upon a change in control, awards will only vest if the executive’s employment is terminated by the executive for good reason or by the Company other than for cause within 24 months of the change in control.

None of our NEOs is entitled to a tax gross-up upon a change in control.

Perquisites

We provide our NEOs with minimal perquisites that the Compensation Committee has determined are reasonable and in the best interests of the Company and its stockholders. These perquisites include the reimbursement of financial planning costs of up to \$9,500. In addition, the Company provides associates at the Vice President level and above, including the NEOs, with supplemental disability and life insurance coverage.

CEO Compensation

Overview of CEO Pay

Mr. Wexner is a recognized unique talent: an innovator and leader in the retail industry. His long record of success in leading the Company is unmatched in scope and duration by any other retailer. In November 2015, Mr. Wexner was recognized by the Harvard Business Review as the best-performing CEO in the world based on total shareholder return during his tenure as our founder and CEO. The Compensation Committee has determined that his extraordinary contributions as the Company’s CEO deserve to be fully reflected in his compensation and that Mr. Wexner should be rewarded for his continued ability to drive performance, growth and shareholder returns, with due consideration to his management of the business for both short term and long term results.

The Company’s performance is reflected in Mr. Wexner’s short term and long term performance-based incentive compensation for fiscal 2016. The decrease of 46% year over year from fiscal 2015 to 2016 is linked to short term performance-based incentive compensation that was earned below target and long term performance-based incentive compensation awarded at target level that is 45% below the value awarded for fiscal 2015.

CEO Stock Award Determination Overview

Beginning with fiscal 2010, the Compensation Committee implemented an annual process in which Mr. Wexner’s stock grant would be a “split grant” delivered in two parts—one in the Spring at the same time other senior executives receive stock grants, and one near the end of the Fall season when Mr. Wexner’s and the Company’s performance can be substantially determined for the fiscal year. Both the Spring and Fall stock awards are 100% performance contingent, granted as a combination of stock options and performance-based restricted stock units.

Spring 2016 Award

The value of the Spring stock award is set below the competitive market to provide a baseline award while imposing a performance requirement for the award to be earned. The Compensation Committee granted Mr. Wexner a stock award in Spring 2016 with a reported value of \$2.7 million.

Fall 2016 Award

As the fiscal year draws to a close, the Compensation Committee assesses both Mr. Wexner’s and the Company’s performance, and if deemed appropriate, grants Mr. Wexner a performance-based stock award in

January. This Fall stock award is intended to recognize financial, strategic and operational performance for the fiscal year and incent future performance. The Fall award is subject to performance in two ways:

1. The Compensation Committee goes through a rigorous quantitative and qualitative evaluation of historical performance to determine the size of the award; and
2. Once granted, RSUs must be earned based on the attainment of a quantitative performance metric and the value of stock options is contingent on increasing the stock price.

For fiscal 2016, the Compensation Committee set the Fall stock award value range from zero at minimum, to \$7.8 million at target and \$18.8 million at maximum.

The range was set in recognition of Mr. Wexner's standing as a top-performing CEO and in consideration of a benchmark of stock award values for CEOs in our peer group. The Compensation Committee also considered the importance of Mr. Wexner's experience and leadership to the Company's outstanding performance, including the delivery of high total shareholder return, which has increased at a much more rapid rate than his compensation.

- The top of the range has been strategically positioned so that if all qualitative, objective and financial performance targets for the year are exceeded, and if the Company is among the highest performing of our peer companies, Mr. Wexner's stock award value would be among the top of our peer group.
- Conversely, if performance is below targeted levels, Mr. Wexner's stock award value would be correspondingly lower or there would be no Fall stock award.

In addition to performance against pre-established financial targets, the Compensation Committee considers factors such as leadership talent development, the identification and development of new business opportunities, and success in fostering a high performance culture, in determining the size of Mr. Wexner's Fall stock award. Once the size of the grant is determined, the Compensation Committee imposes a performance metric that the Company must achieve over the vesting period in order for Mr. Wexner to vest in the award.

In January 2017, the Compensation Committee granted Mr. Wexner a fiscal 2016 stock award with a reported value of \$6.7 million (a decrease of 52% from the award in January 2016) based on the performance of the Company.

The Committee considered Mr. Wexner's role and leadership in the following accomplishments for the current fiscal year:

- Increasing sales 3%;
- Growth of the business in North America through compelling merchandise assortments, marketing and store and online experiences for our customers;
- Execution of our fundamental strategy of being fast, focused and frugal;
- Expansion of operations outside the United States and Canada including 117 new company-owned and franchised stores;
- Accomplishment of talent and cultural objectives; and
- Optimization of capital structure, allowing the Company to pay cash out to shareholders, while maintaining a strong credit profile among lenders, landlords and suppliers.

In determining the size of the Fall 2016 award, the Committee also considered the following performance that did not meet our high expectations:

- Decrease in adjusted operating income¹ of 7%, adjusted net income¹ 8% and adjusted earnings per share¹ 6%;

¹ The reconciliation of such measure to the comparable figure determined in accordance with GAAP is included on pages 23 to 24 of the 2016 10-K.

- Annualized total shareholder returns of -35%, 9% and 13% over one, three and five years, respectively.

Both the Spring and Fall awards are delivered as a combination of performance-based RSUs and stock options. Mr. Wexner's RSU awards are subject to the same performance and vesting requirement as those of our other NEOs. The performance-based RSUs and stock options vest over five years, with 20% vesting on each of the second and third anniversaries of the grant date, and 30% on each of the fourth and fifth anniversaries. Performance-based RSUs must be earned based on achievement of adjusted operating income, as a percentage of cumulative sales, in the top one-third of the S&P Retailing Index (also determined on a cumulative and adjusted basis).

CEO Termination Benefits

Due to his unique role as the founder of the Company, Mr. Wexner is not covered by a severance or change in control agreement. However, consistent with the treatment for all stock plan participants under the terms of our 2015 Plan and prior plan, all of Mr. Wexner's unvested stock options and RSUs will vest upon death. Subject to the achievement of pre-established performance conditions, RSUs will continue to vest upon Mr. Wexner's total disability. Upon retirement, RSUs will vest pro-rata based on the fraction of whole months worked from the grant date over the full vesting period (i.e., one-fifth will vest if twelve full months are completed from the grant date for a grant that would otherwise vest over five years), subject to achievement of pre-established performance conditions. In the event of a change in control, unvested RSU awards will vest if Mr. Wexner's employment is terminated other than for cause within 24 months of the change in control.

CEO Perquisites

The Board of Directors has approved a security program (the "Security Program") that provides security services to Mr. Wexner and his family. The Security Program is required for the benefit of the Company and is appropriate given the risks associated with Mr. Wexner's position. We periodically hire a third party to review our Security Program to verify that a bona fide business oriented security concern exists and that the Security Program costs are reasonable and consistent with these concerns. The Security Program requires Mr. Wexner to use corporate provided aircraft, or private aircraft that is in compliance with the Security Program, whether the purpose of the travel is business or personal.

The cost of security services which are not business related have been reimbursed to the Company by Mr. Wexner. In addition, to the extent that corporate provided aircraft is used by Mr. Wexner or any NEO for personal purposes, he has reimbursed the Company based on the greater of the amount established by the Internal Revenue Service ("IRS") as reasonable for personal use or the aggregate incremental cost associated with the personal use of the corporate owned aircraft as determined by an independent, third party aircraft costing service.

Compensation Governance

Compensation Committee

Our executive compensation program is overseen by the Compensation Committee. Compensation Committee members are appointed by our Board and meet independence and other NYSE requirements. Compensation Committee members are selected based on their knowledge and experience in compensation matters from both their professional experience and their roles on other boards.

As part of its self-evaluation process, the Compensation Committee considers prevailing best practices and compliance with the highest governance standards. During fiscal 2016, the Compensation Committee also continued to engage with the full Board to maximize its effectiveness. The role of the Compensation Committee and information about its meetings are set forth in this proxy statement.

The Compensation Committee participated in the preparation of this CD&A and recommended to the Board that it be included in this proxy statement.

The Compensation Committee, together with the Company, also evaluates the Company's compensation structure from the perspective of enterprise risk. The Compensation Committee believes that the Company's compensation structures are appropriate and do not incentivize inappropriate taking of business risks.

The Compensation Committee's charter is available on our website at www.lb.com.

Committee Meetings and Delegation

Company management, including the Chief Operating Officer and the Chief Financial Officer, attends Compensation Committee meetings along with the Senior Vice President of Total Rewards, who generally prepares meeting materials, and the Corporate Secretary, who records the minutes of the meeting. Management, including the CEO, does not play a role in recommending CEO compensation. The Compensation Committee regularly meets in executive session without management present.

The Compensation Committee may delegate its authority to subcommittees or the Chair of the Compensation Committee. In accordance with its charter, the Compensation Committee has delegated to our Chief Operating Officer, or his designee, the authority to make stock awards in accordance with the Company's stock incentive plan with a value up to \$400,000 in any year to any associate who is not a Section 16 officer of the Company or a senior leadership team member.

Independent Compensation Consultant

As permitted by its charter, the Compensation Committee retained Willis Towers Watson as its independent executive compensation consultant and has the sole authority to retain and terminate any independent executive compensation consultant.

The Compensation Committee, considering recommendations from our management team, determines the work to be performed by the consultant. The consultant works with management to gather data required in preparing analyses for Compensation Committee review. Specifically, the services the consultant provides include:

- Assisting in evaluation of CEO and other NEO compensation;
- Informing the Compensation Committee of changing market practices;
- Consulting on our executive compensation strategy and program design;
- Analyzing alignment of pay and performance;
- Assisting in the selection of our peer group; and
- Assisting in the preparation and review of this disclosure.

During fiscal 2016, the Company paid \$83,811 to Willis Towers Watson for executive compensation consulting. In addition, during fiscal 2016, the Company paid \$85,000 to a separate division of Willis Towers Watson for insurance brokerage and risk consulting services related to our aviation operations and \$114,436 for quarterly software usage fees for a call center tracking system.

The Compensation Committee reviews and approves the provision of additional services by Willis Towers Watson to the Company and evaluates the performance and independence of Willis Towers Watson, specifically considering independence factors identified by the Commission. This evaluation includes a review of written representations from Willis Towers Watson confirming their independence. Based on its evaluation, the

Compensation Committee believes that there are no conflicts of interest that could impair Willis Towers Watson's ability to provide independent, objective advice to the Compensation Committee regarding executive compensation matters.

Tax Deductibility

The Compensation Committee seeks to structure tax-efficient executive compensation. The 2015 ICPP and the 2015 Plan are intended to qualify short term cash incentive payments and long term equity incentive compensation for tax deductibility under Section 162(m) of the Code. To maintain flexibility in structuring executive compensation, the Compensation Committee has not adopted a policy requiring all compensation to be tax deductible.

Recovery of Compensation

Under the 2015 ICPP and the 2015 Plan, the Compensation Committee has the power and authority to recover previously awarded bonuses or equity-based compensation or profits if (i) required by applicable law with respect to a participant, (ii) a participant engaged in fraudulent conduct or activities (or had knowledge of such conduct or activities) relating to the Company or (iii) a participant should have had knowledge of such conduct or activities based on his or her position, duties or responsibilities.

Tally Sheets

To assess the reasonableness of the compensation of our NEOs, the Compensation Committee annually reviews a three-year history of all of the components of the NEOs' compensation, including salary, short term incentive compensation, realized and unrealized gains on stock options and RSUs, the cost to the Company of all perquisites, benefits earned and accrued under the Company's non-qualified deferred compensation plan and supplemental executive retirement plan, and potential payouts under several potential severance and change-in-control scenarios. Based on this review, the Compensation Committee concluded that compensation components individually and in aggregate are reasonable, encourage retention, incent performance and are in the best interests of the Company and its stockholders.

Conclusion

In summary, in 2016 we made significant strategic changes at Victoria's Secret and invested in real estate and infrastructure for future growth, particularly at Bath & Body Works and in China. While these investments did and will continue to put pressure on our short term results, they position us for future accelerated growth. Our performance in 2016 is reflected in the significant decrease in 2016 compensation for our NEOs. CEO compensation decreased 46% and compensation for the other NEOs decreased on average approximately 21% demonstrating our commitment to delivering pay for performance.

The effectiveness of our compensation program at providing pay for performance over time is further validated by our financial performance over the last five years relative to the changes in CEO pay. Since 2011, the average annual increase in adjusted sales, operating income, earnings per share and total shareholder return exceeds the average increase in CEO compensation over the same time period. Our compensation program is aligned with our performance over time, providing incentives that are in the best interest of our stockholders.

Based on the above, we recommend stockholders vote FOR the executive compensation program.

2016 Summary Compensation Table

The following table sets forth information concerning total compensation earned by or paid to our CEO, Chief Financial Officer and our three other most highly compensated NEOs during the fiscal year ended January 28, 2017.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)(2)(3)	Option Awards (\$)(2)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)(5)	All Other Compensation (\$)(6)	Total (\$) (1)(2)(3)(4)(5)(6)
Leslie H. Wexner Chairman of the Board, CEO	2016	\$2,000,000	\$0	\$ 7,159,010	\$2,231,003	\$1,657,920	\$553,781	\$1,172,130	\$14,773,844
	2015	1,985,385	0	13,005,048	3,998,333	6,749,600	498,794	930,940	27,168,100
	2014	1,924,000	0	11,174,435	3,410,577	6,342,273	448,922	793,829	24,094,036
Charles C. McGuigan Chief Operating Officer, CEO/President, Mast Global	2016	1,290,385	0	3,154,443	117,924	1,381,536	95,421	530,468	6,570,177
	2015	1,197,788	0	4,060,166	254,325	2,876,250	79,210	391,404	8,859,143
	2014	978,500	0	2,259,482	261,901	2,257,869	66,695	315,018	6,139,465
Nicholas P. M. Coe CEO/President, Bath & Body Works	2016	1,080,769	0	2,426,441	90,705	2,503,556	32,365	560,907	6,694,743
	2015	985,577	0	3,178,121	203,455	3,200,000	19,137	346,684	7,932,974
	2014	925,000	0	2,075,856	247,587	2,373,735	10,815	274,511	5,907,504
Stuart B. Burgdoerfer Executive Vice President, Chief Financial Officer	2016	890,923	0	2,426,441	90,705	956,448	60,403	388,959	4,813,879
	2015	847,262	0	2,710,253	173,503	1,962,293	49,375	309,802	6,052,488
	2014	824,000	0	1,849,186	220,550	1,833,458	40,300	262,535	5,030,029
Martin P. Waters President L Brands International	2016	890,385	0	2,426,441	90,705	1,094,688	32,295	294,972	4,829,486

- (1) Performance-based incentive compensation bonuses are disclosed in this table under the Non-Equity Incentive Plan Compensation column. None of our NEOs received a nonperformance-based award in fiscal 2016.
- (2) The value of stock and option awards reflects the aggregate grant date fair value, excluding estimated forfeitures, computed in accordance with Accounting Standards Codification (“ASC”) Topic 718 Compensation—Stock Compensation, for each award. Stock options are valued using the Black-Scholes option pricing model. See Note 20 to the Company’s financial statements filed in the 2016 10-K for the related assumptions for stock options granted during fiscal 2016, 2015 and 2014 and for a discussion of our assumptions in determining the aggregate grant date fair value of these awards. Awards vest over time and, therefore, are not realizable on an annual basis, nor is the ultimate value determinable without reference to future performance.
- (3) Stock and option awards were granted to each NEO under the Company’s 2011 Stock Option and Performance Incentive Plan (the “2011 Plan”) and the 2015 Plan. Awards are long term compensation and generally vest over five years and are not realizable on an annual basis.

- (4) Represents the aggregate of the non-equity performance-based incentive compensation for the applicable fiscal Spring and Fall selling seasons. Incentive compensation targets are set based on a percentage of base salary and are paid seasonally based on the achievement of operating income results. The following table illustrates the amount of the compensation which is paid in cash and voluntarily deferred:

	Paid in Cash (\$)	Deferred Cash (\$)	Total (\$)
Mr. Wexner	\$1,608,182	\$49,738	\$1,657,920(a)
Mr. McGuigan	1,340,540	40,996	1,381,536
Mr. Coe	2,427,011	76,545	2,503,556
Mr. Burgdoerfer	923,970	32,478	956,448
Mr. Waters	1,058,870	35,818	1,094,688

(a) Amount reflects Mr. Wexner's incentive compensation payment for the Spring season only. Pursuant to its exercise of negative discretion and with Mr. Wexner's concurrence, the Compensation Committee determined not to pay Mr. Wexner's Fall incentive compensation, which would have been \$1,264,560 based on his incentive formula.

- (5) The Company does not sponsor a defined benefit retirement plan (tax-qualified or non-qualified). For fiscal 2015, the amounts shown represent the amount by which earnings on each NEO's non-qualified plan balance exceed 120% of the applicable federal long term rate.
- (6) The following table details all other compensation paid to each NEO during our last fiscal year:

	Financial planning services provided to executive (\$)	Cash payout of fractional shares due to special dividend stock award adjustment (\$)	Incremental Company cost to provide supplemental life and disability insurance coverage (\$)	Company contributions to the executive's qualified and non-qualified retirement plan account (\$)	Total (\$)
Mr. Wexner	\$ 0	\$608	\$1,558	\$1,169,964	\$1,172,130
Mr. McGuigan	930	774	1,995	526,769	530,468
Mr. Coe	0	308	2,120	558,479	560,907
Mr. Burgdoerfer	9,500	575	2,120	376,764	388,959
Mr. Waters	2,900	404	2,120	289,548	294,972

Grants of Plan-Based Awards for Fiscal 2016

The following table provides information relating to plan-based awards and opportunities granted to the NEOs during the fiscal year ended January 28, 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	All Other Option Awards: Number of Securities Underlying Options (#)(4)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Option Awards (\$)(5)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Leslie H. Wexner	3/31/2016								27,332	\$87.81	\$ 585,998
	3/31/2016								27,332		2,117,683
	1/25/2017								94,584	61.85	1,645,005
	1/25/2017								94,584		5,041,327
		\$880,000	\$4,400,000	\$8,800,000							
Charles C. McGuigan	3/31/2016								11,104	87.81	117,924
	3/31/2016								29,609		2,294,105
	3/31/2016								11,104		860,338
		416,000	2,080,000	4,160,000							
Nicholas P. M. Coe	3/31/2016								8,541	87.81	90,705
	3/31/2016								22,776		1,764,684
	3/31/2016								8,541		661,757
		374,000	1,870,000	3,740,000							
Stuart B. Burgdoerfer	3/31/2016								8,541	87.81	90,705
	3/31/2016								22,776		1,764,684
	3/31/2016								8,541		661,757
		288,000	1,440,000	2,880,000							
Martin P. Waters	3/31/2016								8,541	87.81	90,705
	3/31/2016								22,776		1,764,684
	3/31/2016								8,541		661,757
		288,000	1,440,000	2,880,000							

- (1) Non-Equity Incentive Plan Awards represent the Threshold, Target and Maximum opportunities under the 2015 ICPP for the 2016 Spring and Fall seasons. The actual amount earned under this plan is disclosed in the 2016 Summary Compensation Table in the “Non-Equity Incentive Plan Compensation” column.
- (2) Equity Incentive Plan Awards represent the Target payment of performance-based RSUs for fiscal 2016. No amount is disclosed for Threshold and Maximum since the number of performance-based RSUs earned does not fluctuate based on performance. Units are earned at target, or not at all.

Stock Awards granted on March 31, 2016 are subject to the Company’s achievement of operating income as a percentage of sales ranking in the top one third of the S&P Retailing Index in each of fiscal 2016, 2017, 2018, 2019 and 2020, determined on a cumulative basis. Stock Awards granted to Mr. Wexner on January 25, 2017 are subject to the Company’s achievement of operating income as a percentage of sales ranking in the top one third of the S&P Retailing Index in each of fiscal 2017, 2018, 2019, 2020 and 2021, determined on a cumulative basis. If the performance condition is met, the RSUs will vest 20% on the second and third anniversaries of the grant date and 30% on the fourth and fifth anniversaries of the grant date, subject to continued employment.

- (3) Stock Awards were granted pursuant to the Company’s 2015 Plan.

In each case, the vesting of these awards is subject to continued employment.

Dividends are not paid or accrued on stock awards or stock units until such shares vest.

- (4) Option Awards were granted pursuant to the Company’s 2015 Plan. Option grant dates were established on the date the grants were approved by the Compensation Committee and the exercise price is the closing price of Common Stock on the grant date.

Option Awards vest 20% on the second and third anniversaries of the grant date and 30% on the fourth and fifth anniversaries of the grant date.

In each case, the vesting of these awards is subject to continued employment.

- (5) The value of stock and option awards reflects the grant date fair value under ASC Topic 718 Compensation—Stock Compensation for each award. Options are valued using the Black-Scholes option pricing model with the following weighted average assumptions as set forth in the Company’s financial statements filed in the 2016 10-K: dividend yield of 3.3%, volatility of 25%, risk free interest rate of 1.1% and expected life of 4.1 years. RSUs are valued based on the fair market value of a share of Common Stock on the date of grant, adjusted for anticipated dividend yields.

Outstanding Equity Awards at Fiscal Year-End for Fiscal 2016

The following table provides information relating to outstanding equity awards granted to the NEOs as of fiscal year end, January 28, 2017.

Name	Option Awards						Restricted Stock Awards				
	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Unexercised Options (#)	Unearned Exercise Price (\$)	Option Expiration Date	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(25)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(25)
Leslie H. Wexner	3/30/2007	150,783	0	0	18.41	3/30/2017					
	3/31/2008	238,951	0	0	12.08	3/31/2018					
	3/31/2009	384,567	0	0	6.14	3/31/2019					
	3/31/2010	127,639	0	0	18.09	3/31/2020					
	1/27/2011	305,224	0	0	23.64	1/27/2021					
	3/31/2011	87,361	0	0	26.43	3/31/2021					
	1/26/2012	202,039	0	0	35.71	1/26/2022					
	3/30/2012	38,898	16,674(1)	0	41.54	3/30/2022					
	1/31/2013	64,622	96,937(2)	0	45.03	1/31/2023					
	3/29/2013	22,049	33,080(3)	0	41.88	3/29/2023					
	1/30/2014	24,836	99,355(4)	0	49.38	1/30/2024					
	3/31/2014	8,514	34,071(5)	0	54.21	3/31/2024					
	1/28/2015	24,905	99,634(6)	0	81.11	1/28/2025					
	4/2/2015	0	26,325(7)	0	91.17	4/2/2025					
	1/27/2016	0	130,841(8)	0	91.71	1/27/2026					
	3/31/2016	0	27,332(9)	0	87.81	3/31/2026					
	1/25/2017	0	94,584(10)	0	61.85	1/27/2027					
							1/26/2012	0	0	60,612(11)	3,576,714
							3/30/2012	0	0	16,672(12)	983,815
							1/31/2013	0	0	96,936(13)	5,720,193
							3/29/2013	0	0	33,078(14)	1,951,933
							1/30/2014	0	0	99,355(15)	5,862,939
							3/31/2014	0	0	34,071(16)	2,010,530
							1/28/2015	0	0	124,539(17)	7,349,046
							4/2/2015	0	0	26,325(18)	1,553,438
							1/27/2016	0	0	130,841(19)	7,720,927
							3/31/2016	0	0	27,332(20)	1,612,861
							1/25/2017	0	0	94,584(21)	5,581,402
Charles C. McGuigan	3/31/2011	22,991	0	0	26.43	3/31/2021					
	3/30/2012	10,289	10,291(1)	0	41.54	3/30/2022					
	3/29/2013	7,007	21,030(3)	0	41.88	3/29/2023					
	3/31/2014	5,411	21,660(5)	0	54.21	3/31/2024					
	4/2/2015	0	20,566(7)	0	91.17	4/2/2025					
	3/31/2016	0	11,104(9)	0	87.81	3/31/2026					
							3/30/2012	0	0	34,299(12)	2,023,984
							3/29/2013	0	0	49,067(14)	2,895,444
							3/10/2014	474(22)	27,971	0	0
							3/31/2014	0	0	36,101(16)	2,130,320
							8/29/2014	696(23)	41,071	0	0
							3/9/2015	1,057(24)	62,374	0	0
							4/2/2015	0	0	47,988(18)	2,831,772
							3/31/2016			40,713(20)	2,402,474

Name	Option Awards					Restricted Stock Awards					
	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(25)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(25)
Nicholas P. M.											
Coe	3/30/2012	4,467	4,474(1)	0	41.54	3/30/2022					
	3/29/2013	6,626	19,879(3)	0	41.88	3/29/2023					
	3/31/2014	5,116	20,475(5)	0	54.21	3/31/2024					
	4/2/2015	0	16,452(7)	0	91.17	4/2/2025					
	3/31/2016	0	8,541(9)	0	87.81	3/31/2026					
							3/30/2012	0	0	16,382(12)	966,702
							3/29/2013	0	0	86,141(14)	5,083,180
							3/31/2014	0	0	34,128(16)	2,013,893
							4/2/2015	0	0	38,390(18)	2,265,394
							3/31/2016	0	0	31,317(20)	1,848,016
Stuart B.											
Burgdoerfer	3/31/2011	12,773	0	0	26.43	3/31/2021					
	3/30/2012	8,664	8,665(1)	0	41.54	3/30/2022					
	3/29/2013	5,902	17,709(3)	0	41.88	3/29/2023					
	3/31/2014	4,557	18,240(5)	0	54.21	3/31/2024					
	4/2/2015	0	14,030(7)	0	91.17	4/2/2025					
	3/31/2016	0	8,541(9)	0	87.81	3/31/2026					
							3/30/2012	0	0	24,552(12)	1,448,814
							3/29/2013	0	0	17,708(14)	1,044,949
							3/31/2014	0	0	30,401(16)	1,793,963
							4/2/2015	0	0	32,738(18)	1,931,869
							3/31/2016	0	0	31,317(20)	1,848,016
Martin P. Waters	3/31/2011	6,149	0	0	26.43	3/31/2021					
	3/30/2012	18,947	8,127(1)	0	41.54	3/30/2022					
	3/29/2013	11,101	16,656(3)	0	41.88	3/29/2023					
	3/31/2014	4,286	17,154(5)	0	54.21	3/31/2024					
	4/2/2015	0	13,985(7)	0	91.17	4/2/2025					
	3/31/2016	0	8,541(9)	0	87.81	3/31/2026					
							3/30/2012	0	0	23,016(12)	1,358,174
							3/29/2013	0	0	16,655(14)	982,812
							3/31/2014	0	0	28,595(16)	1,687,391
							8/29/2014	424(23)	25,020	0	0
							3/9/2015	599(24)	35,347	0	0
							4/2/2015	0	0	32,631(18)	1,925,555
							3/31/2016	0	0	31,317(20)	1,848,016

- (1) Options vest 100% on March 30, 2017.
- (2) Options vest 50% on January 31, 2017 and 50% on January 31, 2018.
- (3) Options vest 50% on March 29, 2017 and 50% on March 29, 2018.
- (4) Options vest 25% on January 30, 2017, 37.5% on January 30, 2018 and 37.5% on January 30, 2019.
- (5) Options vest 25% on March 31, 2017, 37.5% on March 31, 2018 and 37.5% on March 31, 2019.
- (6) Options vest 25% on January 28, 2018, 37.5% on January 28, 2019 and 37.5% on January 28, 2020.
- (7) Options vest 20% on April 2, 2017, 20% on April 2, 2018, 30% on April 2, 2019 and 30% on April 2, 2020.

- (8) Options vest 20% on January 27, 2018, 20% on January 27, 2019, 30% on January 27, 2020 and 30% on January 27, 2021.
- (9) Options vest 20% on March 31, 2018, 20% on March 31, 2019, 30% on March 31, 2020 and 30% on March 31, 2021.
- (10) Options vest 20% on January 25, 2019, 20% on January 25, 2020, 30% on January 25, 2021 and 30% on January 25, 2022.
- (11) Shares vested 100% on January 26, 2017, subject to achievement of a performance condition.
- (12) Shares vest 100% on March 30, 2017 subject to achievement of a performance condition.
- (13) 50% vested on January 31, 2017, subject to achievement of a performance condition. Remaining shares vest on January 31, 2018, also subject to achievement of a performance condition.
- (14) Subject to achievement of a performance condition, shares vest 50% on March 29, 2017 and 50% on March 29, 2018.
- (15) 25% vested on January 30, 2017, subject to achievement of a performance condition. Remaining shares vest 37.5% on January 30, 2018 and 37.5% on January 30, 2019, also subject to achievement of a performance condition.
- (16) Subject to achievement of a performance condition, shares vest 25% on March 31, 2017, 37.5% on March 31, 2018 and 37.5% on March 31, 2019.
- (17) 20% vested on January 28, 2017, subject to achievement of a performance condition. Remaining shares vest 20% on January 28, 2018, 30% on January 28, 2019 and 30% on January 28, 2020, also subject to achievement of a performance condition.
- (18) Subject to achievement of a performance condition, shares vest 20% on April 2, 2017, 20% on April 2, 2018, 30% on April 2, 2019 and 30% on April 2, 2020.
- (19) Subject to achievement of a performance condition, shares vest 20% on January 27, 2018, 20% on January 27, 2019, 30% on January 27, 2020 and 30% on January 27, 2021.
- (20) Subject to achievement of a performance condition, shares vest 20% on March 31, 2018, 20% on March 31, 2019, 30% on March 31, 2020 and 30% on March 31, 2021.
- (21) Subject to achievement of a performance condition, shares vest 20% on January 25, 2019, 20% on January 25, 2020, 30% on January 25, 2021 and 30% on January 25, 2022.
- (22) Shares vest 100% on March 10, 2017.
- (23) Shares vest 100% on August 29, 2017.
- (24) Shares vest 100% on March 9, 2018.
- (25) Market value based on the \$59.01 fair market value of a share of Common Stock on the last trading day of the fiscal year (January 27, 2017).

Option Exercises and Stock Vested Information for Fiscal 2016

The following table provides information relating to Option Awards exercised and RSU Awards vested during the fiscal year ended January 28, 2017.

<u>Name</u>	<u>Option Awards</u>		<u>Restricted Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise (#)</u>	<u>Value Realized on Exercise (\$)(1)</u>	<u>Number of Shares Acquired on Vesting (#)</u>	<u>Value Realized on Vesting (\$)(2)</u>
Leslie H. Wexner	116,802	\$8,303,933	153,975	\$9,820,526
Charles C. McGuigan	0	0	83,285	5,872,219
Nicholas P. M. Coe	12,573	547,211	62,954	4,050,205
Stuart B. Burgdoerfer	0	0	50,820	3,548,163
Martin P. Waters	0	0	35,712	2,277,711

- (1) Option Award Value Realized is calculated based on the difference between (a) the sale price and the option exercise price for shares that were sold upon exercise and (b) the closing price on the day prior to the date of exercise and the option exercise price for shares that were held upon exercise.
- (2) Restricted Stock Award Value Realized is calculated based on the closing stock price on the date the RSUs vested.

Retirement and Other Post-Employment Benefits
Non-qualified Deferred Compensation for Fiscal 2016⁽¹⁾

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year \$(2)</u>	<u>Registrant Contributions in Last Fiscal Year \$(3)</u>	<u>Aggregate Earnings in Last Fiscal Year \$(4)</u>	<u>Aggregate Withdrawals/ Distributions \$(5)</u>	<u>Aggregate Balance at Last Fiscal Year End \$(6)</u>
Leslie H. Wexner	\$228,983	\$1,153,504	\$1,409,372	\$0	\$29,498,967
Charles C. McGuigan	108,361	499,708	242,847	0	5,205,329
Nicholas P. M. Coe	119,317	531,419	82,370	0	1,914,266
Stuart B. Burgdoerfer	71,926	349,704	153,725	0	3,306,568
Martin P. Waters	49,340	265,138	171,351	0	3,082,414

- (1) Amounts disclosed include non-qualified cash deferrals, Company matching contributions, retirement credits and earnings under the Company’s Supplemental Retirement Plan (a non-qualified defined contribution plan) and stock deferrals and related reinvested dividend earnings under the Company’s amended and restated 1993 Stock Option and Performance Incentive Plan (the “1993 Plan”), 2011 Plan and 2015 Plan. Executive Contributions and related matching Registrant Contributions represent 2016 calendar year deferrals and matches on incentive compensation payments earned based on performance for the Fall 2015 season, which was paid in March 2016, and for the Spring 2016 season, which was paid in August 2016.
- (2) All of the contributions are reported in the 2016 Summary Compensation Table under the “Salary” and/or “Non-Equity Incentive Plan Compensation” columns.
- (3) Reflects the Company’s 200% match of associate contributions of up to 3% of base salary and bonus above the IRS qualified plan maximum compensation limit and the Company’s retirement contribution of 6% for less than five years of service or 8% for five or more years of service of compensation above the IRS qualified plan maximum compensation limit. Associates become fully vested in these contributions after six years of service. These contributions are also included under the “All Other Compensation” column of the 2016 Summary Compensation Table.
- (4) Non-qualified deferred cash compensation balances earn a fixed rate of interest determined prior to the beginning of each year. The portion of the earnings on deferred cash compensation that exceeds 120% of the applicable federal long term rate in the amount of \$553,781, \$95,421, \$32,365, \$60,403 and \$32,295 for Messrs. Wexner, McGuigan, Coe, Burgdoerfer and Waters, respectively; is disclosed in the “Change in Pension Value and Non-qualified Deferred Compensation Earnings” column of the 2016 Summary Compensation Table.

Amount includes dividends earned on deferred stock and RSU balances in the amount of \$89,162 for Mr. Waters. Dividends are reinvested into additional stock units based on the closing market price of Common Stock on the dividend payment date.
- (5) Participants may elect to receive the funds in a lump sum or in up to ten annual installments following termination of employment, but generally may not make withdrawals during their employment. Deferrals under the Supplemental Retirement Plan, the 1993 Plan, the 2011 Plan and the 2015 Plan are unfunded.
- (6) Balance includes the value of deferred stock and RSUs at calendar year-end in the amount of \$1,280,652 for Mr. Waters. Value is calculated based on a stock price of \$59.01 per share of Common Stock on January 27, 2017.

Estimated Post-Employment Payments and Benefits

We have entered into certain agreements with our NEOs that will require us to provide compensation in the event of a termination of employment, including a termination following a change in control of our Company.

Mr. Wexner is not covered by such an agreement but is entitled to certain termination compensation under the terms of our benefit and stock plans.

The following tables set forth the expected benefits to be received by each of the other NEOs in the event of his termination resulting from various scenarios, assuming a termination date of January 28, 2017 and a stock price of \$59.01, the price of our Common Stock on January 27, 2017. Each scenario relates to the single termination event described and amounts are not cumulative in situations where multiple scenarios may apply.

Assumptions and explanations of the numbers set forth in the tables below are set forth in additional text following the tables.⁽¹⁾

Leslie H. Wexner

	Involuntary w/out Cause or Voluntary w/Good Reason		Involuntary w/out Cause following Change in Control (\$)	Death (\$)	Disability (\$)	Voluntary Resignation/ Retirement (\$)
	w/out Release (\$)	& Signed Release (\$)				
Base Salary	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Bonus(2)	0	0	0	0	0	0
Gain of Accelerated Stock Options(3)	0	0	3,333,252	3,333,252	3,333,252	0
Value of Pro-rated or Accelerated RSUs(3)	13,102,049	13,102,049	38,877,440	38,877,440	38,877,440	13,102,049
Benefits and Perquisites(4)	117,000	117,000	117,000	2,117,000	842,000	117,000
Tax Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$13,219,049	\$13,219,049	\$42,327,692	\$44,327,692	\$43,052,692	\$13,219,049

Charles C. McGuigan

	Involuntary w/out Cause or Voluntary w/Good Reason		Involuntary w/out Cause following Change in Control (\$)	Death (\$)	Disability (\$)	Voluntary Resignation/ Retirement (\$)
	w/out Release (\$)	& Signed Release (\$)				
Base Salary	\$1,300,000	\$ 2,600,000	\$ 2,600,000	\$ 0	\$ 0	\$ 0
Bonus(2)	0	1,950,000	4,257,786	0	0	0
Gain of Accelerated Stock Options(3)	0	0	643,888	643,888	643,888	0
Value of Pro-rated or Accelerated RSUs(3)	5,755,894	5,755,894	12,415,409	12,415,409	12,415,409	5,755,894
Benefits and Perquisites(4)	67,195	72,825	72,825	2,055,935	608,750	55,935
Tax Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$7,123,089	\$10,378,719	\$19,989,908	\$15,115,232	\$13,668,047	\$5,811,829

Nicholas P. M. Coe

	Involuntary w/out Cause or Voluntary w/Good Reason		Involuntary w/out Cause following Change in Control (\$)	Death (\$)	Disability (\$)	Voluntary Resignation/Retirement (\$)
	w/out Release (\$)	& Signed Release (\$)				
Base Salary	\$1,100,000	\$2,200,000	\$ 2,200,000	\$ 0	\$ 0	\$ 0
Bonus(2)	0	1,870,000	5,703,556	0	0	0
Gain of Accelerated Stock						
Options(3)	0	0	516,886	516,886	516,886	0
Value of Pro-rated or Accelerated RSUs(3)	0	5,722,200	12,177,186	12,177,186	12,177,186	0
Benefits and Perquisites(4)	14,720	128,173	128,173	2,106,094	609,774	0
Tax Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$1,114,720	\$9,920,373	\$20,725,801	\$14,800,166	\$13,303,846	\$ 0

Stuart B. Burgdoerfer

	Involuntary w/out Cause or Voluntary w/Good Reason		Involuntary w/out Cause following Change in Control (\$)	Death (\$)	Disability (\$)	Voluntary Resignation/Retirement (\$)(5)
	w/out Release (\$)	& Signed Release (\$)				
Base Salary	\$900,000	\$1,800,000	\$ 1,800,000	\$ 0	\$ 0	\$ 0
Bonus(2)	0	1,440,000	2,918,741	0	0	0
Gain of Accelerated Stock						
Options(3)	0	0	542,194	542,194	542,194	0
Value of Pro-rated or Accelerated RSUs(3)	0	3,555,293	8,067,611	8,067,611	8,067,611	0
Benefits and Perquisites(4)	14,595	59,051	59,051	1,837,159	490,808	0
Tax Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$914,595	\$6,854,344	\$13,387,597	\$10,446,964	\$9,100,613	\$ 0

Martin P. Waters

	Involuntary w/out Cause or Voluntary w/Good Reason		Involuntary w/out Cause following Change in Control (\$)	Death (\$)	Disability (\$)	Voluntary Resignation/Retirement (\$)(5)
	w/out Release (\$)	& Signed Release (\$)				
Base Salary	\$ 0	\$ 900,000	\$ 1,800,000	\$ 0	\$ 0	\$ 0
Bonus(2)	0	1,440,000	1,440,000	0	0	0
Gain of Accelerated Stock						
Options(3)	0	0	509,550	509,550	509,550	0
Value of Pro-rated or Accelerated RSUs(3)	0	3,435,798	7,862,315	7,862,315	7,862,315	0
Benefits and Perquisites(4)	0	75,807	75,807	1,861,212	511,212	0
Tax Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$ 0	\$5,851,605	\$11,687,672	\$10,233,077	\$8,883,077	\$ 0

- (1) Assumes a termination date of January 28, 2017.
- (2) Bonus amounts assumed at target. Under “Involuntary w/out Cause or Voluntary w/Good Reason” termination scenarios, actual bonus payments would be equal to the bonus payment the NEO would have received if he or she had remained employed with the Company for a period of one year after the termination date of January 28, 2017. Under an “Involuntary w/out Cause following Change in Control” termination scenario, bonus payments for Messrs. McGuigan, Coe and Burgdoerfer will be equal to the sum of the last four seasonal bonus payments received and for Mr. Waters will be the same as the “Involuntary w/out Cause or Voluntary w/Good Reason” termination scenario.
- (3) Reflects the value of unvested RSUs and stock options that, subject to achievement of pre-established performance conditions, would become vested based on the \$59.01 fair market value of a share of Common Stock on the last trading day of the fiscal year (January 27, 2017).
- (4) Estimates for benefits and perquisites include the pro rata value of retirement plan contributions on earnings accrued up to the termination date and the continuation of medical, dental and other insurance benefits. Under the “Death” and “Disability” scenarios, includes proceeds from life and disability insurance policies and the value of unvested retirement plan balances that would become vested.
- (5) Messrs. Coe, Burgdoerfer and Waters have not met the age and/or service requirement to qualify for pro rata RSU vesting and retirement plan contributions under the retirement provisions of the 2011 Plan, the 2015 Plan and the qualified and non-qualified retirement plans.

Assumptions and Explanations of Numbers in Tables

The Compensation Committee retains discretion to provide, and in the past has provided, additional benefits to NEOs upon termination or resignation if it determines the circumstances so warrant.

The tables do not include the payment of the aggregate balance of the NEO’s non-qualified deferred compensation that is disclosed in the Non-qualified Deferred Compensation for Fiscal 2016 table above.

Confidentiality, Non-Competition and Non-Solicitation Agreements

As a condition to each NEO’s entitlement to receive certain severance payments and equity vesting acceleration upon certain termination scenarios, the NEO is required to execute a release of claims against us and shall be bound by the terms of certain restrictive covenants, including non-competition and non-solicitation agreements which prohibit the NEO from soliciting or diverting any current or potential employee, customer, or supplier or competing with any of our businesses in which he or she has been employed for a period of one year from the date of termination.

Termination Provisions—Definitions of Cause and Good Reason

The employment agreements for all NEOs other than Mr. Wexner, who does not have an employment agreement, contain customary definitions of cause and good reason. “Cause” generally means that the NEO (1) willfully failed to perform his or her duties with the Company (other than a failure resulting from the NEO’s incapacity due to physical or mental illness); (2) has plead “guilty” or “no contest” to or has been convicted of an act which is defined as a felony under federal or state law; or (3) engaged in willful misconduct in bad faith which could reasonably be expected to materially harm the Company’s business or its reputation.

“Good Reason” generally means (1) the failure to continue by the NEO in a capacity originally contemplated in the NEO’s employment agreement; (2) the assignment to the NEO of any duties materially inconsistent with the NEO’s position, duties, authority, responsibilities or reporting requirements, as set out in his or her employment agreement; (3) a reduction in or a material delay in payment of the NEO’s total cash

compensation and benefits from those required to be provided; (4) the requirement that the NEO be based outside of the United States, other than for travel that is reasonably required to carry out the NEO's duties; or (5) the failure by the Company to obtain the assumption in writing of its obligation to perform the employment agreement by a successor.

Payments Upon a Termination in Connection with a Change in Control

A Change in Control of the Company will be deemed to have occurred upon the first to occur of any of the following events:

- a) any person, together with all affiliates, becomes a beneficial owner of securities representing 33% or more of the combined voting power of the voting stock then outstanding;
- b) during any period of 24 consecutive months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority of directors then constituting the Board;
- c) a reorganization, merger or consolidation of the Company is consummated, unless more than 50% of the outstanding shares of Common Stock are beneficially owned by individuals and entities who owned Common Stock just prior to such reorganization, merger or consolidation; or
- d) the consummation of a complete liquidation or dissolution of the Company.

No Tax Gross-up

In the event of a termination following a Change in Control, none of our NEOs is entitled to reimbursement or gross-up for any excise taxes that may be imposed under Section 280G of the Code.

Fiscal 2016 Director Compensation

The following table sets forth compensation earned by the individuals who served as directors of the Company during fiscal 2016(1).

<u>Name</u>	<u>Fees Earned or Paid in Cash \$(2)</u>	<u>Stock Awards \$(3)</u>	<u>Total (\$)</u>
E. Gordon Gee	\$134,400	\$134,437	\$268,837
Dennis S. Hersch	121,900	121,968	243,868
Donna A. James	164,400	144,447	308,847
David T. Kollat	171,900	156,916	328,816
William R. Loomis, Jr. ⁽⁴⁾	30,475	0	30,475
Jeffrey H. Miro	134,400	134,437	268,837
Michael G. Morris	124,400	124,427	248,827
Stephen D. Steinour	111,900	111,958	223,858
Allan R. Tessler	194,400	169,473	363,873
Abigail S. Wexner	141,900	131,978	273,878
Raymond Zimmerman	134,400	134,437	268,837

- (1) Directors who are also associates receive no additional compensation for their service as directors. Our current Board's compensation plan does not provide for stock option awards, non-equity incentive plan compensation, pension or non-qualified deferred compensation. At the end of four years of membership on the Board, each member must maintain ownership of Common Stock equal to the amount of Common Stock received as director compensation over the four-year period.
- (2) Directors receive an annual cash retainer of \$111,900; directors receive an additional annual cash retainer of \$12,500 for membership on the Audit and Compensation Committees and \$10,000 for all other committee memberships; the Audit Committee Chair receives an additional \$20,000; the Compensation Committee Chair and the Nominating & Governance Committee Chair each receives an additional \$15,000; and other committee chairs receive \$10,000; and the lead independent director receives an additional cash retainer of \$15,000.
- (3) Directors receive an annual stock retainer worth \$111,900; directors receive an additional annual stock grant worth \$12,500 for membership on the Audit and Compensation Committees and worth \$10,000 for other committee memberships; and the lead independent director receives an additional stock retainer of \$15,000. Stock retainers were granted under the 2015 Plan. The number of shares issued is calculated based on the fair market value of Common Stock on the date the shares were issued. The value of stock awards reflects the aggregate grant date fair value, excluding estimated forfeitures, computed in accordance with ASC Topic 718 Compensation—Stock Compensation, for each award. See Note 20 to the Company's financial statements filed in the 2016 10-K for a discussion of our assumptions in determining the aggregate grant date fair value of these awards.
- (4) Mr. Loomis retired from the Board effective May 19, 2016.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board is composed of four directors who are independent, as defined under the NYSE listing standards. Additionally, each member of the Compensation Committee is an “outside director” within the meaning of Section 162(m) of the Code and a “non-employee director” within the meaning of Section 16b-3 under the Securities Exchange Act of 1934. The Compensation Committee reviews the CD&A on behalf of the Board.

The Compensation Committee has reviewed and discussed the CD&A with management, and based on the review and discussions, the Compensation Committee recommended to the Board that the CD&A be included in the Company’s annual report on Form 10-K for the year ended January 28, 2017 and the Company’s proxy statement.

Compensation Committee

David T. Kollat, Chair
E. Gordon Gee
Jeffrey H. Miro
Michael G. Morris

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

The following table shows certain information about the securities ownership of all directors (and nominees) of the Company, the executive officers of the Company named in the “2016 Summary Compensation Table” above and all directors and executive officers of the Company as a group.

<u>Name of Beneficial Owner</u>	<u>Number of Shares of Common Stock Beneficially Owned(a)(b)</u>	<u>Percent of Class</u>
Stuart B. Burgdoerfer	116,905(c)	*
Nicholas P. M. Coe	26,148(c)	*
E. Gordon Gee	10,265(d)	*
Dennis S. Hersch	9,198,602(d)(f)	3.22%
Donna A. James	45,883(d)	*
David T. Kollat	119,136	*
Charles C. McGuigan	87,820(c)(h)	*
Jeffrey H. Miro	109,977(d)	*
Michael G. Morris	15,652(d)	*
Stephen D. Steinour	11,667(d)	*
Allan R. Tessler	82,543	*
Martin P. Waters	83,638(c)(e)	*
Abigail S. Wexner	12,906,423(g)	4.52%
Leslie H. Wexner	46,747,343(c)(h)(i)	16.36%
Raymond Zimmerman	133,193(d)(j)	*
All directors and executive officers as a group	47,668,319(c)-(j)	16.68%

* Less than 1%

- (a) Unless otherwise indicated, each named person has voting and investment power over the listed shares and such voting and investment power is exercised solely by the named person or shared with a spouse. None of the listed shares have been pledged as security or otherwise deposited as collateral.
- (b) Reflects beneficial ownership of shares of Common Stock, and shares outstanding, as of January 28, 2017.
- (c) Includes the following number of shares issuable within 60 days of January 28, 2017, upon the exercise or vesting of outstanding stock awards: Mr. Burgdoerfer, 40,750; Mr. Coe, 26,148; Mr. McGuigan, 56,686; Mr. Waters, 48,811; Mr. Wexner, 1,770,234; and all directors and executive officers as a group, 1,942,629.
- (d) Includes the following number of deferred stock units credited to directors’ accounts under the 2003 Stock Award and Deferred Compensation Plan for Non-Associate Directors that could be convertible into Common Stock within 60 days after termination from the Board: Dr. Gee, 9,309; Mr. Hersch, 78,149; Ms. James, 31,875; Mr. Miro, 89,438; Mr. Morris, 5,542; Mr. Steinour, 1,667; Mr. Zimmerman, 96,388; and all directors as a group, 312,368. Mr. Morris has elected to receive pay-out of his deferred stock units over three years, and his total represents 1/3 of the units which he would be owed upon his termination from the Board. Mr. Steinour has elected to receive pay-out of his deferred stock units over five years, and his total represents 1/5 of the units which he would be owed upon his termination from the Board.
- (e) Includes the following number of deferred stock units credited to executives’ accounts under the Company’s Stock Option and Performance Incentive Plan that could be convertible into Common Stock within 60 days after termination of employment with the Company: Mr. Waters, 21,702; and all executives as a group, 21,702.
- (f) Includes 127,567 shares held by The Linden East Trust, for which Mr. Hersch is trustee and shares voting and investment power with Mr. Wexner and Mrs. Wexner, and 8,992,886 shares held by The Linden West Trust, for which Mr. Hersch is trustee and shares voting and investment power with Mr. Wexner.

- (g) Excludes 33,840,920 shares beneficially owned by Mr. Wexner as to which Mrs. Wexner disclaims beneficial ownership. Includes 127,567 shares held by The Linden East Trust, as to which Mrs. Wexner shares voting and investment power with Mr. Hersch; 1,441,741 shares held by The Wexner Family Charitable Fund; and 191,515 shares held by The Beech Trust, in each case, as to which Mrs. Wexner shares voting and investment power with Mr. Wexner. Includes 11,145,600 shares directly owned by Mrs. Wexner.
- (h) Includes the following number of shares held in the Savings and Retirement Plan (as of January 28, 2017), over which Messrs. McGuigan and Wexner have investment but not voting power: Mr. McGuigan, 4,265; and Mr. Wexner, 1,875,951.
- (i) Includes 127,567 shares held by The Linden East Trust, 8,992,886 shares held by The Linden West Trust, 1,441,741 shares held by The Wexner Family Charitable Fund; and 191,515 shares held by The Beech Trust. Mr. Wexner shares voting and investment power with Mrs. Wexner with respect to shares held by The Linden East Trust, The Wexner Family Charitable Fund and The Beech Trust, and shares voting and investment power with Mr. Hersch with respect to shares held by The Linden East Trust and The Linden West Trust. Includes 4,892,608 shares held by the Wexner Personal Holdings Corporation, of which Mr. Wexner is the sole stockholder, director and officer. Includes 11,145,600 shares directly owned by Mrs. Wexner, as to which Mr. Wexner may be deemed to share voting and investment power. Includes 16,309,241 shares directly owned by Mr. Wexner.
- (j) Includes 3,050 shares which are Mr. Zimmerman's pro rata share of 9,152 shares owned by a corporation of which Mr. Zimmerman is president and a 33% stockholder.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, must file reports of ownership and changes in ownership of the Company's equity securities with the Commission. Copies of those reports must also be furnished to the Company. Based solely on a review of the copies of reports furnished to the Company and written representations of the Company's executive officers and directors that no other reports were required, we believe that during fiscal 2016 our executive officers, directors and greater than 10% beneficial owners complied with these filing requirements, other than Mr. Tessler who was late in filing one Form 4 reporting one transaction that occurred in fiscal 2015 due to inadvertent administrative error.

SHARE OWNERSHIP OF PRINCIPAL STOCKHOLDERS

The following table sets forth the names of all persons who, as of the dates indicated below, were known by the Company to be the beneficial owners (as defined in the rules of the Commission) of more than 5% of the shares of Common Stock.

<u>Name and Address of Beneficial Owner</u>	<u>Amount Beneficially Owned</u>	<u>Percent of Class</u>
Leslie H. Wexner(1) Three Limited Parkway P.O. Box 16000 Columbus, OH 43216	46,747,343	16.36%
PRIMECAP Management Company(2) 177 E. Colorado Blvd., 11 th Floor Pasadena, CA 91105	16,197,331	5.66%
The Vanguard Group(3) 100 Vanguard Blvd. Malvern, PA 19355	15,742,928	5.50%
FMR LLC(4) 245 Summer Street Boston, MA 02210	15,036,030	5.26%
BlackRock, Inc.(5) 55 East 52 nd Street New York, NY 10055	14,630,170	5.10%

- (1) As of January 28, 2017. For a description of Mr. Wexner’s beneficial ownership, see “Security Ownership of Directors and Management” on pages 51 and 52.
- (2) As of December 31, 2016, based solely on information set forth in the Schedule 13G/A filed February 9, 2017 by PRIMECAP Management Company. PRIMECAP Management Company has sole dispositive power over 16,197,331 shares and sole voting power over 4,148,397 shares.
- (3) As of December 31, 2016, based solely on information set forth in the Schedule 13G/A filed February 10, 2017 by The Vanguard Group. The Vanguard Group has sole dispositive power over 15,326,998 shares and sole voting power over 378,629 shares, and has shared dispositive power over 415,930 shares and shared voting power over 47,922 shares.
- (4) Based solely on information set forth in the Schedule 13G/A filed February 14, 2017 by FMR LLC. FMR LLC has sole dispositive power over 15,036,030 shares and sole voting power over 1,292,293 shares and Abigail P. Johnson has sole dispositive power over 15,448,861 shares. Abigail P. Johnson is a Director, the Chairman and the Chief Executive Officer of FMR LLC. Members of the Johnson family, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders’ voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders’ voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.
- (5) As of December 31, 2016, based solely on information set forth in the Schedule 13G filed January 30, 2017 by BlackRock, Inc. BlackRock, Inc. has sole dispositive power over 14,616,984 shares and sole voting power over 12,593,696 shares, and has shared dispositive power over 13,186 shares and shared voting power over 13,186 shares.

REPORT OF THE AUDIT COMMITTEE

As provided in our written charter, the Audit Committee is instrumental in the Board's fulfillment of its oversight responsibilities relating to (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the qualifications, independence and performance of the Company's independent auditors and (iv) the performance of the Company's internal audit function.

It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditors. Furthermore, while we are responsible for reviewing the Company's policies and practices with respect to risk assessment and management, it is the responsibility of the CEO and senior management to determine the appropriate level of the Company's exposure to risk.

We have reviewed and discussed L Brands' audited financial statements as of and for the year ended January 28, 2017 and met with both management and our independent auditors to discuss the financial statements. Management has represented to us that the financial statements were prepared in accordance with generally accepted accounting principles. We have reviewed with the internal auditors and independent auditors the overall scope and plans for their respective audits. We also met with the internal auditors and independent auditors, with and without management present, to discuss the results of their examinations and their evaluations of the Company's internal controls.

We have also discussed with the independent auditors all matters required to be discussed with audit committees under applicable auditing and regulatory standards. The Company's independent auditors also provided to us the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the audit committee concerning independence, and we discussed with the independent auditors their independence from the Company. We considered whether the provision of non-audit services by the independent auditors to the Company is compatible with maintaining their independence.

Based on the reviews and discussions summarized in this Report, and subject to the limitations on our role and responsibilities, certain of which are referred to above and in the Audit Committee charter, we recommended to the Board that L Brands' audited financial statements be included in our annual report on Form 10-K for the year ended January 28, 2017 for filing with the Commission.

We have appointed Ernst & Young LLP as L Brands' independent registered public accountants.

Audit Committee

Donna A. James, Chair
David T. Kollat
Allan R. Tessler
Raymond Zimmerman

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

During our 2016 fiscal year, Ernst & Young LLP served as the Company's independent registered public accountants and in that capacity rendered an opinion on our consolidated financial statements as of and for the fiscal year ended January 28, 2017. The Audit Committee has selected Ernst & Young LLP as the Company's independent registered public accountants for the current fiscal year.

Audit Fees

The aggregate audit fees payable to Ernst & Young LLP for the fiscal years ended 2016 and 2015 were approximately \$4,694,000 and \$4,243,000, respectively. These amounts include fees for professional services rendered by Ernst & Young LLP in connection with the audit of our consolidated financial statements and reviews of our unaudited consolidated interim financial statements as well as fees for services that generally only the independent auditor can reasonably be expected to provide, including comfort letters and consultation regarding financial accounting and/or reporting standards. These amounts also include fees for services rendered in connection with the audit of our internal control over financial reporting and fees for services rendered in connection with statutory audits of our international subsidiaries' financial statements.

Audit Related Fees

The aggregate fees for assurance and related services rendered by Ernst & Young LLP that were reasonably related to the audit of our consolidated financial statements for the fiscal years ended 2016 and 2015 were approximately \$204,000 and \$258,000, respectively. The fees under this category are for assurance and related services that are traditionally performed by the independent auditor and include audits of employee benefit plans, agreed upon procedures and other attest engagements.

Tax Fees

The aggregate fees for tax services rendered by Ernst & Young LLP for the fiscal years ended 2016 and 2015 were approximately \$131,000 and \$110,000, respectively. Tax fees include tax compliance and advisory services.

All Other Fees

The aggregate fees for all other services rendered by Ernst & Young LLP for the fiscal years ended 2016 and 2015 were approximately \$0 and \$369,000, respectively. The fees under this category that were paid in the fiscal year ended 2015 were for compliance-related advisory services.

Pre-approval Policies and Procedures

The Audit Committee pre-approves all audit and non-audit services to be provided by Ernst & Young LLP in a given fiscal year.

OTHER MATTERS

The Board knows of no other matters to be brought before the annual meeting. However, if other matters should come before the meeting, each of the persons named as a proxy intends to vote in accordance with his or her judgment on such matters.

STOCKHOLDER PROPOSALS FOR NEXT YEAR

Stockholder Proposals Pursuant to Rule 14a-8

Proposals submitted for inclusion in the proxy statement for the 2018 annual meeting must be received by the Secretary of the Company at our principal executive offices on or before December 8, 2017.

Stockholder Director Nominations for Inclusion in 2018 Proxy Statement

Written notice of stockholder nominations of persons for election as a director at the 2018 annual meeting that are to be included in our proxy statement for the 2018 annual meeting pursuant to the proxy access provisions in Section 2.05 of our Bylaws must be received by the Secretary of the Company at our principal executive offices no earlier than November 8, 2017 and no later than December 8, 2017. The notice must contain the information required by our Bylaws.

Other Stockholder Proposals

If a stockholder intends to present a proposal or nominate a person for election as a director at the 2018 annual meeting other than as described above, the stockholder must comply with the requirements set forth in Section 2.04 of our Bylaws. The Bylaws require, among other things, that the Secretary receive written notice of the intent to present a proposal or nomination no earlier than February 17, 2018 and no later than March 19, 2018. The notice must contain the information required by our Bylaws.

SOLICITATION EXPENSES

We are soliciting this proxy on behalf of our Board and will bear the solicitation expenses. Our directors or employees may solicit proxies by telephone, facsimile and personal solicitation, in addition to the use of the mail. We will, upon request, reimburse banks, brokerage houses and other institutions, nominees, and fiduciaries for their expenses in forwarding proxy materials to beneficial owners.

By Order of the Board of Directors,



Leslie H. Wexner
Chairman of the Board

[THIS PAGE INTENTIONALLY LEFT BLANK]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 28, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____
Commission file number 1-8344

L BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

31-1029810
(I.R.S. Employer Identification No.)

Three Limited Parkway,
Columbus, Ohio
(Address of principal executive offices)

43230
(Zip Code)

Registrant's telephone number, including area code (614) 415-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$.50 Par Value

The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was: \$17,899,799,054.

Number of shares outstanding of the registrant's Common Stock as of March 10, 2017: 285,048,417.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Registrant's 2017 Annual Meeting of Stockholders to be held on May 18, 2017, are incorporated by reference into Part II and Part III.

Table of Contents

	<u>Page No.</u>
Part I	
Item 1. Business	1
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	17
Item 2. Properties	17
Item 3. Legal Proceedings	18
Item 4. Mine Safety Disclosures	18
Part II	
Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6. Selected Financial Data	21
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	56
Item 8. Financial Statements and Supplementary Data	58
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	104
Item 9A. Controls and Procedures	104
Item 9B. Other Information	104
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	105
Item 11. Executive Compensation	105
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	105
Item 13. Certain Relationships and Related Transactions, and Director Independence	106
Item 14. Principal Accountant Fees and Services	106
Part IV	
Item 15. Exhibits, Financial Statement Schedules	107
Item 16. Form 10-K Summary	112
Signatures	113

PART I

ITEM 1. BUSINESS.

General

L Brands, Inc. (“we” or “the Company”) operates in the highly competitive specialty retail business. Founded in 1963 in Columbus, Ohio, we have evolved from an apparel-based specialty retailer to a segment leader focused on women’s intimate and other apparel, personal care, beauty and home fragrance categories. We sell our merchandise through company-owned specialty retail stores in the United States (“U.S.”), Canada, United Kingdom (“U.K.”) and Greater China (China and Hong Kong), which are primarily mall-based; through websites; and through international franchise, license and wholesale partners (collectively, “partners”).

Victoria’s Secret

Victoria’s Secret, including PINK, the iconic women’s intimate brand featuring celebrated supermodels and a world-famous fashion show, is a specialty retailer of women’s intimate and other apparel with fashion-inspired collections and prestige fragrances. We sell our Victoria’s Secret products at more than 1,200 Victoria’s Secret and PINK stores in the U.S., Canada, U.K. and Greater China, and online at www.VictoriasSecret.com. Additionally, Victoria’s Secret and PINK have more than 410 stores in more than 70 other countries operating under franchise, license and wholesale arrangements.

Bath & Body Works

Bath & Body Works is one of the leading specialty retailers of personal care, home fragrance products, soaps and sanitizers. We sell our Bath & Body Works products at more than 1,600 Bath & Body Works stores in the U.S. and Canada and online at www.BathandBodyWorks.com. Additionally, Bath & Body Works has 159 stores in 30 other countries operating under franchise, license and wholesale arrangements.

Other Brands

La Senza is a specialty retailer of women’s intimate apparel. We sell our La Senza products at more than 120 La Senza stores in Canada, and online at www.LaSenza.com. In 2016, we opened our first 4 La Senza stores in the U.S. Additionally, La Senza has more than 200 stores in 24 other countries operating under franchise and license arrangements.

Henri Bendel sells handbags, jewelry and other accessory products through our New York flagship and 28 other stores, as well as online at www.HenriBendel.com.

Acquisition

In the first quarter of 2016, we reacquired the franchise rights to operate Victoria’s Secret Beauty and Accessories stores in Greater China, including 26 stores already open at the time of acquisition. For additional information, see Note 4 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Divestiture

In the first quarter of 2015, we divested our remaining ownership interest in our third-party apparel sourcing business. For additional information, see Note 9 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Fiscal Year

Our fiscal year ends on the Saturday nearest to January 31. As used herein, “2016,” “2015,” “2014” and “2013” refer to the 52-week periods ending January 28, 2017, January 30, 2016, January 31, 2015 and February 1, 2014, respectively. “2012” refers to the 53-week period ending February 2, 2013.

Real Estate

Company-owned Retail Stores

Our company-owned retail stores are located in shopping malls, lifestyle centers and street locations in the U.S., Canada, U.K. and Greater China. As a result of our strong brands and established retail presence, we have been able to lease high-traffic locations in most retail centers in which we operate. Substantially all of our stores generated positive cash flow in 2016.

The following table provides the number of our company-owned retail stores in operation for each brand as of January 28, 2017 and January 30, 2016.

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
Victoria’s Secret U.S.	1,131	1,118
Victoria’s Secret Canada	46	46
Bath & Body Works U.S.	1,591	1,574
Bath & Body Works Canada	102	98
Victoria’s Secret U.K.	18	14
Victoria’s Secret Beauty and Accessories	31	—
La Senza U.S.	4	—
La Senza Canada	122	126
Henri Bendel	29	29
Total	<u>3,074</u>	<u>3,005</u>

The following table provides the changes in the number of our company-owned retail stores operated for the past five fiscal years:

	<u>Beginning of Year</u>	<u>Opened</u>	<u>Closed</u>	<u>Acquired (a)</u>	<u>End of Year</u>
2016	3,005	72	(29)	26	3,074
2015	2,969	72	(36)	—	3,005
2014	2,923	81	(35)	—	2,969
2013	2,876	81	(34)	—	2,923
2012	2,941	48	(113)	—	2,876

(a) Relates to the acquisition of Victoria’s Secret Beauty and Accessories franchise stores in Greater China. For additional information see Note 4 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Franchise, License and Wholesale Arrangements

In addition to our company-owned stores, our products are sold at hundreds of partner locations in over 75 countries. Under these arrangements, third parties operate stores that sell our products under our brand names. Revenue recognized under franchise and license arrangements generally consists of royalties earned and recognized upon sale of merchandise by franchise and license partners to retail customers. Revenue is generally recognized under wholesale arrangements at the time the title passes to the partner. We continue to increase the number of locations under these types of arrangements as part of our international expansion.

The following table provides the number of our international stores operated by our partners for each business as of January 28, 2017 and January 30, 2016.

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
Victoria’s Secret Beauty and Accessories	391	373
Victoria’s Secret	28	19
Bath & Body Works	159	125
La Senza	<u>203</u>	<u>221</u>
Total	<u>781</u>	<u>738</u>

Our Strengths

We believe the following competitive strengths contribute to our leading market position, differentiate us from our competitors and will drive future growth:

Industry Leading Brands

We have developed and operate brands that have come to represent an aspirational lifestyle. Our brands allow us to target markets across the economic spectrum, across demographics and across the world. We believe that our three flagship brands, Victoria’s Secret, PINK and Bath & Body Works, are highly recognizable which provides us with a competitive advantage.

- At Victoria’s Secret, we market glamorous and sexy product lines to our customers. While bras and panties are the core of what we do, this brand also gives our customers choices in beauty products, fragrances, loungewear, athletic attire and personal care accessories.
- At PINK, we market products to the college-aged woman. While bras and panties are the core of what we do, this brand also gives our customers choices in apparel, loungewear, athletic attire, personal care accessories and swim.
- Bath & Body Works caters to our customers’ entire well-being, providing shower gels and lotions, aromatherapy, home fragrance, soaps and sanitizers and personal care accessories.

In-Store Experience and Store Operations

We view our customers’ in-store experience as an important vehicle for communicating the image of each brand. We utilize visual presentation of merchandise, in-store marketing, music and our sales associates to reinforce the image represented by the brands.

Our in-store marketing is designed to convey the principal elements and personality of each brand. The store design, furniture, fixtures and music are all carefully planned and coordinated to create a unique shopping experience. Every brand displays merchandise uniformly to ensure a consistent store experience, regardless of location. Store managers receive detailed plans designating fixture and merchandise placement to ensure coordinated execution of the company-wide merchandising strategy.

Our sales associates and managers are a central element in creating the atmosphere of the stores by providing a high level of customer service.

Product Development, Sourcing and Logistics

We believe a large part of our success comes from frequent and innovative product launches, which include bra launches at Victoria’s Secret, PINK and La Senza and new fragrance launches at Bath & Body Works. Our



merchant, design and sourcing teams have a long history of bringing innovative products to our customers. Additionally, we believe that our sourcing function (Mast Global) has a long and deep presence in the key sourcing markets including those in the U.S. and Asia, which helps us partner with the best manufacturers to get high-quality products quickly.

Experienced and Committed Management Team

We were founded in 1963 and have been led since inception by Leslie H. Wexner. Our senior management team has a wealth of retail and business experience at L Brands, Inc. and other companies such as Nike, Coach, The Gap, The Home Depot, Land's End, Levi Strauss, Boots and Yum Brands. We believe that we have one of the most experienced management teams in retail.

Additional Information

Merchandise Suppliers

During 2016, we purchased merchandise from approximately 360 suppliers located throughout the world. No supplier provided 10% or more of our merchandise purchases.

Distribution and Merchandise Inventory

Most of our merchandise is shipped to our distribution centers in the Columbus, Ohio area. We use a variety of shipping terms that result in the transfer of title of the merchandise at either the point of origin or point of destination.

Our policy is to maintain sufficient quantities of inventories on hand in our retail stores and distribution centers to enable us to offer customers an appropriate selection of current merchandise. We emphasize rapid turnover and take markdowns as required to keep merchandise fresh and current.

Information Systems

Our management information systems consist of a full range of retail, financial and merchandising systems. The systems include applications related to point-of-sale, e-commerce, merchandising, planning, sourcing, logistics, inventory management, data security and support systems including human resources and finance.

Seasonal Business

Our operations are seasonal in nature and consist of two principal selling seasons: Spring (the first and second quarters) and Fall (the third and fourth quarters). The fourth quarter, including the holiday season, accounted for approximately one-third of our net sales for 2016, 2015 and 2014 and is typically our most profitable quarter. Accordingly, cash requirements are highest in the third quarter as our inventories build in advance of the holiday season.

Working Capital

We fund our business operations through a combination of available cash and cash equivalents and cash flows generated from operations. In addition, our credit facilities are available for additional working capital needs and investment opportunities.

Regulation

We and our products are subject to regulation by various federal, state, local and foreign regulatory authorities. We are subject to a variety of customs regulations and international trade arrangements.

Trademarks and Patents

Our trademarks and patents, which constitute our primary intellectual property, have been registered or are the subject of pending applications in the United States Patent and Trademark Office and with the registries of many foreign countries and/or are protected by common law. We believe our products are identified by our intellectual property and, thus, our intellectual property is of significant value. Accordingly, we intend to maintain our intellectual property and related registrations and vigorously protect our intellectual property assets against infringement.

Segment Information

We have three reportable segments: Victoria's Secret, Bath & Body Works and Victoria's Secret and Bath & Body Works International. For additional information, including the financial results of our reportable segments, see Note 21 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Other Information

For additional information about our business, including our net sales and profits for the last three years and selling square footage, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Competition

The sale of women's intimate and other apparel, personal care and beauty products and accessories through retail stores is a highly competitive business with numerous competitors, including individual and chain specialty stores, department stores and discount retailers. Brand image, marketing, design, price, service, assortment and quality are the principal competitive factors in retail store sales. Our online businesses compete with numerous online merchandisers. Image presentation, fulfillment and the factors affecting retail store sales discussed above are the principal competitive factors in online sales.

Associate Relations

As of January 28, 2017, we employed approximately 93,600 associates; 69,000 of whom were part-time. In addition, temporary associates are hired during peak periods, such as the holiday season.

Executive Officers of Registrant

Set forth below is certain information regarding our executive officers.

Leslie H. Wexner, 79, has been our Chief Executive Officer since our founding in 1963 and Chairman of the Board of Directors since 1975.

Stuart B. Burgdoerfer, 53, has been our Executive Vice President and Chief Financial Officer since April 2007.

Nicholas P. M. Coe, 54, has been our Chief Executive Officer and President of Bath & Body Works since August 2011.

Charles C. McGuigan, 60, has been our Chief Operating Officer since May 2012 and our Chief Executive Officer and President of Mast Global since February 2011.

Martin P. Waters, 51, has been our Chief Executive Officer and President of L Brands International since November 2009.

Available Information

We are subject to the reporting requirements of the Exchange Act and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the U.S. Securities and Exchange Commission (“SEC”). Copies of these reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room
100 F Street NE
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC’s website at www.sec.gov. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our website at www.lb.com.

Copies of any of the above-referenced documents will also be made available, free of charge, upon written request to:

L Brands, Inc.
Investor Relations Department
Three Limited Parkway
Columbus, Ohio 43230

ITEM 1A. RISK FACTORS.

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this report or made by our company or our management involve risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Words such as “estimate,” “project,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “planned,” “potential” and any similar expressions may identify forward-looking statements. Risks associated with the following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by our company or our management:

- general economic conditions, consumer confidence, consumer spending patterns and market disruptions including severe weather conditions, natural disasters, health hazards, terrorist activities, financial crises, political crises or other major events, or the prospect of these events;
- the seasonality of our business;
- the dependence on mall traffic and the availability of suitable store locations on appropriate terms;
- our ability to grow through new store openings and existing store remodels and expansions;
- our ability to successfully expand internationally and related risks;
- our independent franchise, license and wholesale partners;
- our direct channel businesses;
- our ability to protect our reputation and our brand images;
- our ability to attract customers with marketing, advertising and promotional programs;

- our ability to protect our trade names, trademarks and patents;
- the highly competitive nature of the retail industry and the segments in which we operate;
- consumer acceptance of our products and our ability to manage the life cycle of our brands, keep up with fashion trends, develop new merchandise and launch new product lines successfully;
- our ability to source, distribute and sell goods and materials on a global basis, including risks related to:
 - political instability, significant health hazards, environmental hazards or natural disasters;
 - duties, taxes and other charges;
 - legal and regulatory matters;
 - volatility in currency exchange rates;
 - local business practices and political issues;
 - potential delays or disruptions in shipping and transportation and related pricing impacts;
 - disruption due to labor disputes; and
 - changing expectations regarding product safety due to new legislation;
- our geographic concentration of supplier and distribution facilities in central Ohio;
- fluctuations in foreign currency exchange rates;
- stock price volatility;
- our ability to pay dividends and related effects;
- our ability to maintain our credit rating;
- our ability to service or refinance our debt;
- our ability to retain key personnel;
- our ability to attract, develop and retain qualified associates and manage labor-related costs;
- the ability of our manufacturers to deliver products in a timely manner, meet quality standards and comply with applicable laws and regulations;
- fluctuations in product input costs;
- our ability to adequately protect our assets from loss and theft;
- fluctuations in energy costs;
- increases in the costs of mailing, paper and printing;
- claims arising from our self-insurance;
- our ability to implement and maintain information technology systems and to protect associated data;
- our ability to maintain the security of customer, associate, supplier or company information;
- our ability to comply with regulatory requirements;
- legal and compliance matters; and
- tax, trade and other regulatory matters.

We are not under any obligation and do not intend to make publicly available any update or other revisions to any of the forward-looking statements contained in this report to reflect circumstances existing after the date of this report or to reflect the occurrence of future events even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized.

The following discussion of risk factors contains “forward-looking statements.” These risk factors may be important to understanding any statement in this Form 10-K, other filings or in any other discussions of our business. The following information should be read in conjunction with Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation and Item 8. Financial Statements and Supplementary Data.

In addition to the other information set forth in this report, the reader should carefully consider the following factors which could materially affect our business, financial condition or future results. The risks described below are not our only risks. Additional risks and uncertainties not currently known or that are currently deemed to be immaterial may also adversely affect our business, operating results and/or financial condition in a material way.

Our net sales, profit results and cash flows are sensitive to, and may be affected by, general economic conditions, consumer confidence, spending patterns, weather or other market disruptions.

Our net sales, profit, cash flows and future growth may be affected by negative local, regional, national or international political or economic trends or developments that reduce the consumers’ ability or willingness to spend, including the effects of national and international security concerns such as war, terrorism or the threat thereof. In addition, market disruptions due to severe weather conditions, natural disasters, health hazards or other major events or the prospect of these events could also impact consumer spending and confidence levels. Purchases of women’s intimate and other apparel, beauty and personal care products and accessories often decline during periods when economic or market conditions are unsettled or weak. In such circumstances, we may increase the number of promotional sales, which could have a material adverse effect on our results of operations, financial condition and cash flows.

The decision by the U.K. to leave the European Union (“Brexit”) has increased the uncertainty in the economic and political environment in Europe. In particular, our business in the United Kingdom may be adversely impacted by fluctuations in currency exchange rates, changes in trade policies, or changes in labor, immigration, tax or other laws.

Extreme weather conditions in the areas in which our stores are located, particularly in markets where we have multiple stores, could adversely affect our business. For example, heavy snowfall, rainfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability.

Our net sales, operating income, cash and inventory levels fluctuate on a seasonal basis.

We experience major seasonal fluctuations in our net sales and operating income, with a significant portion of our operating income typically realized during the fourth quarter holiday season. Any decrease in sales or margins during this period could have a material adverse effect on our results of operations, financial condition and cash flows.

Seasonal fluctuations also affect our cash and inventory levels, since we usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the holiday season selling period. If we are not successful in selling inventory, we may have to sell the inventory at significantly reduced prices or may not be able to sell the inventory at all, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Our net sales depend on a volume of traffic to our stores and the availability of suitable lease space.

Most of our stores are located in retail shopping areas including malls and other types of retail centers. Sales at these stores are derived, in part, from the volume of traffic in those retail areas. Our stores benefit from the ability of the retail center and other attractions in an area, including “destination” retail stores, to generate

consumer traffic in the vicinity of our stores. Sales volume and retail traffic may be adversely affected by factors that we cannot control, such as economic downturns or changes in consumer demographics in a particular area, competition from internet and other retailers and other retail areas where we do not have stores, the closing or decline in popularity of other stores in the shopping areas where our stores are located and the deterioration in the financial condition of the operators of the shopping areas or developers in which our stores are located.

Part of our future growth is significantly dependent on our ability to operate stores in desirable locations with capital investment and lease costs providing the opportunity to earn a reasonable return. We cannot be sure as to when or whether such desirable locations will become available at reasonable costs. Some of our store locations, such as our Victoria's Secret flagship stores, require significant upfront capital investment and have material lease commitments. Additionally, we are dependent upon the suitability of the lease spaces that we currently use. The leases that we enter into are generally noncancellable leases with initial terms of ten years. If we determine that it is no longer economical to operate a store and decide to close it, we may remain obligated under the applicable lease for, among other things, payment of the base rent for the balance of the lease term.

These risks could have a material adverse effect on our ability to grow and our results of operations, financial condition and cash flows.

Our ability to grow depends in part on new store openings and existing store remodels and expansions.

Our continued growth and success will depend in part on our ability to open and operate new stores and expand and remodel existing stores on a timely and profitable basis. Accomplishing our new and existing store expansion goals will depend upon a number of factors, including the ability to partner with developers and landlords to obtain suitable sites for new and expanded stores at acceptable costs, the hiring and training of qualified personnel and the integration of new stores into existing operations. There can be no assurance we will be able to achieve our store expansion goals, manage our growth effectively, successfully integrate the planned new stores into our operations or operate our new, remodeled and expanded stores profitably. These risks could have a material adverse effect on our ability to grow and results of operations, financial condition and cash flows.

Our plans for international expansion include risks that could impact our results and reputation.

We intend to further expand into international markets, including mainland China and other international markets, through partner arrangements and/or company-owned stores. The risks associated with our expansion into international markets include difficulties in attracting customers due to a lack of customer familiarity with our brands, our lack of familiarity with local customer preferences and seasonal differences in the market. Further, entry into other markets may bring us into competition with new competitors or with existing competitors with an established market presence. Other risks include general economic conditions in specific countries or markets, volatility in the geopolitical landscape, restrictions on the repatriation of funds held internationally, disruptions or delays in shipments, changes in diplomatic and trade relationships, political instability and foreign governmental regulation. Such expansions will also have upfront investment costs that may not be accompanied by sufficient revenues to achieve typical or expected operational and financial performance.

We also have risks related to identifying suitable partners. In addition, certain aspects of these arrangements are not directly within our control, such as the ability of these third parties to meet their projections regarding store openings and sales and their compliance with federal and local law. We cannot ensure the profitability or success of our expansion into international markets.

Further, our results of operations and financial condition may be adversely affected by fluctuations in currency exchange rates. See "Fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations" below.

These risks could have a material adverse effect on our results of operations, financial condition and cash flows.

Our licensees, franchisees and wholesalers could take actions that could harm our business or brand images.

We have global representation through independently owned stores operated by our partners. Although we have criteria to evaluate and select prospective partners, the level of control we can exercise over our partners is limited, and the quality and success of their operations may be diminished by any number of factors beyond our control. For example, our partners may not have the business acumen or financial resources necessary to successfully operate stores in a manner consistent with our standards and may not hire and train qualified store managers and other personnel. Our brand image and reputation may suffer materially, and our sales could decline if our partners do not operate successfully. These risks could have an adverse effect on our results of operations, financial condition and cash flows.

Our direct channel businesses include risks that could have an effect on our results.

Our direct operations are subject to numerous risks that could have a material adverse effect on our results. Risks include, but are not limited to, the difficulty in recreating the in-store experience through our direct channels; domestic or international resellers purchasing merchandise and reselling it outside our control; our ability to anticipate and implement innovations in technology and logistics in order to appeal to existing and potential customers who increasingly rely on multiple channels to meet their shopping needs; the failure of and risks related to the systems that operate our web infrastructure, websites and the related support systems, including computer viruses, theft of customer information, privacy concerns, telecommunication failures and electronic break-ins and similar disruptions; and risks related to the fulfillment of direct-to-consumer orders such as not adequately predicting customer demand.

Our failure to maintain efficient and uninterrupted order-taking and fulfillment operations could also have a material adverse effect on our results. The satisfaction of our online customers depends on their timely receipt of merchandise. If we encounter difficulties with the distribution facilities, or if the facilities were to shut down for any reason, including as a result of fire or other natural disaster or work stoppage, we could face shortages of inventory; incur significantly higher costs and longer lead times associated with distributing our products to our customers; and cause customer dissatisfaction.

Any of these issues could have a material adverse effect on our operations, financial condition and cash flows.

Our ability to protect our reputation could have a material effect on our brand images.

Our ability to maintain our reputation is critical to our brand images. Our reputation could be jeopardized if we fail to maintain high standards for merchandise quality and integrity. Any negative publicity, including information publicized through traditional or social media platforms and similar venues such as blogs, websites and other forums, may affect our reputation and brand and, consequently, reduce demand for our merchandise, even if such publicity is unverified or inaccurate.

Failure to comply with ethical, social, product, labor and environmental standards, or related political considerations, could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. Failure to comply with local laws and regulations, to maintain an effective system of internal controls, to maintain the security of customer, associate, supplier or company information or to provide accurate and timely financial statement information could also hurt our reputation. Damage to our reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations, financial condition and cash flows, as well as require additional resources to rebuild our reputation.

If our marketing, advertising and promotional programs are unsuccessful, or if our competitors are more effective with their programs than we are, our revenue or results of operations may be adversely affected.

Customer traffic and demand for our merchandise is influenced by our advertising, marketing and promotional activities, the name recognition and reputation of our brands and the location of and service offered in our stores.

Although we use marketing, advertising and promotional programs to attract customers through various media including television, social media, database marketing and print, some of our competitors may expend more for their programs than we do, or use different approaches than we do, which may provide them with a competitive advantage. Our programs may not be effective or could require increased expenditures, which could have a material adverse effect on our revenue and results of operations.

Our ability to adequately protect our trade names, trademarks and patents could have an impact on our brand images and ability to penetrate new markets.

We believe that our trade names, trademarks and patents are important assets and an essential element of our strategy. We have obtained or applied for federal registration of these trade names, trademarks and patents and have applied for or obtained registrations in many foreign countries. There can be no assurance that we will obtain such registrations or that the registrations we obtain will prevent the imitation of our products or infringement of our intellectual property rights by others. In particular, the laws of certain foreign countries may not protect proprietary rights to the same extent as the laws of the U.S. If any third party copies our products or our stores in a manner that projects lesser quality or carries a negative connotation, it could have a material adverse effect on our brand image and reputation as well as our results of operations, financial condition and cash flows.

Our ability to compete favorably in our highly competitive segment of the retail industry could impact our results.

The sale of women's intimate and other apparel, personal care products and accessories is highly competitive. We compete for sales with a broad range of other retailers, including individual and chain specialty stores, department stores and discount retailers. In addition to the traditional store-based retailers, we also compete with direct marketers or retailers that sell similar lines of merchandise and who target customers through online channels. Brand image, marketing, design, price, service, assortment, quality, image presentation and fulfillment are all competitive factors in both the store-based and online channels.

Some of our competitors may have greater financial, marketing and other resources available. In many cases, our competitors sell their products in stores that are located in the same shopping malls and centers as our stores. In addition to competing for sales, we compete for favorable site locations and lease terms in shopping malls and centers.

Increased competition could result in price reductions, increased marketing expenditures and loss of market share, any of which could have a material adverse effect on our results of operations, financial condition and cash flows.

Our ability to manage the life cycle of our brands and to remain current with fashion trends and launch new product lines successfully could impact the image and relevance of our brands.

Our success depends in part on management's ability to effectively manage the life cycle of our brands and to anticipate and respond to changing fashion preferences and consumer demands and to translate market trends into appropriate, saleable product offerings in advance of the actual time of sale to the customer. Customer demands and fashion trends change rapidly. If we are unable to successfully anticipate, identify or react to changing styles or trends or we misjudge the market for our products or any new product lines, our sales will be lower, potentially resulting in significant amounts of unsold finished goods inventory. In response, we may be forced to increase our marketing promotions or price markdowns. These risks could have a material adverse effect on our brand image and reputation as well as our results of operations, financial condition and cash flows.

We may be impacted by our ability to adequately source, distribute and sell merchandise and other materials on a global basis.

We source merchandise and other materials directly in international markets and in our domestic market. We distribute merchandise and other materials globally to our partners in international locations and to our stores.

Many of our imports and exports are subject to a variety of customs regulations and international trade arrangements, including existing or potential duties, tariffs or safeguard quotas. We compete with other companies for production facilities.

We also face a variety of other risks generally associated with doing business on a global basis. For example:

- political instability, significant health hazards, environmental hazards or natural disasters which could negatively affect international economies, financial markets and business activity;
- imposition of new or retaliatory trade duties, sanctions or taxes and other charges on imports or exports;
- evolving, new or complex legal and regulatory matters;
- volatility in currency exchange rates;
- local business practice and political issues (including issues relating to compliance with domestic or international labor standards) which may result in adverse publicity or threatened or actual adverse consumer actions, including boycotts;
- potential delays or disruptions in shipping and transportation and related pricing impacts;
- disruption due to labor disputes; and
- changing expectations regarding product safety due to new legislation or other factors.

We also rely upon third-party transportation providers for substantially all of our product shipments, including shipments to and from our distribution centers, to our stores and to our customers. Our utilization of these delivery services for shipments is subject to risks, including increases in fuel prices, which would increase our shipping costs, and associate strikes and inclement weather, which may impact our transportation providers' ability to provide delivery services that adequately meet our shipping needs.

Our future performance will depend upon these and the other factors listed above which are beyond our control and could have a material adverse effect on our results of operations, financial condition and cash flows.

We rely on a number of supplier and distribution facilities located in the same vicinity, making our business susceptible to local and regional disruptions or adverse conditions.

To achieve the necessary speed and agility in producing our beauty, personal care and home fragrance products, we rely heavily on supplier and distribution facilities in close proximity to our headquarters in central Ohio. As a result of geographic concentration of the supplier and distribution facilities that we rely upon, our operations are susceptible to local and regional factors, such as accidents, system failures, economic and weather conditions, natural disasters, demographic and population changes, and other unforeseen events and circumstances. Any significant interruption in the operations of these facilities could lead to inventory issues or increased costs, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Fluctuations in foreign currency exchange rates could impact our financial condition and results of operations.

We are exposed to foreign currency exchange rate risk with respect to our sales, profits, assets and liabilities denominated in currencies other than the U.S. dollar. In addition, our royalty arrangements are calculated based on sales in local currency and, as such, we are exposed to foreign currency exchange rate fluctuations. Although we use foreign currency forward contracts to hedge certain foreign currency risks, these measures may not succeed in offsetting all of the short-term negative impact of foreign currency rate movements on our business and results of operations. Hedging would generally not be effective in offsetting the long-term impact of sustained shifts in foreign exchange rates on our business results. As a result, the fluctuation in the value of the U.S. dollar against other currencies could have a material adverse effect on our results of operations, financial condition and cash flows.

Our stock price may be volatile.

Our stock price may fluctuate substantially as a result of variations in our actual or projected performance or the financial performance of other companies in the retail industry. Any guidance that we provide is based on goals that we believe are reasonably attainable at the time guidance is given. If, or when, we announce actual results that differ from those that have been predicted by us, outside investment analysts or others, our stock price could be adversely affected. Investors who rely on these predictions when making investment decisions with respect to our securities do so at their own risk.

In addition, the stock market may experience price and volume fluctuations that are unrelated or disproportionate to operating performance.

If we are unable to pay quarterly dividends at intended levels, our reputation and stock price may be harmed.

Our dividend program requires the use of a portion of our cash flow. Our ability to pay dividends will depend on our ability to generate sufficient cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Our Board of Directors may, at its discretion, decrease the level of dividends or entirely discontinue the payment of dividends at any time. Any failure to pay dividends after we have announced our intention to do so may negatively impact our reputation, investor confidence in us and our stock price.

Our ability to maintain our credit rating could affect our ability to access capital and could increase our interest expense.

The credit rating agencies periodically review our capital structure and the quality and stability of our earnings. A deterioration in our capital structure or the quality and stability of our earnings could result in a downgrade of our credit rating. Any negative ratings actions could constrain the capital available to our company or our industry and could limit our access to funding for our operations. We are dependent upon our ability to access capital at rates and on terms we determine to be attractive. If our ability to access capital becomes constrained, our interest costs will likely increase, which could have a material adverse effect on our results of operations, financial condition and cash flows. Additionally, changes to our credit rating could affect our future interest costs.

We may be impacted by our ability to service or refinance our debt.

We currently have substantial indebtedness. Some of our debt agreements contain covenants which require maintenance of certain financial ratios and also, under certain conditions, restrict our ability to pay dividends, repurchase common shares and make other restricted payments as defined in those agreements. Our cash flow from operations provides the primary source of funds for our debt service payments. If our cash flow from operations declines, we may be unable to service or refinance our current debt.

We may be impacted by our ability to recruit, train and retain key personnel.

We believe we have benefited substantially from the leadership and experience of our senior executives, including Leslie H. Wexner, Chairman of the Board of Directors and Chief Executive Officer. The loss of the services of any of these individuals could have a material adverse effect on our business. Competition for key personnel in the retail industry is intense, and our future success will also depend on our ability to recruit, train and retain other qualified key personnel.

We may be impacted by our ability to attract, develop and retain qualified associates and manage labor-related costs.

We believe our competitive advantage is providing a positive, engaging and satisfying experience for each individual customer, which requires us to have highly trained and engaged associates. Our success depends in

part upon our ability to attract, develop and retain a sufficient number of qualified associates, including store personnel and talented merchants. The turnover rate in the retail industry is generally high, and qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas. Competition for such qualified individuals or changes in labor and healthcare laws could require us to incur higher labor costs. Our inability to recruit a sufficient number of qualified individuals in the future may delay planned openings of new stores or affect the speed with which we expand. Delayed store openings, significant increases in associate turnover rates or significant increases in labor-related costs could have a material adverse effect on our results of operations, financial condition and cash flows.

We may be impacted by our manufacturers' ability to manufacture and deliver products in a timely manner, meet quality standards and comply with applicable laws and regulations.

We purchase products from third-party manufacturers. Factors outside our control, such as manufacturing or shipping delays or quality problems, could disrupt merchandise deliveries and result in lost sales, cancellation charges or excessive markdowns.

In addition, quality problems could result in a product liability judgment or a widespread product recall that may negatively impact our sales and profitability for a period of time depending on product availability, competition reaction and consumer attitudes. Even if the product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertions could adversely impact our reputation with existing and potential customers and our brand image.

Our business could also suffer if our third-party manufacturers fail to comply with applicable laws and regulations. While our internal and vendor operating guidelines promote ethical business practices and our associates periodically visit and monitor the operations of our third-party manufacturers, we do not control these manufacturers or their practices. The violation of labor, environmental or other laws by a third-party manufacturer used by us, or the divergence of a third-party manufacturer's or partner's labor or environmental practices from those generally accepted as ethical or appropriate, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation.

These risks could have a material adverse effect on our results of operations, financial condition and cash flows.

Our results may be affected by fluctuations in product input costs.

Product input costs, including manufacturing, freight, labor and raw materials, fluctuate. These fluctuations may result in an increase in our production costs. We may not be able to, or may elect not to, pass these increases on to our customers which may adversely impact our profit margins. These risks could have a material adverse effect on our results of operations, financial condition and cash flows.

Our ability to adequately protect our assets from loss and theft.

Our assets are subject to loss, including those caused by illegal or unethical conduct by associates, customers, vendors or unaffiliated third parties. We have experienced events such as inventory shrinkage in the past, and we cannot assure that incidences of loss and theft will decrease in the future or that the measures we are taking will effectively reduce these losses. Higher rates of loss or increased security costs to combat theft could have a material adverse effect on our results of operations, financial condition and cash flows.

Our results may be affected by fluctuations in energy costs.

Energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in our transportation costs for distribution, utility costs for our retail stores and costs to purchase products from our manufacturers. A continual rise in energy costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could have a material adverse effect on our results of operations, financial condition and cash flows.

We may be impacted by increases in costs of mailing, paper and printing.

Postal rate increases and paper and printing costs will affect the cost of our order fulfillment and promotional mailings. We rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting. Future paper and postal rate increases could adversely impact our earnings if we are unable to recover these costs or if we are unable to implement more efficient printing, mailing, delivery and order fulfillment systems. These risks could have a material adverse effect on our results of operations, financial condition and cash flows.

We self-insure certain risks and may be impacted by unfavorable claims experience.

We are self-insured for various types of insurable risks including associate medical benefits, workers' compensation, property, general liability and automobile up to certain stop-loss limits. Claims are difficult to predict and may be volatile. Any adverse claims experience could have a material adverse effect on our results of operations, financial condition and cash flows.

We significantly rely on our ability to implement and sustain information technology systems and to protect associated data.

Our success depends, in part, on the secure and uninterrupted performance of our information technology systems. Our information technology systems, as well as those of our service providers, are vulnerable to damage from a variety of sources, including telecommunication failures, malicious human acts and natural disasters. Moreover, despite network security measures, some of our servers and those of our service providers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Additionally, these types of problems could result in a breach of confidential customer, merchandise, financial or other important information which could result in damage to our reputation and/or litigation. The increased use of smartphones, tablets and other mobile devices may also heighten these and other operational risks. Despite the precautions we have taken, unanticipated problems may nevertheless cause failures in our information technology systems. Sustained or repeated system disruptions that interrupt our ability to process orders and deliver products to the stores, impact our consumers' ability to access our websites in a timely manner or expose confidential customer, merchandise, financial or other important information could have a material adverse effect on our results of operations, financial condition and cash flows.

In addition, from time to time, we make modifications and upgrades to the information technology systems for point-of-sale, e-commerce, merchandising, planning, sourcing, logistics, inventory management and support systems including human resources and finance. Modifications involve replacing legacy systems with successor systems, making changes to legacy systems or acquiring new systems with new functionality. We are aware of inherent risks associated with replacing these systems, including not accurately capturing data and system disruptions. Information technology system disruptions, if not anticipated and appropriately mitigated, could have a material adverse effect on our operations, financial condition and cash flows.

Our ability to maintain the security of customer, associate, supplier or company information could have an impact on our reputation and our results.

Information systems are susceptible to an increasing threat of continually evolving cybersecurity risks. Any significant compromise or breach of our data security could significantly damage our reputation with our customers, associates, investors and other third parties; cause the disclosure of confidential customer, associate, supplier or company information; cause our customers to stop shopping with us; and result in significant legal, regulatory and financial liabilities and lost revenues. While we have implemented systems and processes to protect against unauthorized access to our information systems and prevent data loss, there is no guarantee that these procedures are adequate to safeguard against all data security breaches. In addition to our own networks and databases, we use third-party service providers to store, process and transmit certain of this information on our behalf. Although we contractually require these service providers to implement and use reasonable security measures, we cannot control third parties and cannot guarantee that a security breach will not occur in their

systems. We have confidential security measures in place to protect our physical facilities and information technology systems from attacks. Despite these measures, we may be vulnerable to targeted or random security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or similar events.

The regulatory environment related to information security, data collection and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs, such as costs related to organizational changes, implementing additional protection technologies, training associates and engaging consultants. Additionally, we could incur lost revenues and face increased litigation as a result of any potential cybersecurity breach.

These risks could have a material adverse effect on our results of operations, financial condition and cash flows.

We may be impacted by our ability to comply with regulatory requirements.

We are subject to numerous regulatory requirements. Our policies, procedures and internal controls are designed to comply with all applicable foreign and domestic laws and regulations, including those required by the Sarbanes-Oxley Act of 2002, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, the SEC and the New York Stock Exchange (the “NYSE”), among others. Although we have put in place policies and procedures aimed at ensuring legal and regulatory compliance, our associates, subcontractors, vendors, licensees, franchisees and suppliers could take actions that violate these laws and regulations. Any violations of such laws or regulations could have an adverse effect on our reputation, market price of our common stock, results of operations, financial condition and cash flows.

It can be difficult to comply with sometimes conflicting regulations in local, national or foreign jurisdictions as well as new or changing regulations. Also, changes in such laws could make operating our business more expensive or require us to change the way we do business. For example, changes in product safety or other consumer protection laws could lead to increased costs for certain merchandise, or additional labor costs associated with readying merchandise for sale. It may be difficult for us to oversee regulatory changes impacting our business and our responses to changes in the law could be costly and may negatively impact our operations.

We may be adversely impacted by certain compliance or legal matters.

We, along with third parties we do business with, are subject to complex compliance and litigation risks. Actions filed against us from time to time include commercial, tort, intellectual property, customer, employment, wage and hour, data privacy, securities, anti-corruption and other claims, including purported class action lawsuits. The cost of defending against these types of claims against us or the ultimate resolution of such claims, whether by settlement or adverse court decision, may harm our business. Further, potential claimants may be encouraged to bring suits based on a settlement from us or adverse court decisions against us. We cannot currently assess the likely outcome of such suits, but if the outcome were negative, it could have a material adverse effect on our reputation, results of operations, financial condition and cash flows.

In addition, we may be impacted by litigation trends, including class action lawsuits involving consumers and shareholders, that could have a material adverse effect on our reputation, market price of our common stock, results of operations, financial condition and cash flows.

We may be impacted by changes in taxation, trade and other regulatory requirements.

We are subject to income tax in local, national and international jurisdictions. In addition, our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions. We are also subject to the examination of our tax returns and other tax matters by the Internal Revenue Service and other tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these

examinations to determine the adequacy of our provision for taxes. There can be no assurance as to the outcome of these examinations. Fluctuations in tax rates and duties, changes in tax legislation or regulation or adverse outcomes of these examinations could have a material adverse effect on our results of operations, financial condition and cash flows.

There is increased uncertainty with respect to tax policy and trade relations between the U.S. and other countries. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of unilateral tariffs on imported products, could have a material adverse effect on our results of operations, financial condition and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The following table provides the location, use and size of our distribution, corporate and product development facilities as of January 28, 2017:

<u>Location</u>	<u>Use</u>	<u>Approximate Square Footage</u>
Columbus, Ohio area	Corporate, distribution and shipping	6,938,000
New York	Office, sourcing and product development/design	580,000
Kettering, Ohio	Call center	94,000
Montreal, Quebec, Canada	Office	60,000
Hong Kong	Office and sourcing	60,000
Mainland China	Office	27,000
Various international locations	Office and sourcing	128,000

United States

Our business for the Victoria’s Secret, Bath & Body Works and Victoria’s Secret and Bath & Body Works International segments is principally conducted from office, distribution and shipping facilities located in the Columbus, Ohio area. Additional facilities are located in New York, New York and Kettering, Ohio.

Our distribution and shipping facilities consist of eight buildings located in the Columbus, Ohio area. These buildings, including attached office space, comprise approximately 6.9 million square feet.

As of January 28, 2017, we operate 2,755 retail stores located in leased facilities, primarily in malls and shopping centers, throughout the U.S. A substantial portion of these lease commitments consists of store leases generally with an initial term of 10 years. The store leases expire at various dates between 2017 and 2031.

Typically, when space is leased for a retail store in a mall or shopping center, we supply all improvements, including interior walls, floors, ceilings, fixtures and decorations. The cost of improvements varies widely, depending on the design, size and location of the store. In certain cases, the landlord of the property may provide an allowance to fund all or a portion of the cost of improvements, serving as a lease incentive. Rental terms for new locations usually include a fixed minimum rent plus a percentage of sales in excess of a specified amount. We usually pay certain operating costs such as common area maintenance, utilities, insurance and taxes. For additional information, see Note 16 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

International

Canada

We lease an office in the Montreal, Quebec area.

As of January 28, 2017, we operate 270 retail stores located in leased facilities, primarily in malls and shopping centers, throughout the Canadian provinces. A substantial portion of these lease commitments consists of store leases generally with an initial term of 5 years. The store leases expire on various dates between 2017 and 2030.

United Kingdom

As of January 28, 2017, we operate 18 retail stores in leased facilities in the U.K. These lease commitments consist of store leases with initial terms ranging from 10 to 35 years expiring on various dates between 2021 and 2045.

Greater China

We lease offices in Shanghai, Shenzhen and Hong Kong within Greater China.

As of January 28, 2017, we operate 31 retail stores in leased facilities in the Greater China area. These lease commitments consist of store leases with initial terms ranging from 3 to 5 years expiring on various dates between 2017 and 2021.

Other International

As of January 28, 2017, we also have global representation through stores operated by our partners:

- 391 Victoria's Secret Beauty and Accessories stores in more than 70 countries;
- 203 La Senza stores in 24 countries;
- 159 Bath & Body Works stores in 30 countries;
- 23 Victoria's Secret stores in 12 countries; and
- 5 PINK stores in 3 countries.

We also operate sourcing-related office facilities in various international locations.

ITEM 3. LEGAL PROCEEDINGS.

We are a defendant in a variety of lawsuits arising in the ordinary course of business. Actions filed against our Company from time to time include commercial, tort, intellectual property, customer, employment, data privacy, securities and other claims, including purported class action lawsuits. Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, our current legal proceedings are not expected to have a material adverse effect on our results of operations, financial condition and cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock ("LB") is traded on the NYSE. As of January 28, 2017, there were approximately 36,000 shareholders of record. However, including active associates who participate in our stock purchase plan, associates who own shares through our sponsored retirement plans and others holding shares in broker accounts under street names, we estimate the shareholder base to be approximately 198,000.

The following table provides our quarterly market prices and cash dividends per share for 2016 and 2015:

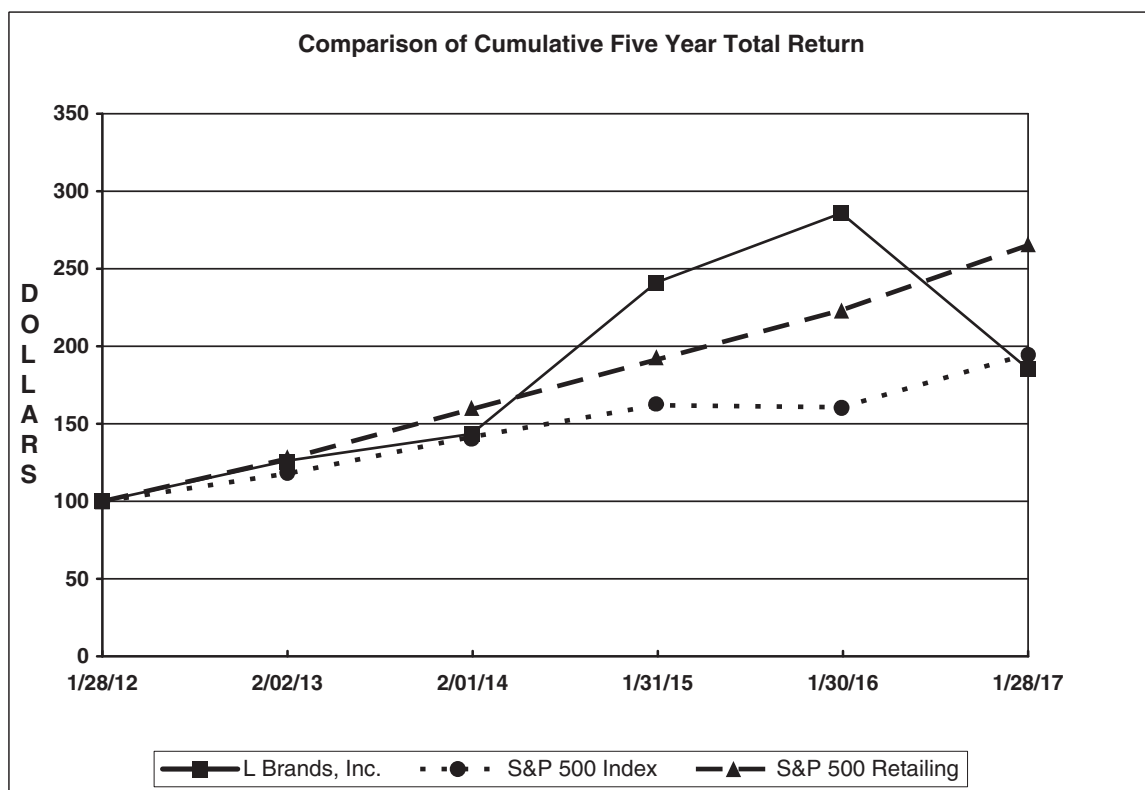
	Market Price		Cash Dividend per Share
	High	Low	
2016			
Fourth quarter	\$ 75.50	\$58.75	\$0.60
Third quarter	79.67	69.33	0.60
Second quarter	80.20	60.00	0.60
First quarter	97.35	75.91	2.60(a)
2015			
Fourth quarter	\$101.11	\$88.66	\$0.50
Third quarter	97.93	75.11	0.50
Second quarter	92.13	80.42	0.50
First quarter	95.78	82.38	2.50(b)

- (a) In February 2016, our Board of Directors declared an increase in our quarterly common stock dividend from \$0.50 to \$0.60 per share and a special dividend of \$2 per share. Both dividends were distributed on March 4, 2016 to shareholders of record at the close of business on February 19, 2016.
- (b) In February 2015, our Board of Directors declared an increase in our quarterly common stock dividend from \$0.34 to \$0.50 per share and a special dividend of \$2 per share. Both dividends were distributed on March 6, 2015 to shareholders of record at the close of business on February 20, 2015.

In February 2017, our Board of Directors declared our first quarter of 2017 common stock dividend of \$0.60 per share. This dividend was distributed on March 3, 2017 to shareholders of record at the close of business on February 17, 2017.

The following graph shows the changes, over the past five-year period, in the value of \$100 invested in our common stock, the Standard & Poor's 500 Composite Stock Price Index and the Standard & Poor's 500 Retail Composite Index.

**COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN (a) (b) (c) (d) (e)
AMONG L BRANDS, INC., THE S&P 500 INDEX AND THE S&P RETAIL COMPOSITE INDEX**



- (a) This table represents \$100 invested in stock or in index at the closing price on January 28, 2012, including reinvestment of dividends.
 (b) The January 28, 2017 cumulative total return includes the \$2 special dividend in March 2016.
 (c) The January 30, 2016 cumulative total return includes the \$2 special dividend in March 2015.
 (d) The January 31, 2015 cumulative total return includes the \$1 special dividend in March 2014.
 (e) The February 2, 2013 cumulative total return includes the \$1 and \$3 special dividends in September 2012 and December 2012, respectively.

The following table provides our repurchases of our common stock during the fourth quarter of 2016:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Programs (c)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Programs (c)
	(in thousands)			(in thousands)
November 2016	178	\$66.67	165	\$79,139
December 2016	21	69.90	14	78,146
January 2017	273	61.16	270	61,636
Total	<u>472</u>	63.63	<u>449</u>	

- (a) The total number of shares repurchased includes shares repurchased as part of publicly announced programs, with the remainder relating to shares repurchased in connection with tax payments due upon vesting of employee restricted stock awards and the use of our stock to pay the exercise price on employee stock options.
 (b) The average price paid per share includes any broker commissions.
 (c) For additional share repurchase program information, see Note 19 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Year Ended				
	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014	February 2, 2013(a)
(in millions)					
Summary of Operations					
Net Sales	\$12,574	\$12,154	\$11,454	\$10,773	\$10,459
Gross Profit	5,125	5,204	4,808	4,429	4,386
Operating Income (b)	2,003	2,192	1,953	1,743	1,573
Net Income (c)	1,158	1,253	1,042	903	753
(as a percentage of net sales)					
Gross Profit	40.8%	42.8%	42.0%	41.1%	41.9%
Operating Income	15.9%	18.0%	17.1%	16.2%	15.0%
Net Income	9.2%	10.3%	9.1%	8.4%	7.2%
Per Share Results					
Net Income Per Basic Share	\$ 4.04	\$ 4.30	\$ 3.57	\$ 3.12	\$ 2.60
Net Income Per Diluted Share	\$ 3.98	\$ 4.22	\$ 3.50	\$ 3.05	\$ 2.54
Dividends Per Share	\$ 4.40	\$ 4.00	\$ 2.36	\$ 1.20	\$ 5.00
Weighted Average Diluted Shares Outstanding (in millions)	291	297	298	296	297
(in millions)					
Other Financial Information					
Cash and Cash Equivalents	\$ 1,934	\$ 2,548	\$ 1,681	\$ 1,519	\$ 773
Total Assets	8,170	8,493	7,476	7,127	5,946
Working Capital	1,451	2,281	1,520	1,296	638
Net Cash Provided by Operating Activities	1,890	1,869	1,786	1,248	1,351
Capital Expenditures	990	727	715	691	588
Long-term Debt	5,700	5,715	4,722	4,711	4,425
Other Long-term Liabilities	831	904	820	770	818
Shareholders' Equity (Deficit)	(729)	(259)	18	(370)	(1,015)
Comparable Sales Increase (d)	2%	5%	4%	1%	6%
Comparable Store Sales Increase (d)	1%	5%	4%	2%	6%
Return on Average Assets	14%	16%	14%	14%	13%
Current Ratio	1.7	2.2	1.9	1.7	1.4
Stores and Associates at End of Year					
Number of Stores (e)	3,074	3,005	2,969	2,923	2,876
Selling Square Feet (in thousands) (e)	12,395	11,902	11,536	11,169	10,849
Number of Associates	93,600	87,900	80,100	94,600	99,400

(a) The fiscal year ended February 2, 2013 ("2012") represents a 53-week fiscal year.

(b) Operating income includes the effect of the following items:

- (i) In 2016, a \$35 million charge related to announced actions at Victoria's Secret, including severance charges, fabric cancellations and the write-off of catalogue paper.
- (ii) In 2012, a \$93 million impairment charge related to goodwill and other intangible assets for our La Senza business; a \$27 million impairment charge related to long-lived stores assets for our Henri Bendel business; and \$14 million of expense associated with a store closure initiative at La Senza.

- (c) In addition to the items previously discussed in (b), net income includes the effect of the following items:
- (i) In 2016, a \$70 million gain related to a \$124 million cash distribution from Easton Town Center, LLC, a \$42 million tax benefit related to the favorable resolution of a discrete income tax matter, partially offset by a \$22 million loss associated with the early extinguishment of our 2017 Notes.
 - (ii) In 2015, a \$69 million gain related to the divestiture of our remaining ownership interest in our third-party apparel sourcing business.
 - (iii) In 2012, a \$13 million gain related to \$13 million in cash distributions from certain of our investments in Easton, an approximately 1,300 acre planned community in Columbus, Ohio that integrates office, hotel, retail, residential and recreational space.

For additional information on 2016 items, see the Notes to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

The effect of the items described in (b) and (c) above increased (decreased) earnings per share by \$0.23 in 2016, \$0.23 in 2015 and \$(0.38) in 2012.

- (d) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store. The percentage change in comparable sales are calculated on a comparable calendar period. Therefore, the percentage change in comparable sales for 2016, 2015, 2014 and 2013 were calculated on a 52 to 52 week basis and the percentage change in comparable sales for 2012 was calculated on a 53 to 53 week basis. Comparable sales attributable to our international stores are calculated on a constant currency basis.
- (e) Number of stores and selling square feet excludes independently owned Victoria's Secret Beauty and Accessories, Victoria's Secret, PINK, Bath & Body Works and La Senza stores operated by our partners.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as codified in the Accounting Standards Codification (“ASC”). The following information should be read in conjunction with our financial statements and the related notes included in Item 8. Financial Statements and Supplementary Data.

Our operating results are generally impacted by economic changes and, therefore, we monitor the retail environment using, among other things, certain key industry performance indicators including competitor performance and mall traffic data. These can provide insight into consumer spending patterns and shopping behavior in the current retail environment and assist us in assessing our performance as well as the potential impact of industry trends on our future operating results. Additionally, we evaluate a number of key performance indicators including comparable sales, gross profit, operating income and other performance metrics such as sales per average selling square foot and inventory per selling square foot in assessing our performance.

Executive Overview

We have a multi-year goal to grow our business and increase operating margins for our brands by focusing on these key business priorities:

- Grow our business in North America;
- Extend our core brands internationally; and
- Focus on the fundamentals of our business including managing inventory, expenses and capital with discipline.

We also continue to focus on:

- Attracting and retaining top talent;
- Maintaining a strong cash and liquidity position while optimizing our capital structure; and
- Returning value to our shareholders.

The following is a discussion of certain of our key business priorities:

Grow our business in North America

Our first focus is on the substantial growth opportunity in North America.

In 2016, we announced strategic decisions within Victoria’s Secret to evolve the business with the changing retail environment. To better focus our resources on core merchandise categories, we decided to eliminate non-core categories including swim in our lingerie business, and apparel items that were offered in our direct channel but not in stores. The elimination of these categories will more closely align the stores and direct channels, and will enable us to increase our focus on our core categories where we have bigger growth opportunities. Additionally, we substantially reduced direct mail couponing and eliminated our catalogue circulation, instead focusing on brand building and loyalty-enhancing marketing. In 2017, we plan to increase our square footage at Victoria’s Secret North America by about 1% through remodels of existing stores and the opening of approximately 3 net new Victoria’s Secret stores. In our direct channel, we have the infrastructure in place to support growth. We believe our direct channel is an important form of brand advertising given the ubiquitous nature of the internet and our large customer file.

The core of Bath & Body Works is its personal care, home fragrance products, soaps and sanitizers which together make up the majority of sales and profits for the business. We see clear opportunities for substantial

growth in these categories by focusing on product newness and innovation and expanding into under-penetrated market and price segments. We also have an opportunity to expand by creating a Bath & Body Works and White Barn shop-in-shop at many of our store locations. In 2017, we plan to increase our square footage at Bath & Body Works North America by about 4% through remodels of existing stores and the opening of approximately 25 net new Bath & Body Works stores. Additionally, www.BathandBodyWorks.com continues to exhibit significant year-over-year growth.

Extend our core brands internationally

We believe there is substantial opportunity for international growth. We have separate, dedicated teams that have taken a methodical, “test and learn” approach to expansion. We began our international expansion with the acquisition of La Senza at the beginning of 2007, and in 2016 we’ve continued to expand our presence outside of North America by opening company-owned stores, as well as increasing the number of stores operated by our international partners.

In 2016, we accomplished the following:

- **Victoria’s Secret International Stores**—We have made significant progress in expanding Victoria’s Secret internationally, in particular in Greater China. We have established a regional office with a management team with experience in growing global brands in the region. In fiscal 2017, we plan to open six Victoria’s Secret full-assortment stores in Greater China, with two of them having opened in February 2017. In the U.K., we opened three company-owned Victoria’s Secret full-assortment stores and one PINK store, bringing the total to 18. In 2017, we plan to open two additional Victoria’s Secret full-assortment stores and one PINK store in the U.K. We also plan to open our first Victoria’s Secret full-assortment store in Ireland in 2017. Finally, our partners opened seven Victoria’s Secret full-assortment stores and two PINK stores in 2016 with notable openings in Russia, Mexico and Singapore, bringing the total to 28. Our partners plan to open an additional 10 to 15 Victoria’s Secret full-assortment stores and one PINK store in 2017.
- **Victoria’s Secret Beauty and Accessories Stores**—We acquired 26 Victoria’s Secret Beauty and Accessories stores from our partner in Greater China, while opening five net new stores in the region during the year. Our partners opened 44 net new Victoria’s Secret Beauty and Accessories stores, bringing the total to 391. These stores are located in local markets, airports and tourist destinations, and are focused on Victoria’s Secret branded beauty and accessory products. Our partners plan to open an additional 45 to 60 Victoria’s Secret Beauty and Accessories stores in 2017.
- **Bath & Body Works International Stores**—Our partners opened 34 net new Bath & Body Works stores in 2016, bringing the total in the Middle East, Latin America, Southeast Asia and Europe to 159. Our partners plan to open 45 to 55 additional stores in 2017.

Focus on the fundamentals of our business

We are focused on the fundamentals of our business which include our customers, core merchandise categories, inventory management, speed and agility, and store selling and execution. In terms of speed and agility, we are focused on inventory discipline through lead-time reductions and in-season agility to increase sales and reduce promotional activity. Finally, we continue to optimize our store selling and execution by concentrating on a better store experience and developing and retaining talented, trained and productive store associates.

2016 Overview

Our net sales increased \$420 million to \$12.574 billion driven by a comparable sales increase of 2%. Our operating income decreased \$189 million to \$2.003 billion and our operating income rate decreased to 15.9% from 18.0% driven by a decline in all segments.

For additional information related to our 2016 financial performance, see “Results of Operations – 2016 Compared to 2015.”

We accomplished the following in 2016:

- Continued to expand company-owned Victoria’s Secret and PINK stores in the U.S., Canada, and U.K. and company-owned Bath & Body Works stores in the U.S. and Canada;
- Continued to grow our direct businesses, increasing sales by 6%;
- Continued to expand Bath & Body Works and Victoria’s Secret stores and Victoria’s Secret Beauty and Accessories stores with partners throughout the world;
- Made a number of important changes to our Victoria’s Secret business to simplify the business and accelerate growth. Notably, we reorganized the business and integrated the direct channel into three separate business units (Lingerie, PINK and Beauty), eliminated the non-core merchandise categories of swim and apparel in order to increase focus and accelerate growth in our core categories, and we evolved how the business connects with customers through more focus on brand-building and loyalty-enhancing marketing rather than traditional catalogues and offers;
- Moved from a franchise operating model to a wholly-owned model in Greater China by reacquiring franchise rights from one of our partners which included 26 existing Victoria’s Secret Beauty and Accessories stores, launched our online business in Greater China on Tmall Global, and built the capability and infrastructure to support future growth; and
- Our capital expenditures of \$990 million included \$772 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

We also are committed to returning value to our shareholders through a combination of dividends and share repurchase programs. During 2016, we paid \$1.268 billion in regular and special dividends and repurchased \$438 million of our common stock. We use cash flow generated from operating and financing activities to fund our dividends and share repurchase programs. Since 2000, we have returned approximately \$19 billion to shareholders through share repurchases and dividends.

Adjusted Financial Information

In addition to our results provided in accordance with GAAP above and throughout this Form 10-K, provided below are non-GAAP measurements which present operating income, net income and earnings per share in 2016 and 2015 on an adjusted basis, which remove certain special items. We believe that these special items are not indicative of our ongoing operations due to their size and nature. We use adjusted financial information as key performance measures of results of operations for the purpose of evaluating performance internally. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Instead, we believe that the presentation of adjusted financial information provides additional information to investors to facilitate the comparison of past and present operations. Further, our definition of adjusted financial information may differ from similarly titled measures used by other companies. The table below reconciles the GAAP financial measures to the non-GAAP financial measures.

<u>(in millions, except per share amounts)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Detail of Special Items included in Operating Income—Income (Expense)</u>			
Victoria’s Secret Restructuring (a)	\$ (35)	\$ —	\$ —
Total Special Items included in Operating Income	<u>\$ (35)</u>	<u>\$ —</u>	<u>\$ —</u>
<u>Detail of Special Items included in Other Income—Income (Loss)</u>			
Loss on Extinguishment of Debt (b)	\$ (36)	\$ —	\$ —
Gain on Distribution from Easton Town Center, LLC (c)	108	—	—
Gain on Divestiture of Third-party Apparel Sourcing Business (d)	—	78	—
Total Special Items included in Other Income	<u>\$ 72</u>	<u>\$ 78</u>	<u>\$ —</u>

<u>(in millions, except per share amounts)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Detail of Special Items included in Provision for Income Taxes—Benefit (Provision)</u>			
Tax Benefit from the Settlement of a Discrete Tax Matter (e)	\$ 42	\$ —	\$ —
Tax Effect of Special Items included in Operating Income and Other Income	(11)	(9)	—
Total Special Items included in Provision for Income Taxes	<u>\$ 30</u>	<u>\$ (9)</u>	<u>\$ —</u>
<u>Reconciliation of Reported Operating Income to Adjusted Operating Income</u>			
Reported Operating Income	\$2,003	\$2,192	\$1,953
Special Items included in Operating Income	35	—	—
Adjusted Operating Income	<u>\$2,037</u>	<u>\$2,192</u>	<u>\$1,953</u>
<u>Reconciliation of Reported Net Income to Adjusted Net Income</u>			
Reported Net Income	\$1,158	\$1,253	\$1,042
Special Items included in Net Income	(68)	(69)	—
Adjusted Net Income	<u>\$1,090</u>	<u>\$1,184</u>	<u>\$1,042</u>
<u>Reconciliation of Reported Earnings Per Diluted Share to Adjusted Earnings Per Diluted Share</u>			
Reported Earnings Per Diluted Share	\$ 3.98	\$ 4.22	\$ 3.50
Special Items included in Earnings Per Diluted Share	(0.23)	(0.23)	—
Adjusted Earnings Per Diluted Share	<u>\$ 3.74</u>	<u>\$ 3.99</u>	<u>\$ 3.50</u>

- (a) In the first quarter of 2016, strategic actions within the Victoria's Secret segment were taken, designed to focus the brand on its core merchandise categories and streamline operations. As a result of these actions, we recorded charges related to severance and related costs, fabric cancellations and catalogue paper write-offs. For additional information see Note 5, "Restructuring Activities" included in Item 8. Financial Statements and Supplementary Data.
- (b) In the second quarter of 2016, we repurchased our \$700 million 6.90% Senior Unsecured Notes due July 2017 resulting in a pre-tax loss on extinguishment of \$36 million (after-tax loss of \$22 million). For additional information see Note 12, "Long-term Debt" included in Item 8. Financial Statements and Supplementary Data.
- (c) In the second quarter of 2016, we received a \$124 million cash distribution from Easton Town Center, LLC resulting in a pre-tax gain of \$108 million (after-tax gain of \$70 million). For additional information see Note 9, "Equity Investments and Other" included in Item 8. Financial Statements and Supplementary Data.
- (d) In the first quarter of 2015, we divested our remaining ownership interest in our third-party apparel sourcing business. We received cash proceeds of \$85 million and recognized a pre-tax gain of \$78 million (after-tax gain of \$69 million). For additional information see Note 9, "Equity Investments and Other" included in Item 8. Financial Statements and Supplementary Data.
- (e) In the fourth quarter of 2016, we recorded a \$42 million tax benefit related to the favorable resolution of a discrete income tax matter. For additional information see Note 11, "Income Taxes" included in Item 8. Financial Statements and Supplementary Data.

2017 Outlook

The global retail sector and our business continue to face an uncertain environment and, as a result, we continue to take a conservative stance with respect to the financial management of our business. We will continue to manage our business carefully, and we will focus on the execution of the retail fundamentals.

At the same time, we are aggressively focusing on bringing compelling merchandise assortments and marketing, store and online experiences to our customers. We will look for, and capitalize on, those opportunities available to us. We believe that our brands, which lead their categories and offer high emotional content to customers at accessible prices, are well positioned heading into 2017.

Company-Owned Store Data

The following table compares 2016 company-owned store data to the comparable periods for 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>% Change</u>	
				<u>2016</u>	<u>2015</u>
Sales per Average Selling Square Foot					
Victoria's Secret U.S.	\$ 844	\$ 864	\$ 836	(2%)	3%
Bath & Body Works U.S.	831	815	774	2%	5%
Sales per Average Store (in thousands)					
Victoria's Secret U.S.	\$5,288	\$5,300	\$5,061	—%	5%
Bath & Body Works U.S.	2,010	1,933	1,828	4%	6%
Average Store Size (selling square feet)					
Victoria's Secret U.S.	6,349	6,187	6,083	3%	2%
Bath & Body Works U.S.	2,459	2,382	2,359	3%	1%
Total Selling Square Feet (in thousands)					
Victoria's Secret U.S.	7,181	6,917	6,679	4%	4%
Bath & Body Works U.S.	3,912	3,749	3,675	4%	2%

The following table compares 2016 company-owned store data to the comparable periods for 2015 and 2014:

<u>Number of Stores</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Victoria's Secret U.S.			
Beginning of Period	1,118	1,098	1,060
Opened	23	28	45
Closed	(10)	(8)	(7)
End of Period	<u>1,131</u>	<u>1,118</u>	<u>1,098</u>
Victoria's Secret Canada			
Beginning of Period	46	41	34
Opened	—	6	7
Closed	—	(1)	—
End of Period	<u>46</u>	<u>46</u>	<u>41</u>
Bath & Body Works U.S.			
Beginning of Period	1,574	1,558	1,559
Opened	30	23	14
Closed	(13)	(7)	(15)
End of Period	<u>1,591</u>	<u>1,574</u>	<u>1,558</u>
Bath & Body Works Canada			
Beginning of Period	98	88	79
Opened	5	10	10
Closed	(1)	—	(1)
End of Period	<u>102</u>	<u>98</u>	<u>88</u>
Victoria's Secret U.K.			
Beginning of Period	14	10	5
Opened	4	4	5
Closed	—	—	—
End of Period	<u>18</u>	<u>14</u>	<u>10</u>

<u>Number of Stores</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Victoria's Secret Beauty and Accessories			
Beginning of Period	—	—	—
Acquired (a)	26	—	—
Opened	6	—	—
Closed	(1)	—	—
End of Period	<u>31</u>	<u>—</u>	<u>—</u>
La Senza U.S.			
Beginning of Period	—	—	—
Opened	4	—	—
Closed	—	—	—
End of Period	<u>4</u>	<u>—</u>	<u>—</u>
La Senza Canada			
Beginning of Period	126	145	157
Opened	—	1	—
Closed	(4)	(20)	(12)
End of Period	<u>122</u>	<u>126</u>	<u>145</u>
Henri Bendel			
Beginning of Period	29	29	29
Opened	—	—	—
Closed	—	—	—
End of Period	<u>29</u>	<u>29</u>	<u>29</u>
Total			
Beginning of Period	3,005	2,969	2,923
Acquired (a)	26	—	—
Opened	72	72	81
Closed	(29)	(36)	(35)
End of Period	<u>3,074</u>	<u>3,005</u>	<u>2,969</u>

(a) Relates to the acquisition of Victoria's Secret Beauty and Accessories franchise stores in Greater China. For additional information see Note 4, "Acquisition" included in Item 8. Financial Statements and Supplementary Data.

Noncompany-Owned Store Data

The following table compares the 2016 noncompany-owned store data to the comparable periods for 2015 and 2014:

<u>Number of Stores</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Victoria's Secret Beauty & Accessories			
Beginning of Period	373	290	198
Opened	56	88	99
Closed	(12)	(5)	(7)
Transferred (a)	(26)	—	—
End of Period	<u>391</u>	<u>373</u>	<u>290</u>
Victoria's Secret			
Beginning of Period	19	14	4
Opened	9	5	10
Closed	—	—	—
End of Period	<u>28</u>	<u>19</u>	<u>14</u>
Bath & Body Works			
Beginning of Period	125	80	55
Opened	36	47	26
Closed	(2)	(2)	(1)
End of Period	<u>159</u>	<u>125</u>	<u>80</u>
La Senza			
Beginning of Period	221	266	331
Opened	6	5	6
Closed	(24)	(50)	(71)
End of Period	<u>203</u>	<u>221</u>	<u>266</u>
Total			
Beginning of Period	738	650	588
Opened	107	145	141
Closed	(38)	(57)	(79)
Transferred (a)	(26)	—	—
End of Period	<u>781</u>	<u>738</u>	<u>650</u>

(a) Relates to the acquisition of Victoria's Secret Beauty and Accessories franchise stores in Greater China. For additional information see Note 4, "Acquisition" included in Item 8. Financial Statements and Supplementary Data.

Results of Operations—2016 Compared to 2015

Operating Income

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for 2016 in comparison to 2015:

	2016	2015	Operating Income Rate	
			2016	2015
	(in millions)			
Victoria's Secret	\$1,173	\$1,391	15.1%	18.1%
Bath & Body Works	907	858	23.6%	23.9%
Victoria's Secret and Bath & Body Works International	40	88	9.4%	22.8%
Other (a)	(117)	(145)	(22.6)%	(28.5)%
Total Operating Income	<u>\$2,003</u>	<u>\$2,192</u>	<u>15.9%</u>	<u>18.0%</u>

(a) Includes Mast Global, La Senza, Henri Bendel and Corporate.

For 2016, operating income decreased \$189 million to \$2.003 billion, and the operating income rate decreased to 15.9% from 18.0%. The drivers of the operating income results are discussed in the following sections.

Net Sales

The following table provides net sales for 2016 in comparison to 2015:

	2016	2015	% Change
	(in millions)		
Victoria's Secret Stores (a)	\$ 6,199	\$ 6,112	1%
Victoria's Secret Direct	1,582	1,560	1%
Total Victoria's Secret	7,781	7,672	1%
Bath & Body Works Stores (a)	3,400	3,225	5%
Bath & Body Works Direct	452	362	25%
Total Bath & Body Works	3,852	3,587	7%
Victoria's Secret and Bath & Body Works International	423	385	10%
Other (b)	518	510	2%
Total Net Sales	<u>\$12,574</u>	<u>\$12,154</u>	<u>3%</u>

(a) Includes company-owned stores in the U.S. and Canada.

(b) Includes Mast Global, La Senza, Henri Bendel and Corporate.

The following table provides a reconciliation of net sales for 2015 to 2016:

	Victoria's Secret	Bath & Body Works	Victoria's Secret and Bath & Body Works International	Other	Total
2015 Net Sales	\$7,672	\$3,587	\$385	\$510	\$12,154
Comparable Store Sales	(46)	95	2	3	54
Sales Associated with New, Closed and Non- comparable Remodeled Stores, Net	136	82	65	(5)	278
Foreign Currency Translation	(3)	(2)	(21)	(3)	(29)
Direct Channels	22	90	—	11	123
International Wholesale, Royalty and Other	—	—	(8)	2	(6)
2016 Net Sales	<u>\$7,781</u>	<u>\$3,852</u>	<u>\$423</u>	<u>\$518</u>	<u>\$12,574</u>

The following table compares 2016 comparable sales to 2015:

	2016	2015
Comparable Sales (Stores and Direct) (a)		
Victoria's Secret (b)	—%	5%
Bath & Body Works (b)	6%	7%
Total Comparable Sales	2%	5%
Comparable Store Sales (a)		
Victoria's Secret (b)	(1)%	5%
Bath & Body Works (b)	3%	5%
Total Comparable Store Sales	1%	5%

- (a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store. Comparable sales attributable to our international stores are calculated on a constant currency basis.
- (b) Includes company-owned stores in the U.S. and Canada.

The results by segment are as follows:

Victoria's Secret

For 2016, net sales increased \$109 million to \$7.781 billion, comparable sales remained flat and comparable store sales decreased 1%. Net sales increased primarily due to increases in PINK and sport, driven by a compelling merchandise assortment that incorporated newness, innovation and fashion. These results were partially offset by decreases in swim and apparel due to a strategic decision to exit these categories, core bras due to lower average unit retail prices, and beauty as we reposition the category.

The decrease in comparable store sales was driven by a lower average unit retail and the impact of exited categories.

Bath & Body Works

For 2016, net sales increased \$265 million to \$3.852 billion, comparable sales increased 6% and comparable store sales increased 3%. Net sales increased in most categories, including home fragrance and Signature Collection, which incorporated newness, innovation, and fashion.

The increase in comparable store sales was primarily driven by a higher average unit retail.

Victoria's Secret and Bath & Body Works International

For 2016, net sales increased \$38 million to \$423 million primarily related to newly acquired Victoria's Secret Beauty and Accessories stores in Greater China, company-owned Victoria's Secret stores in the U.K., and additional stores opened by our partners. These results were partially offset by softness in the Victoria's Secret Beauty and Accessories business and the negative impacts of foreign currency.

Other

For 2016, net sales increased \$8 million to \$518 million primarily due to increases in our La Senza and Henri Bendel direct channels, partially offset by store closures and the negative impacts of foreign currency at La Senza.

Gross Profit

For 2016, our gross profit decreased \$79 million to \$5.125 billion, and our gross profit rate (expressed as a percentage of net sales) decreased to 40.8% from 42.8% primarily as a result of:

Victoria's Secret

For 2016, the gross profit decrease was primarily driven by a decline in merchandise margin due to clearance activity on non-go forward merchandise categories, promotions and pricing to drive trial in beauty and other key categories and fabric cancellations related to restructuring activities. Offsetting the merchandise margin decline, buying and occupancy expenses decreased primarily driven by a decrease in catalogue costs and other cost reductions from strategic actions taken in the first quarter, partially offset by an increase in occupancy expenses due to investments in store real estate.

The gross profit rate decrease was driven primarily by increases in the promotional and clearance activity described above, the expenses related to the restructuring activities and investments in store real estate, partially offset by lower buying and occupancy expenses due to decreased catalogue costs.

Bath & Body Works

For 2016, the gross profit increase was primarily driven by higher merchandise margin dollars related to the increase in net sales. The increase in merchandise margin was partially offset by higher occupancy expenses due to investments in store real estate.

The gross profit rate decrease was driven by an increase in occupancy expenses primarily due to investments in store real estate.

Victoria's Secret and Bath & Body Works International

For 2016, the gross profit decrease was primarily due to higher occupancy expenses driven by investments in store real estate in Greater China and the U.K., lower merchandise margin dollars at Victoria's Secret Beauty and Accessories due to business performance, and the negative impacts of foreign currency. These decreases were partially offset by increased merchandise margin dollars generated from higher net sales.

The gross profit rate decrease was driven by higher occupancy expenses due to investments in store real estate, a decrease in merchandise margin rate at Victoria's Secret Beauty and Accessories and the negative impacts of foreign currency.

General, Administrative and Store Operating Expenses

For 2016, our general, administrative and store operating expenses increased \$110 million to \$3.122 billion primarily driven by increased store selling expenses related to higher sales volume and investments in selling to improve the customer experience, increased marketing to drive traffic, severance charges related to the Victoria's Secret restructuring activities, and corporate expenses in Greater China, partially offset by lower incentive compensation expense.

Other Income and Expenses

Interest Expense

The following table provides the average daily borrowings and average borrowing rates for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Average daily borrowings (in millions)	\$5,827	\$5,005
Average borrowing rate (in percentages)	6.8%	6.7%

For 2016, our interest expense increased \$60 million to \$394 million primarily due to an increase in average borrowings related to the October 2015 \$1 billion issuance of our 2035 Notes, as well as an increase in the average borrowing rate.

Other Income

For 2016, our other income increased \$11 million to \$87 million primarily driven by a distribution received from Easton Town Center, LLC resulting in a gain of \$108 million, partially offset by a \$36 million loss on extinguishment of the 2017 Notes. In 2015, we recognized a gain of \$78 million due to the divestiture of our remaining ownership interest in the third-party apparel sourcing business.

Provision for Income Taxes

For 2016, our effective tax rate decreased to 31.7% from 35.2%. The 2016 rate was lower than our combined estimated federal and state statutory rate primarily due to the resolution of certain tax matters. The 2015 rate was lower than our combined estimated federal and state statutory rate primarily due to foreign earnings taxed at a rate lower than our combined estimated federal and state statutory rate.

Results of Operations—Fourth Quarter of 2016 Compared to Fourth Quarter of 2015

Operating Income

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for the fourth quarter of 2016 in comparison to the fourth quarter of 2015:

	Fourth Quarter		Operating Income Rate	
	2016	2015	2016	2015
	(in millions)			
Victoria's Secret	\$494	\$ 594	19.1%	22.7%
Bath & Body Works	502	487	31.0%	32.1%
Victoria's Secret and Bath & Body Works International	10	28	8.3%	25.0%
Other (a)	(18)	(31)	(11.7)%	(20.7)%
Total Operating Income	<u>\$988</u>	<u>\$1,078</u>	<u>22.0%</u>	<u>24.5%</u>

(a) Includes Mast Global, La Senza, Henri Bendel and Corporate.

For the fourth quarter of 2016, operating income decreased \$90 million to \$988 million, and the operating income rate decreased to 22.0% from 24.5%. The drivers of the operating income results are discussed in the following sections.

Net Sales

The following table provides net sales for the fourth quarter of 2016 in comparison to the fourth quarter of 2015:

Fourth Quarter	2016	2015	% Change
	(in millions)		
Victoria's Secret Stores (a)	\$2,063	\$2,047	1%
Victoria's Secret Direct	526	567	(7)%
Total Victoria's Secret	2,589	2,614	(1)%
Bath & Body Works Stores (a)	1,422	1,362	4%
Bath & Body Works Direct	198	158	25%
Total Bath & Body Works	1,620	1,520	7%
Victoria's Secret and Bath & Body Works International	124	112	10%
Other (b)	156	149	5%
Total Net Sales	<u>\$4,489</u>	<u>\$4,395</u>	<u>2%</u>

(a) Includes company-owned stores in the U.S. and Canada.

(b) Includes Mast Global, La Senza, Henri Bendel and Corporate.

The following table provides a reconciliation of net sales for the fourth quarter of 2016 to the fourth quarter of 2015:

<u>Fourth Quarter</u>	<u>Victoria's Secret</u>	<u>Bath & Body Works</u>	<u>Victoria's Secret and Bath & Body Works International</u>	<u>Other</u>	<u>Total</u>
	(in millions)				
2015 Net Sales	\$2,614	\$1,520	\$112	\$149	\$4,395
Comparable Store Sales	(38)	25	—	(1)	(14)
Sales Associated with New, Closed and Non-comparable Remodeled Stores, Net	52	33	25	—	110
Foreign Currency Translation	2	2	(9)	1	(4)
Direct Channels	(41)	40	—	4	3
International, Wholesale, Royalty and Other	—	—	(4)	3	(1)
2016 Net Sales	<u>\$2,589</u>	<u>\$1,620</u>	<u>\$124</u>	<u>\$156</u>	<u>\$4,489</u>

The following table compares fourth quarter of 2016 comparable sales to fourth quarter of 2015:

<u>Fourth Quarter</u>	<u>2016</u>	<u>2015</u>
Comparable Sales (Stores and Direct) (a)		
Victoria's Secret (b)	(3)%	7%
Bath & Body Works (b)	5%	7%
Total Comparable Sales	—%	8%
Comparable Store Sales (a)		
Victoria's Secret (b)	(2)%	5%
Bath & Body Works (b)	2%	6%
Total Comparable Store Sales	—%	6%

- (a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store. Comparable sales attributable to our international stores are calculated on a constant currency basis.
- (b) Includes company-owned stores in the U.S. and Canada.

The results by segment are as follows:

Victoria's Secret

For the fourth quarter of 2016, net sales decreased \$25 million to \$2.589 billion, comparable sales decreased 3% and comparable store sales decreased 2%. Net sales decreased primarily driven by a decline in total core bra sales due to lower average unit retail prices and decreases in swim and apparel due to a strategic decision to exit these categories. These results were partially offset by increases in PINK, sport and beauty driven by compelling merchandise assortment that incorporated newness, innovation and fashion.

The decrease in comparable store sales was driven by a lower average unit retail and the impact of exited categories.

Bath & Body Works

For the fourth quarter of 2016, net sales increased \$100 million to \$1.620 billion, comparable sales increased 5% and comparable store sales increased 2%. Net sales increased in most categories, including home fragrance and Signature Collection, which incorporated newness, innovation, and fashion.

The increase in comparable store sales was primarily driven by a higher average unit retail.

Victoria's Secret and Bath & Body Works International

For the fourth quarter of 2016, net sales increased \$12 million to \$124 million, primarily related to newly acquired Victoria's Secret Beauty and Accessories stores in Greater China, company-owned Victoria's Secret stores in the U.K., and additional stores opened by our partners. These results were partially offset by softness in the Victoria's Secret Beauty and Accessories business and the negative impacts of foreign currency at Victoria's Secret U.K.

Other

For the fourth quarter of 2016, net sales increased \$7 million to \$156 million primarily due to increases in our La Senza and Henri Bendel direct channels, partially offset by store closures at La Senza.

Gross Profit

For the fourth quarter of 2016, our gross profit decreased \$58 million to \$1.944 billion, and our gross profit rate (expressed as a percentage of net sales) decreased to 43.3% from 45.6% primarily as a result of:

Victoria's Secret

For the fourth quarter of 2016, the gross profit decrease was driven by a decline in merchandise margin primarily due to promotional events to drive traffic and proactively manage inventory, and a decline in beauty as we reposition the category. Buying and occupancy expenses decreased primarily driven by a decrease in catalogue costs and other cost reductions from strategic actions taken in the first quarter, partially offset by an increase in occupancy expenses due to investments in store real estate.

The gross profit rate decrease was driven primarily by increases in the promotional and clearance activity described above, partially offset by lower buying and occupancy expenses due to decreased catalogue costs.

Bath & Body Works

For the fourth quarter of 2016, the gross profit increase was driven by higher merchandise margin dollars primarily related to the increase in net sales. The increase in merchandise margin was partially offset by an increase in occupancy expenses due to investments in store real estate.

The gross profit rate decrease was driven by an increase in occupancy expenses primarily due to investments in store real estate.

Victoria's Secret and Bath & Body Works International

For the fourth quarter of 2016, the gross profit decrease was driven by higher occupancy expenses due to investments in store real estate in Greater China and the U.K., softness in the Victoria's Secret Beauty and Accessories business, and the negative impacts of foreign currency on merchandise margin at Victoria's Secret U.K. These decreases were partially offset by increased merchandise margin dollars generated from higher net sales.

The gross profit rate decrease was driven by an increase in occupancy expenses due to investments in store real estate, a decrease in the merchandise margin rate at Victoria's Secret Beauty and Accessories and the negative impacts of foreign currency at Victoria's Secret U.K.

General, Administrative and Store Operating Expenses

For the fourth quarter of 2016, our general, administrative and store operating expenses increased \$32 million to \$956 million primarily driven by increased store selling expenses related to higher sales volume and investments in selling to improve the customer experience, increased marketing to drive traffic and corporate expenses in Greater China, partially offset by lower incentive compensation expense.

The general, administrative and store operating expense rate increased to 21.3% from 21.0% due to store selling, marketing and our investment in China, partially offset by a reduction in incentive compensation expense.

Other Income and Expense

Interest Expense

The following table provides the average daily borrowings and average borrowing rates for the fourth quarter of 2016 and 2015:

<u>Fourth Quarter</u>	<u>2016</u>	<u>2015</u>
Average daily borrowings (in millions)	\$5,779	\$5,756
Average borrowing rate (in percentages)	6.9%	6.8%

For the fourth quarter of 2016, our interest expense increased \$1 million to \$98 million primarily due to an increase in the average borrowing rate.

Provision for Income Taxes

For the fourth quarter of 2016, our effective tax rate decreased to 29.2% from 35.2%. The 2016 rate was lower than our combined estimated federal and state statutory rate primarily due to the resolution of certain tax matters. The 2015 rate was lower than our combined estimated federal and state statutory rate primarily due to foreign earnings taxed at a rate lower than our combined estimated federal and state statutory rate.

Results of Operations—2015 Compared to 2014

Operating Income

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for 2015 in comparison to 2014:

	<u>Operating Income Rate</u>			
	<u>2015</u>	<u>2014</u>		
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(in millions)			
Victoria's Secret	\$1,391	\$1,271	18.1%	17.6%
Bath & Body Works	858	737	23.9%	22.0%
Victoria's Secret and Bath & Body Works International	88	78	22.8%	23.2%
Other (a)	(145)	(133)	(28.5)%	(23.8)%
Total Operating Income	<u>\$2,192</u>	<u>\$1,953</u>	<u>18.0%</u>	<u>17.1%</u>

(a) Includes Mast Global, La Senza, Henri Bendel and Corporate.

For 2015, operating income increased \$239 million to \$2.192 billion, and the operating income rate increased to 18.0% from 17.1%. The drivers of the operating income results are discussed in the following sections.

Net Sales

The following table provides net sales for 2015 in comparison to 2014:

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
	(in millions)		
Victoria's Secret Stores (a)	\$ 6,112	\$ 5,700	7%
Victoria's Secret Direct	1,560	1,507	3%
Total Victoria's Secret	7,672	7,207	6%
Bath & Body Works Stores (a)	3,225	3,048	6%
Bath & Body Works Direct	362	302	20%
Total Bath & Body Works	3,587	3,350	7%
Victoria's Secret and Bath & Body Works International	385	336	15%
Other (b)	510	561	(9%)
Total Net Sales	<u>\$12,154</u>	<u>\$11,454</u>	<u>6%</u>

(a) Includes company-owned stores in the U.S. and Canada.

(b) Includes Mast Global, La Senza, Henri Bendel and Corporate.

The following table provides a reconciliation of net sales for 2014 to 2015:

	<u>Victoria's Secret</u>	<u>Bath & Body Works</u>	<u>Victoria's Secret and Bath & Body Works International</u>	<u>Other</u>	<u>Total</u>
2014 Net Sales	\$7,207	\$3,350	\$336	\$561	\$11,454
Comparable Store Sales	256	156	8	11	431
Sales Associated with New, Closed and Non- comparable Remodeled Stores, Net	190	50	25	(20)	245
Foreign Currency Translation	(34)	(29)	(9)	(34)	(106)
Direct Channels	53	60	—	12	125
International Wholesale, Royalty and Other	—	—	25	(20)	5
2015 Net Sales	<u>\$7,672</u>	<u>\$3,587</u>	<u>\$385</u>	<u>\$510</u>	<u>\$12,154</u>

The following table compares 2015 comparable sales to 2014:

	<u>2015</u>	<u>2014</u>
Comparable Sales (Stores and Direct) (a)		
Victoria's Secret (b)	5%	2%
Bath & Body Works (b)	7%	7%
Total Comparable Sales	5%	4%
Comparable Store Sales (a)		
Victoria's Secret (b)	5%	3%
Bath & Body Works (b)	5%	6%
Total Comparable Store Sales	5%	4%

(a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand

in the mall changes by 20% or more through the opening or closing of a second store. Comparable sales attributable to our international stores are calculated on a constant currency basis.

(b) Includes company-owned stores in the U.S. and Canada.

The results by segment are as follows:

Victoria's Secret

For 2015, net sales increased \$465 million to \$7.672 billion, comparable sales increased 5% and comparable store sales increased 5%. The net sales result was primarily driven by:

- At Victoria's Secret Stores, net sales increased 7% due to the performance in PINK, core lingerie and sport driven by a compelling merchandise assortment that incorporated newness, innovation and fashion, as well as in-store execution. These results were partially offset by a decrease in beauty driven by the repositioning of this category and the exit of make-up.
- At Victoria's Secret Direct, net sales increased 3% due to the performance in PINK, core lingerie and sport driven by a compelling merchandise assortment that incorporated newness, innovation and fashion. The results were partially offset by a decrease in non go-forward apparel.

The increase in comparable store sales was driven by higher average dollar sales and an increase in total transactions.

Bath & Body Works

For 2015, net sales increased \$237 million to \$3.587 billion, comparable sales increased 7% and comparable store sales increased 5%. At both Bath & Body Works Stores and Bath & Body Works Direct, net sales increased across most categories including home fragrance, Signature Collection and soaps and sanitizers, which all incorporated newness and innovation.

The increase in comparable store sales was driven by higher average dollar sales and an increase in total transactions.

Victoria's Secret and Bath & Body Works International

For 2015, net sales increased \$49 million to \$385 million primarily related to company-owned Victoria's Secret stores in the U.K. and additional stores opened by our partners. These results were partially offset by the negative impacts of foreign currency at Victoria's Secret Beauty and Accessories and Victoria's Secret U.K.

Other

For 2015, net sales decreased \$51 million to \$510 million primarily related to a decrease in net sales at La Senza due to store closures and the negative impacts of foreign currency.

Gross Profit

For 2015, our gross profit increased \$396 million to \$5.204 billion, and our gross profit rate (expressed as a percentage of net sales) increased to 42.8% from 42.0% primarily as a result of:

Victoria's Secret

For 2015, gross profit increased primarily driven by:

- At Victoria's Secret Stores, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales. The increase in merchandise margin dollars was partially offset by higher buying

and occupancy expenses due to an increase in occupancy expense driven by higher net sales and investments in store real estate.

- At Victoria's Secret Direct, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales. The increase in merchandise margin was partially offset by higher buying and occupancy expenses driven by investments in our online customer shopping experience.

The gross profit rate increase was primarily driven by an increase in the merchandise margin rate at Victoria's Secret Direct due to increased sales in our core categories.

Bath & Body Works

For 2015, gross profit increased primarily driven by:

- At Bath & Body Works Stores, gross profit increased due to higher merchandise margin dollars related to the increase in net sales. The increase in merchandise margin dollars was partially offset by higher buying and occupancy expenses due to an increase in occupancy expense driven by higher net sales and investments in store real estate.
- At Bath & Body Works Direct, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales. The increase in merchandise margin was partially offset by higher buying and occupancy expenses due to an increase in fulfillment costs as a result of the increase in net sales.

The gross profit rate increase was primarily driven by an increase in the merchandise margin rate due to favorable product pricing.

Victoria's Secret and Bath & Body Works International

For 2015, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales due to the opening of new stores.

The gross profit rate decrease was primarily driven by a decrease in the merchandise margin rate due to the negative impacts of foreign currency.

General, Administrative and Store Operating Expenses

For 2015, our general, administrative and store operating expenses increased \$157 million to \$3.012 billion primarily driven by an increase in store selling expenses related to higher sales volumes and investments in store selling to improve the customer experience.

The general, administrative and store operating expense rate decreased to 24.8% from 24.9% primarily due to leverage associated with higher net sales.

Other Income and Expenses

Interest Expense

The following table provides the average daily borrowings and average borrowing rates for 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Average daily borrowings (in millions)	\$5,005	\$4,910
Average borrowing rate (in percentages)	6.7%	6.6%

For 2015, our interest expense increased \$10 million to \$334 million primarily due to an increase in average borrowings related to the October 2015 \$1 billion issuance of our 2035 Notes.

Other Income

For 2015, our other income increased \$69 million to \$76 million primarily driven by a pre-tax gain of \$78 million due to the divestiture of our remaining ownership interest in our third-party apparel sourcing business to Sycamore Partners.

Provision for Income Taxes

For 2015, our effective tax rate decreased to 35.2% from 36.3%. The 2015 and 2014 rates were lower than our combined estimated federal and state statutory rate primarily due to foreign earnings taxed at a rate lower than our combined estimated federal and state statutory rate.

Results of Operations—Fourth Quarter of 2015 Compared to Fourth Quarter of 2014

Operating Income

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for the fourth quarter of 2015 in comparison to the fourth quarter of 2014:

	Fourth Quarter		Operating Income Rate	
	2015	2014	2015	2014
	(in millions)			
Victoria's Secret	\$ 594	\$509	22.7%	21.2%
Bath & Body Works	487	449	32.1%	32.0%
Victoria's Secret and Bath & Body Works International	28	29	25.0%	27.9%
Other (a)	(31)	(30)	(20.7)%	(20.1)%
Total Operating Income	<u>\$1,078</u>	<u>\$957</u>	<u>24.5%</u>	<u>23.5%</u>

(a) Includes Mast Global, La Senza, Henri Bendel and Corporate.

For the fourth quarter of 2015, operating income increased \$121 million to \$1.078 billion, and the operating income rate increased to 24.5% from 23.5%. The drivers of the operating income results are discussed in the following sections.

Net Sales

The following table provides net sales for the fourth quarter of 2015 in comparison to the fourth quarter of 2014:

Fourth Quarter	2015	2014	% Change
	(in millions)		
Victoria's Secret Stores (a)	\$2,047	\$1,914	7%
Victoria's Secret Direct	567	492	15%
Total Victoria's Secret	2,614	2,406	9%
Bath & Body Works Stores (a)	1,362	1,277	7%
Bath & Body Works Direct	158	127	24%
Total Bath & Body Works	1,520	1,404	8%
Victoria's Secret and Bath & Body Works International	112	106	6%
Other (b)	149	153	(3)%
Total Net Sales	<u>\$4,395</u>	<u>\$4,069</u>	<u>8%</u>

(a) Includes company-owned stores in the U.S. and Canada.

(b) Includes Mast Global, La Senza, Henri Bendel and Corporate.

The following table provides a reconciliation of net sales for the fourth quarter of 2014 to the fourth quarter of 2015:

<u>Fourth Quarter</u>	<u>Victoria's Secret</u>	<u>Bath & Body Works</u>	<u>Victoria's Secret and Bath & Body Works International</u>	<u>Other</u>	<u>Total</u>
	(in millions)				
2014 Net Sales	\$2,406	\$1,404	\$106	\$153	\$4,069
Comparable Store Sales	92	71	2	5	170
Sales Associated with New, Closed and Non- comparable Remodeled Stores, Net	52	27	8	(3)	84
Foreign Currency Translation	(11)	(13)	(2)	(10)	(36)
Direct Channels	75	31	—	5	111
International, Wholesale, Royalty and Other	—	—	(2)	(1)	(3)
2015 Net Sales	<u>\$2,614</u>	<u>\$1,520</u>	<u>\$112</u>	<u>\$149</u>	<u>\$4,395</u>

The following table compares fourth quarter of 2015 comparable sales to fourth quarter of 2014:

<u>Fourth Quarter</u>	<u>2015</u>	<u>2014</u>
Comparable Sales (Stores and Direct) (a)		
Victoria's Secret (b)	7%	2%
Bath & Body Works (b)	7%	9%
Total Comparable Sales	8%	5%
Comparable Store Sales (a)		
Victoria's Secret (b)	5%	4%
Bath & Body Works (b)	6%	8%
Total Comparable Store Sales	6%	6%

- (a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store. Comparable sales attributable to our international stores are calculated on a constant currency basis.
- (b) Includes company-owned stores in the U.S. and Canada.

The results by segment are as follows:

Victoria's Secret

For the fourth quarter of 2015, net sales increased \$208 million to \$2.614 billion, comparable sales increased 7% and comparable store sales increased 5%. The net sales result was primarily driven by:

- At Victoria's Secret Stores, net sales increased 7% due to the performance in PINK, core lingerie and sleep driven by a compelling merchandise assortment that incorporated newness, innovation and fashion, as well as in-store execution. These results were partially offset by a decrease in beauty driven by the repositioning of this category.
- At Victoria's Secret Direct, net sales increased 15% due to the performance in PINK, core lingerie, sport and sleep driven by a compelling merchandise assortment that incorporated newness, innovation and fashion.

The increase in comparable store sales was driven by higher average dollar sales.

Bath & Body Works

For the fourth quarter of 2015, net sales increased \$116 million to \$1.520 billion, comparable sales increased 7% and comparable store sales increased 6%. At both Bath & Body Works Stores and Bath & Body Works Direct, net sales increased across most categories including home fragrance, Signature Collection and soaps and sanitizers.

The increase in comparable store sales was driven by higher average dollar sales and an increase in total transactions.

Victoria's Secret and Bath & Body Works International

For the fourth quarter of 2015, net sales increased \$6 million to \$112 million primarily related to company-owned Victoria's Secret stores in the U.K. and additional stores opened in other parts of the world by our partners. These results were partially offset by a decrease in net sales at our Victoria's Secret Beauty and Accessories business due to the negative impacts of foreign currency, repositioning of the beauty category and a general decline in travel retail and tourism.

Other

For the fourth quarter of 2015, net sales decreased \$4 million to \$149 million primarily related to a decrease in net sales at La Senza due to store closures and the negative impacts of foreign currency.

Gross Profit

For the fourth quarter of 2015, our gross profit increased \$167 million to \$2.002 billion, and our gross profit rate (expressed as a percentage of net sales) increased to 45.6% from 45.1% primarily as a result of:

Victoria's Secret

For the fourth quarter of 2015, gross profit increased primarily driven by:

- At Victoria's Secret Stores, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales. The increase in merchandise margin dollars was partially offset by higher buying and occupancy expenses due to an increase in occupancy expense driven by investments in store real estate.
- At Victoria's Secret Direct, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales in our core categories as well as a decrease in buying and occupancy expenses due to a decrease in catalogue costs.

The gross profit rate increase was primarily driven by an increase in the merchandise margin rate at Victoria's Secret Direct due to increased sales in our core categories and a decrease in the buying and occupancy expense rate due to the leverage associated with the decrease in catalogue costs.

Bath & Body Works

For the fourth quarter of 2015, gross profit increased primarily driven by:

- At Bath & Body Works Stores, gross profit increased due to higher merchandise margin dollars related to the increase in net sales. The increase in merchandise margin dollars was partially offset by higher buying and occupancy expenses due to an increase in occupancy expense driven by higher net sales and investments in store real estate.
- At Bath & Body Works Direct, gross profit increased due to higher merchandise margin dollars as a result of the increase in net sales. The increase in merchandise margin was partially offset by higher buying and occupancy expenses due to an increase in fulfillment costs as a result of the increase in net sales.

The gross profit rate increase was primarily driven by an increase in the merchandise margin rate due to favorable product pricing, partially offset by an increase in the buying and occupancy expense rate due to deleverage associated with the increase in occupancy expense mentioned above.

Victoria’s Secret and Bath & Body Works International

For the fourth quarter of 2015, gross profit decreased due to a decrease in the merchandise margin dollars at Victoria’s Secret Beauty and Accessories due to the negative impacts of foreign currency, repositioning of the beauty category and a general decline in travel retail and tourism.

The gross profit rate decrease was primarily driven by a decrease in the merchandise margin rate due to the negative impacts of foreign currency at Victoria’s Secret Beauty and Accessories.

General, Administrative and Store Operating Expenses

For the fourth quarter of 2015, our general, administrative and store operating expenses increased \$46 million to \$924 million primarily driven by an increase in store selling expenses related to higher sales volumes and investments in store selling to improve the customer experience.

The general, administrative and store operating expense rate decreased to 21.0% from 21.6% primarily due to leverage associated with higher net sales.

Other Income and Expense

Interest Expense

The following table provides the average daily borrowings and average borrowing rates for the fourth quarter of 2015 and 2014:

<u>Fourth Quarter</u>	<u>2015</u>	<u>2014</u>
Average daily borrowings (in millions)	\$5,756	\$4,750
Average borrowing rate (in percentages)	6.8%	6.6%

For the fourth quarter of 2015, our interest expense increased \$19 million to \$97 million primarily due to an increase in average borrowings related to the October 2015 \$1 billion issuance of our 2035 Notes, as well as an increase in the average borrowing rate.

Provision for Income Taxes

For the fourth quarter of 2015, our effective tax rate decreased to 35.2% from 35.8%. The 2015 and 2014 rates were lower than our combined estimated federal and state statutory rate primarily due to foreign earnings taxed at a rate lower than our combined estimated federal and state statutory rate.

FINANCIAL CONDITION

Liquidity and Capital Resources

Liquidity, or access to cash, is an important factor in determining our financial stability. We are committed to maintaining adequate liquidity. Cash generated from our operating activities provides the primary resources to support current operations, growth initiatives, seasonal funding requirements and capital expenditures. Our cash provided from operations is impacted by our net income and working capital changes. Our net income is impacted by, among other things, sales volume, seasonal sales patterns, success of new product introductions, profit margins and income taxes. Historically, sales are higher during the fourth quarter of the fiscal year due to seasonal and holiday-related sales patterns. Generally, our need for working capital peaks during the summer and fall months as inventory builds in anticipation of the holiday period.

We believe in returning value to our shareholders through a combination of dividends and share repurchase programs. During 2016, we have paid \$1.268 billion in regular and special dividends and repurchased \$438 million of our common stock. We use cash flow generated from operating and financing activities to fund our dividends and share repurchase programs.

Our total cash and cash equivalents held by foreign subsidiaries were \$371 million as of January 28, 2017. Under current tax laws and regulations, if cash and cash equivalents held outside the U.S. are repatriated to the U.S., in certain circumstances we may be subject to additional income taxes.

The following table provides our debt balance, net of debt issuance costs and unamortized discounts, as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Senior Unsecured Debt with Subsidiary Guarantee		
\$1 billion, 6.875% Fixed Interest Rate Notes due November 2035 (“2035 Notes”)	\$ 989	\$ 988
\$1 billion, 5.625% Fixed Interest Rate Notes due February 2022 (“2022 Notes”)	992	991
\$1 billion, 6.625% Fixed Interest Rate Notes due April 2021 (“2021 Notes”)	992	990
\$700 million, 6.75% Fixed Interest Rate Notes due July 2036 (“2036 Notes”)	692	—
\$500 million, 5.625% Fixed Interest Rate Notes due October 2023 (“2023 Notes”)	497	496
\$500 million, 8.50% Fixed Interest Rate Notes due June 2019 (“2019 Notes”) (a)	496	499
\$400 million, 7.00% Fixed Interest Rate Notes due May 2020 (“2020 Notes”)	397	396
Total Senior Unsecured Debt with Subsidiary Guarantee	\$5,055	\$4,360
Senior Unsecured Debt		
\$350 million, 6.95% Fixed Interest Rate Debentures due March 2033 (“2033 Notes”)	\$ 348	\$ 348
\$300 million, 7.60% Fixed Interest Rate Notes due July 2037 (“2037 Notes”)	297	297
\$700 million, 6.90% Fixed Interest Rate Notes due July 2017 (“2017 Notes”) (b)	—	709
Foreign Facilities	36	7
Total Senior Unsecured Debt	\$ 681	\$1,361
Total	\$5,736	\$5,721
Current Portion of Long-term Debt	(36)	(6)
Total Long-term Debt, Net of Current Portion	\$5,700	\$5,715

(a) The balances include a fair value interest rate hedge adjustment which increased the debt balance by \$2 million as of January 28, 2017 and \$8 million as of January 30, 2016.

(b) The balance includes a fair value interest rate hedge adjustment which increased the debt balance by \$10 million as of January 30, 2016.

Issuance of Notes

In June 2016, we issued \$700 million of 6.75% notes due in July 2036. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by certain of our 100% owned subsidiaries (the “Guarantors”). The proceeds from the issuance were \$692 million, which were net of issuance costs of \$8 million. These issuance costs are being amortized through the maturity date of July 2036 and are included within Long-term Debt on the January 28, 2017 Consolidated Balance Sheet.

In October 2015, we issued \$1 billion of 6.875% notes due in November 2035. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by our Guarantors. The proceeds from the issuance were \$988 million, which were net of issuance costs of \$12 million. These issuance costs are being amortized through the maturity date of November 2035 and are included within Long-term Debt on the Consolidated Balance Sheets.

Repurchase of Notes

In July 2016, we used the proceeds from the 2036 Notes to repurchase the \$700 million 2017 Notes for \$742 million. The pre-tax loss on extinguishment of this debt was \$36 million (after-tax net loss of \$22 million), which is net of gains of \$7 million related to terminated interest rate swaps associated with the 2017 Notes. This loss is included in Other Income in the 2016 Consolidated Statement of Income.

Debt Facilities

We maintain a secured revolving credit facility (“Revolving Facility”). The Revolving Facility has aggregate availability of \$1 billion and expires July 18, 2019. The fees related to committed and unutilized amounts are 0.30% per annum, and the fees related to outstanding letters of credit are 1.50% per annum. In addition, the interest rate on outstanding U.S. dollar borrowings or British pound borrowings is LIBOR plus 1.50% per annum. The interest rate on outstanding Canadian dollar borrowings is CDOR plus 1.50% per annum.

The Revolving Facility contains fixed charge coverage and debt to EBITDA financial covenants. We are required to maintain a fixed charge coverage ratio of not less than 1.75 to 1.00 and a consolidated debt to consolidated EBITDA ratio not exceeding 4.00 to 1.00 for the most recent four-quarter period. In addition, the Revolving Facility provides that investments and restricted payments may be made, without limitation on amount, if (a) at the time of and after giving effect to such investment or restricted payment the ratio of consolidated debt to consolidated EBITDA for the most recent four-quarter period is less than 3.00 to 1.00 and (b) no default or event of default exists. As of January 28, 2017, we were in compliance with both of our financial covenants and the ratio of consolidated debt to consolidated EBITDA was less than 3.00 to 1.00.

As of January 28, 2017, there were no borrowings outstanding under the Revolving Facility.

The Revolving Facility supports our letter of credit program. We had \$8 million of outstanding letters of credit as of January 28, 2017 that reduce our remaining availability under our Revolving Facility.

In addition to the Revolving Facility, we maintain various revolving and term loan bank facilities with availability totaling \$100 million to support our foreign operations (“Foreign Facilities”). Current borrowings on these Foreign Facilities mature between February 8, 2017 and January 24, 2018. The interest rates on outstanding borrowings are based upon the applicable benchmark rate for the currency of each borrowing.

During 2016, we borrowed \$35 million and made payments of \$6 million under the Foreign Facilities. The maximum daily amount outstanding at any point in time during 2016 was \$36 million.

Interest Rate Swap Arrangements

We have interest rate swap arrangements related to \$300 million of the outstanding 2019 Notes that are designated as interest rate fair value hedges as of January 28, 2017. The interest rate swap arrangements effectively convert the fixed interest rate on the related debt to a variable interest rate based on LIBOR plus a fixed percentage. The changes in the fair value of the interest rate swaps have an equal and offsetting impact to the carrying value of the debt on the balance sheet. The differential to be paid or received on the interest rate swap arrangements is accrued and recognized as an adjustment to interest expense.

In the past, we entered into interest rate swap arrangements on the 2017 Notes. In 2016, we terminated our interest rate designated fair value hedges in conjunction with the repurchase of the 2017 Notes.

For information related to our interest rate swap arrangements, see Note 13 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplemental Data.

Working Capital and Capitalization

We believe that our available short-term and long-term capital resources are sufficient to fund foreseeable requirements.

The following table provides a summary of our working capital position and capitalization as of January 28, 2017, January 30, 2016 and January 31, 2015:

	<u>January 28, 2017</u>	<u>January 30, 2016</u>	<u>January 31, 2015</u>
		(in millions)	
Net Cash Provided by Operating Activities	\$1,890	\$1,869	\$1,786
Capital Expenditures	990	727	715
Working Capital	1,451	2,281	1,520
Capitalization:			
Long-term Debt	5,700	5,715	4,722
Shareholders' Equity (Deficit)	(729)	(259)	18
Total Capitalization	\$4,971	\$5,456	\$4,740
Remaining Amounts Available Under Credit Agreements (a)	\$ 992	\$ 992	\$ 981

(a) Letters of credit issued reduce our remaining availability under the Revolving Facility. We have outstanding letters of credit that reduce our remaining availability under the Revolving Facility of \$8 million, \$8 million and \$19 million as of January 28, 2017, January 30, 2016 and January 31, 2015, respectively.

The following table provides certain measures of liquidity and capital resources as of January 28, 2017, January 30, 2016 and January 31, 2015:

	<u>January 28, 2017</u>	<u>January 30, 2016</u>	<u>January 31, 2015</u>
Debt-to-capitalization Ratio (a)	115%	105%	100%
Cash Flow to Capital Investment (b)	191%	257%	250%

(a) Long-term debt divided by total capitalization

(b) Net cash provided by operating activities divided by capital expenditures

Credit Ratings

The following table provides our credit ratings as of January 28, 2017:

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Corporate	Ba1	BB+	BB+
Senior Unsecured Debt with Subsidiary Guarantee	Ba1	BB+	BB+
Senior Unsecured Debt	Ba2	BB-	BB
Outlook	Stable	Stable	Stable

Our borrowing costs under our Revolving Facility are linked to our credit ratings at Moody's, S&P and Fitch. If we receive an upgrade or downgrade to our corporate credit ratings by Moody's, S&P or Fitch, the borrowing costs could decrease or increase, respectively. The guarantees of our obligations under the Revolving Facility by the Guarantors and the security interests granted in our, and the Guarantors', collateral securing such obligations are released if our credit ratings are higher than a certain level. Additionally, the restrictions imposed under the Revolving Facility on our ability to make investments and to make restricted payments cease to apply if our credit ratings are higher than certain levels. Credit rating downgrades by any of the agencies do not accelerate the repayment of any of our debt.

Common Stock Share Repurchases

Our Board of Directors will determine share repurchase authorizations giving consideration to our levels of profit and cash flow, capital requirements, current and forecasted liquidity, the restrictions placed upon us by our borrowing arrangements as well as financial and other conditions existing at the time. We use cash flow generated from operating and financing activities to fund our share repurchase programs. The timing and amount of any repurchases will be made at our discretion, taking into account a number of factors, including market conditions.

Under the authority of our Board of Directors, we repurchased shares of our common stock under the following repurchase programs during the fiscal years 2016, 2015 and 2014:

Repurchase Program	Amount Authorized (in millions)	Shares Repurchased			Amount Repurchased			Average Stock Price of Shares Repurchased within Program
		2016	2015	2014	2016	2015	2014	
		(in thousands)			(in millions)			
February 2016	\$500	5,719	NA	NA	\$438	NA	NA	\$76.63
June 2015	250	NA	2,680	NA	NA	\$233	NA	\$87.06
February 2015	250	NA	2,788	NA	NA	250	NA	\$89.45
November 2012	250	NA	NA	1,317	NA	NA	\$ 84	\$54.02
Total		<u>5,719</u>	<u>5,468</u>	<u>1,317</u>	<u>\$438</u>	<u>\$483</u>	<u>\$ 84</u>	

In February 2016, our Board of Directors approved a \$500 million share repurchase program, which included the \$17 million remaining under the June 2015 repurchase program.

In June 2015, our Board of Directors approved a \$250 million share repurchase program, which included the \$0.6 million remaining under the February 2015 repurchase program.

In February 2015, our Board of Directors approved a \$250 million share repurchase program, which included the \$91 million remaining under the November 2012 repurchase program.

There were \$3 million of share repurchases reflected in Accounts Payable on the January 28, 2017 Consolidated Balance Sheet. There were no share repurchases reflected in Accounts Payable on the January 30, 2016 Consolidated Balance Sheet.

Subsequent to January 28, 2017, our Board of Directors approved a new \$250 million share repurchase program, which included the \$59 million remaining under the February 2016 repurchase program. We repurchased an additional 0.9 million shares of common stock for \$49 million subsequent to January 28, 2017.

Dividend Policy and Procedures

Our Board of Directors will determine future dividends after giving consideration to the our levels of profit and cash flow, capital requirements, current and forecasted liquidity, the restrictions placed upon us by our borrowing arrangements as well as financial and other conditions existing at the time. We use cash flow generated from operating activities to fund our ordinary dividends and a combination of cash flow generated from operating activities and financing activities to fund our special dividends.

Under the authority and declaration of our Board of Directors, we paid the following dividends during the fiscal years 2016, 2015 and 2014:

	<u>Ordinary Dividends</u>	<u>Special Dividends</u> (per share)	<u>Total Dividends</u>	<u>Total Paid</u> (in millions)
2016				
Fourth Quarter	\$0.60	\$ —	\$0.60	\$ 172
Third Quarter	0.60	—	0.60	173
Second Quarter	0.60	—	0.60	173
First Quarter	<u>0.60</u>	<u>2.00</u>	<u>2.60</u>	<u>750</u>
2016 Total	<u>\$2.40</u>	<u>\$2.00</u>	<u>\$4.40</u>	<u>\$1,268</u>
2015				
Fourth Quarter	\$0.50	\$ —	\$0.50	\$ 145
Third Quarter	0.50	—	0.50	146
Second Quarter	0.50	—	0.50	146
First Quarter	<u>0.50</u>	<u>2.00</u>	<u>2.50</u>	<u>734</u>
2015 Total	<u>\$2.00</u>	<u>\$2.00</u>	<u>\$4.00</u>	<u>\$1,171</u>
2014				
Fourth Quarter	\$0.34	\$ —	\$0.34	\$ 100
Third Quarter	0.34	—	0.34	100
Second Quarter	0.34	—	0.34	99
First Quarter	<u>0.34</u>	<u>1.00</u>	<u>1.34</u>	<u>392</u>
2014 Total	<u>\$1.36</u>	<u>\$1.00</u>	<u>\$2.36</u>	<u>\$ 691</u>

Subsequent to January 28, 2017, our Board of Directors declared the first quarter of 2017 ordinary dividend of \$0.60 per share.

Cash Flow

The following table provides a summary of our cash flow activity for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions)		
Cash and Cash Equivalents, Beginning of Year	<u>\$ 2,548</u>	<u>\$1,681</u>	<u>\$1,519</u>
Net Cash Flows Provided by Operating Activities	1,890	1,869	1,786
Net Cash Flows Used for Investing Activities	(833)	(443)	(699)
Net Cash Flows Used for Financing Activities	(1,665)	(558)	(919)
Effect of Exchange Rate Changes on Cash	<u>(6)</u>	<u>(1)</u>	<u>(6)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(614)</u>	<u>867</u>	<u>162</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,934</u>	<u>\$2,548</u>	<u>\$1,681</u>

Operating Activities

Net cash provided by operating activities in 2016 was \$1.890 billion, including net income of \$1.158 billion. Net income included depreciation and amortization of \$518 million, a decrease in deferred income taxes of \$110 million, a gain on distribution from Easton Town Center, LLC of \$108 million, share-based compensation

expense of \$96 million, excess tax benefits from share-based compensation of \$42 million, and loss on extinguishment of debt of \$36 million. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. The most significant item in working capital was an increase in operating cash flow associated with an increase in income taxes payable of \$117 million.

Net cash provided by operating activities in 2015 was \$1.869 billion, including net income of \$1.253 billion. Net income included depreciation and amortization of \$457 million, share-based compensation expense of \$97 million, gain on divestiture of the third-party apparel sourcing business of \$78 million and excess tax benefits from share-based compensation of \$70 million. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. The most significant item in working capital was an increase in operating cash flow associated with an increase in income taxes payable of \$131 million.

Net cash provided by operating activities in 2014 was \$1.786 billion, including net income of \$1.042 billion. Net income included depreciation and amortization of \$438 million, share-based compensation expense of \$90 million and a decrease in deferred income taxes of \$50 million. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. The most significant item in working capital was an increase in operating cash flow associated with a decrease in inventories of \$121 million.

Investing Activities

Net cash used for investing activities in 2016 was \$833 million consisting primarily of \$990 million of capital expenditures and \$33 million related to the acquisition of our Victoria's Secret Beauty and Accessories franchise partner's operations and stores in Greater China (net of cash acquired), partially offset by a \$108 million return of capital from Easton Town Center, LLC, proceeds from the sale of assets of \$53 million, and proceeds from the sale of marketable securities of \$10 million. The capital expenditures included \$772 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

Net cash used for investing activities in 2015 was \$443 million consisting primarily of \$727 million of capital expenditures and purchases of marketable securities of \$60 million, partially offset by proceeds from the sale of assets of \$196 million, proceeds from the divestiture of the third-party apparel sourcing business for \$85 million and proceeds from the sale of marketable securities of \$50 million. The capital expenditures included \$555 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

Net cash used for investing activities in 2014 was \$699 million consisting primarily of \$715 million of capital expenditures. The capital expenditures included \$553 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

We anticipate spending approximately \$850 million to \$900 million for capital expenditures in 2017 with the majority relating to opening new stores and remodeling and improving existing stores. We expect to open approximately 70 new company-owned stores in 2017, primarily in the U.S.

Financing Activities

Net cash used for financing activities in 2016 was \$1.665 billion consisting primarily of quarterly and special dividend payments totaling \$4.40 per share, or \$1.268 billion, \$742 million to repurchase our 2017 Notes and repurchases of common stock of \$435 million. These were partially offset by the net proceeds of \$692 million from the 2036 Notes issuance, excess tax benefits from share-based compensation of \$42 million, \$29 million net proceeds under our debt facilities and proceeds from the exercise of stock options of \$20 million.

Net cash used for financing activities in 2015 was \$558 million consisting primarily of quarterly and special dividend payments totaling \$4 per share, or \$1.171 billion, and repurchases of common stock of \$483 million. These were partially offset by the net proceeds of \$988 million from the 2035 Notes issuance, excess tax benefits from share-based compensation of \$70 million and proceeds from the exercise of stock options of \$33 million.

Net cash used for financing activities in 2014 was \$919 million consisting primarily of quarterly and special dividend payments totaling \$2.36 per share, or \$691 million, the repayment of long-term debt of \$213 million and repurchases of common stock of \$87 million. These were partially offset by excess tax benefits from share-based compensation of \$43 million and proceeds from the exercise of stock options of \$34 million.

Contingent Liabilities and Contractual Obligations

The following table provides our contractual obligations, aggregated by type, including the maturity profile as of January 28, 2017:

	Payments Due by Period					Other
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More than 5 Years	
	(in millions)					
Long-term Debt (a)	\$ 9,855	\$ 384	\$1,247	\$2,009	\$6,215	\$ —
Operating Lease Obligations (b)	5,177	707	1,256	1,102	2,112	—
Purchase Obligations (c)	1,117	1,030	76	8	3	—
Other Liabilities (d)	355	21	2	2	—	330
Total	\$16,504	\$2,142	\$2,581	\$3,121	\$8,330	\$330

- (a) Long-term debt obligations relate to our principal and interest payments for outstanding notes and debentures. Interest payments have been estimated based on the coupon rate for fixed rate obligations. Interest obligations exclude amounts which have been accrued through January 28, 2017. For additional information, see Note 12 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.
- (b) Operating lease obligations primarily represent minimum payments due under store lease agreements. For additional information, see Note 16 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.
- (c) Purchase obligations primarily include purchase orders for merchandise inventory and other agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.
- (d) Other liabilities primarily include future payments relating to our nonqualified supplemental retirement plan of \$258 million which have been reflected under “Other” as the timing of these future payments is not known until an associate leaves the Company or otherwise requests an in-service distribution. In addition, Other liabilities also include future estimated payments associated with unrecognized tax benefits. The “Less Than 1 Year” category includes \$17 million of these tax items because it is reasonably possible that the amounts could change in the next 12 months due to audit settlements or resolution of uncertainties. The remaining portion totaling \$72 million is included in the “Other” category as it is not reasonably possible that the amounts could change in the next 12 months. For additional information, see Note 11 to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

In connection with the disposition of certain businesses, we have remaining guarantees of approximately \$14 million related to lease payments under the current terms of noncancellable leases expiring at various dates through 2021. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses and relate to leases that commenced prior to the disposition of the businesses. In

certain instances, our guarantee may remain in effect if the term of a lease is extended. We have not recorded a liability with respect to any of these guarantee obligations as of January 28, 2017 or January 30, 2016 as we concluded that payments under these guarantees were not probable.

In connection with the sale and leaseback under noncancellable operating leases of certain assets, we provided residual value guarantees to the lessor if the leased assets cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The leases expire in 2021, and the total amount of the guarantees is approximately \$133 million. We recorded a liability of \$1 million and \$3 million related to these guarantee obligations as of January 28, 2017 and January 30, 2016, respectively, included in Other Long-term Liabilities on the Consolidated Balance Sheets.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements as defined by Regulation 229.303 Item 303 (a) (4).

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, which has been further clarified and amended in 2015 and 2016. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance will be effective beginning in fiscal 2018, with early adoption as of fiscal 2017 permitted. The standard allows for either a full retrospective or a modified retrospective transition method.

We continue to evaluate the impacts of this standard. Our most significant changes to current accounting relate to the points earned under the Victoria’s Secret customer loyalty program and our accounting for sales returns. The new standard will require a deferral of revenue associated with loyalty points using a relative fair value approach, and also requires sales returns to be presented on a gross basis with the sales refund liability presented separately from the return asset. We are continuing to evaluate the further impacts the standard will have on our Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows. We will adopt the standard in the first quarter of fiscal 2018, and are currently evaluating the transition method.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance requires companies classified as lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective beginning in fiscal 2019, with early adoption permitted.

We are currently evaluating the impacts that this standard will have on our Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows, including period of adoption. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption. Thus, we expect adoption will result in a material increase to the assets and liabilities on our Consolidated Balance Sheet.

Simplifying the Presentation of Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This guidance requires companies to recognize income tax effects of awards in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The standard also will require all tax-related cash flows resulting from share-based payments to be reported as operating activities on the statements of cash flows, and any cash payments made to taxing authorities on an employee's behalf as financing activities. The standard is effective beginning in fiscal 2017.

This standard is expected to result in increased volatility to our income tax expense in future periods dependent upon, among other variables, the price of our common stock and the timing and volume of share-based payment award activity, such as employee exercises of stock options and vesting of restricted stock awards. Further, the standard is expected to impact the operating and financing cash flows on our Consolidated Statements of Cash Flows. We do not expect any further material impacts on our Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows. We will adopt ASU 2016-09 in the first quarter of 2017.

Impact of Inflation

While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on the results of operations and financial condition have been minor.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to adopt accounting policies related to estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to inventories, long-lived assets, claims and contingencies, income taxes and revenue recognition. Management bases our estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Management has discussed the development and selection of our critical accounting policies and estimates with the Audit Committee of our Board of Directors and believes the following assumptions and estimates are most significant to reporting our results of operations and financial position.

Inventories

Inventories are principally valued at the lower of cost or market, on a weighted-average cost basis.

We record valuation adjustments to our inventories if the cost of inventory on hand exceeds the amount we expect to realize from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future demand and market conditions and analysis of historical experience. If actual demand or market conditions are different than those projected by management, future period merchandise margin rates may be unfavorably or favorably affected by adjustments to these estimates.

We also record inventory loss adjustments for estimated physical inventory losses that have occurred since the date of the last physical inventory. These estimates are based on management's analysis of historical results and operating trends.

Management believes that the assumptions used in these estimates are reasonable and appropriate. A 10% increase or decrease in the inventory valuation adjustment would have impacted net income by approximately \$3 million for 2016. A 10% increase or decrease in the estimated physical inventory loss adjustment would have impacted net income by approximately \$4 million for 2016.

Valuation of Long-lived Assets

Property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated undiscounted future cash flows related to the asset are less than the carrying value, we recognize a loss equal to the difference between the carrying value and the estimated fair value, usually determined by the estimated discounted future cash flows of the asset. When a decision has been made to dispose of property and equipment prior to the end of the previously estimated useful life, depreciation estimates are revised to reflect the use of the asset over the shortened estimated useful life.

Goodwill is reviewed for impairment each year in the fourth quarter and may be reviewed more frequently if certain events occur or circumstances change. First, we perform a qualitative assessment to determine whether it is more likely than not that each reporting unit's fair value is less than its carrying value, including goodwill. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, we then estimate the fair value of all assets and liabilities of that reporting unit, including the implied fair value of goodwill, through either estimated discounted future cash flows or market-based methodologies. If the carrying value of goodwill exceeds the implied fair value, we recognize an impairment charge equal to the difference. Our reporting units are determined in accordance with the provisions of Accounting Standards Codification ("ASC") Topic 350, *Intangibles—Goodwill and Other*. Our reporting units that have goodwill are Victoria's Secret Stores, Victoria's Secret Direct, Bath & Body Works Stores and Greater China.

Intangible assets with indefinite lives are reviewed for impairment each year in the fourth quarter and may be reviewed more frequently if certain events occur or circumstances change. We first perform a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If we determine that it is more likely than not that the fair value of the asset is less than its carrying amount, we estimate the fair value, usually determined by the estimated discounted future cash flows of the asset, compare that value with its carrying amount and record an impairment charge, if any.

We estimate the fair value of property and equipment, goodwill and intangible assets in accordance with the provisions of ASC Topic 820, *Fair Value Measurement*. If future economic conditions are different than those projected by management, future impairment charges may be required.

Claims and Contingencies

We are subject to various claims and contingencies related to lawsuits, insurance, regulatory and other matters arising out of the normal course of business. Our determination of the treatment of claims and contingencies in the Consolidated Financial Statements is based on management's view of the expected outcome of the applicable claim or contingency. We consult with legal counsel on matters related to litigation and seek input from both internal and external experts with respect to matters in the ordinary course of business. We accrue a liability if the likelihood of an adverse outcome is probable and the amount is reasonably estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable) or if an estimate is not reasonably determinable, disclosure of a material claim or contingency is disclosed in the Notes to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Income Taxes

We account for income taxes under the asset and liability method. Under this method, taxes currently payable or refundable are accrued, and deferred tax assets and liabilities are recognized for the estimated future tax

consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for realizable operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in our Consolidated Statement of Income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized. U.S. deferred income taxes are not provided on undistributed income of foreign subsidiaries where such earnings are considered to be permanently reinvested for the foreseeable future.

Significant judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In determining our provision for income taxes, we consider permanent differences between book and tax income and statutory income tax rates. Our effective income tax rate is affected by items including changes in tax law, the tax jurisdiction of new stores or business ventures and the level of earnings.

We follow the authoritative guidance included in ASC Topic 740, *Income Taxes*, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. Our policy is to include interest and penalties related to uncertain tax positions in income tax expense.

Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. A number of years may elapse before a particular matter for which we have established an accrual is audited and fully resolved or clarified. We adjust our tax contingencies accrual and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from our established accrual, when the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

Although we believe that our estimates are reasonable, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in our Consolidated Financial Statements.

Revenue Recognition

Company-owned Stores and Direct Channels

While our recognition of revenue does not involve significant judgment, revenue recognition represents an important accounting policy for our organization. We recognize revenue upon customer receipt of the merchandise. We also provide a reserve for projected merchandise returns based on prior experience. For direct channel revenues, we estimate shipments that have not been received by the customer based on shipping terms and historical delivery times.

All of our brands sell gift cards with no expiration dates to customers in retail stores, through our direct channels and through third parties. We do not charge administrative fees on unused gift cards. We recognize revenue from gift cards when they are redeemed by the customer. In addition, we recognize revenue on unredeemed gift cards when we can determine that the likelihood of the gift card being redeemed is remote and there is no legal obligation to remit the unredeemed gift cards to relevant jurisdictions (gift card breakage). We determine the gift card breakage rate based on historical redemption patterns. Gift card breakage is included in Net Sales in our Consolidated Statements of Income.

Royalty and Other

We also recognize revenues associated with franchise, license and wholesale arrangements. Revenue recognized under franchise and license arrangements generally consists of royalties earned and recognized upon sale of merchandise by franchise and license partners to retail customers. Revenue is generally recognized under wholesale and sourcing arrangements at the time the title passes to the partner.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market Risk

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in foreign currency exchange rates or interest rates. We use derivative financial instruments like cross-currency swaps, foreign currency forward contracts and interest rate swap arrangements to manage exposure to market risks. We do not use derivative financial instruments for trading purposes.

Foreign Exchange Rate Risk

We have operations in foreign countries which expose us to market risk associated with foreign currency exchange rate fluctuations. To mitigate the translation risk to our earnings and the fair value of our Canadian operations associated with fluctuations in the U.S. dollar-Canadian dollar exchange rate, we entered into a cross-currency swap related to a Canadian dollar denominated intercompany loan. This cross-currency swap requires the periodic exchange of fixed rate Canadian dollar interest payments for fixed rate U.S. dollar interest payments as well as exchange of Canadian dollar and U.S. dollar principal payments upon maturity. The swap arrangement matures in January 2018 at the same time as the related loan. As a result of the Canadian dollar denominated intercompany loan and the related cross-currency swap, we do not believe there is any material translation risk to our Canadian net earnings associated with fluctuations in the U.S. dollar-Canadian dollar exchange rate.

In addition, our Canadian dollar, British pound, Chinese yuan and Hong Kong dollar denominated earnings are subject to exchange rate risk as substantially all of our merchandise sold in Canada, the U.K. and Greater China is sourced through U.S. dollar transactions. Although we utilize foreign currency forward contracts to partially offset risks associated with Canadian dollar and British pound denominated earnings, these measures may not succeed in offsetting all of the short-term impact of foreign currency rate movements and generally may not be effective in offsetting the long-term impact of sustained shifts in foreign currency rates.

Further, although our royalty arrangements with our international partners are denominated in U.S. dollars, the royalties we receive in U.S. dollars are calculated based on sales in the local currency. As a result, our royalties in these arrangements are exposed to foreign currency exchange rate fluctuations.

Interest Rate Risk

Our investment portfolio primarily consists of interest-bearing instruments that are classified as cash and cash equivalents based on their original maturities. Our investment portfolio is maintained in accordance with our investment policy, which specifies permitted types of investments, specifies credit quality standards and maturity profiles and limits credit exposure to any single issuer. The primary objective of our investment activities are the preservation of principal, the maintenance of liquidity and the maximization of interest income while minimizing risk. Typically, our investment portfolio is primarily comprised of U.S. government obligations, U.S. Treasury and AAA-rated money market funds, commercial paper and bank deposits. Given the short-term nature and quality of investments in our portfolio, we do not believe there is any material risk to principal associated with increases or decreases in interest rates.

The majority of our long-term debt as of January 28, 2017 has fixed interest rates. We will from time to time adjust our exposure to interest rate risk by entering into interest rate swap arrangements. As of January 28, 2017, we have interest rate swap arrangements with notional amounts of \$300 million related to a portion of our 2019 Notes.

The effect of the interest rate swap arrangements is to convert the respective amount of debt from a fixed interest rate to a variable interest rate. The variable interest rate associated with these swap arrangements fluctuates based on changes in the three-month LIBOR.

For the balance of our long-term debt that is not subject to interest rate swap arrangements, our exposure to interest rate changes is limited to the fair value of the debt issued, which would not have a material impact on our earnings or cash flows.

Fair Value of Financial Instruments

As of January 28, 2017, we believe that the carrying values of accounts receivable, accounts payable, accrued expenses and current debt approximate fair value because of their short maturity.

The following table provides a summary of the principal value and fair value of long-term debt and swap arrangements as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Long-term Debt:		
Principal Value	\$5,750	\$5,750
Fair Value, Estimated (a)	6,030	6,209
Foreign Currency Cash Flow Hedges (b)	(17)	(27)
Interest Rate Fair Value Hedges (b)	(2)	(11)

(a) The estimated fair value is based on reported transaction prices. The estimates presented are not necessarily indicative of the amounts that we could realize in a current market exchange.

(b) Hedge arrangements are in a net asset position.

Concentration of Credit Risk

We maintain cash and cash equivalents and derivative contracts with various major financial institutions. We monitor the relative credit standing of financial institutions with whom we transact and limit the amount of credit exposure with any one entity. Typically, our investment portfolio is primarily comprised of U.S. government obligations, U.S. Treasury and AAA-rated money market funds, commercial paper and bank deposits. We also periodically review the relative credit standing of franchise, license and wholesale partners and other entities to which we grant credit terms in the normal course of business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

**L BRANDS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page No.</u>
Management’s Report on Internal Control Over Financial Reporting	59
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	60
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	61
Consolidated Statements of Income for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015	62
Consolidated Statements of Comprehensive Income for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015	62
Consolidated Balance Sheets as of January 28, 2017 and January 30, 2016	63
Consolidated Statements of Total Equity (Deficit) for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015	64
Consolidated Statements of Cash Flows for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015	65
Notes to Consolidated Financial Statements	66

Our fiscal year ends on the Saturday nearest to January 31. Fiscal years are designated in the Consolidated Financial Statements and Notes by the calendar year in which the fiscal year commences. The results for fiscal years 2016, 2015 and 2014 refer to the 52-week periods ending January 28, 2017, January 30, 2016 and January 31, 2015, respectively.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2017. In making this assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria).

Based on our assessment and the COSO criteria, management believes that the Company maintained effective internal control over financial reporting as of January 28, 2017.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting. Ernst & Young LLP's report appears on the following page and expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of January 28, 2017.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of L Brands, Inc.:

We have audited L Brands, Inc.'s internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). L Brands, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, L Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of L Brands, Inc. as of January 28, 2017 and January 30, 2016, and the related Consolidated Statements of Income, Comprehensive Income, Total Equity (Deficit), and Cash Flows for each of the three years in the period ended January 28, 2017 of L Brands, Inc. and our report dated March 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grandview Heights, Ohio
March 17, 2017

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

The Board of Directors and Shareholders of L Brands, Inc.:

We have audited the accompanying Consolidated Balance Sheets of L Brands, Inc. as of January 28, 2017 and January 30, 2016 and the related Consolidated Statements of Income, Comprehensive Income, Total Equity (Deficit), and Cash Flows for each of the three years in the period ended January 28, 2017. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 L Brands, Inc. at January 28, 2017 and January 30, 2016 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 28, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), L Brands, Inc.'s internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grandview Heights, Ohio
March 17, 2017

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in millions except per share amounts)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Sales	\$12,574	\$12,154	\$11,454
Costs of Goods Sold, Buying and Occupancy	<u>(7,449)</u>	<u>(6,950)</u>	<u>(6,646)</u>
Gross Profit	5,125	5,204	4,808
General, Administrative and Store Operating Expenses	<u>(3,122)</u>	<u>(3,012)</u>	<u>(2,855)</u>
Operating Income	2,003	2,192	1,953
Interest Expense	(394)	(334)	(324)
Other Income	<u>87</u>	<u>76</u>	<u>7</u>
Income Before Income Taxes	1,696	1,934	1,636
Provision for Income Taxes	<u>538</u>	<u>681</u>	<u>594</u>
Net Income	<u>\$ 1,158</u>	<u>\$ 1,253</u>	<u>\$ 1,042</u>
Net Income Per Basic Share	<u>\$ 4.04</u>	<u>\$ 4.30</u>	<u>\$ 3.57</u>
Net Income Per Diluted Share	<u>\$ 3.98</u>	<u>\$ 4.22</u>	<u>\$ 3.50</u>

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Income	\$1,158	\$1,253	\$1,042
Other Comprehensive Income (Loss), Net of Tax:			
Foreign Currency Translation	(19)	(23)	21
Unrealized Gain (Loss) on Cash Flow Hedges	(8)	6	34
Reclassification of Cash Flow Hedges to Earnings	7	14	(60)
Unrealized Gain (Loss) on Marketable Securities	(5)	8	—
Reclassification of Gain on Marketable Securities to Earnings	<u>(3)</u>	<u>—</u>	<u>—</u>
Total Other Comprehensive Income (Loss), Net of Tax	<u>(28)</u>	<u>5</u>	<u>(5)</u>
Total Comprehensive Income	<u>\$1,130</u>	<u>\$1,258</u>	<u>\$1,037</u>

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

L BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions except par value amounts)

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,934	\$ 2,548
Accounts Receivable, Net	294	261
Inventories	1,096	1,122
Other	141	225
	<hr/>	<hr/>
Total Current Assets	3,465	4,156
Property and Equipment, Net	2,741	2,330
Goodwill	1,348	1,318
Trade Names and Other Intangible Assets, Net	411	411
Deferred Income Taxes	19	30
Other Assets	186	248
	<hr/>	<hr/>
Total Assets	<u>\$ 8,170</u>	<u>\$ 8,493</u>
LIABILITIES AND EQUITY (DEFICIT)		
Current Liabilities:		
Accounts Payable	\$ 683	\$ 668
Accrued Expenses and Other	997	977
Current Portion of Long-term Debt	36	6
Income Taxes	298	224
	<hr/>	<hr/>
Total Current Liabilities	2,014	1,875
Deferred Income Taxes	352	257
Long-term Debt	5,700	5,715
Other Long-term Liabilities	831	904
Shareholders' Equity (Deficit):		
Preferred Stock—\$1.00 par value; 10 shares authorized; none issued	—	—
Common Stock—\$0.50 par value; 1,000 shares authorized; 315 and 313 shares issued; 286 and 290 shares outstanding, respectively	157	156
Paid-in Capital	650	545
Accumulated Other Comprehensive Income	12	40
Retained Earnings	205	315
Less: Treasury Stock, at Average Cost; 29 and 23 shares, respectively	(1,753)	(1,315)
	<hr/>	<hr/>
Total L Brands, Inc. Shareholders' Equity (Deficit)	(729)	(259)
Noncontrolling Interest	2	1
	<hr/>	<hr/>
Total Equity (Deficit)	(727)	(258)
	<hr/>	<hr/>
Total Liabilities and Equity (Deficit)	<u>\$ 8,170</u>	<u>\$ 8,493</u>

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

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF TOTAL EQUITY (DEFICIT)
(in millions except per share amounts)

	Common Stock			Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Treasury Stock, at Average Cost	Noncontrolling Interest	Total Equity (Deficit)
	Shares Outstanding	Par Value	Paid-In Capital					
Balance, February 1, 2014	291	\$154	\$302	\$ 40	\$ (118)	\$ (748)	\$ 1	\$ (369)
Net Income	—	—	—	—	1,042	—	—	1,042
Other Comprehensive Income (Loss)	—	—	—	(5)	—	—	—	(5)
Total Comprehensive Income	—	—	—	(5)	1,042	—	—	1,037
Cash Dividends (\$2.36 per share)	—	—	—	—	(691)	—	—	(691)
Repurchase of Common Stock	(1)	—	—	—	—	(84)	—	(84)
Exercise of Stock Options and Other	2	1	125	—	—	—	—	126
Balance, January 31, 2015	292	\$155	\$427	\$ 35	\$ 233	\$ (832)	\$ 1	\$ 19
Net Income	—	—	—	—	1,253	—	—	1,253
Other Comprehensive Income (Loss)	—	—	—	5	—	—	—	5
Total Comprehensive Income	—	—	—	5	1,253	—	—	1,258
Cash Dividends (\$4.00 per share)	—	—	—	—	(1,171)	—	—	(1,171)
Repurchase of Common Stock	(5)	—	—	—	—	(483)	—	(483)
Exercise of Stock Options and Other	3	1	118	—	—	—	—	119
Balance, January 30, 2016	290	\$156	\$545	\$ 40	\$ 315	\$(1,315)	\$ 1	\$ (258)
Net Income	—	—	—	—	1,158	—	—	1,158
Other Comprehensive Income (Loss)	—	—	—	(28)	—	—	—	(28)
Total Comprehensive Income	—	—	—	(28)	1,158	—	—	1,130
Cash Dividends (\$4.40 per share)	—	—	—	—	(1,268)	—	—	(1,268)
Repurchase of Common Stock	(6)	—	—	—	—	(438)	—	(438)
Exercise of Stock Options and Other	2	1	105	—	—	—	1	107
Balance, January 28, 2017	286	\$157	\$650	\$ 12	\$ 205	\$(1,753)	\$ 2	\$ (727)

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

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Activities			
Net Income	\$ 1,158	\$ 1,253	\$1,042
Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) Operating Activities:			
Depreciation and Amortization of Long-lived Assets	518	457	438
Amortization of Landlord Allowances	(46)	(42)	(40)
Deferred Income Taxes	110	11	50
Share-based Compensation Expense	96	97	90
Excess Tax Benefits from Share-based Compensation	(42)	(70)	(43)
Gain on Distribution from Easton Town Center, LLC	(108)	—	—
Loss on Extinguishment of Debt	36	—	—
Gain on Distribution from Investment	(4)	—	—
Gain on Sale of Marketable Securities	(4)	—	—
Gain on Divestiture of Third-party Apparel Sourcing Business	—	(78)	—
Loss on Sale of Assets, Net	—	2	—
Changes in Assets and Liabilities, Net of Assets and Liabilities from Acquisition:			
Accounts Receivable	(44)	(10)	(9)
Inventories	30	(92)	121
Accounts Payable, Accrued Expenses and Other	(27)	49	90
Income Taxes Payable	117	131	(17)
Other Assets and Liabilities	100	161	64
Net Cash Provided by Operating Activities	<u>1,890</u>	<u>1,869</u>	<u>1,786</u>
Investing Activities			
Capital Expenditures	(990)	(727)	(715)
Return of Capital from Easton Town Center, LLC	108	—	—
Acquisition, Net of Cash Acquired of \$1	(33)	—	—
Proceeds from Sale of Assets	53	196	—
Proceeds from Sale of Marketable Securities	10	50	—
Proceeds from Divestiture of Third-party Apparel Sourcing Business	—	85	—
Purchases of Marketable Securities	—	(60)	—
Other Investing Activities	19	13	16
Net Cash Used for Investing Activities	<u>(833)</u>	<u>(443)</u>	<u>(699)</u>
Financing Activities			
Proceeds from Issuance of Long-term Debt, Net of Issuance Costs	692	988	—
Payments of Long-term Debt	(742)	—	(213)
Borrowings from Debt Facilities	35	7	5
Repayments on Debt Facilities	(6)	—	(5)
Dividends Paid	(1,268)	(1,171)	(691)
Repurchases of Common Stock	(435)	(483)	(87)
Excess Tax Benefits from Share-based Compensation	42	70	43
Proceeds from Exercise of Stock Options	20	33	35
Financing Costs and Other	(3)	(2)	(6)
Net Cash Used for Financing Activities	<u>(1,665)</u>	<u>(558)</u>	<u>(919)</u>
Effects of Exchange Rate Changes on Cash	(6)	(1)	(6)
Net Increase (Decrease) in Cash and Cash Equivalents	(614)	867	162
Cash and Cash Equivalents, Beginning of Year	<u>2,548</u>	<u>1,681</u>	<u>1,519</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,934</u>	<u>\$ 2,548</u>	<u>\$1,681</u>

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

L BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

L Brands, Inc. (“the Company”) operates in the highly competitive specialty retail business. The Company is a specialty retailer of women’s intimate and other apparel, personal care, beauty and home fragrance categories. The Company sells its merchandise through company-owned specialty retail stores in the U.S., Canada, U.K. and Greater China, which are primarily mall-based, and through its websites and other channels. The Company’s other international operations are primarily through franchise, license and wholesale partners. The Company currently operates the following retail brands:

- Victoria’s Secret
- PINK
- Bath & Body Works
- La Senza
- Henri Bendel

Fiscal Year

The Company’s fiscal year ends on the Saturday nearest to January 31. As used herein, “2016”, “2015” and “2014” refer to the 52-week periods ending January 28, 2017, January 30, 2016 and January 31, 2015, respectively.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company accounts for investments in unconsolidated entities where it exercises significant influence, but does not have control, using the equity method. Under the equity method of accounting, the Company recognizes its share of the investee’s net income or loss. Losses are only recognized to the extent the Company has positive carrying value related to the investee. Carrying values are only reduced below zero if the Company has an obligation to provide funding to the investee. The Company’s share of net income or loss of unconsolidated entities from which the Company purchases merchandise or merchandise components is included in Costs of Goods Sold, Buying and Occupancy on the Consolidated Statements of Income. The Company’s share of net income or loss of all other unconsolidated entities is included in Other Income on the Consolidated Statements of Income. The Company’s equity investments are required to be reviewed for impairment when it is determined there may be an other than temporary loss in value.

Cash and Cash Equivalents

Cash and Cash Equivalents include cash on hand, demand deposits with financial institutions and highly liquid investments with original maturities of less than 90 days. The Company’s outstanding checks, which totaled \$5 million as of January 28, 2017 and \$30 million as of January 30, 2016, are included in Accounts Payable on the Consolidated Balance Sheets.

Concentration of Credit Risk

The Company maintains cash and cash equivalents and derivative contracts with various major financial institutions. The Company monitors the relative credit standing of financial institutions with whom the Company

transacts and limits the amount of credit exposure with any one entity. Typically, the Company's investment portfolio is primarily comprised of U.S. government obligations, U.S. Treasury and AAA-rated money market funds, commercial paper and bank deposits.

The Company also periodically reviews the relative credit standing of franchise, license and wholesale partners and other entities to which the Company grants credit terms in the normal course of business. The Company records an allowance for uncollectable accounts when it becomes probable that the counterparty will be unable to pay.

Marketable Equity Securities

The Company has marketable equity securities which are classified as available-for-sale. The Company determines the appropriate classification of investments in equity securities at the acquisition date and re-evaluates the classification at each balance sheet date. This investment is recorded at fair value in other current assets on the Consolidated Balance Sheets, and unrealized holding gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income.

Inventories

Inventories are principally valued at the lower of cost or market, on a weighted-average cost basis.

The Company records valuation adjustments to its inventories if the cost of inventory on hand exceeds the amount it expects to realize from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future demand and market conditions and analysis of historical experience.

The Company also records inventory loss adjustments for estimated physical inventory losses that have occurred since the date of the last physical inventory. These estimates are based on management's analysis of historical results and operating trends.

Advertising Costs

Advertising and catalogue costs are expensed at the time the promotion first appears in media, in the store or when the advertising is mailed. Advertising and catalogue costs totaled \$325 million for 2016, \$414 million for 2015 and \$436 million for 2014.

Property and Equipment

The Company's property and equipment are recorded at cost and depreciation/amortization is computed on a straight-line basis using the following depreciable life ranges:

Category of Property and Equipment	Depreciable Life Range
Software, including software developed for internal use	3 - 7 years
Store related assets	3 - 10 years
Leasehold improvements	Shorter of lease term or 10 years
Non-store related building and site improvements	10 - 15 years
Other property and equipment	20 years
Buildings	30 years

When a decision has been made to dispose of property and equipment prior to the end of the previously estimated useful life, depreciation estimates are revised to reflect the use of the asset over the shortened estimated useful life. The Company's cost of assets sold or retired and the related accumulated depreciation 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 useful lives are capitalized.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated undiscounted future cash flows related to the asset are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the estimated fair value, usually determined by the estimated discounted future cash flows of the asset.

Goodwill and Intangible Assets

The Company has certain intangible assets resulting from business combinations and acquisitions that are recorded at cost. Intangible assets with finite lives are amortized on a straight-line basis over their respective estimated useful lives.

Intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated undiscounted future cash flows related to the asset are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the estimated fair value, usually determined by the estimated discounted future cash flows of the asset.

Goodwill is reviewed for impairment each year in the fourth quarter and may be reviewed more frequently if certain events occur or circumstances change. First, the Company performs a qualitative assessment to determine whether it is more likely than not that each reporting unit's fair value is less than its carrying value, including goodwill. If the Company determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, the Company then estimates the fair value of all assets and liabilities of that reporting unit, including the implied fair value of goodwill, through either estimated discounted future cash flows or market-based methodologies. If the carrying value of goodwill exceeds the implied fair value, the Company recognizes an impairment charge equal to the difference. The Company's reporting units are determined in accordance with the provisions of Accounting Standards Codification ("ASC") Topic 350, *Intangibles—Goodwill and Other*. The Company's reporting units that have goodwill are Victoria's Secret Stores, Victoria's Secret Direct, Bath & Body Works Stores and Greater China.

Intangible assets with indefinite lives are reviewed for impairment each year in the fourth quarter and may be reviewed more frequently if certain events occur or circumstances change. The Company first performs a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If the Company determines that it is more likely than not that the fair value of the asset is less than its carrying amount, the Company estimates the fair value, usually determined by the estimated discounted future cash flows of the asset, compare that value with its carrying amount and record an impairment charge, if any.

If future economic conditions are different than those projected by management, future impairment charges may be required.

Leases and Leasehold Improvements

The Company has leases that contain predetermined fixed escalations of minimum rentals and/or rent abatements subsequent to taking possession of the leased property. The Company recognizes the related rent expense on a straight-line basis commencing upon the store possession date. The Company records the difference between the recognized rental expense and amounts payable under the leases as deferred lease credits. The Company's liability for predetermined fixed escalations of minimum rentals and/or rent abatements totaled \$191 million as of January 28, 2017 and \$150 million as of January 30, 2016. These liabilities are included in Other Long-term Liabilities on the Consolidated Balance Sheets.

The Company receives construction allowances from landlords related to its retail stores. These allowances are generally comprised of cash amounts received by the Company from its landlords as part of the negotiated lease terms. The Company records a receivable and a landlord allowance at the lease commencement date (date of

initial possession of the store). The landlord allowance is amortized on a straight-line basis as a reduction of rent expense over the term of the lease (including the pre-opening build-out period), and the receivable is reduced as amounts are received from the landlord. The Company's unamortized portion of landlord allowances, which totaled \$279 million as of January 28, 2017 and \$212 million as of January 30, 2016, is included in Other Long-term Liabilities on the Consolidated Balance Sheets.

The Company also has leasehold improvements which are amortized over the shorter of their estimated useful lives or the period from the date the assets are placed in service to the end of the initial lease term. Leasehold improvements made after the inception of the initial lease term are depreciated over the shorter of their estimated useful lives or the remaining lease term, including renewal periods, if reasonably assured.

Foreign Currency Translation

The functional currency of the Company's foreign operations is generally the applicable local currency. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect as of the balance sheet date, while revenues and expenses are translated at the average exchange rates for the period. The Company's resulting translation adjustments are recorded as a component of Comprehensive Income in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Total Equity (Deficit).

Derivative Financial Instruments

The Company uses derivative financial instruments to manage exposure to foreign currency exchange rates and interest rates. The Company does not use derivative instruments for trading purposes. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) in shareholders' equity and reclassified into earnings in the same period during which the hedged item affects earnings. Gains and losses that are reclassified into earnings are recognized in the same line item on the Consolidated Statement of Income as the underlying hedged item. Gains and losses on the derivative representing hedge ineffectiveness, if any, are recognized in current earnings.

For derivative financial instruments that are designated and qualify as fair value hedges, the change in the fair value of the derivative instrument has an equal and offsetting impact to the carrying value of the liability on the balance sheet.

For derivative financial instruments that are not designated as hedging instruments, the gain or loss on the derivative instrument is recognized in current earnings in Other Income in the Consolidated Statements of Income.

Fair Value

The authoritative guidance included in ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. This authoritative guidance further establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1—Quoted market prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs other than quoted market prices included in Level 1, such as quoted prices of similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company estimates the fair value of financial instruments, property and equipment and goodwill and intangible assets in accordance with the provisions of ASC Topic 820.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, taxes currently payable or refundable are accrued, and deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for realizable operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the Company's Consolidated Statement of Income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized. U.S. deferred income taxes are not provided on undistributed income of foreign subsidiaries where such earnings are considered to be permanently reinvested for the foreseeable future.

In determining the Company's provision for income taxes, the Company considers permanent differences between book and tax income and statutory income tax rates. The Company's effective income tax rate is affected by items including changes in tax law, the tax jurisdiction of new stores or business ventures and the level of earnings.

The Company follows a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes.

The Company's income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. A number of years may elapse before a particular matter for which the Company has established an accrual is audited and fully resolved or clarified. The Company adjusts its tax contingencies accrual and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from its established accrual, when the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. The Company includes its tax contingencies accrual, including accrued penalties and interest, in Other Long-term Liabilities on the Consolidated Balance Sheets unless the liability is expected to be paid within one year. Changes to the tax contingencies accrual, including accrued penalties and interest, are included in Provision for Income Taxes on the Consolidated Statements of Income.

Self-Insurance

The Company is self-insured for medical, workers' compensation, property, general liability and automobile liability up to certain stop-loss limits. Such costs are accrued based on known claims and an estimate of incurred but not reported ("IBNR") claims. IBNR claims are estimated using historical claim information and actuarial estimates.

Noncontrolling Interest

Noncontrolling interest represents the portion of equity interests of consolidated affiliates not owned by the Company.

Share-based Compensation

The Company recognizes all share-based payments to employees and directors as compensation cost over the service period based on their estimated fair value on the date of grant.

Compensation cost is recognized over the service period for the fair value of awards that actually vest. Compensation expense for awards without a performance condition is recognized, net of estimated forfeitures, using a single award approach (each award is valued as one grant, irrespective of the number of vesting tranches). Compensation expense for awards with a performance condition is recognized, net of estimated forfeitures, using a multiple award approach (each vesting tranche is valued as one grant).

Revenue Recognition

The Company recognizes sales upon customer receipt of the merchandise, which for direct channel revenues reflects an estimate of shipments that have not yet been received by the customer based on shipping terms and historical delivery times. The Company's shipping and handling revenues are included in Net Sales with the related costs included in Costs of Goods Sold, Buying and Occupancy on the Consolidated Statements of Income. The Company also provides a reserve for projected merchandise returns based on prior experience. Net Sales exclude sales tax collected from customers.

The Company's brands sell gift cards with no expiration dates to customers. The Company does not charge administrative fees on unused gift cards. The Company recognizes revenue from gift cards when they are redeemed by the customer. In addition, the Company recognizes revenue on unredeemed gift cards when it can determine that the likelihood of the gift card being redeemed is remote and that there is no legal obligation to remit the unredeemed gift cards to relevant jurisdictions (gift card breakage). The Company determines the gift card breakage rate based on historical redemption patterns. Gift card breakage is included in Net Sales in the Consolidated Statements of Income.

The Company also recognizes revenues associated with franchise, license and wholesale arrangements. Revenue recognized under franchise and license arrangements generally consists of royalties earned and recognized upon sale of merchandise by franchise and license partners to retail customers. Revenue is generally recognized under wholesale and sourcing arrangements at the time the title passes to the partner.

Costs of Goods Sold, Buying and Occupancy

The Company's costs of goods sold include merchandise costs, net of discounts and allowances, freight and inventory shrinkage. The Company's buying and occupancy expenses primarily include payroll, benefit costs and operating expenses for its buying departments and distribution network, rent, common area maintenance, real estate taxes, utilities, maintenance, fulfillment expenses and depreciation for the Company's stores, warehouse facilities and equipment.

General, Administrative and Store Operating Expenses

The Company's general, administrative and store operating expenses primarily include payroll and benefit costs for its store-selling and administrative departments (including corporate functions), marketing, advertising and other operating expenses not specifically categorized elsewhere in the Consolidated Statements of Income.

Use of Estimates in the Preparation of Financial Statements

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

2. New Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, which has been further clarified and amended in 2015 and 2016. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance will be effective beginning in fiscal 2018, with early adoption as of fiscal 2017 permitted. The standard allows for either a full retrospective or a modified retrospective transition method.

The Company continues to evaluate the impacts of this standard. The most significant changes to current accounting relate to the points earned under the Victoria’s Secret customer loyalty program and the accounting for sales returns. The new standard will require a deferral of revenue associated with loyalty points using a relative fair value approach, and also requires sales returns to be presented on a gross basis with the sales refund liability presented separately from the return asset. The Company is continuing to evaluate the further impacts the standard will have on the Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows. The Company will adopt the standard in the first quarter of fiscal 2018, and is currently evaluating the transition method.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance requires companies classified as lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective beginning in fiscal 2019, with early adoption permitted.

The Company is currently evaluating the impacts that this standard will have on its Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows, including period of adoption. The Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption. Thus, the Company expects adoption will result in a material increase to the assets and liabilities on the Consolidated Balance Sheet.

Simplifying the Presentation of Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This guidance requires companies to recognize income tax effects of awards in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The standard also will require all tax-related cash flows resulting

from share-based payments to be reported as operating activities on the statements of cash flows, and any cash payments made to taxing authorities on an employee's behalf as financing activities. The standard is effective beginning in fiscal 2017.

This standard is expected to result in increased volatility to the income tax expense in future periods dependent upon, among other variables, the price of the Company's common stock and the timing and volume of share-based payment award activity, such as employee exercises of stock options and vesting of restricted stock awards. Further, the standard is expected to impact the operating and financing cash flows on the Consolidated Statements of Cash Flows. The Company does not expect any further material impacts on its Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows. The Company will adopt ASU 2016-09 in the first quarter of 2017.

3. Earnings Per Share

Earnings per basic share is computed based on the weighted-average number of outstanding common shares. Earnings per diluted share include the weighted-average effect of dilutive options and restricted stock on the weighted-average shares outstanding.

The following table provides shares utilized for the calculation of basic and diluted earnings per share for 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions)		
Weighted-average Common Shares:			
Issued Shares	314	312	309
Treasury Shares	(27)	(21)	(17)
Basic Shares	<u>287</u>	<u>291</u>	<u>292</u>
Effect of Dilutive Options and Restricted Stock	<u>4</u>	<u>6</u>	<u>6</u>
Diluted Shares	<u>291</u>	<u>297</u>	<u>298</u>
Anti-dilutive Options and Awards (a)	2	1	1

(a) These options and awards were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

4. Acquisition

On April 18, 2016, the Company completed the acquisition of 100% of the shares of American Beauty Limited for a total purchase price of \$44 million. This agreement included the reacquisition of the franchise rights from one of our partners to operate Victoria's Secret Beauty and Accessories stores in Greater China, including 26 stores already open at the time of acquisition. The purchase price included \$10 million in forgiveness of liabilities owed to the Company from the pre-existing relationship. As a result of this acquisition, the Company's financial statements now include the financial results of American Beauty Limited, which are reported as part of the Victoria's Secret and Bath & Body Works International segment.

The total purchase price was allocated to the net tangible and intangible assets acquired based on their estimated fair value. Such estimated fair values require management to make estimates and judgments, especially with respect to intangible assets. The allocation of the purchase price to goodwill was complete as of the second quarter of 2016. Goodwill related to the acquisition is not deductible for tax purposes.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed is as follows:

	(in millions)
Cash and Cash Equivalents	\$ 1
Inventories	3
Property and Equipment	10
Goodwill	30
Other Assets	3
Current Liabilities	(3)
Net Assets Acquired	<u>\$ 44</u>
Forgiveness of Liabilities Owed to the Company	<u>(10)</u>
Consideration Paid	<u>\$ 34</u>

5. Restructuring Activities

During the first quarter of 2016, the Company announced strategic actions within the Victoria's Secret segment designed to focus the brand on its core merchandise categories and streamline operations. The Company announced it will place more focus on brand building and loyalty-enhancing marketing and advertising rather than using traditional catalogues and offers. As a result of these actions, the Company recorded charges related to cancellations of fabric commitments for non-go forward merchandise and a reserve against paper that was previously intended for future catalogues. These costs, totaling \$11 million, including non-cash charges of \$10 million, are included in Cost of Goods Sold, Buying and Occupancy on the 2016 Consolidated Statement of Income. These actions also resulted in the elimination of approximately 200 positions primarily in the Company's Ohio and New York home offices. Severance and related costs associated with these eliminations, totaling \$24 million, are included in General, Administrative and Store Operating Expenses on the 2016 Consolidated Statement of Income. The Company recognized a total pre-tax charge of \$35 million for these items in the first quarter of 2016. Through the fourth quarter of 2016, the Company made cash payments of \$16 million and decreased the estimate of expected severance and related costs by \$4 million. The remaining balance of \$5 million is included in Accrued Expenses and Other on the January 28, 2017 Consolidated Balance Sheet.

6. Inventories

The following table provides details of inventories as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Finished Goods Merchandise	\$ 982	\$1,014
Raw Materials and Merchandise Components	114	108
Total Inventories	<u>\$1,096</u>	<u>\$1,122</u>

7. Property and Equipment, Net

The following table provides details of property and equipment, net as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Land and Improvements	\$ 113	\$ 108
Buildings and Improvements	476	460
Furniture, Fixtures, Software and Equipment	3,560	3,181
Leasehold Improvements	2,044	1,809
Construction in Progress	89	81
Total	<u>6,282</u>	<u>5,639</u>
Accumulated Depreciation and Amortization	(3,541)	(3,309)
Property and Equipment, Net	<u>\$ 2,741</u>	<u>\$ 2,330</u>

Depreciation expense was \$518 million in 2016, \$457 million in 2015 and \$438 million in 2014.

In 2016 and 2015, the Company completed sale and leaseback transactions under noncancellable operating leases of certain assets. The carrying value of assets sold under these arrangements was \$51 million and \$177 million for 2016 and 2015, respectively. Proceeds of \$51 million and \$178 million are included in Proceeds from Sale of Assets within the Investing Activities section of the Consolidated Statements of Cash Flows. For additional information, see Note 17, “Commitments and Contingencies.”

8. Goodwill, Trade Names and Other Intangible Assets, Net

Goodwill

The following table provides detail regarding the composition of goodwill for the fiscal years ended January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Victoria’s Secret	\$ 690	\$ 690
Bath & Body Works	628	628
Victoria’s Secret and Bath & Body Works International	30	—
Goodwill	<u>\$1,348</u>	<u>\$1,318</u>

In 2016, the Company reacquired from one of its partners the franchise rights to operate Victoria’s Secret Beauty and Accessories stores in Greater China, including 26 stores already open at the time of acquisition. As a result of the acquisition, the Company recognized \$30 million of goodwill within the Victoria’s Secret and Bath & Body Works International reportable segment. For additional information, see Note 4, “Acquisition.”

The Company tests for goodwill impairment at the reporting unit level. The Company’s reporting units with goodwill balances at January 28, 2017 were Victoria’s Secret Stores, Victoria’s Secret Direct, Bath & Body Works Stores and Greater China.

Intangible Assets—Indefinite Lives

Intangible assets with indefinite lives represent the Victoria’s Secret and Bath & Body Works trade names which are included in Trade Names and Other Intangible Assets, Net on the Consolidated Balance Sheets. The following table provides additional detail regarding the composition of trade names as of January 28, 2017 and January 30, 2016:

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
	(in millions)	
Victoria’s Secret	\$246	\$246
Bath & Body Works	<u>165</u>	<u>165</u>
Trade Names	<u>\$411</u>	<u>\$411</u>

Intangible Assets—Finite Lives

Intangible assets with finite lives represent certain trademarks and customer relationships. These assets were fully amortized in 2013.

9. Equity Investments and Other

Third-party Apparel Sourcing Business

In 2015, the Company divested its remaining ownership interest in its third-party apparel sourcing business. The Company received cash proceeds of \$85 million and recognized a pre-tax gain of \$78 million (after-tax gain of \$69 million). The gain is included in Other Income in the 2015 Consolidated Statement of Income and the cash proceeds are included in Proceeds from Divestiture of Third-party Apparel Sourcing Business within the Investing Activities section of the 2015 Consolidated Statement of Cash Flows.

Easton Investments

The Company has land and other investments in Easton, an approximately 1,300 acre planned community in Columbus, Ohio that integrates office, hotel, retail, residential and recreational space. These investments, totaling \$79 million as of January 28, 2017 and \$86 million as of January 30, 2016, are recorded in Other Assets on the Consolidated Balance Sheets.

Included in the Company’s Easton investments is an equity interest in Easton Town Center, LLC (“ETC”), an entity that owns and has developed a commercial entertainment and shopping center. The Company’s investment in ETC is accounted for using the equity method of accounting. The Company has a majority financial interest in ETC, but another unaffiliated member manages ETC. Certain significant decisions regarding ETC require the consent of unaffiliated members in addition to the Company.

In 2016, ETC refinanced its bank loan. In conjunction with the loan refinancing, the Company received a cash distribution from ETC of \$124 million and recognized a pre-tax gain of \$108 million (after-tax gain of \$70 million). The gain is included in Other Income in the 2016 Consolidated Statement of Income and the return of capital is included within the Investing Activities section of the 2016 Consolidated Statement of Cash Flows.

Also included in the Company’s Easton investments is an equity interest in Easton Gateway, LLC (“EG”), an entity that owns and has developed a commercial shopping center in the Easton community. The Company’s investment in EG is accounted for using the equity method of accounting. The Company has a majority financial interest in EG, but another unaffiliated member manages EG. Certain significant decisions regarding EG require the consent of the unaffiliated member in addition to the Company.

10. Accrued Expenses and Other

The following table provides additional information about the composition of accrued expenses and other as of January 28, 2017 and January 30, 2016:

	<u>January 28,</u> <u>2017</u>	<u>January 30,</u> <u>2016</u>
	(in millions)	
Deferred Revenue, Principally from Gift Card Sales	\$259	\$243
Compensation, Payroll Taxes and Benefits	191	238
Interest	99	100
Taxes, Other than Income	82	76
Rent	48	48
Accrued Claims on Self-insured Activities	35	35
Returns Reserve	21	27
Other	<u>262</u>	<u>210</u>
Total Accrued Expenses and Other	<u>\$997</u>	<u>\$977</u>

11. Income Taxes

The following table provides the components of the Company's provision for income taxes for 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions)		
Current:			
U.S. Federal	\$345	\$553	\$454
U.S. State	62	96	69
Non-U.S.	<u>21</u>	<u>21</u>	<u>21</u>
Total	<u>428</u>	<u>670</u>	<u>544</u>
Deferred:			
U.S. Federal	99	17	46
U.S. State	8	6	3
Non-U.S.	<u>3</u>	<u>(12)</u>	<u>1</u>
Total	<u>110</u>	<u>11</u>	<u>50</u>
Provision for Income Taxes	<u>\$538</u>	<u>\$681</u>	<u>\$594</u>

The non-U.S. component of pre-tax income, arising principally from overseas operations, was income of \$134 million, \$267 million and \$152 million for 2016, 2015 and 2014, respectively.

The Company's income taxes payable has been reduced by the excess tax benefits from employee stock plan awards. For stock options, the Company receives an excess income tax benefit calculated as the tax effect of the difference between the fair market value of the stock at the time of grant and exercise. For restricted stock, the Company receives an excess income tax benefit calculated as the tax effect of the difference between the fair market value of the stock at the time of grant and vesting. The Company had net excess tax benefits from equity awards of \$42 million, \$70 million and \$43 million in 2016, 2015 and 2014, respectively, which were reflected as increases to equity.

The following table provides the reconciliation between the statutory federal income tax rate and the effective tax rate for 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Federal Income Tax Rate	35.0%	35.0%	35.0%
State Income Taxes, Net of Federal Income Tax Effect	3.4%	3.4%	3.6%
Impact of Non-U.S. Operations	(1.2)%	(1.7)%	(1.3)%
Foreign Portion of the Divestiture of Third-party Apparel Sourcing Business	—%	(0.9)%	—%
Resolution of Certain Tax Matters	(4.0)%	—%	(0.3)%
Other Items, Net	(1.5)%	(0.6)%	(0.7)%
Effective Tax Rate	<u>31.7%</u>	<u>35.2%</u>	<u>36.3%</u>

Deferred Taxes

The following table provides the effect of temporary differences that cause deferred income taxes as of January 28, 2017 and January 30, 2016. Deferred tax assets and liabilities represent the future effects on income taxes resulting from temporary differences and carryforwards at the end of the respective year.

	<u>January 28, 2017</u>			<u>January 30, 2016</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Total</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total</u>
	(in millions)					
Leases	\$ 68	\$ —	\$ 68	\$ 54	\$ —	\$ 54
Non-qualified Retirement Plan	96	—	96	103	—	103
Property and Equipment	—	(413)	(413)	—	(330)	(330)
Goodwill	—	(15)	(15)	—	(15)	(15)
Trade Names and Other Intangibles	—	(141)	(141)	—	(141)	(141)
State Net Operating Loss Carryforwards	15	—	15	17	—	17
Non-U.S. Operating Loss Carryforwards	155	—	155	157	—	157
Valuation Allowance	(174)	—	(174)	(164)	—	(164)
Other, Net	76	—	76	92	—	92
Total Deferred Income Taxes	<u>\$ 236</u>	<u>\$(569)</u>	<u>\$(333)</u>	<u>\$ 259</u>	<u>\$(486)</u>	<u>\$(227)</u>

As of January 28, 2017, the Company had available for state income tax purposes net operating loss carryforwards which expire, if unused, in the years 2017 through 2036. For those states where the Company has determined that it is more likely than not that the state net operating loss carryforwards will not be realized, a valuation allowance has been provided.

As of January 28, 2017, the Company had available for non-U.S. tax purposes net operating loss carryforwards which expire, if unused, in the years 2027 through 2036. For certain jurisdictions where the Company has determined that it is more likely than not that the net operating loss carryforwards will not be realized, a valuation allowance has been provided on those net operating loss carryforwards as well as other net deferred tax assets.

As of January 28, 2017, we have not provided deferred U.S. income taxes on approximately \$571 million of undistributed earnings from non-U.S. subsidiaries. Any unrecognized deferred income tax liability resulting from these amounts is not expected to reverse in the foreseeable future; furthermore, the undistributed foreign earnings are permanently reinvested. If the Company elects to distribute these foreign earnings in the future, they could be subject to additional income taxes. Determination of the amount of any unrecognized deferred income tax liability is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Income tax payments were \$469 million for 2016, \$507 million for 2015 and \$526 million for 2014.

Uncertain Tax Positions

The following table summarizes the activity related to the Company's unrecognized tax benefits for U.S. federal, state & non-U.S. tax jurisdictions for 2016, 2015 and 2014, without interest and penalties:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions)		
Gross Unrecognized Tax Benefits, as of the Beginning of the Fiscal Year	\$248	\$193	\$167
Increases in Unrecognized Tax Benefits for Prior Years	3	8	16
Decreases in Unrecognized Tax Benefits for Prior Years	(73)	(3)	(14)
Increases in Unrecognized Tax Benefits as a Result of Current Year Activity	18	54	36
Decreases to Unrecognized Tax Benefits Relating to Settlements with Taxing Authorities	(98)	—	(5)
Decreases to Unrecognized Tax Benefits as a Result of a Lapse of the Applicable Statute of Limitations	(8)	(4)	(7)
Gross Unrecognized Tax Benefits, as of the End of the Fiscal Year	<u>\$ 90</u>	<u>\$248</u>	<u>\$193</u>

Of the \$90 million, \$248 million and \$193 million of total unrecognized tax benefits at January 28, 2017, January 30, 2016, and January 31, 2015, respectively, approximately \$62 million, \$217 million and \$170 million, respectively, represent the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. These amounts are net of the offsetting tax effects from other tax jurisdictions.

Of the total unrecognized tax benefits, it is reasonably possible that \$17 million could change in the next 12 months due to audit settlements, expiration of statute of limitations or other resolution of uncertainties. Due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of audits may result in amounts which could be different from this estimate. In such case, the Company will record additional tax expense or tax benefit in the period in which such matters are effectively settled.

The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. The Company recognized interest and penalties expense (benefit) of \$(3) million, \$7 million and \$1 million in 2016, 2015 and 2014, respectively. The Company has accrued approximately \$20 million and \$38 million for the payment of interest and penalties as of January 28, 2017 and January 30, 2016, respectively. Accrued interest and penalties are included within Other Long-term Liabilities on the Consolidated Balance Sheets.

The Company files U.S. federal income tax returns as well as income tax returns in various states and in non-U.S. jurisdictions. At the end of 2016, the Company was subject to examination by the IRS for 2013 through 2015. The Company is also subject to various U.S. state and local income tax examinations for the years 2009 to 2015. Finally, the Company is subject to multiple non-U.S. tax jurisdiction examinations for the years 2007 to 2015. In some situations, the Company determines that it does not have a filing requirement in a particular tax jurisdiction. Where no return has been filed, no statute of limitations applies. Accordingly, if a tax jurisdiction reaches a conclusion that a filing requirement does exist, additional years may be reviewed by the tax authority. The Company believes it has appropriately accounted for uncertainties related to this issue.

12. Long-term Debt

The following table provides the Company's debt balance, net of debt issuance costs and unamortized discounts, as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Senior Unsecured Debt with Subsidiary Guarantee		
\$1 billion, 6.875% Fixed Interest Rate Notes due November 2035 ("2035 Notes")	\$ 989	\$ 988
\$1 billion, 5.625% Fixed Interest Rate Notes due February 2022 ("2022 Notes")	992	991
\$1 billion, 6.625% Fixed Interest Rate Notes due April 2021 ("2021 Notes")	992	990
\$700 million, 6.75% Fixed Interest Rate Notes due July 2036 ("2036 Notes")	692	—
\$500 million, 5.625% Fixed Interest Rate Notes due October 2023 ("2023 Notes")	497	496
\$500 million, 8.50% Fixed Interest Rate Notes due June 2019 ("2019 Notes") (a)	496	499
\$400 million, 7.00% Fixed Interest Rate Notes due May 2020 ("2020 Notes")	397	396
Total Senior Unsecured Debt with Subsidiary Guarantee	<u>\$5,055</u>	<u>\$4,360</u>
Senior Unsecured Debt		
\$350 million, 6.95% Fixed Interest Rate Debentures due March 2033 ("2033 Notes") . .	\$ 348	\$ 348
\$300 million, 7.60% Fixed Interest Rate Notes due July 2037 ("2037 Notes")	297	297
\$700 million, 6.90% Fixed Interest Rate Notes due July 2017 ("2017 Notes") (b)	—	709
Foreign Facilities	36	7
Total Senior Unsecured Debt	<u>\$ 681</u>	<u>\$1,361</u>
Total	<u>\$5,736</u>	<u>\$5,721</u>
Current Portion of Long-term Debt	<u>(36)</u>	<u>(6)</u>
Total Long-term Debt, Net of Current Portion	<u><u>\$5,700</u></u>	<u><u>\$5,715</u></u>

- (a) The balances include a fair value interest rate hedge adjustment which increased the debt balance by \$2 million as of January 28, 2017 and \$8 million as of January 30, 2016.
- (b) The balance includes a fair value interest rate hedge adjustment which increased the debt balance by \$10 million as of January 30, 2016.

The following table provides principal payments due on outstanding debt in the next five fiscal years and the remaining years thereafter:

Fiscal Year (in millions)	
2017	\$ 36
2018	—
2019	500
2020	400
2021	1,000
Thereafter	\$3,850

Cash paid for interest was \$387 million in 2016, \$317 million in 2015 and \$328 million in 2014.

Issuance of Notes

In June 2016, the Company issued \$700 million of 6.75% notes due in July 2036. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by the Guarantors. The proceeds from the issuance were \$692 million, which were net of issuance costs of \$8 million. These issuance costs are being amortized through the maturity date of July 2036 and are included within Long-term Debt on the January 28, 2017 Consolidated Balance Sheet.

In October 2015, the Company issued \$1 billion of 6.875% notes due in November 2035. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by the Guarantors. The proceeds from the issuance were \$988 million, which were net of issuance costs of \$12 million. These issuance costs are being amortized through the maturity date of November 2035 and are included within Long-term Debt on the Consolidated Balance Sheets.

Repurchase of Notes

In July 2016, the Company used the proceeds from the 2036 Notes to repurchase the \$700 million 2017 Notes for \$742 million. The pre-tax loss on extinguishment of this debt was \$36 million (after-tax net loss of \$22 million), which is net of gains of \$7 million related to terminated interest rate swaps associated with the 2017 Notes. This loss is included in Other Income in the 2016 Consolidated Statement of Income.

Debt Facilities

The Company maintains a secured revolving credit facility (“Revolving Facility”). The Revolving Facility has aggregate availability of \$1 billion and expires July 18, 2019. The fees related to committed and unutilized amounts are 0.30% per annum, and the fees related to outstanding letters of credit are 1.50% per annum. In addition, the interest rate on outstanding U.S. dollar borrowings or British pound borrowings is LIBOR plus 1.50% per annum. The interest rate on outstanding Canadian dollar borrowings is CDOR plus 1.50% per annum.

The Revolving Facility contains fixed charge coverage and debt to EBITDA financial covenants. The Company is required to maintain a fixed charge coverage ratio of not less than 1.75 to 1.00 and a consolidated debt to consolidated EBITDA ratio not exceeding 4.00 to 1.00 for the most recent four-quarter period. In addition, the Revolving Facility provides that investments and restricted payments may be made, without limitation on amount, if (a) at the time of and after giving effect to such investment or restricted payment the ratio of consolidated debt to consolidated EBITDA for the most recent four-quarter period is less than 3.00 to 1.00 and (b) no default or event of default exists. As of January 28, 2017, the Company was in compliance with both of its financial covenants, and the ratio of consolidated debt to consolidated EBITDA was less than 3.00 to 1.00.

As of January 28, 2017, there were no borrowings outstanding under the Revolving Facility.

The Revolving Facility supports the Company’s letter of credit program. The Company had \$8 million of outstanding letters of credit as of January 28, 2017 that reduce its remaining availability under the Revolving Facility.

In addition to the Revolving Facility, the Company maintains various revolving and term loan bank facilities with availability totaling \$100 million to support its foreign operations. Current borrowings on these Foreign Facilities mature between February 8, 2017 and January 24, 2018. The interest rates on outstanding borrowings are based upon the applicable benchmark rate for the currency of each borrowing.

During 2016, the Company borrowed \$35 million and made payments of \$6 million under the Foreign Facilities. The maximum daily amount outstanding at any point in time during 2016 was \$36 million.

Interest Rate Swap Arrangements

For information related to the Company’s fair value interest rate swap arrangements, see Note 13, “Derivative Financial Instruments.”

13. Derivative Financial Instruments

Foreign Exchange Risk

The Company's Canadian dollar and British pound denominated earnings are subject to exchange rate risk as substantially all of its merchandise sold in Canada and the U.K. is sourced through U.S. dollar transactions. As a result, the Company uses foreign currency forward contracts designated as cash flow hedges to mitigate the foreign currency exposure associated with forecasted U.S. dollar-denominated merchandise purchases. These forward contracts currently have a maximum term of 18 months. Amounts are reclassified from accumulated other comprehensive income (loss) upon sale of the hedged merchandise to the customer. These gains and losses are recognized in Cost of Goods Sold, Buying and Occupancy on the Consolidated Statements of Income.

The Company has a cross-currency swap related to an intercompany loan of approximately CAD\$170 million maturing in January 2018 which is designated as a cash flow hedge of foreign currency exchange risk. This cross-currency swap mitigates the exposure to fluctuations in the U.S. dollar-Canadian dollar exchange rate related to the Company's Canadian operations. The cross-currency swap requires the periodic exchange of fixed-rate Canadian dollar interest payments for fixed-rate U.S. dollar interest payments as well as exchange of Canadian dollar and U.S. dollar principal payments upon maturity. Changes in the U.S. dollar-Canadian dollar exchange rate and the related swap settlements result in reclassification of amounts from accumulated other comprehensive income (loss) to earnings to completely offset foreign currency transaction gains and losses recognized on the intercompany loan.

The Company uses foreign currency forward contracts not designated as cash flow hedges to manage the impact of fluctuations in foreign currency exchange rates relative to recognized payable balances denominated in non-functional currencies. The fair value of these non-designated foreign currency forward contracts is not significant as of January 28, 2017.

The following table provides the U.S. dollar notional amount of outstanding foreign currency derivative financial instruments as of January 28, 2017 and January 30, 2016:

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
	(in millions)	
Notional Amount	\$360	\$147

The following table provides a summary of the fair value and balance sheet classification of outstanding derivative financial instruments designated as foreign currency cash flow hedges as of January 28, 2017 and January 30, 2016:

	<u>January 28, 2017</u>	<u>January 30, 2016</u>
	(in millions)	
Other Current Assets	\$18	\$—
Accrued Expenses and Other	1	—
Other Long-term Assets	—	27

The following table provides a summary of the pre-tax financial statement effect of the gains and losses on derivative financial instruments designated as foreign currency cash flow hedges for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	(in millions)	
Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)	\$(8)	\$ 6
(Gain) Loss Reclassified from Accumulated Other Comprehensive Income into Cost of Goods Sold, Buying and Occupancy Expense (a)	(1)	—
(Gain) Loss Reclassified from Accumulated Other Comprehensive Income into Other Income (b) ..	8	14

- (a) Represents reclassification of amounts from accumulated other comprehensive income (loss) to earnings when the hedged merchandise is sold to the customer. No ineffectiveness was associated with these foreign currency cash flow hedges.
- (b) Represents reclassification of amounts from accumulated other comprehensive income (loss) to earnings to completely offset foreign currency transaction gains and losses recognized on the intercompany loan. No ineffectiveness was associated with this foreign currency cash flow hedge.

The Company estimates that \$2 million of gains included in accumulated other comprehensive income (loss) as of January 28, 2017 related to foreign currency forward contracts designated as cash flow hedges will be reclassified into earnings within the following 12 months. Actual amounts ultimately reclassified depend on the exchange rates in effect when derivative contracts that are currently outstanding mature.

Interest Rate Risk

The Company has interest rate swap arrangements related to \$300 million of the outstanding 2019 Notes that are designated as interest rate fair value hedges as of January 28, 2017. The interest rate swap arrangements effectively convert the fixed interest rate on the related debt to a variable interest rate based on LIBOR plus a fixed percentage. The changes in the fair value of the interest rate swaps have an equal and offsetting impact to the carrying value of the debt on the balance sheet. The differential to be paid or received on the interest rate swap arrangements is accrued and recognized as an adjustment to interest expense.

In the past, the Company had entered into interest rate swap arrangements on the 2017 Notes. In 2016, the Company terminated its interest rate designated fair value hedges in conjunction with the repurchase of the 2017 Notes.

The following table provides a summary of the fair value and balance sheet classification of the derivative financial instruments designated as interest rate fair value hedges as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Other Long-term Assets	\$2	\$11

14. Fair Value Measurements

The following table provides a summary of the principal value and estimated fair value of long-term debt as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Principal Value	\$5,750	\$5,750
Fair Value (a)	6,030	6,209

- (a) The estimated fair value of the Company’s publicly traded debt is based on reported transaction prices which are considered Level 2 inputs in accordance with ASC Topic 820, *Fair Value Measurement*. The estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The following table provides a summary of assets and liabilities measured in the consolidated financial statements at fair value on a recurring basis as of January 28, 2017 and January 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in millions)			
As of January 28, 2017				
Assets:				
Cash and Cash Equivalents	\$1,934	\$—	\$—	\$1,934
Marketable Securities	5	—	—	5
Interest Rate Fair Value Hedges	—	2	—	2
Foreign Currency Cash Flow Hedges	—	18	—	18
Liabilities:				
Foreign Currency Cash Flow Hedges	—	1	—	1
As of January 30, 2016				
Assets:				
Cash and Cash Equivalents	\$2,548	\$—	\$—	\$2,548
Marketable Securities	22	—	—	22
Interest Rate Fair Value Hedges	—	11	—	11
Foreign Currency Cash Flow Hedges	—	27	—	27

The Company's Level 1 fair value measurements use unadjusted quoted prices in active markets for identical assets. In 2015, the Company purchased \$10 million of marketable equity securities which were classified as available-for-sale as of the end of 2015. In the first quarter of 2016, the Company sold a portion of this investment and received cash proceeds of \$10 million and recognized a pre-tax gain of \$4 million (after-tax gain of \$3 million). The gain is included in Other Income in the 2016 Consolidated Statement of Income, and the cash proceeds are included in Proceeds from Sale of Marketable Securities in the Investing Activities section of the 2016 Consolidated Statement of Cash Flows. The Company's marketable securities are classified as Level 1 fair value measurements as they are traded with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis.

The Company's Level 2 fair value measurements use market approach valuation techniques. The primary inputs to these techniques include benchmark interest rates and foreign currency exchange rates, as applicable to the underlying instruments.

Management believes that the carrying values of accounts receivable, accounts payable, accrued expenses and current debt approximate fair value because of their short maturity.

15. Comprehensive Income

Comprehensive Income includes gains and losses on derivative instruments, unrealized holding gains and losses on marketable securities classified as available-for-sale and foreign currency translation adjustments. The cumulative gains and losses on these items are included in Accumulated Other Comprehensive Income in the Consolidated Balance Sheets and Consolidated Statements of Shareholders' Equity (Deficit).

The following table provides the rollforward of accumulated other comprehensive income (loss) for 2016:

	Foreign Currency Translation	Cash Flow Hedges	Marketable Securities	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance as of January 30, 2016	\$ 28	\$ 4	\$ 8	\$ 40
Other Comprehensive Income (Loss) Before				
Reclassifications	(19)	(8)	(8)	(35)
Amounts Reclassified from Accumulated Other				
Comprehensive Income (Loss)	—	7	(4)	3
Tax Effect	—	—	4	4
Current-period Other Comprehensive Income (Loss) ..	<u>(19)</u>	<u>(1)</u>	<u>(8)</u>	<u>(28)</u>
Balance as of January 28, 2017	<u>\$ 9</u>	<u>\$ 3</u>	<u>\$—</u>	<u>\$ 12</u>

The following table provides the rollforward of accumulated other comprehensive income (loss) for 2015:

	Foreign Currency Translation	Cash Flow Hedges	Marketable Securities	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance as of January 31, 2015	\$ 51	\$(16)	\$—	\$35
Other Comprehensive Income (Loss) Before				
Reclassifications	(23)	6	12	(5)
Amounts Reclassified from Accumulated Other				
Comprehensive Income (Loss)	—	14	—	14
Tax Effect	—	—	(4)	(4)
Current-period Other Comprehensive Income (Loss) ..	<u>(23)</u>	<u>20</u>	<u>8</u>	<u>5</u>
Balance as of January 30, 2016	<u>\$ 28</u>	<u>\$ 4</u>	<u>\$ 8</u>	<u>\$40</u>

The following table provides a summary of the reclassification adjustments out of accumulated other comprehensive income for 2016:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)		Location on Consolidated Statements of Income
	2016	2015	
	(in millions)		
(Gain) Loss on Cash Flow Hedges	\$(1)	\$—	Cost of Goods Sold, Buying and Occupancy
	8	14	Other Income
	<u>—</u>	<u>—</u>	Provision for Income Taxes
	<u>\$ 7</u>	<u>\$14</u>	Net Income
Sale of Available-for-Sale Securities	\$(4)	\$—	Other Income
	1	—	Provision for Income Taxes
	<u>\$ (3)</u>	<u>\$—</u>	Net Income

16. Leases

The Company is committed to noncancellable leases with remaining terms generally from one to 10 years. A substantial portion of the Company's leases consist of store leases generally with an initial term of 10 years.

Annual store rent consists of a fixed minimum amount and/or contingent rent based on a percentage of sales exceeding a stipulated amount. Store lease terms generally require additional payments covering certain operating costs such as common area maintenance, utilities, insurance and taxes. These additional payments are excluded from the table below.

The following table provides rent expense for 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions)		
Store Rent:			
Fixed Minimum	\$607	\$535	\$516
Contingent	<u>71</u>	<u>73</u>	<u>63</u>
Total Store Rent	678	608	579
Office, Equipment and Other	<u>87</u>	<u>77</u>	<u>68</u>
Gross Rent Expense	765	685	647
Sublease Rental Income	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>
Total Rent Expense	<u>\$763</u>	<u>\$683</u>	<u>\$645</u>

The following table provides the Company's minimum rent commitments under noncancellable operating leases in the next five fiscal years and the remaining years thereafter:

<u>Fiscal Year (in millions) (a)</u>	
2017	\$ 707
2018	651
2019	605
2020	571
2021	531
Thereafter	<u>\$2,112</u>

(a) Excludes additional payments covering taxes, common area costs and certain other expenses generally required by store lease terms.

17. Commitments and Contingencies

The Company is subject to various claims and contingencies related to lawsuits, taxes, insurance, regulatory and other matters arising out of the normal course of business. Actions filed against the Company from time to time include commercial, tort, intellectual property, customer, employment, data privacy, securities and other claims, including purported class action lawsuits. Management believes that the ultimate liability arising from such claims and contingencies, if any, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows.

Guarantees

In connection with the disposition of certain businesses, the Company has remaining guarantees of approximately \$14 million related to lease payments under the current terms of noncancellable leases expiring at various dates through 2021. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses and relate to leases that commenced prior to the disposition of the businesses. In certain instances, the Company's guarantee may remain in effect if the term of a lease is extended. The Company has not recorded a liability with respect to any of these guarantee obligations as of January 28, 2017 or January 30, 2016 as it concluded that payments under these guarantees were not probable.

In connection with the sale and leaseback under noncancellable operating leases of certain assets, the Company provides residual value guarantees to the lessor if the leased assets cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The leases expire in 2021, and the total amount of the guarantees is approximately \$133 million. The Company recorded a liability of \$1 million and \$3 million related to these guarantee obligations as of January 28, 2017 and January 30, 2016, respectively, included in Other Long-term Liabilities on the Consolidated Balance Sheets.

18. Retirement Benefits

The Company sponsors a tax-qualified defined contribution retirement plan and a non-qualified supplemental retirement plan for substantially all of its associates within the U.S. Participation in the tax-qualified plan is available to associates who meet certain age and service requirements. Participation in the non-qualified plan is available to associates who meet certain age, service, job level and compensation requirements.

The qualified plan permits participating associates to elect contributions up to the maximum limits allowable under the Internal Revenue Code. The Company matches associate contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates' eligible annual compensation and years of service. Associate contributions and Company matching contributions vest immediately. Additional Company contributions and the related investment earnings are subject to vesting based on years of service. Total expense recognized related to the qualified plan was \$67 million for 2016, \$64 million for 2015 and \$59 million for 2014.

The non-qualified plan is an unfunded plan which provides benefits beyond the Internal Revenue Code limits for qualified defined contribution plans. The plan permits participating associates to elect contributions up to a maximum percentage of eligible compensation. The Company matches associate contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates' eligible compensation and years of service. The plan also permits participating associates to defer additional compensation up to a maximum amount which the Company does not match. Associates' accounts are credited with interest using a fixed rate determined by the Company and reviewed by the Compensation Committee of the Board of Directors, prior to the beginning of each year. Associate contributions and the related interest vest immediately. Company contributions, along with related interest, are subject to vesting based on years of service. Associates may elect in-service distributions for the unmatched additional deferred compensation component only. The remaining vested portion of associates' accounts in the plan will be distributed upon termination of employment in either a lump sum or in annual installments over a specified period of up to 10 years.

The following table provides the Company's annual activity for this plan and year-end liability, included in Other Long-term Liabilities on the Consolidated Balance Sheets, as of January 28, 2017 and January 30, 2016:

	January 28, 2017	January 30, 2016
	(in millions)	
Balance at Beginning of Year	\$274	\$257
Contributions:		
Associate	14	15
Company	14	17
Interest	12	13
Distributions	(56)	(28)
Balance at End of Year	<u>\$258</u>	<u>\$274</u>

Total expense recognized related to the non-qualified plan was \$26 million for 2016, \$30 million for 2015 and \$24 million for 2014.

19. Shareholders' Equity (Deficit)

Common Stock Share Repurchases

Under the authority of the Company's Board of Directors, the Company repurchased shares of its common stock under the following repurchase programs for the fiscal years 2016, 2015 and 2014:

Repurchase Program	Amount Authorized (in millions)	Shares Repurchased			Amount Repurchased			Average Stock Price of Shares Repurchased within Program
		2016	2015	2014	2016	2015	2014	
		(in thousands)			(in millions)			
February 2016	\$500	5,719	NA	NA	\$438	NA	NA	\$76.63
June 2015	250	NA	2,680	NA	NA	\$233	NA	\$87.06
February 2015	250	NA	2,788	NA	NA	250	NA	\$89.45
November 2012	250	NA	NA	1,317	NA	NA	\$ 84	\$54.02
Total		<u>5,719</u>	<u>5,468</u>	<u>1,317</u>	<u>\$438</u>	<u>\$483</u>	<u>\$ 84</u>	

In February 2016, the Company's Board of Directors approved a \$500 million share repurchase program, which included the \$17 million remaining under the June 2015 repurchase program.

In June 2015, the Company's Board of Directors approved a \$250 million share repurchase program, which included the \$0.6 million remaining under the February 2015 repurchase program.

In February 2015, the Company's Board of Directors approved a \$250 million share repurchase program, which included the \$91 million remaining under the November 2012 repurchase program.

There were \$3 million of share repurchases reflected in Accounts Payable on the January 28, 2017 Consolidated Balance Sheet. There were no share repurchases reflected in Accounts Payable on the January 30, 2016 Consolidated Balance Sheet.

Subsequent to January 28, 2017, the Company's Board of Directors approved a new \$250 million share repurchase program, which included the \$59 million remaining under the February 2016 repurchase program. The Company repurchased an additional 0.9 million shares of common stock for \$49 million subsequent to January 28, 2017.

Dividends

Under the authority and declaration of the Board of Directors, the Company paid the following dividends during the fiscal years 2016, 2015 and 2014:

	<u>Ordinary Dividends</u>	<u>Special Dividends</u> (per share)	<u>Total Dividends</u>	<u>Total Paid</u> (in millions)
2016				
Fourth Quarter	\$0.60	\$ —	\$0.60	\$ 172
Third Quarter	0.60	—	0.60	173
Second Quarter	0.60	—	0.60	173
First Quarter	0.60	2.00	2.60	750
2016 Total	<u>\$2.40</u>	<u>\$2.00</u>	<u>\$4.40</u>	<u>\$1,268</u>
2015				
Fourth Quarter	\$0.50	\$ —	\$0.50	\$ 145
Third Quarter	0.50	—	0.50	146
Second Quarter	0.50	—	0.50	146
First Quarter	0.50	2.00	2.50	734
2015 Total	<u>\$2.00</u>	<u>\$2.00</u>	<u>\$4.00</u>	<u>\$1,171</u>
2014				
Fourth Quarter	\$0.34	\$ —	\$0.34	\$ 100
Third Quarter	0.34	—	0.34	100
Second Quarter	0.34	—	0.34	99
First Quarter	0.34	1.00	1.34	392
2014 Total	<u>\$1.36</u>	<u>\$1.00</u>	<u>\$2.36</u>	<u>\$ 691</u>

Subsequent to January 28, 2017, the Company declared the first quarter of 2017 ordinary dividend of \$0.60 per share.

20. Share-based Compensation

Plan Summary

In 2015, the Company's shareholders approved the 2015 Stock Option and Performance Incentive Plan ("2015 Plan"). The 2015 plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance-based restricted stock, performance units and unrestricted shares. The Company grants stock options at a price equal to the fair market value of the stock on the date of grant. Stock options have a maximum term of 10 years. Stock options generally vest ratably over 3 to 5 years. Restricted stock generally vests (the restrictions lapse) at the end of a three-year period or on a graded basis over a five-year period.

Under the Company's plans, approximately 160 million options, restricted and unrestricted shares have been authorized to be granted to employees and directors. Approximately 16 million options and shares were available for grant as of January 28, 2017.

From time to time the Company's Board of Directors will declare special dividends. For additional information, see Note 19, "Shareholders' Equity (Deficit)." In accordance with the anti-dilutive provisions of the stock plan, in these circumstances the Company adjusts both the exercise price and the number of share-based awards outstanding as of the record date of the special dividends. The aggregate fair value, the aggregate intrinsic value and the ratio of the exercise price to the market price are approximately equal immediately before and after the adjustments. Therefore, no compensation expense is recognized.

Stock Options

The following table provides the Company's stock option activity for the fiscal year ended January 28, 2017:

	Number of Shares	Weighted Average Option Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Outstanding as of January 30, 2016	5,491	\$42.40		
Granted	851	84.92		
Exercised	(639)	32.58		
Cancelled	(399)	69.44		
Adjustment for Special Dividend	135			
Outstanding as of January 28, 2017	<u>5,439</u>	\$47.17	5.66	\$108,075
Vested and Expected to Vest as of January 28, 2017 (a)	5,329	46.41	5.60	107,961
Options Exercisable as of January 28, 2017	3,292	29.90	4.09	100,470

(a) The number of options expected to vest includes an estimate of expected forfeitures.

Intrinsic value for stock options is the difference between the current market value of the Company's stock and the option strike price. The total intrinsic value of options exercised was \$30 million for 2016, \$63 million for 2015 and \$52 million for 2014.

The total fair value at grant date of option awards vested was \$10 million for 2016 and \$11 million for 2015 and 2014.

The Company's total unrecognized compensation cost, net of estimated forfeitures, related to nonvested options was \$17 million as of January 28, 2017. This cost is expected to be recognized over a weighted-average period of 2.9 years.

The weighted-average estimated fair value of stock options granted was \$11.72 per share for 2016, \$15.27 per share for 2015 and \$11.74 per share for 2014.

Cash received from stock options exercised was \$20 million for 2016, \$33 million for 2015 and \$35 million for 2014. Tax benefits realized from tax deductions associated with stock options exercised were \$9 million for 2016, \$20 million for 2015 and \$21 million for 2014.

The Company uses the Black-Scholes option-pricing model for valuation of options granted to employees and directors. The Company's determination of the fair value of options is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and projected employee stock option exercise behaviors.

The following table contains the weighted-average assumptions used during 2016, 2015 and 2014:

	2016	2015	2014
Expected Volatility	25%	26%	30%
Risk-free Interest Rate	1.1%	1.1%	1.4%
Dividend Yield	3.3%	2.7%	3.0%
Expected Life (in years)	4.1	4.5	4.6

The majority of the Company's stock-based compensation awards are granted on an annual basis in the first quarter of each year. The expected volatility assumption is based on the Company's analysis of historical

volatility. The risk-free interest rate assumption is based upon the average daily closing rates during the period for U.S. treasury notes that have a life which approximates the expected life of the option. The dividend yield assumption is based on the Company's history and expectation of dividend payouts in relation to the stock price at the grant date. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding.

Restricted Stock

The following table provides the Company's restricted stock activity for the fiscal year ended January 28, 2017:

	<u>Number of Shares</u> (in thousands)	<u>Weighted Average Grant Date Fair Value</u>
Unvested as of January 30, 2016	5,791	\$54.41
Granted	1,758	75.09
Vested	(1,754)	38.93
Cancelled	(646)	63.11
Adjustment for Special Dividend	143	N/A
Unvested as of January 28, 2017	<u>5,292</u>	64.14

The Company's total intrinsic value of restricted stock vested was \$140 million for 2016, \$217 million for 2015 and \$128 million for 2014.

The Company's total fair value at grant date of awards vested was \$68 million for 2016, \$80 million for 2015 and \$56 million for 2014. Fair value of restricted stock awards is based on the market value of an unrestricted share on the grant date adjusted for anticipated dividend yields.

As of January 28, 2017, there was \$141 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted stock. That cost is expected to be recognized over a weighted-average period of 2.7 years.

The weighted-average estimated fair value of restricted stock granted was \$75.09 per share for 2016, \$85.61 per share for 2015 and \$54.03 per share for 2014.

Tax benefits realized from tax deductions associated with restricted stock vested were \$61 million for 2016, \$82 million for 2015 and \$46 million for 2014.

Income Statement Impact

The following table provides share-based compensation expense included in the Consolidated Statements of Income for 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions)		
Costs of Goods Sold, Buying and Occupancy	\$31	\$27	\$24
General, Administrative and Store Operating Expenses	65	70	66
Total Share-based Compensation Expense	<u>\$96</u>	<u>\$97</u>	<u>\$90</u>

Share-based compensation expense is based on awards that are ultimately expected to vest. The Company estimates forfeitures at the time of grant and adjusts, if necessary, in subsequent periods based on historical experience and expected future termination rates.

The tax benefit associated with recognized share-based compensation expense was \$32 million for 2016, \$33 million for 2015 and \$30 million for 2014.

21. Segment Information

The Company has three reportable segments: Victoria's Secret, Bath & Body Works and Victoria's Secret and Bath & Body Works International.

The Victoria's Secret segment sells women's intimate and other apparel, personal care and beauty products under the Victoria's Secret and PINK brand names. Victoria's Secret merchandise is sold through retail stores located in the U.S. and Canada and its website, *www.VictoriasSecret.com*.

The Bath & Body Works segment sells personal care, home fragrance products, soaps and sanitizers under the Bath & Body Works, White Barn, C.O. Bigelow and other brand names. Bath & Body Works merchandise is sold at retail stores located in the U.S. and Canada and through its website, *www.BathandBodyWorks.com*.

The Victoria's Secret and Bath & Body Works International segment includes the Victoria's Secret and Bath & Body Works company-owned and partner-operated stores located outside of the U.S. and Canada. These businesses include the following:

- Victoria's Secret Beauty and Accessories, comprised of company-owned stores in Greater China, as well as stores operated by partners under franchise, license and wholesale arrangements, which feature Victoria's Secret branded beauty and accessories products;
- Victoria's Secret International, comprised of company-owned stores in the U.K., as well as stores operated by partners under franchise and license and wholesale arrangements; and
- Bath & Body Works International stores operated by partners under franchise, license and wholesale arrangements.

Other consists of the following:

- Mast Global, a merchandise sourcing and production function serving the Company and its international partners;
- La Senza, comprised of company-owned stores in the U.S. and Canada, as well as stores operated by partners under franchise and license arrangements, which feature women's intimate apparel;
- Henri Bendel, operator of 29 specialty stores, which feature handbags, jewelry and other accessory products; and
- Corporate functions including non-core real estate, equity investments and other governance functions such as treasury and tax.

The following table provides the Company's segment information as of and for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015:

	Victoria's Secret	Bath & Body Works	Victoria's Secret and Bath & Body Works International	Other	Total
	(in millions)				
January 28, 2017					
Net Sales	\$7,781	\$3,852	\$423	\$ 518	\$12,574
Depreciation and Amortization	252	91	17	112	472
Operating Income (Loss)	1,173	907	40	(117)	2,003
Total Assets (a)	3,285	1,632	593	2,660	8,170
Capital Expenditures	460	250	68	212	990
January 30, 2016					
Net Sales	\$7,672	\$3,587	\$385	\$ 510	\$12,154
Depreciation and Amortization	218	70	16	111	415
Operating Income (Loss)	1,391	858	88	(145)	2,192
Total Assets (a)	3,163	1,556	436	3,338	8,493
Capital Expenditures	411	166	33	117	727
January 31, 2015					
Net Sales	\$7,207	\$3,350	\$336	\$ 561	\$11,454
Depreciation and Amortization	198	65	16	119	398
Operating Income (Loss)	1,271	737	78	(133)	1,953
Total Assets (a)	2,950	1,365	369	2,792	7,476
Capital Expenditures	446	77	37	155	715

(a) Assets are allocated to the operating segments based on decision making authority relevant to the applicable assets.

The Company's international sales include sales from company-owned stores, royalty revenue from franchise and license arrangements, wholesale revenues and direct sales shipped internationally. Certain of these sales are subject to the impact of fluctuations in foreign currency. The Company's international sales across all segments totaled \$1.408 billion in 2016, \$1.314 billion in 2015 and \$1.349 billion in 2014. The Company's internationally based long-lived assets were \$357 million as of January 28, 2017 and \$319 million as of January 30, 2016.

22. Quarterly Financial Data (Unaudited)

The following table provides summarized quarterly financial data for 2016:

	Fiscal Quarter Ended			
	April 30, 2016 (a)	July 30, 2016 (b)	October 29, 2016	January 28, 2017 (c)
	(in millions except per share data)			
Net Sales	\$2,614	\$2,890	\$2,581	\$4,489
Gross Profit	1,043	1,113	1,025	1,944
Operating Income	323	408	284	988
Income Before Income Taxes	233	380	190	893
Net Income	152	252	122	632
Net Income Per Basic Share (d)	\$ 0.53	\$ 0.88	\$ 0.43	\$ 2.21
Net Income Per Diluted Share (d)	\$ 0.52	\$ 0.87	\$ 0.42	\$ 2.18

- (a) Includes the effect of a pre-tax gain of \$35 million (\$21 million net of tax) included in operating income, related to actions at Victoria’s Secret, including severance charges, fabric cancellations and the write-off of catalogue paper.
- (b) Includes the effect of a pre-tax gain of \$108 million (\$70 million net of tax) related to a cash distribution from Easton Town Center, offset by a pre-tax loss of \$36 million (\$22 million net of tax) associated with the early extinguishment of the 2017 Notes, included in other income.
- (c) Includes the effect of a \$42 million tax benefit related to the favorable resolution of a discrete income tax matter.
- (d) Due to changes in stock prices during the year and timing of issuances and repurchases of shares, the cumulative total of quarterly net income per share amounts may not equal the net income per share for the year.

The following table provides summarized quarterly financial data for 2015:

	Fiscal Quarter Ended			
	May 2, 2015 (a)	August 1, 2015	October 31, 2015	January 30, 2016
	(in millions except per share data)			
Net Sales	\$2,512	\$2,765	\$2,482	\$4,395
Gross Profit	1,056	1,114	1,031	2,002
Operating Income	372	403	339	1,078
Income Before Income Taxes	369	323	260	982
Net Income	250	202	164	636
Net Income Per Basic Share (b)	\$ 0.86	\$ 0.69	\$ 0.56	\$ 2.19
Net Income Per Diluted Share (b)	\$ 0.84	\$ 0.68	\$ 0.55	\$ 2.15

- (a) Includes the effect of a pre-tax gain of \$78 million (\$69 million net of tax) included in other income, related to the sale of our remaining interest in the third-party apparel sourcing business.
- (b) Due to changes in stock prices during the year and timing of issuances and repurchases of shares, the cumulative total of quarterly net income per share amounts may not equal the net income per share for the year.

23. Subsequent Events

Subsequent to January 28, 2017, the Company’s Board of Directors approved a new \$250 million share repurchase program, which included the \$59 million remaining under the February 2016 repurchase program. The Company repurchased an additional 0.9 million shares of common stock for \$49 million subsequent to January 28, 2017.

The Company declared the first quarter of 2017 ordinary dividend of \$0.60 per share. For additional information, see Note 19, “Shareholders’ Equity (Deficit).”

24. Supplemental Guarantor Financial Information

The Company’s 2019 Notes, 2020 Notes, 2021 Notes, 2022 Notes, 2023 Notes, 2035 Notes and 2036 Notes are jointly and severally guaranteed on a full and unconditional basis by the Guarantors. The Company is a holding company, and its most significant assets are the stock of its subsidiaries. The Guarantors represent:

- (a) substantially all of the sales of the Company’s domestic subsidiaries, (b) more than 90% of the assets owned by the Company’s domestic subsidiaries, other than real property, certain other assets and intercompany investments and balances, and (c) more than 95% of the accounts receivable and inventory directly owned by the Company’s domestic subsidiaries.

The following supplemental financial information sets forth for the Company and its guarantor and non-guarantor subsidiaries: the Condensed Consolidating Balance Sheets as of January 28, 2017 and January 30, 2016 and the Condensed Consolidating Statements of Income, Comprehensive Income and Cash Flows for the years ended January 28, 2017, January 30, 2016 and January 31, 2015.

L BRANDS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(in millions)

	January 28, 2017				
	<u>L Brands, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated L Brands, Inc.</u>
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ —	\$ 1,562	\$ 372	\$ —	\$1,934
Accounts Receivable, Net	—	228	66	—	294
Inventories	—	976	120	—	1,096
Other	—	53	88	—	141
	<u>—</u>	<u>2,819</u>	<u>646</u>	<u>—</u>	<u>3,465</u>
Total Current Assets	—	2,819	646	—	3,465
Property and Equipment, Net	—	1,897	844	—	2,741
Goodwill	—	1,318	30	—	1,348
Trade Names and Other Intangible Assets, Net	—	411	—	—	411
Net Investments in and Advances to/from Consolidated Affiliates	4,923	15,824	1,350	(22,097)	—
Deferred Income Taxes	—	10	9	—	19
Other Assets	130	28	639	(611)	186
	<u>130</u>	<u>28</u>	<u>639</u>	<u>(611)</u>	<u>186</u>
Total Assets	<u>\$5,053</u>	<u>\$22,307</u>	<u>\$3,518</u>	<u>\$(22,708)</u>	<u>\$8,170</u>
LIABILITIES AND EQUITY					
(DEFICIT)					
Current Liabilities:					
Accounts Payable	\$ 3	\$ 326	\$ 354	\$ —	\$ 683
Accrued Expenses and Other	100	526	371	—	997
Current Portion of Long-term Debt	—	—	36	—	36
Income Taxes	(11)	221	88	—	298
	<u>92</u>	<u>1,073</u>	<u>849</u>	<u>—</u>	<u>2,014</u>
Total Current Liabilities	92	1,073	849	—	2,014
Deferred Income Taxes	(3)	(93)	448	—	352
Long-term Debt	5,700	597	—	(597)	5,700
Other Long-term Liabilities	3	761	81	(14)	831
Total Equity (Deficit)	<u>(739)</u>	<u>19,969</u>	<u>2,140</u>	<u>(22,097)</u>	<u>(727)</u>
Total Liabilities and Equity (Deficit)	<u>\$5,053</u>	<u>\$22,307</u>	<u>\$3,518</u>	<u>\$(22,708)</u>	<u>\$8,170</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(in millions)

	January 30, 2016				
	<u>L Brands, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated L Brands, Inc.</u>
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ —	\$ 2,190	\$ 358	\$ —	\$2,548
Accounts Receivable, Net	1	202	58	—	261
Inventories	—	978	144	—	1,122
Other	—	115	110	—	225
	<u>1</u>	<u>3,485</u>	<u>670</u>	<u>—</u>	<u>4,156</u>
Property and Equipment, Net	—	1,574	756	—	2,330
Goodwill	—	1,318	—	—	1,318
Trade Names and Other Intangible Assets, Net	—	411	—	—	411
Net Investments in and Advances to/from Consolidated Affiliates	5,368	13,649	1,242	(20,259)	—
Deferred Income Taxes	—	11	19	—	30
Other Assets	141	40	679	(612)	248
	<u>141</u>	<u>40</u>	<u>679</u>	<u>(612)</u>	<u>248</u>
Total Assets	<u>\$5,510</u>	<u>\$20,488</u>	<u>\$3,366</u>	<u>\$(20,871)</u>	<u>\$8,493</u>
LIABILITIES AND EQUITY (DEFICIT)					
Current Liabilities:					
Accounts Payable	\$ —	\$ 333	\$ 335	\$ —	\$ 668
Accrued Expenses and Other	100	519	358	—	977
Current Portion of Long-term Debt	—	—	6	—	6
Income Taxes	(3)	237	(10)	—	224
	<u>97</u>	<u>1,089</u>	<u>689</u>	<u>—</u>	<u>1,875</u>
Deferred Income Taxes	(3)	(86)	346	—	257
Long-term Debt	5,714	597	1	(597)	5,715
Other Long-term Liabilities	—	670	248	(14)	904
Total Equity (Deficit)	<u>(298)</u>	<u>18,218</u>	<u>2,082</u>	<u>(20,260)</u>	<u>(258)</u>
Total Liabilities and Equity (Deficit)	<u>\$5,510</u>	<u>\$20,488</u>	<u>\$3,366</u>	<u>\$(20,871)</u>	<u>\$8,493</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)

	2016				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Sales	\$ —	\$11,959	\$ 3,533	\$(2,918)	\$12,574
Costs of Goods Sold, Buying and Occupancy	—	(7,277)	(2,854)	2,682	(7,449)
Gross Profit	—	4,682	679	(236)	5,125
General, Administrative and Store Operating Expenses	(8)	(2,843)	(457)	186	(3,122)
Operating Income (Loss)	(8)	1,839	222	(50)	2,003
Interest Expense	(394)	(60)	(11)	71	(394)
Other Income	(35)	3	119	—	87
Income (Loss) Before Income Taxes	(437)	1,782	330	21	1,696
Provision (Benefit) for Income Taxes	(10)	432	116	—	538
Equity in Earnings, Net of Tax	1,585	39	376	(2,000)	—
Net Income (Loss)	<u>\$1,158</u>	<u>\$ 1,389</u>	<u>\$ 590</u>	<u>\$(1,979)</u>	<u>\$ 1,158</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	2016				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Income (Loss)	\$1,158	\$1,389	\$590	\$(1,979)	\$1,158
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	(19)	—	(19)
Unrealized Loss on Cash Flow Hedges	—	—	(8)	—	(8)
Reclassification of Cash Flow Hedges to Earnings	—	—	7	—	7
Unrealized Loss on Marketable Securities	—	—	(5)	—	(5)
Reclassification of Gain on Marketable Securities to Earnings	—	—	(3)	—	(3)
Total Other Comprehensive Income (Loss), Net of Tax	—	—	(28)	—	(28)
Total Comprehensive Income	<u>\$1,158</u>	<u>\$1,389</u>	<u>\$562</u>	<u>\$(1,979)</u>	<u>\$1,130</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)

	2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Sales	\$ —	\$11,475	\$ 3,570	\$(2,891)	\$12,154
Costs of Goods Sold, Buying and Occupancy	—	(6,843)	(2,858)	2,751	(6,950)
Gross Profit	—	4,632	712	(140)	5,204
General, Administrative and Store Operating Expenses	(12)	(2,688)	(440)	128	(3,012)
Operating Income (Loss)	(12)	1,944	272	(12)	2,192
Interest Expense	(334)	(38)	(9)	47	(334)
Other Income	—	5	71	—	76
Income (Loss) Before Income Taxes	(346)	1,911	334	35	1,934
Provision (Benefit) for Income Taxes ...	(2)	478	205	—	681
Equity in Earnings, Net of Tax	1,597	94	348	(2,039)	—
Net Income (Loss)	<u>\$1,253</u>	<u>\$ 1,527</u>	<u>\$ 477</u>	<u>\$(2,004)</u>	<u>\$ 1,253</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Income (Loss)	\$1,253	\$1,527	\$477	\$(2,004)	\$1,253
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	(23)	—	(23)
Unrealized Gain on Cash Flow Hedges	—	—	6	—	6
Reclassification of Cash Flow Hedges to Earnings	—	—	14	—	14
Unrealized Gain on Marketable Securities	—	—	8	—	8
Total Other Comprehensive Income, Net of Tax	—	—	5	—	5
Total Comprehensive Income	<u>\$1,253</u>	<u>\$1,527</u>	<u>\$482</u>	<u>\$(2,004)</u>	<u>\$1,258</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)

	2014				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Sales	\$ —	\$10,711	\$ 3,343	\$(2,600)	\$11,454
Costs of Goods Sold, Buying and Occupancy	—	(6,449)	(2,611)	2,414	(6,646)
Gross Profit	—	4,262	732	(186)	4,808
General, Administrative and Store Operating Expenses	(6)	(2,538)	(446)	135	(2,855)
Operating Income (Loss)	(6)	1,724	286	(51)	1,953
Interest Expense	(324)	(35)	(9)	44	(324)
Other Income	1	—	6	—	7
Income (Loss) Before Income Taxes	(329)	1,689	283	(7)	1,636
Provision (Benefit) for Income Taxes	(3)	385	212	—	594
Equity in Earnings, Net of Tax	1,368	46	316	(1,730)	—
Net Income (Loss)	<u>\$1,042</u>	<u>\$ 1,350</u>	<u>\$ 387</u>	<u>\$(1,737)</u>	<u>\$ 1,042</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	2014				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Income (Loss)	\$1,042	\$1,350	\$387	\$(1,737)	\$1,042
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	21	—	21
Unrealized Gain on Cash Flow Hedges	—	—	34	—	34
Reclassification of Cash Flow Hedges to Earnings	—	—	(60)	—	(60)
Total Other Comprehensive Income (Loss), Net of Tax	—	—	(5)	—	(5)
Total Comprehensive Income	<u>\$1,042</u>	<u>\$1,350</u>	<u>\$382</u>	<u>\$(1,737)</u>	<u>\$1,037</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in millions)

	2016				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Cash Provided by (Used for)					
Operating Activities	\$ (462)	\$ 1,848	\$ 504	\$ —	\$ 1,890
Investing Activities:					
Capital Expenditures	—	(705)	(285)	—	(990)
Return of Capital from Easton Town Center, LLC	—	—	108	—	108
Acquisition, Net of Cash Acquired of \$1	—	—	(33)	—	(33)
Proceeds from Sale of Assets	—	—	53	—	53
Proceeds from Sale of Marketable Securities	—	—	10	—	10
Other Investing Activities	—	(2)	21	—	19
Net Cash Used for Investing Activities . .	<u>—</u>	<u>(707)</u>	<u>(126)</u>	<u>—</u>	<u>(833)</u>
Financing Activities:					
Proceeds from Issuance of Long- term Debt, Net of Issuance Costs	692	—	—	—	692
Payments of Long-term Debt	(742)	—	—	—	(742)
Borrowings from Debt Facilities . . .	—	—	35	—	35
Repayments on Debt Facilities	—	—	(6)	—	(6)
Dividends Paid	(1,268)	—	—	—	(1,268)
Repurchases of Common Stock	(435)	—	—	—	(435)
Excess Tax Benefits from Share- based Compensation	—	37	5	—	42
Net Financing Activities and Advances to/from Consolidated Affiliates	2,195	(1,803)	(392)	—	—
Proceeds From Exercise of Stock Options	20	—	—	—	20
Financing Costs and Other	<u>—</u>	<u>(3)</u>	<u>—</u>	<u>—</u>	<u>(3)</u>
Net Cash Provided by (Used for)					
Financing Activities	<u>462</u>	<u>(1,769)</u>	<u>(358)</u>	<u>—</u>	<u>(1,665)</u>
Effects of Exchange Rate Changes on Cash	—	—	(6)	—	(6)
Net Increase in Cash and Cash Equivalents	—	(628)	14	—	(614)
Cash and Cash Equivalents, Beginning of Year	<u>—</u>	<u>2,190</u>	<u>358</u>	<u>—</u>	<u>2,548</u>
Cash and Cash Equivalents, End of Year	<u>\$ —</u>	<u>\$ 1,562</u>	<u>\$ 372</u>	<u>\$ —</u>	<u>\$ 1,934</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in millions)

	2015				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Cash Provided by (Used for)					
Operating Activities	\$ (322)	\$1,835	\$ 356	\$ —	\$ 1,869
Investing Activities:					
Capital Expenditures	—	(506)	(221)	—	(727)
Proceeds from Sale of Assets	—	—	196	—	196
Proceeds from Sale of Marketable Securities	—	50	—	—	50
Proceeds from Divestiture of Third- party Apparel Sourcing Business	—	1	84	—	85
Purchases of Marketable Securities	—	(50)	(10)	—	(60)
Other Investing Activities	—	—	13	—	13
Net Cash Used for Investing Activities . .	<u>—</u>	<u>(505)</u>	<u>62</u>	<u>—</u>	<u>(443)</u>
Financing Activities:					
Proceeds from Issuance of Long- term Debt, Net of Issuance Costs	988	—	—	—	988
Borrowings from Debt Facilities . . .	—	—	7	—	7
Dividends Paid	(1,171)	—	—	—	(1,171)
Repurchases of Common Stock	(483)	—	—	—	(483)
Excess Tax Benefits from Share- based Compensation	—	62	8	—	70
Net Financing Activities and Advances to/from Consolidated Affiliates	955	(662)	(293)	—	—
Proceeds From Exercise of Stock Options	33	—	—	—	33
Financing Costs and Other	—	(2)	—	—	(2)
Net Cash Provided by (Used for)					
Financing Activities	<u>322</u>	<u>(602)</u>	<u>(278)</u>	<u>—</u>	<u>(558)</u>
Effects of Exchange Rate Changes on Cash	—	—	(1)	—	(1)
Net Increase in Cash and Cash Equivalents	—	728	139	—	867
Cash and Cash Equivalents, Beginning of Year	<u>—</u>	<u>1,462</u>	<u>219</u>	<u>—</u>	<u>1,681</u>
Cash and Cash Equivalents, End of Year	<u>\$ —</u>	<u>\$2,190</u>	<u>\$ 358</u>	<u>\$ —</u>	<u>\$ 2,548</u>

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in millions)

	2014				Consolidated L Brands, Inc.
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	
Net Cash Provided by (Used for)					
Operating Activities	\$ (333)	\$ 1,677	\$ 442	\$ —	\$1,786
Investing Activities:					
Capital Expenditures	—	(486)	(229)	—	(715)
Other Investing Activities	—	(1)	17	—	16
Net Cash Used for Investing Activities . .	<u>—</u>	<u>(487)</u>	<u>(212)</u>	<u>—</u>	<u>(699)</u>
Financing Activities:					
Payments of Long-term Debt	(213)	—	—	—	(213)
Borrowings from Debt Facilities . . .	—	—	5	—	5
Repayments on Debt Facilities	—	—	(5)	—	(5)
Dividends Paid	(691)	—	—	—	(691)
Repurchases of Common Stock	(87)	—	—	—	(87)
Excess Tax Benefits from Share- based Compensation	—	37	6	—	43
Net Financing Activities and Advances to/from Consolidated Affiliates	1,295	(1,118)	(177)	—	—
Proceeds From Exercise of Stock Options	35	—	—	—	35
Financing Costs and Other	(6)	—	—	—	(6)
Net Cash Provided by (Used for)					
Financing Activities	<u>333</u>	<u>(1,081)</u>	<u>(171)</u>	<u>—</u>	<u>(919)</u>
Effects of Exchange Rate Changes on					
Cash	—	—	(6)	—	(6)
Net Increase (Decrease) in Cash and Cash Equivalents	—	109	53	—	162
Cash and Cash Equivalents, Beginning of Year	<u>—</u>	<u>1,353</u>	<u>166</u>	<u>—</u>	<u>1,519</u>
Cash and Cash Equivalents, End of Year	<u>\$ —</u>	<u>\$ 1,462</u>	<u>\$ 219</u>	<u>\$ —</u>	<u>\$1,681</u>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective and designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting. Management's Report on Internal Control Over Financial Reporting as of January 28, 2017 is set forth in Item 8. Financial Statements and Supplementary Data.

Attestation Report of the Registered Public Accounting Firm. The Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting as of January 28, 2017 is set forth in Item 8. Financial Statements and Supplementary Data.

Changes in internal control over financial reporting. In August 2016, we implemented a new Human Resources and Payroll system. Various processes and controls were modified due to the new system. Additionally, we implemented additional compensating controls over financial reporting to ensure the accuracy and integrity of our financial statements during the post-implementation phase. We believe the system and process changes will enhance internal control over financial reporting in future periods. There were no other changes in our internal control over financial reporting that occurred in the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information regarding our directors, executive officers and corporate governance is set forth under the captions “ELECTION OF DIRECTORS—Nominees and Directors”, “—Director Independence”, “—Board Leadership Structure”, “—Risk Oversight; Certain Compensation Matters”, “—Review of Strategic Plans and Capital Structure”, “—Succession Planning”, “—Information Concerning Board Meeting Attendance”, “—Committees of the Board”, “—Meetings of the Company’s Non-Management Directors”, “—Communications with Stockholders”, “—Attendance at Annual Meetings”, “—Code of Conduct, Related Person Transaction Policy and Associated Matters”, “—Copies of the Company’s Code of Conduct, Corporate Governance Principles, Policy and Committee Charters”, and “SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT” in the Proxy Statement and is incorporated herein by reference. Information regarding compliance with Section 16(A) of the Securities Exchange Act of 1934, as amended, is set forth under the caption “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” in the Proxy Statement and is incorporated herein by reference. Information regarding executive officers is set forth herein under the caption “Executive Officers of Registrant” in Part I.

ITEM 11. EXECUTIVE COMPENSATION.

Information regarding executive compensation is set forth under the caption “COMPENSATION-RELATED MATTERS” in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information regarding the security ownership of certain beneficial owners and management is set forth under the captions “SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT” in the Proxy Statement and “SHARE OWNERSHIP OF PRINCIPAL STOCKHOLDERS” in the Proxy Statement and is incorporated herein by reference.

The following table summarizes share and exercise price information about L Brands’ equity compensation plans as of January 28, 2017.

<u>Plan category</u>	<u>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders (1)	11,213,614	\$47.17(2)	15,519,061
Equity compensation plans not approved by security holders	—	—	—
Total	<u>11,213,614</u>	<u>\$47.17</u>	<u>15,519,061</u>

- (1) Includes the following plans: L Brands, Inc. 2015 Stock Option and Performance Incentive Plan, L Brands, Inc. 2011 Stock Option and Performance Incentive Plan and L Brands, Inc. 1993 Stock Option and Performance Incentive Plan (2009 Restatement). There are no shares remaining available for grant under the 2011 Plan or 1993 Plan.
- (2) Does not include outstanding rights to receive Common Stock upon the vesting of restricted share awards or settlement of deferred stock units.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information regarding certain relationships and related transactions is set forth under the caption “ELECTION OF DIRECTORS—Nominees and Directors” and “—Director Independence” in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information regarding principal accountant fees and services is set forth under the captions “INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS—Audit Fees”, “—Audit Related Fees”, “—Tax Fees”, “—All Other Fees” and “—Pre-approval Policies and Procedures” in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Consolidated Financial Statements

The following consolidated financial statements of L Brands, Inc. are filed as part of this report under Item 8. Financial Statements and Supplementary Data:

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Consolidated Statements of Income for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

Consolidated Statements of Comprehensive Income for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

Consolidated Balance Sheets as of January 28, 2017 and January 30, 2016

Consolidated Statements of Total Equity (Deficit) for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

Consolidated Statements of Cash Flows for the Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedules have been omitted because they are not required or are not applicable or because the information required to be set forth therein either is not material or is included in the financial statements or notes thereto.

(3) List of Exhibits

3. Articles of Incorporation and Bylaws.

3.1 Restated Certificate of Incorporation of the Company incorporated by reference to Exhibit 3.1 to the Company's Form 10-K dated February 1, 2014.

3.2 Amended and Restated Bylaws of the Company incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated November 3, 2016.

4. Instruments Defining the Rights of Security Holders.

4.1 Conformed copy of the Indenture dated as of March 15, 1988 between the Company and The Bank of New York, incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-105484) dated May 22, 2003.

4.2 Proposed form of Debt Warrant Agreement for Warrants attached to Debt Securities, with proposed form of Debt Warrant Certificate incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 33-53366) originally filed with the Securities and Exchange Commission (the "SEC") on October 16, 1992, as amended by Amendment No. 1 thereto, filed with the SEC on February 23, 1993 (the "1993 Form S-3").

- 4.3 Proposed form of Debt Warrant Agreement for Warrants not attached to Debt Securities, with proposed form of Debt Warrant Certificate incorporated by reference to Exhibit 4.3 to the 1993 Form S-3.
- 4.4 Indenture, dated as of February 19, 2003 between the Company and The Bank of New York, incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-4 (File No. 333-104633) dated April 18, 2003.
- 4.5 First Supplemental Indenture dated as of May 31, 2005 among the Company, The Bank of New York and The Bank of New York Trust Company, N.A., incorporated by reference to Exhibit 4.1.2 to the Company's Registration Statement on Form S-3 (Reg. No. 333-125561) filed June 6, 2005.
- 4.6 Second Supplemental Indenture dated as of July 17, 2007 between the Company and The Bank of New York Trust Company, N.A., incorporated by reference to Exhibit 4.1.3 to the Company's Registration Statement on Form S-3 (Reg. No. 333-146420) filed October 1, 2007.
- 4.7 Indenture, dated as of June 19, 2009, among the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Company's Form 8-K dated June 24, 2009.
- 4.8 Registration Rights Agreement, dated as of June 19, 2009, among the Company, the guarantors named therein and JP Morgan Securities Inc., as representative of the initial purchasers, incorporated by reference to Exhibit 4.2 to the Company's Form 8-K dated June 24, 2009.
- 4.9 Third Supplemental Indenture dated as of May 4, 2010 between the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1.4 to the Company's Registration Statement on Form S-3 (Reg. No. 333-170406) filed on November 5, 2010.
- 4.10 Fourth Supplemental Indenture dated as of January 29, 2011 between the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1.5 to the post-effective amendment to the Company's Registration Statement on Form S-3 (Reg. No. 333-170406) filed on March 22, 2011.
- 4.11 Form of Fifth Supplemental Indenture dated as of March 25, 2011 between the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1.6 to the post-effective amendment to the Company's Registration Statement on Form S-3 (Reg. No. 333-170406) filed on March 22, 2011.
- 4.12 Sixth Supplemental Indenture dated as of February 7, 2012 among the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 28, 2012.
- 4.13 Seventh Supplemental Indenture dated as of March 22, 2013 between the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1.8 to the Company's Registration Statement on Form S-3 (Reg. No. 333-191968) filed on October 29, 2013.
- 4.14 Eighth Supplemental Indenture dated as of October 16, 2013 between the Company, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1.9 to the Company's Registration Statement on Form S-3 (Reg. No. 333-191968) filed on October 29, 2013.

- 4.15 Amendment and Restatement Agreement dated July 18, 2014 among L Brands, Inc., a Delaware corporation, L (Overseas) Holdings LP, an Alberta limited partnership, Canadian Retail Holdings Corporation, a Nova Scotia company, Victoria's Secret UK Limited, a company organized under the laws of England and Wales, and Mast Industries (Far East) Limited, a Hong Kong corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (the "Administrative Agent"), in respect of the Amended and Restated Five-Year Revolving Credit Agreement dated as of July 15, 2011 among the Company, the lenders from time to time party thereto and the Administrative Agent, incorporated by reference to Exhibit 4.1 to the Company's Form 8-K dated July 22, 2014.
- 4.16 Ninth Supplemental Indenture dated as of January 30, 2015 among the Registrant, the New Guarantors, The Bank of New York Mellon Trust Company, as Trustee, and the Old Guarantors to the Base Indenture dated as of March 15, 1988, as amended, relating to the 7.000% Senior Notes due 2020, the 6.625% Senior Notes due 2021, the 5.625% Senior Notes due 2022 and the 5.625% Senior Notes due 2023, incorporated by reference to Exhibit 4.16 to the Company's Registration Statement on Form S-4 (Reg. No. 333-209114) filed on January 25, 2016.
- 4.17 Second Supplemental Indenture dated as of January 30, 2015 among the Registrant, the New Guarantors, The Bank of New York Mellon Trust Company, as Trustee and the Old Guarantors to the Base Indenture dated as of June 19, 2009, as amended, relating to the 8.50% Senior Notes due 2019, incorporated by reference to Exhibit 4.17 to the Company's Registration Statement on Form S-4 (Reg. No. 333-209114) filed on January 25, 2016.
- 4.18 First Amendment dated as of April 21, 2015 among the Company, L (Overseas) Holding LP, an Alberta limited partnership, Canadian Retail Holdings Corporation, a Nova Scotia company, Victoria's Secret UK Limited, a company organized under the laws of England and Wales, and Mast Industries (Far East) Limited, a Hong Kong corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (the "Administrative Agent"), in respect of the Amended and Restated Five-Year Revolving Credit Agreement dated as of July 18, 2014 among the Company, the lenders from time to time party thereto and the Administrative Agent, incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 2, 2015.
- 4.19 Indenture, dated as of October 30, 2015, among L Brands, Inc., the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Company's Form 8-K dated November 3, 2015.
- 4.20 Form of 6.875% senior notes due 2035, incorporated by reference to Exhibit 4.2 to the Company's Form 8-K dated November 3, 2015.
- 4.21 Registration Rights Agreement, dated as of October 30, 2015, among L Brands, Inc., the guarantors named therein and Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the initial purchasers, incorporated by reference to Exhibit 4.3 to the Company's Form 8-K dated November 3, 2015.
- 4.22 Indenture, dated as of June 16, 2016, among L Brands, Inc. and U.S. Bank National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Form 8-K dated June 16, 2016.
- 4.23 First Supplemental Indenture, dated as of June 16, 2016, by and among L Brands, Inc., the guarantors named therein and U.S. Bank National Association, as trustee, incorporated by reference to Exhibit 4.2 to the Company's Form 8-K dated June 16, 2016.

10. Material Contracts.
- 10.1 Officers' Benefits Plan incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 1989 (the "1988 Form 10-K").**
- 10.2 The Company's Supplemental Retirement and Deferred Compensation Plan incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001.**
- 10.3 Form of Indemnification Agreement between the Company and the directors and executive officers of the Company incorporated by reference to Exhibit 10.4 to the 1998 Form 10-K.**
- 10.4 Supplemental schedule of directors and executive officers who are parties to an Indemnification Agreement incorporated by reference to Exhibit 10.5 to the 1998 Form 10-K.**
- 10.5 The 1993 Stock Option and Performance Incentive Plan of the Company, incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 (File No. 33-49871).**
- 10.6 The Company's 1996 Stock Plan for Non-Associate Directors incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 2, 1996.**
- 10.7 The Company's Incentive Compensation Performance Plan incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 14, 1997.**
- 10.8 Agreement dated as of May 3, 1999 among the Company, Leslie H. Wexner and the Wexner Children's Trust, incorporated by reference to Exhibit 99 (c) 1 to the Company's Schedule 13E-4 dated May 4, 1999.
- 10.9 The 1998 Restatement of the Company's 1993 Stock Option and Performance Incentive Plan incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 20, 1998.**
- 10.10 The 2002 Restatement of the Company's 1993 Stock Option and Performance Incentive Plan, incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003.**
- 10.11 The Company's Stock Award and Deferred Compensation Plan for Non-Associate Directors incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (File No. 333-110465) dated November 13, 2003.**
- 10.12 The Company's 1993 Stock Option and Performance Incentive Plan (2003 Restatement) incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-110465) dated November 13, 2003.**
- 10.13 The Company's 1993 Stock Option and Performance Incentive Plan (2004 Restatement) incorporated by reference to Appendix A to the Company's Proxy Statement dated April 14, 2004.**
- 10.14 The Company's Stock Option Award Agreement incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.**
- 10.15 Form of Stock Ownership Guideline incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.**

- 10.16 Employment Agreement effective as of April 9, 2007 among the Company and Stuart Burgdoerfer incorporated by reference to Exhibit 10.2 to the Company's Form 8-K dated April 11, 2007.**
- 10.17 The Company's 1993 Stock Option and Performance Incentive Plan (2009 Restatement) incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-110465) dated September 10, 2009.**
- 10.18 Employment Agreement dated as of December 31, 2007 among the Company, beautyAvenues, LLC, and Charles C. McGuigan, as amended by Amendment to Agreement dated December 1, 2008 and Form of Employment Agreement Amendment effective as of March 15, 2012 incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012.**
- 10.19 The Company's 2011 Stock Option and Performance Incentive Plan originally incorporated by reference to Appendix A to the Company's Proxy Statement dated April 11, 2011 and Amended and Restated dated July 21, 2011 incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012.**
- 10.20 Employment Agreement dated as of March 15, 2013 among the Company, Bath & Body Works Brand Management, Inc. and Nicholas P. M. Coe incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013.**
- 10.21 Form of Sixth Amended and Restated Master Aircraft Time Sharing Agreement incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.**
- 10.22 L Brands, Inc. 2015 Stock Option and Performance Incentive Plan Terms and Conditions of Restricted Share Unit Grant, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2015.
- 10.23 L Brands, Inc. 2015 Stock Option and Performance Incentive Plan Terms and Conditions of Stock Option Grant, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2015.
- 10.24 L Brands, Inc. 2015 Cash Incentive Compensation Performance Plan, incorporated by reference to Exhibit 10.2 to the Company's Form 8-K dated May 26, 2015.
- 10.25 Employment Agreement dated as of July 23, 2009 among Limited Brands, Inc., Limited Service Corporation, Inc., and Martin P. Waters, as amended by Employment Agreement Amendment among Limited Brands, Inc., Limited Brands Service Company, LLC, and Mr. Waters effective as of December 19, 2012.**
- 12. Computation of Ratio of Earnings to Fixed Charges.
- 21. Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP.
- 24. Powers of Attorney.
- 31.1 Section 302 Certification of CEO.
- 31.2 Section 302 Certification of CFO.
- 32. Section 906 Certification (by CEO and CFO).
- 101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL Taxonomy Definition Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

** Identifies management contracts or compensatory plans or arrangements.

(b) Exhibits.

The exhibits to this report are listed in section (a)(3) of Item 15 above.

(c) Not applicable.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 17, 2017

L BRANDS, INC. (Registrant)
By: /s/ STUART B. BURGDOERFER

Stuart B. Burgdoerfer,
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on January 28, 2017:

<u>Signature</u>	<u>Title</u>
/s/ LESLIE H. WEXNER* Leslie H. Wexner	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ STUART B. BURGDOERFER Stuart B. Burgdoerfer	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ E. GORDON GEE* E. Gordon Gee	Director
/s/ DENNIS S. HERSCH* Dennis S. Hersch	Director
/s/ DONNA A. JAMES* Donna A. James	Director
/s/ DAVID T. KOLLAT* David T. Kollat	Director
/s/ JEFFREY H. MIRO* Jeffrey H. Miro	Director
/s/ MICHAEL G. MORRIS* Michael G. Morris	Director
/s/ STEPHEN S. STEINOUR* Stephen S. Steinour	Director
/s/ ALLAN R. TESSLER* Allan R. Tessler	Director
/s/ ABIGAIL S. WEXNER* Abigail S. Wexner	Director
/s/ RAYMOND ZIMMERMAN* Raymond Zimmerman	Director

* The undersigned, by signing his name hereto, does hereby sign this report on behalf of each of the above-indicated directors of the registrant pursuant to powers of attorney executed by such directors.

By: /s/ STUART B. BURGDOERFER
Stuart B. Burgdoerfer
Attorney-in-fact

[THIS PAGE INTENTIONALLY LEFT BLANK]

Executive Officers

Leslie H. Wexner

Chairman and Chief Executive Officer
L Brands, Inc.

Stuart B. Burgdoerfer

Executive Vice President and Chief Financial Officer
L Brands, Inc.

Nicholas P. M. Coe

President and Chief Executive Officer
Bath & Body Works

Charles C. McGuigan

Chief Operating Officer
L Brands, Inc.

President and Chief Executive Officer
Mast Global

Martin Waters

President and Chief Executive Officer
L Brands International

Board of Directors

Leslie H. Wexner (6)

Chairman and Chief Executive Officer, L Brands, Inc.

E. Gordon Gee (2, 5)

President, West Virginia University

Dennis S. Hersch (4)

President, N.A. Property, Inc.

Donna A. James (1, 3, 5)

Managing Director, Lardon & Associates LLC

David T. Kollat (1, 2, 3, 4)

Chairman, 22, Inc.

Jeffrey H. Miro (2, 3)

Senior Partner, Honigman Miller Schwartz and Cohn LLP

Michael G. Morris (2)

Chairman, American Electric Power Company, Inc. (Retired)

Stephen D. Steinour

Chairman, President and Chief Executive Officer, Huntington Bancshares Incorporated

Allan R. Tessler (1, 3, 4, 6)

Chairman and Chief Executive Officer, International Financial Group, Inc.

Abigail S. Wexner (4, 5)

Chairman and Chief Executive Officer, Whitebarn Associates

Raymond Zimmerman (1, 4)

Chief Executive Officer, Service Merchandise LLC

-
- 1 = Member of the Audit Committee
 - 2 = Member of the Compensation Committee
 - 3 = Member of the Nominating and Governance Committee
 - 4 = Member of the Finance Committee
 - 5 = Member of the Inclusion Committee
 - 6 = Member of the Executive Committee

Company Information

Headquarters

L Brands, Inc.
Three Limited Parkway
Columbus, Ohio 43230

614.415.7000
www.LB.com

Stock Exchange Listing

New York Stock Exchange
(Trading Symbol "LB")

Information Requests

Through our website:	www.LB.com
Upon written request to:	L Brands, Inc. Investor Relations Three Limited Parkway Columbus, Ohio, 43230
By calling:	614.415.7000

L Brands, Inc.

Founded 1963

as of Jan. 28, 2017:

Approximate associate base: 93,600

Approximate shareholder base: 198,000

NYSE Certification Statement

Our Chief Executive Officer and Chief Financial Officer have filed the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 with the Securities and Exchange Commission as exhibits to our Form 10-K for the fiscal year ended Jan. 28, 2017. In addition, our Chief Executive Officer filed a separate annual certification to the New York Stock Exchange following our annual shareholders' meeting on May 19, 2016.

Annual Meeting of Shareholders

8:30 a.m. Thursday, May 18, 2017
Three Limited Parkway
Columbus, Ohio 43230

Independent Public Accountants

Ernst & Young LLP
Columbus, Ohio

Stock Transfer Agent, Registrar and Dividend Agent

American Stock Transfer & Trust Company ("AST")
6201 15th Avenue
Brooklyn, NY 11219

866.875.7975
718.921.8124
info@astfinancial.com
<https://www.astfinancial.com>

Investor resources available on our website, www.LB.com, include:

- Anticipated release dates for monthly sales and quarterly earnings
 - Live webcasts of the quarterly earnings conference calls
 - Audio replays of monthly sales and quarterly earnings conference calls
 - Current investor presentations and materials
-

©2017 L Brands

ADMITTANCE SLIP
2017 ANNUAL MEETING OF STOCKHOLDERS

Date, Time and Place of Meeting:

Date: Thursday, May 18, 2017

Time: 8:30 a.m., Eastern Time

Place: Three Limited Parkway
Columbus, Ohio 43230

Attending the Meeting:

Stockholders who plan to attend the meeting in person must bring this admittance slip and a photo identification to gain access. Because of necessary security precautions, bags, purses and briefcases may be subject to inspection. To speed the admissions process, stockholders are encouraged to bring only essential items. Cameras, camcorders or videotaping equipment are not allowed. Photographs or videos taken by the Company at the meeting may be used by the Company. By attending, you waive any claim or rights to these photographs.

For more information about attending the annual meeting, please visit the website at www.lb.com or contact Investor Relations at (614) 415-7585.

[THIS PAGE INTENTIONALLY LEFT BLANK]

