ESTEE LAUDER COMPANIES INC
Form 10-K
August 24, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2016

OR

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

For the transition period from to

Commission file number 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-2408943**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
767 Fifth Avenue, New York, New York	**10153**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **212-572-4200**

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

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $.01 par value	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 x No o

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 o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. x

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the registrant s voting common equity held by non-affiliates of the registrant was approximately $19.6 billion at December 31, 2015 (the last business day of the registrant s most recently completed second quarter).*

At August 18, 2016, 220,942,974 shares of the registrant s Class A Common Stock, $.01 par value, and 144,770,237 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Document	**Where Incorporated**
Proxy Statement for Annual Meeting of Stockholders to be held November 11, 2016	Part III

* Calculated by excluding all shares held by executive officers and directors of registrant and certain trusts without conceding that all such persons are affiliates of registrant for purposes of the Federal securities laws.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

Table of Contents

Cautionary Note Regarding Forward-Looking Information and Risk Factors

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, our expectations regarding sales, earnings or other future financial performance and liquidity, our long-term strategy, restructuring and other initiatives, product introductions, entry into new geographic regions, information systems initiatives, new methods of sale, and future operations or operating results. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, we cannot assure that actual results will not differ materially from our expectations. Factors that could cause actual results to differ from expectations are described herein; in particular, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Information. In addition, there is a discussion of risks associated with an investment in our securities, see Item 1A. Risk Factors.

Unless the context requires otherwise, references to we, us, our and the Company refer to The Estée Lauder Companies Inc. and its subsidiaries

PART I

Item 1. ***Business.***

The Estée Lauder Companies Inc., founded in 1946 by Estée and Joseph Lauder, is one of the world s leading manufacturers and marketers of quality skin care, makeup, fragrance and hair care products. Our products are sold in over 150 countries and territories under a number of well-known brand names including: Estée Lauder, Clinique, Origins, M A C, Bobbi Brown, La Mer, Jo Malone London and Aveda. We are also the global licensee for fragrances and/or cosmetics sold under various designer brand names, including Tommy Hilfiger, Donna Karan New York, DKNY, Michael Kors and Tom Ford. Each brand is distinctly positioned within the market for cosmetics and other beauty products.

We are a pioneer in the cosmetics industry and believe we are a leader in the industry due to the global recognition of our brand names, our leadership in product innovation, our strong position in key geographic markets and the consistently high quality of our products and High-Touch services. We sell our prestige products principally through limited distribution channels to complement the images associated with our brands. These channels consist primarily of upscale department stores, specialty multi-brand retailers, upscale perfumeries and pharmacies and prestige salons and spas. In addition, our products are sold in freestanding stores, our own and authorized retailer websites, stores in airports and on cruise ships, in-flight, and duty-free shops. We believe that our strategy of pursuing selective distribution strengthens our relationships with retailers, enables our brands to be among the best selling product lines at the stores, and heightens the aspirational quality of our brands.

For a discussion of recent developments, see *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Overview*.

For segment and geographical area financial information, see *Item 8. Financial Statements and Supplementary Data Note 20 Segment Data and Related Information*.

We have been controlled by the Lauder family since the founding of our Company. Members of the Lauder family, some of whom are directors, executive officers and/or employees, beneficially own, directly or indirectly, as of August 18, 2016, shares of Class A Common Stock and Class B Common Stock having approximately 87% of the outstanding voting power of the Common Stock.

Table of Contents

Products

Skin Care - Our broad range of skin care products addresses various skin care needs. These products include moisturizers, serums, cleansers, toners, body care, exfoliators, acne and oil correctors, facial masks, cleansing devices and sun care products. A number of our products are developed for use on particular areas of the body, such as the face, the hands or around the eyes.

Makeup - We manufacture, market and sell a full array of makeup products, including those for the face, eyes, lips and nails. Many of the products are offered in an extensive array of shades and colors. We also sell related items such as compacts, brushes and other makeup tools.

Fragrance - We offer a variety of fragrance products. The fragrances are sold in various forms, including eau de parfum sprays and colognes, as well as lotions, powders, creams, candles and soaps that are based on a particular fragrance.

Hair Care - Hair care products are offered mainly in prestige salons and in freestanding stores as well as some department stores and specialty multi-brand retailers, and include shampoos, conditioners, styling products, treatment, finishing sprays and hair color products.

Other - We also sell ancillary products and services.

Table of Contents

Our Brands

Given the personal nature of our products and the wide array of consumer preferences and tastes, as well as competition for the attention of consumers, our strategy has been to market and promote our products through distinctive brands seeking to address broad preferences and tastes. Each brand has a single global image that is promoted with consistent logos, packaging and advertising designed to enhance its image and differentiate it from other brands in the market. Beauty brands are differentiated by numerous factors, including quality, performance, a particular lifestyle, where they are distributed (e.g., prestige, mass) and price point. Below is a chart showing most of the brands that we sell and how we view them based on lifestyle and price point:

Table of Contents

Estée Lauder brand products, which have been sold since 1946, have a reputation for innovation, sophistication and superior quality, Estée Lauder is one of the world s most renowned beauty brands, producing iconic skin care, makeup and fragrances.

We pioneered the marketing of the prestige men s fragrance and grooming products with the introduction of Aramis products in 1964.

We have exclusive global license arrangements to manufacture and sell fragrances and in some cases cosmetics under the following brand names: Tommy Hilfiger, Donna Karan New York, DKNY, Michael Kors, Ermenegildo Zegna and Tory Burch.

Introduced in 1968, Clinique skin care and makeup products are all allergy tested and 100% fragrance free and have been designed to address individual skin types and needs. Clinique also offers select fragrances. The skin care and makeup products are based on the research and related expertise of leading dermatologists.

Lab Series, introduced in 1987, is a full range of products for cleansing, shaving, treatment and body that is especially formulated to address the unique needs of men s skin.

Introduced in 1990, Origins seeks to create high-performance natural skin care products that are powered by nature and proven by science. Origins also sells makeup, fragrance and hair care products, and has a license agreement to develop and sell beauty products using the name of Dr. Andrew Weil.

M•A•C, a leading brand of professional cosmetics, was created in Toronto, Canada in 1984. We completed our acquisition of M•A•C in 1998. The brand s popularity has grown through a tradition of word-of-mouth endorsement from professional makeup artists, models, photographers and journalists around the world.

Table of Contents

Acquired in 1995, Bobbi Brown is an exclusive beauty line developed by celebrated makeup artist Bobbi Brown with a focus on service and teaching women to be their own makeup artists. The Bobbi Brown line includes color cosmetics, skin care, professional makeup brushes and tools, accessories and fragrances.

Acquired in 1995, La Mer products primarily consist of high-end moisturizing creams, lotions, serums and other skin care products. The brand, which is available in limited distribution in the United States and many other countries, is an extension of the initial Crème de la Mer product.

We acquired the Aveda business in 1997 and since then have acquired select Aveda distributors. Aveda creates high performance, botanically-based products for beauty professionals and consumers while continuously striving to conduct business in an environmentally sustainable manner. Aveda manufactures innovative plant-based hair care, skin care, makeup and lifestyle products.

We acquired London-based Jo Malone Limited in 1999. Jo Malone London is known for its unique fragrance portfolio and luxury products for the bath, body and home.

We acquired our initial interest in Bumble and bumble in 2000 and fully acquired the brand in 2006. The New York-based hair care company creates high-quality hair care and styling products distributed through top-tier salons and select prestige retailers.

In 2003, we acquired Laboratoires Darphin, the Paris-based company dedicated to the development, manufacture and marketing of prestige skin care products which are distributed primarily through high-end independent pharmacies and specialty multi-brand retailers.

In 2005, we entered into a license agreement to develop and distribute fragrances and other beauty products under the Tom Ford brand name. In 2006, we introduced Tom Ford Black Orchid, the brand s first signature fragrance. We also introduced a full-range luxury cosmetics line in 2011 and a men s grooming line in 2013.

Table of Contents

Acquired in 2010, Smashbox Cosmetics is a Los Angeles-based, photo studio-inspired makeup brand with products intended to help consumers create gorgeous looks, whether at a photo shoot or in everyday life.

Launched in 2012, AERIN is a luxury lifestyle beauty and fragrance brand inspired by the signature style of its founder, Aerin Lauder. We are the licensee for beauty and fragrances.

Acquired in October 2014, RODIN olio lusso provides a highly selective line of premium, sensorial skin care products that appeal to discriminating consumers of all ages and skin types.

Acquired in November 2014, Le Labo is a fragrance and sensory lifestyle brand with a distinct French heritage and an emphasis on fine craftsmanship and personalization in its products and services.

Acquired in January 2015, Editions de Parfums Frédéric Malle is a curated line of exclusive fragrances crafted by some of the world s most talented perfumers.

Acquired in January 2015, GLAMGLOW is a Hollywood skin care brand focused on fast-acting treatment masks designed to deliver camera-ready results.

Acquired in February 2016, By Kilian is a prestige fragrance brand that embodies timeless sophistication and modern luxury.

In addition to the brands described above, we manufacture and sell products under the Prescriptives, GoodSkin Labs, Ojon and Osiao brands. We also develop and sell products under a license from Kiton.

Our heritage brands are Estée Lauder, Clinique and Origins. Our makeup artist brands are M A C and Bobbi Brown. Our luxury brands are La Mer, Jo Malone London, Tom Ford, RODIN olio lusso, Le Labo, Editions de Parfums Frédéric Malle and By Kilian. Our designer fragrances are sold under the Tommy Hilfiger, Donna Karan New York, DKNY, Michael Kors, Ermenegildo Zegna and Tory Burch licenses noted above.

Table of Contents

Distribution

We sell our products primarily through limited distribution channels that complement the luxury image and prestige status of our brands. These channels consist primarily of upscale department stores, specialty multi-brand retailers, upscale perfumeries and pharmacies and prestige salons and spas. In addition, our products are sold in freestanding stores that are operated either by us or by authorized third parties, through our own and third-party operated e-commerce websites and websites of our authorized retailers, in various travel retail locations such as stores in airports and on cruise ships, in-flight and duty-free shops, and certain fragrances are sold in self-select outlets. As is customary in the cosmetics industry, our practice is to accept returns of our products from retailers if properly requested and approved.

As part of our strategy, we have selectively opened new freestanding stores globally that we or authorized third parties operate, with M A C, Jo Malone London and Bobbi Brown as the brands leading this expansion, and we are also evaluating opportunities to open additional freestanding stores for certain of our other brands. As of June 30, 2016, we operated approximately 1,260 freestanding stores, and more than 400 freestanding stores are operated around the world by authorized third parties. We expect the number of freestanding stores to increase over the next several years.

We currently sell products from most of our brands directly to consumers online through Company-owned and operated e-commerce and m-commerce sites in approximately 30 countries. While today a majority of our online sales are generated in the United States and the United Kingdom, we have ample opportunity for expansion of online sales growth globally. Additionally, our products are sold through various websites operated by authorized retailers.

We maintain dedicated sales teams that manage our retail accounts. We have wholly-owned operations in over 50 countries, and two controlling interests that operate in several countries, through which we market, sell and distribute our products. In certain countries, we sell our products through carefully selected distributors that share our commitment to protecting the image and position of our brands. In addition, we sell certain products in select domestic and international U.S. military exchanges. For information regarding our net sales and long-lived assets by geographic region, see *Item 8. Financial Statements and Supplementary Data Note 20 Segment Data and Related Information*.

Customers

Our strategy is to build strong relationships with selected retailers globally, as well as with our consumers directly through freestanding stores and online sales and social media. Senior management works with executives of our major retail accounts on a regular basis, and we believe we are viewed as an important supplier to these customers. Our largest customer, Macy s Inc., sells products primarily within the United States and accounted for 9% of our consolidated net sales for fiscal 2016 and 10% for fiscal 2015 and fiscal 2014, and 13% and 12% of our accounts receivable as of June 30, 2016 and 2015, respectively.

Marketing

Our strategy to market and promote our products begins with our well-diversified portfolio of more than 25 distinctive brands across four product categories. This portfolio enhances our presence in the multiple geographies and distribution channels where our products are sold and our brands global reputations benefit us when entering into emerging markets. Our geographic and distribution channel diversity allows us to engage local consumers across an array of developed and emerging markets by emphasizing products and services with the greatest local appeal. This strategy is built around Bringing the Best to Everyone We Touch. Our founder, Mrs. Estée Lauder, formulated this unique marketing philosophy to provide High-Touch service and high quality products as the foundation for a solid and loyal consumer base. Our High-Touch approach is demonstrated through our integrated consumer engagement models that leverage our product specialists and technology to provide the consumer with a distinct experience that can include personal consultations with beauty advisors, in person or online, who demonstrate and educate the consumer on product usage and application.

Our marketing strategies vary by brand and local market. Our diverse portfolio of brands employ different engagement models suited to each brand s equity, distribution, product focus and understanding of the core consumer. This enables us to elevate the consumer experience as we attract new customers, build loyalty, drive consumer advocacy and address the transformation of consumer shopping behaviors. Our marketing planning approach leverages local insights to optimize allocation of resources across different media outlets and retail touch points to resonate with our most discerning consumers most effectively. This includes strategically deploying our brands and tailoring product assortments and communications to fit local tastes and preferences in cities and neighborhoods. Most of our creative marketing work is done by in-house teams that design and produce the sales materials, social media strategies, advertisements and packaging for products in each brand. We build brand equity and drive traffic to retail locations and to our own and authorized retailers websites through digital and social media, magazines and newspapers, television, billboards in cities and airports, and direct mail and email. In addition, we seek editorial coverage for our brands and products not only in publications and other traditional media, but increasingly in digital and social media, leveraging significant opportunities for amplification.

Table of Contents

We are increasing our brand awareness and sales by continuing to elevate our digital presence encompassing e-commerce and m-commerce, as well as digital and social media. In order to continue to offer unparalleled service and set the standard for prestige beauty shopping online, we continue to innovate to better meet consumer online shopping preferences (e.g., how-to videos, ratings and reviews and mobile phone and tablet applications), support e-commerce and m-commerce businesses via digital and social marketing activities designed to build brand equity and consumer engagement, and support our authorized retailers to strengthen their e-commerce businesses and drive sales of our brands on their websites. We have opportunities to expand our balanced brand portfolio online around the world, and we are investing in and testing new omnichannel concepts in the United States and other established markets to increase brand loyalty by better serving consumers as they shop across channels. We have dedicated resources to implement creative, coordinated, brand-enhancing strategies across all online activities to increase our direct access to consumers.

Promotional activities and in-store displays are designed to attract new consumers and introduce existing consumers to other product offerings from the respective brands. Our marketing efforts also benefit from cooperative advertising programs with some retailers, some of which are supported by coordinated promotions, such as sampling programs, including purchase with purchase and gift with purchase, and we continue to believe that the quality and perceived benefits of sample products have been effective inducements to purchases by new and existing consumers. Such activities attract consumers to our counters and websites and keep existing consumers engaged. Our marketing and sales executives spend considerable time in the field meeting with consumers, retailers, beauty consultants and makeup artists at the points of sale to enable us to offer a seamless experience across channels of distribution.

Information Systems

Information systems support business processes including product development, marketing, sales, order processing, production, distribution and finance. We continue to maintain and enhance these systems in alignment with our long-term strategy. Certain elements of our information technology infrastructure are managed by third-party providers. We have executed our plans to transform and modernize our global technology infrastructure (GTI) to fundamentally change the way we deliver information technology services internally (such initiative, the GTI Restructuring). As part of the GTI Restructuring, we transitioned our GTI from Company-owned assets to a primarily vendor-owned, cloud-based model where we pay for services as they are used. This model, with a different third-party provider, is expected to provide an enhanced scalable platform to better support current and future requirements, help us achieve key strategic opportunities and improve our agility and flexibility to respond to the demands of the business by leveraging more advanced technologies. This transition is also expected to result in operational efficiencies and reduce our information technology service and infrastructure costs in the future. During fiscal 2016, we also completed the deployment of our core human resource (HR) transformation program globally. This initiative should provide managers with greater visibility into our global workforce and provide managers and employees with better self-service HR capabilities.

As we continue to strengthen and modernize our key processes, related systems and infrastructure, we continue to make investments to upgrade many of our legacy systems, including retail systems and retail capabilities globally. The retail system upgrades are expected to enhance the effectiveness of store operations, and support our omnichannel objectives. Over the next few years, we will continue to implement upgraded point of sale, retail merchandising, and retail workforce management solutions in certain key markets globally.

Most of our locations are currently enabled with SAP-based technologies (SAP). We continue to develop and invest in new data insight and analytic capabilities to allow us to more effectively utilize the information provided by SAP, as well as strategic sources of both internal and external data. In addition, we are making continuous investments to integrate changes to systems applications with SAP that we expect will bring value creation to the business and increase productivity. In particular, initiatives are currently underway to optimize certain of our supply chain capabilities, including inventory and warehouse management, as well as adding capabilities to enhance certain financial processes and workforce management solutions.

Research and Development

We believe that we are an industry leader in the development of new products. Our research and development group, which includes scientists and other employees involved in product innovation and packaging design and development, works closely with our marketing and product development teams and third-party suppliers to cultivate ideas, develop new products and product-line extensions, and create new packaging concepts, as well as to improve, redesign or reformulate existing products. In addition, these research and development personnel provide ongoing technical assistance and know-how to quality and assurance and manufacturing personnel on a worldwide basis, to ensure consistent global standards for our products and to deliver products that meet or exceed consumer expectations. The research and development group has long-standing working relationships with several U.S. and international medical and educational facilities, which supplement internal capabilities. Members of the research and development group are also responsible for regulatory compliance matters.

Table of Contents

Research and development costs are expensed as incurred. As of June 30, 2016, we had approximately 800 employees engaged in research and development activities. We maintain research and development programs at certain of our principal facilities and facilities dedicated to performing research and development, see *Item 2. Properties.*

We do not conduct animal testing on our products or ingredients, and do not ask others to test on our behalf, except when required by law.

Manufacturing, Warehousing and Raw Materials

We manufacture our products primarily in the United States, Belgium, Switzerland, the United Kingdom and Canada. We continue to streamline our manufacturing processes and identify sourcing opportunities to improve innovation, increase efficiencies, minimize our impact on the environment and reduce costs. Our major manufacturing facilities operate as focus plants that primarily manufacture one category of product (e.g., makeup) for all of the principal brands. Our plants are modern, and our manufacturing processes are substantially automated. While we believe that our network of manufacturing facilities and third-party manufacturers is sufficient to meet current and reasonably anticipated manufacturing requirements, we continue to identify opportunities to make significant improvements in capacity, technology, productivity and align our manufacturing with regional sales demand. To capitalize on innovation and other supply chain benefits, we continue to utilize a network of third-party manufacturers on a global basis.

We have established a global distribution network designed to meet the changing demands of our customers while maintaining service levels. We are continuously evaluating and adjusting this physical distribution network. We have established regional distribution centers, including those maintained by third parties, strategically positioned throughout the world in order to facilitate efficient delivery of our products to our customers.

The principal raw materials used in the manufacture of our products are essential oils, alcohols and specialty chemicals. We also purchase packaging components that are manufactured to our design specifications. Procurement of materials for all manufacturing facilities is generally made on a global basis through our Global Supplier Relations department. We review our supplier base periodically with the specific objectives of improving quality, increasing innovation and speed-to-market and reducing costs. In addition, we focus on supply sourcing within the region of manufacture to allow for improved supply chain efficiencies. Some of our products rely on a single or limited number of suppliers; however, we believe that our portfolio of suppliers has adequate resources and facilities to overcome most unforeseen interruptions of supply. In the past, we have been able to obtain an adequate supply of essential raw materials and currently believe we have adequate sources of supply for virtually all components of our products.

We are continually benchmarking the performance of our supply chain and will change suppliers and adjust our distribution networks and manufacturing footprint based upon the changing needs of the business. As we integrate acquired brands, we continually seek new ways to leverage our production and sourcing capabilities to improve our overall supply chain performance.

Table of Contents

Competition

There is vigorous competition within each market where our skin care, makeup, fragrance and hair care products are sold. Brand recognition, quality, performance, availability and price are some of the factors that impact consumers choices among competing products and brands. Advertising, promotion, social media activities, merchandising, the pace and timing of new product introductions, line extensions and the quality of in-store demonstrations also have a significant impact on consumers buying decisions. With our numerous brands, sold in various channels, we are one of the world s leading manufacturers and marketers of skin care, makeup, fragrance and hair care products. We compete against a number of companies, some of which have substantially greater resources than we do.

Our principal competitors consist of large, well-known, multinational manufacturers and marketers of skin care, makeup, fragrance and hair care products, most of which market and sell their products under multiple brand names. They include, among others, L Oreal S.A.; Shiseido Company, Ltd.; Beiersdorf AG; LVMH Moët Hennessey Louis Vuitton; Coty, Inc.; The Procter & Gamble Company; Avon Products, Inc.; Chanel S.A.; Groupe Clarins; and Amorepacific. We also face competition from a number of independent brands, as well as some retailers that have their own beauty brands. Certain of our competitors also have ownership interests in retailers that are customers of ours.

Trademarks, Patents and Copyrights

We own the trademark rights used in connection with the manufacturing, marketing, distribution and sale of our products both in the United States and in the other principal countries where such products are sold, including Estée Lauder, Clinique, Aramis, Prescriptives, Lab Series, Origins, M A C, Bobbi Brown, La Mer, Aveda, Jo Malone London, Bumble and bumble, Darphin, GoodSkin Labs, Ojon, Smashbox, Osiao, Le Labo, RODIN olio lusso, Editions de Parfums Frédéric Malle, GLAMGLOW and By Kilian and the names of many of the products sold under these brands. We are the exclusive worldwide licensee for fragrances, cosmetics and/or related products for Tommy Hilfiger, Donna Karan New York, DKNY, Kiton, Michael Kors, Tom Ford, Dr. Andrew Weil, Ermenegildo Zegna, AERIN and Tory Burch. For further discussion on license arrangements, including their duration, see *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies License Arrangements*. We protect our trademarks in the United States and significant markets worldwide. We consider the protection of our trademarks to be important to our business.

A number of our products incorporate patented, patent-pending or proprietary technology. In addition, several products and packaging for such products are covered by design patents or copyrights. While we consider these patents and copyrights, and the protection thereof, to be important, no single patent or copyright, or group of patents or copyrights, is considered material to the conduct of our business.

Employees

At June 30, 2016, we had approximately 46,000 full-time employees worldwide (including demonstrators at points of sale who are employed by us). We have no employees in the United States that are covered by a collective bargaining agreement. A limited number of employees outside of the United States are covered by a works council agreement or other syndicate arrangements.

Government Regulation

We and our products are subject to regulation by the Food and Drug Administration and the Federal Trade Commission in the United States, as well as by various other federal, state, local and international regulatory authorities and the regulatory authorities in the countries in which our products are produced or sold. Such regulations principally relate to the ingredients, manufacturing, labeling, packaging, marketing, advertising, shipment, disposal and safety of our products. We believe that we are in substantial compliance with such regulations, as well as with applicable federal, state, local and international and other countries rules and regulations governing the discharge of materials hazardous to the environment or that relate to climate change. There are no significant capital expenditures for environmental control or climate change matters either planned in the current year or expected in the near future.

Seasonality

Our results of operations in total, by region and by product category, are subject to seasonal fluctuations, with net sales in the first half of the fiscal year typically being slightly higher than in the second half of the fiscal year. The higher net sales in the first half of the fiscal year are attributable to the increased levels of purchasing by retailers for the holiday selling season. Many of our customers that are retailers follow a 4-4-5 retail calendar which may influence the amount and timing of their order placement and receipt of goods in any fiscal quarter. In a traditional 4-4-5 retail calendar, each fiscal quarter is comprised of two 4-week periods and one 5-week period, with one extra week in one quarter every seven years. As a result, our customers retail quarter-end and our fiscal quarter-end may be different by up to six days. Fluctuations in net sales and operating income in total and by geographic region and product category in any fiscal quarter may be attributable to the level and scope of new product introductions. Additionally, gross margins and operating expenses are impacted on a quarter-by-quarter basis by variations in our launch calendar and the timing of promotions, including purchase with purchase and gift with purchase promotions.

Table of Contents

Availability of Reports

We make available financial information, news releases and other information on our website at www.elcompanies.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge via the EDGAR database at www.sec.gov or our website, as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the Securities and Exchange Commission. Stockholders may also contact Investor Relations at 767 Fifth Avenue, New York, New York 10153 or call 800-308-2334 to obtain a hard copy of these reports without charge.

Corporate Governance Guidelines and Code of Conduct

The Board of Directors has developed corporate governance practices to help it fulfill its responsibilities to stockholders in providing general direction and oversight of management. These practices are set forth in our Corporate Governance Guidelines. We also have a Code of Conduct (Code) applicable to all employees, officers and directors of the Company, including the Chief Executive Officer, the Chief Financial Officer and other senior financial officers. These documents and any waiver of a provision of the Code granted to any senior officer or director or any material amendment to the Code, may be found in the Investor Relations section of our website: www.elcompanies.com under the heading Corporate Governance. The charters for the Audit Committee, Compensation Committee and Nominating and Board Affairs Committee may be found in the same location on our website. Stockholders may also contact Investor Relations at 767 Fifth Avenue, New York, New York 10153 or call 800-308-2334 to obtain a hard copy of these documents without charge.

Executive Officers

The following table sets forth certain information with respect to our executive officers:

Name	Age	Position(s) Held
John Demsey	60	Executive Group President
Fabrizio Freda	58	President, Chief Executive Officer and a Director
Carl Haney	53	Executive Vice President, Global Research and Development, Corporate Product Innovation, Package Development
Leonard A. Lauder	83	Chairman Emeritus and a Director
Ronald S. Lauder	72	Chairman of Clinique Laboratories, LLC
William P. Lauder	56	Executive Chairman and a Director
Sara E. Moss	69	Executive Vice President and General Counsel
Michael O Hare	48	Executive Vice President Global Human Resources
Gregory F. Polcer	61	Executive Vice President Global Supply Chain
Cedric Prouvé	56	Group President International
Tracey T. Travis	54	Executive Vice President and Chief Financial Officer
Alexandra C. Trower	51	Executive Vice President Global Communications

John Demsey was appointed Executive Group President in January 2016. In this role, he is responsible for numerous brands, including Clinique, Aramis, Prescriptives, M·A·C, Bobbi Brown, Jo Malone London, Bumble and bumble, Smashbox, Tom Ford, RODIN olio lusso, Le Labo, Editions de Parfums Frédéric Malle, GLAMGLOW and By Kilian. Mr. Demsey served as Group President from July 2006 to January 2016. He became Global Brand President of Estée Lauder after serving as President and Managing Director of M•A•C since 1998. From 1991 to 1998, Mr. Demsey held several positions with Estée Lauder, including Senior Vice President of Sales and Education for Estée Lauder USA and Canada. Before joining us, he worked in sales and marketing for Revlon, Borghese, Alexandra de Markoff Cosmetics, and Lancaster Cosmetics. Mr. Demsey also held various executive retail positions at Bloomingdale s, Macy s, Benetton and Saks Fifth Avenue. He serves as Chairman of the M•A•C AIDS Fund and is on the Board of Directors of Baccarat S.A.

Fabrizio Freda has been President and Chief Executive Officer of the Company since July 2009. From March 2008 through June 2009, he was President and Chief Operating Officer of the Company where he oversaw the Clinique, Bobbi Brown, La Mer, Jo Malone London, Aveda and Bumble and bumble brands and the Aramis and Designer Fragrances division. He also was responsible for the Company s International Division, as well as Global Operations, Research and Development, Packaging, Quality Assurance, Merchandise Design, Corporate Store Design and Retail Store Operations. Prior to joining the Company, Mr. Freda served in a number of positions of increasing responsibility at The Procter & Gamble Company (P&G), where he was responsible for various operating, marketing and key strategic efforts for over 20 years. From 2001 through 2007, Mr. Freda was President, Global Snacks, at P&G. Mr. Freda also spent more than a decade in the Health and Beauty Care division at P&G. From 1986 to 1988 he directed marketing and strategic planning for Gucci SpA. Mr. Freda is also a member of the Board of Directors of BlackRock, Inc., a global investment manager.

Table of Contents

Carl Haney became Executive Vice President, Global Research and Development, Corporate Product Innovation, Package Development in January 2012. Prior to joining the Company, Mr. Haney was Vice President, R&D Global, Male Grooming, Gillette, Braun and Devices, leading teams in all aspects of innovation, including product, packaging, process development and engineering at The Procter & Gamble Company (P&G) from 2007 through May 2012. Mr. Haney started his career at P&G in 1984, and over the years held numerous leadership positions in locations around the world. In 1997, he was promoted to Director, Latin America Beauty Care R&D. Mr. Haney also held R&D leadership roles for P&G Global Cosmetics and Oral Care and led P&G innovation teams in Latin America, Europe and Asia.

Leonard A. Lauder is Chairman Emeritus and a member of the Board of Directors. He was Chairman of the Board of Directors from 1995 through June 2009 and served as our Chief Executive Officer from 1982 through 1999 and President from 1972 until 1995. Mr. Lauder formally joined us in 1958 after serving as an officer in the United States Navy. Since joining, he has held various positions, including executive officer positions other than those described above. He is Chairman Emeritus of the Board of Trustees of the Whitney Museum of American Art, a Charter Trustee of The University of Pennsylvania, a Trustee of The Aspen Institute and the co-founder and Co-Chairman of the Alzheimer s Drug Discovery Foundation. He also served as a member of the White House Advisory Committee on Trade Policy and Negotiations under President Reagan.

Ronald S. Lauder has served as Chairman of Clinique Laboratories, LLC since returning from government service in 1987 and was Chairman of Estee Lauder International, Inc. from 1987 through 2002. He was a member of the Board of Directors of the Company from 1968 to 1986 and again from 1988 to July 2009. Mr. Lauder joined the Company in 1964 and has served in various capacities. From 1983 to 1986, Mr. Lauder served as Deputy Assistant Secretary of Defense for European and NATO Affairs. From 1986 to 1987, he was U.S. Ambassador to Austria. He is also an Honorary Chairman of the Board of Trustees of the Museum of Modern Art and President of the Neue Galerie.

William P. Lauder is Executive Chairman and, in such role, he is Chairman of the Board of Directors. He was Chief Executive Officer of the Company from March 2008 through June 2009 and President and Chief Executive Officer from July 2004 through February 2008. From January 2003 through June 2004, he was Chief Operating Officer. From July 2001 through 2002, he was Group President responsible for the worldwide business of the Clinique and Origins brands and the Company s retail store and online operations. From 1998 to 2001, he was President of Clinique Laboratories, LLC. Prior to 1998, he was President of Origins Natural Resources Inc., and he had been the senior officer of that division since its inception in 1990. Prior thereto, he served in various positions since joining the Company in 1986. He is a member of the Board of Directors of Jarden Corporation. Additionally, within the past five years, Mr. Lauder served as a director of GLG Partners, Inc. He also currently serves as Chairman of the Board of the Fresh Air Fund, a member of the Boards of Trustees of The University of Pennsylvania and The Trinity School in New York City, the Boards of Directors of the 92nd Street Y and the Partnership for New York City, and the Advisory Board of Zelnick Media.

Sara E. Moss is Executive Vice President and General Counsel. She joined us as Senior Vice President, General Counsel and Secretary in September 2003 and became Executive Vice President in November 2004. She was Senior Vice President and General Counsel of Pitney Bowes Inc. from 1996 to February 2003, and Senior Litigation Partner for Howard, Smith & Levin (now Covington & Burling) in New York from 1984 to 1996. Prior to 1984, Ms. Moss served as an Assistant United States Attorney in the Criminal Division in the Southern District of New York, was an associate at the law firm of Davis, Polk & Wardwell and was Law Clerk to the Honorable Constance Baker Motley, U.S. District Judge in the Southern District of New York.

Michael O Hare is Executive Vice President - Global Human Resources. Prior to joining the Company in 2013, he was with Heineken N.V., a global brewer based in the Netherlands, where he served since 2009 as Global Chief Human Resources Officer. Prior to that, he spent 13 years at PepsiCo, a global food and beverage company, where he held a variety of senior roles in Human Resources, including Chief Personnel Officer/Vice President for Asia Pacific.

Gregory F. Polcer became Executive Vice President - Global Supply Chain in July 2008. He is responsible for Global Direct and Indirect Procurement, Manufacturing, Logistics, Quality Assurance and Environmental Affairs and Safety. From 1988 to 2008, Mr. Polcer worked for Unilever where he designed and implemented global, regional and local initiatives. From 2006 to 2008, he served as the Senior Vice President, Supply Chain for Unilever where he integrated the North and Latin American Supply Chains, provided senior leadership for all global supply management and established a global outsourcing plan. Mr. Polcer served as Senior Vice President, Supply Chain - North America from 2005 to 2006 and Senior Vice President, Supply Chain, Home and Personal Care North America from 2002 to 2004.

Cedric Prouvé became Group President - International in January 2003. He is responsible for our International Division, which includes all markets outside of North America, our Travel Retail business worldwide and all of the activities of our sales affiliates and distributor relationships. From August 2000 through December 2002, he was the General Manager of our Japanese sales affiliate. From January 1997 to August 2000, he was Vice President, General Manager, Travel Retail. Mr. Prouvé started with us in 1994 as General Manager, Travel Retailing - Asia Pacific Region and was given the added responsibility of General Manager of our Singapore affiliate in 1995. Prior to joining us he worked at L Oreal in sales and management positions in the Americas and Asia/Pacific.

Table of Contents

Tracey T. Travis is Executive Vice President and Chief Financial Officer. Prior to joining the Company in 2012, she was Senior Vice President and Chief Financial Officer of Ralph Lauren Corporation since 2005, responsible for Global Finance, Internal Audit, Treasury, Tax, Business Development, Investor Relations and Global Information Technology. Previously, Ms. Travis was Senior Vice President, Finance of Intimate Brands for Limited Brands, Inc. from 2002 to 2004. She also spent a decade at PepsiCo Inc. and the Pepsi Bottling Group, where she held operations management and finance roles. She began her career as an engineer and financial analyst at General Motors Company. Ms. Travis is a member of the Board of Directors of Campbell Soup Company. She is also a member of the Board of Overseers at Columbia Business School.

Alexandra C. Trower is Executive Vice President - Global Communications. She directs the Company s overall communications strategy, overseeing brand communications, corporate communications, internal communications and philanthropic communications. Prior to joining the Company in 2008, Ms. Trower was Senior Vice President, Media Relations for Bank of America from July 2003 to March 2008. From 1997 to 2003, she worked at JPMorgan Chase, where she was responsible for corporate communications at JPMorgan Fleming Asset Management. From 1987 to 1997, Ms. Trower worked at a former division of Citibank, Chancellor Capital Management (now part of Invesco), where she held a variety of communications roles. Ms. Trower serves on the Board of Directors of Hollins University, and she is co-chair of The International Women s Media Foundation.

Each executive officer serves for a one-year term ending at the next annual election of officers, subject to his or her applicable employment agreement and his or her earlier death, resignation or removal.

Item 1A. Risk Factors.

There are risks associated with an investment in our securities. Please consider the following risks and all of the other information in this annual report on Form 10-K and in our subsequent filings with the Securities and Exchange Commission (SEC). Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur or other risks arise or develop, our business, prospects, financial condition and results of operations, as well as the trading prices of our securities, may be adversely affected.

The beauty business is highly competitive, and if we are unable to compete effectively our results will suffer.

We face vigorous competition from companies throughout the world, including multinational consumer product companies. Some of these competitors have greater resources than we do and others are new companies competing in emerging distribution channels. In some cases, our competitors may be able to respond to changing business and economic conditions more quickly than us. Competition in the beauty business is based on pricing of products, innovation, perceived value, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce and m-commerce initiatives and other activities. It is difficult for us to predict the timing and scale of our competitors actions in these areas. A consolidation in the retail trade may result in us becoming increasingly dependent on key retailers. This could result in an increased risk related to the concentration of our customers. A severe adverse impact on the business operations of our customers could have a corresponding material adverse effect on us. If one or more of our largest customers change their strategies (including pricing or promotional activities) or change or terminate their relationship with us, there could be a material adverse effect on our business.

Our ability to compete also depends on the continued strength of our brands, our ability to attract and retain key talent and other personnel, the efficiency of our manufacturing facilities and distribution network, and our ability to maintain and protect our intellectual property and those other rights used in our business. Our Company has a well-recognized and strong reputation that could be negatively impacted by many factors. If the Company s reputation is adversely affected, its ability to attract and retain customers and consumers could be impacted. In addition, certain of our key retailers around the world market and sell competing brands or are owned or otherwise affiliated with companies that market and sell competing brands. Our inability to continue to compete effectively in key countries around the world could have an adverse impact on our business.

Our inability to anticipate and respond to market trends and changes in consumer preferences could adversely affect our financial results.

Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to changes in consumer tastes for skin care, makeup, fragrance and hair care products, attitudes toward our industry and brands, as well as to where and how consumers shop for those products. We must continually work to develop, manufacture and market new products, maintain and adapt our High-Touch services to existing and emerging distribution channels, maintain and enhance the recognition of our brands, achieve a favorable mix of products, successfully manage our inventories, and refine our approach as to how and where we market and sell our products. While we devote considerable effort and resources to shape, analyze and respond to consumer preferences, we recognize that consumer tastes cannot be predicted with certainty and can change rapidly. The issue is compounded by the increasing use of digital and social media by consumers and the speed by which information and opinions are shared. If we are unable to anticipate and respond to sudden challenges that we may face in the marketplace, trends in the market for our products and changing consumer demands and sentiment, our financial results will suffer. In addition, from time to time, sales growth or profitability may be concentrated in a relatively small number of our brands. If such a situation persists or a number of brands fail to perform as expected, there could be a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Our future success depends on our ability to achieve our long-term strategy.

Achieving our long-term strategy will require investment in new capabilities, brands, categories, distribution channels, technologies and emerging and more mature geographic markets. These investments may result in short-term costs without any current revenues and, therefore, may be dilutive to our earnings, at least in the short term. In addition, we may dispose of or discontinue select brands or streamline operations and incur costs or restructuring and other charges in doing so. Although we believe that our strategy will lead to long-term growth in revenue and profitability, we may not realize, in full or in part, the anticipated benefits. The failure to realize benefits, which may be due to our inability to execute plans, global or local economic conditions, competition, changes in the beauty industry and the other risks described herein, could have a material adverse effect on our business, financial condition and results of operations.

Acquisitions may expose us to additional risks.

We continuously review acquisition and investment opportunities that would expand our current product offerings, our distribution channels, increase the size and geographic scope of our operations or otherwise offer growth and operating efficiency opportunities. There can be no assurance that we will be able to identify suitable candidates or consummate these transactions on favorable terms. If required, the financing for these transactions could result in an increase in our indebtedness, dilute the interests of our stockholders or both. The purchase price for some acquisitions may include additional amounts to be paid in cash in the future, a portion of which may be contingent on the achievement of certain future operating results of the acquired business. If the performance of any such acquired business exceeds such operating results, then we may incur additional charges and be required to pay additional amounts.

Acquisitions including strategic investments or alliances entail numerous risks, which may include:

- difficulties in integrating acquired operations or products, including the loss of key employees from, or customers of, acquired businesses;
- diversion of management s attention from our existing businesses;
- adverse effects on existing business relationships with suppliers and customers;
- adverse impacts of margin and product cost structures different from those of our current mix of business; and
- risks of entering distribution channels, categories or markets in which we have limited or no prior

experience.

Our failure to successfully complete the integration of any acquired business, and any adverse consequences associated with our acquisition activities, could have a material adverse effect on our business, financial condition and operating results.

Completed acquisitions typically result in additional goodwill and/or an increase in other intangible assets on our balance sheet. We are required at least annually, or as facts and circumstances exist, to test goodwill and other intangible assets with indefinite lives to determine if impairment has occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets with indefinite lives and the implied fair value of the goodwill or the fair value of other intangible assets with indefinite lives in the period the determination is made. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there could be a material adverse effect on our financial condition and results of operations.

A general economic downturn, or sudden disruption in business conditions may affect consumer purchases of discretionary items and/or the financial strength of our customers that are retailers, which could adversely affect our financial results.

The general level of consumer spending is affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs, and consumer confidence generally, all of which are beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower, and may impact sales of our products. A decline in consumer purchases of discretionary items also tends to impact our customers that are retailers. We generally extend credit to a retailer based on an evaluation of its financial condition, usually without requiring collateral. However, the financial difficulties of a retailer could cause us to curtail or eliminate business with that customer. We may also assume more credit risk relating to the receivables from that retailer. Our inability to collect the receivable from one of our largest customers or from a group of customers could have a material adverse effect on our business and our financial condition. If a retailer was to liquidate, we may incur additional costs if we choose to purchase the retailer s inventory of our products to protect brand equity.

In addition, sudden disruptions in business conditions, for example, from events such as a pandemic, or other local or global health issues, conflicts around the world, or as a result of a terrorist attack, retaliation or similar threats, or as a result of adverse weather conditions, climate changes or seismic events, can have a short-term and, sometimes, long-term impact on consumer spending.

Events that impact consumers willingness or ability to travel and/or purchase our products while traveling may impact our business, including travel retail, a significant contributor to our overall results, and our strategy to market and sell products to international travelers at their destinations.

Table of Contents

A downturn in the economies of, or continuing recessions in, the countries where we sell our products or a sudden disruption of business conditions in those countries could adversely affect consumer confidence, the financial strength of our retailers and our sales and profitability. We remain cautious of the continued slow retail growth in Hong Kong, the decline in retail traffic primarily related to mid-tier department stores, as well as certain M A C freestanding stores, in the United States as a result of the impact of shifts in preferences of certain consumers as to where and how they shop for our products. We also remain cautious of the continued strength of the U.S. dollar in relation to most currencies. Additionally, we are continuing to monitor the effects of the macroeconomic environment in Brazil, the United Kingdom s anticipated exit from the European Union, the political instability in Turkey, the impact of declining oil prices on consumer purchases in the Middle East, and global security issues.

Volatility in the financial markets and a related economic downturn in key markets or markets generally throughout the world could have a material adverse effect on our business. While we currently generate significant cash flows from our ongoing operations and have access to global credit markets through our various financing activities, credit markets may experience significant disruptions. Deterioration in global financial markets or an adverse change in our credit ratings could make future financing difficult or more expensive. If any financial institutions that are parties to our undrawn revolving credit facility or other financing arrangements, such as foreign exchange or interest rate hedging instruments, were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity or unhedged against certain foreign currency or interest rate exposures which could have an adverse impact on our financial condition and results of operations.

Changes in laws, regulations and policies that affect our business could adversely affect our financial results.

Our business is subject to numerous laws, regulations and policies. Changes in the laws, regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business, including changes in accounting standards, tax laws and regulations, laws and regulations relating to data privacy, anti-corruption, advertising, marketing, manufacturing, distribution, product registration, ingredients, chemicals and packaging, laws in Europe and elsewhere relating to selective distribution, environmental or climate change laws, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result could adversely affect our financial results.

We are involved, and may become involved in the future, in disputes and other legal or regulatory proceedings that, if adversely decided or settled, could adversely affect our financial results.

We are, and may in the future become, party to litigation, other disputes or regulatory proceedings. In general, claims made by us or against us in litigation, disputes or other proceedings can be expensive and time consuming to bring or defend against and could result in settlements, injunctions or damages that could significantly affect our business or financial results. We are currently vigorously contesting certain of these claims. However, it is not possible to predict the final resolution of the litigation, disputes or proceedings to which we currently are or may in the future become party to, and the impact of certain of these matters on our business, results of operations and financial condition could be material.

Government reviews, inquiries, investigations, and actions could harm our business or reputation.

As we operate in various locations around the world, our operations in certain countries are subject to significant governmental scrutiny and may be adversely impacted by the results of such scrutiny. The regulatory environment with regard to our business is evolving, and officials often exercise broad discretion in deciding how to interpret and apply applicable regulations. From time to time, we may receive formal and informal inquiries from various government regulatory authorities, as well as self-regulatory organizations, about our business and compliance with local laws, regulations or standards. Any determination that our operations or activities, or the activities of our employees, are not in compliance with existing laws, regulations or standards could negatively impact us in a number of ways, including the imposition of substantial fines, interruptions of business, loss of supplier, vendor or other third-party relationships, termination of necessary licenses and permits, or similar results, all of which could potentially harm our business and/or reputation. Even if an inquiry does not result in these types of determinations, it potentially could create negative publicity which could harm our business and/or reputation.

Our success depends, in part, on the quality, efficacy and safety of our products.

Our success depends, in part, on the quality, efficacy and safety of our products. If our products are found to be defective or unsafe, our product claims are found to be deceptive, or our products otherwise fail to meet our consumers expectations, our relationships with customers or consumers could suffer, the appeal of one or more of our brands could be diminished, and we could lose sales and/or become subject to liability or claims, any of which could result in a material adverse effect on our business, results of operations and financial condition.

Our success depends, in part, on our key personnel.

Our success depends, in part, on our ability to retain our key personnel, including our executive officers and senior management team. The unexpected loss of one or more of our key employees could adversely affect our business. Our success also depends, in part, on our continuing ability to identify, hire, train and retain other highly qualified personnel. Competition for these employees can be intense. We may not be able to attract, assimilate or retain qualified personnel in the future, and our failure to do so could adversely affect our business. This risk may be exacerbated by the stresses associated with the implementation of our strategic plan and other initiatives.

Table of Contents

We are subject to risks related to our foreign operations.

We operate on a global basis, with a majority of our fiscal 2016 net sales and operating income generated outside the United States. We intend to reinvest these earnings in our foreign operations indefinitely, except where we are able to repatriate these earnings to the United States without material incremental tax provision. A majority of our cash and cash equivalents that result from these earnings remain outside the United States. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional taxes.

We maintain offices in over 50 countries and have key operational facilities located outside the United States that manufacture, warehouse or distribute goods for sale throughout the world. Foreign operations are subject to many risks and uncertainties, including:

- fluctuations in foreign currency exchange rates and the relative costs of operating in different places, which can affect our results of operations, the value of our foreign assets, the relative prices at which we and competitors sell products in the same markets, the cost of certain inventory and non-inventory items required in our operations, and the relative prices at which we sell our products in different markets;

- foreign laws, regulations and policies, including restrictions on trade, import and export license requirements, and tariffs and taxes, as well as United States laws and regulations relating to foreign trade, operations and investment;

- lack of well-established or reliable legal and administrative systems in certain countries in which we operate; and

- adverse weather conditions, currency exchange controls, and social, economic and geopolitical conditions, such as terrorist attacks, war or other military action.

These risks could have a material adverse effect on our business, prospects, reputation, results of operations and financial condition.

A disruption in operations or our supply chain could adversely affect our business and financial results.

As a company engaged in manufacturing and distribution on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in supply chain or information systems, loss or impairment of key manufacturing sites or suppliers, product quality control, safety, increase in commodity prices and energy costs, licensing requirements and other regulatory issues, as well as natural disasters and other external factors over which we have no control. If such an event were to occur, it could have an adverse effect on our business and financial results.

We use a wide variety of direct and indirect suppliers of goods and services from around the world. Some of our products rely on single or a limited number of suppliers. Changes in the financial or business condition of our suppliers could subject us to losses or adversely affect our ability to bring products to market. Further, the failure of our suppliers to deliver goods and services in sufficient quantities, in compliance with applicable standards, and in a timely manner could adversely affect our customer service levels and overall business. In addition, any increases in the costs of goods and services for our business may adversely affect our profit margins if we are unable to pass along any higher costs in the form of price increases or otherwise achieve cost efficiencies in our operations.

Our information systems and websites may be susceptible to cybersecurity breaches, outages, and other risks.

We have information systems that support our business processes, including product development, marketing, sales, order processing, production, distribution, finance and intracompany communications throughout the world. We have e-commerce, m-commerce and other Internet websites in the United States and many other countries. These systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and other events. Despite the implementation of network security measures, our systems may be vulnerable to cybersecurity breaches such as computer viruses, break-ins and similar disruptions from unauthorized tampering. The occurrence of these or other events could disrupt or damage our information systems and adversely affect our business and results of operations.

Failure to adequately maintain the security of our electronic and other confidential information could materially adversely affect our financial condition and results of operations.

We are dependent upon automated information technology processes. As part of our normal business activities, we collect and store certain information that is confidential, proprietary or otherwise sensitive, including personal information with respect to customers and employees. We may share some of this information with vendors who assist us with certain aspects of our business. Moreover, the success of our e-commerce and m-commerce operations depends upon the secure transmission of confidential and personal data over public networks, including the use of cashless payments. Any failure on the part of us or our vendors to maintain the security of our confidential data and our employees and customers personal information, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in our employees and customers confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our business, financial condition and results of operations. In addition, a security breach could require that we expend significant additional resources to enhance our information security systems and could result in a disruption to our operations.

Table of Contents

We are subject to risks associated with our global information systems.

Our implementation and maintenance of global information systems, including supply chain and finance systems, human resource management systems, creative asset management and retail operating systems, as well as associated hardware and use of cloud-based models, involve risks and uncertainties. Failure to implement and maintain these and other systems as planned, in terms of timing, specifications, costs, or otherwise, could have an adverse impact on our business and results of operations.

As we outsource functions, we become more dependent on the entities performing those functions.

As part of our long-term strategy, we are continually looking for opportunities to provide essential business services in a more cost-effective manner. In some cases, this requires the outsourcing of functions or parts of functions that can be performed more effectively by external service providers. These include certain information systems functions such as information technology operations, and certain human resource functions such as employee benefit plan administration. While we believe we conduct appropriate due diligence before entering into agreements with the outsourcing entity, the failure of one or more entities to provide the expected services, provide them on a timely basis or to provide them at the prices we expect may have a material adverse effect on our results of operations or financial condition. In addition, if we transition systems to one or more new, or among existing, external service providers, we may experience challenges that could have a material adverse effect on our results of operations or financial condition.

The trading prices of our securities periodically may rise or fall based on the accuracy of predictions of our earnings or other financial performance.

Our business planning process is designed to maximize our long-term strength, growth and profitability, not to achieve an earnings target in any particular fiscal quarter. We believe that this longer-term focus is in the best interests of the Company and our stockholders. At the same time, however, we recognize that it may be helpful to provide investors with guidance as to our forecast of net sales, earnings per share and other financial metrics or projections. Accordingly, when we announced our year-end financial results for fiscal 2016, we provided guidance as to certain assumptions, including ranges for our expected net sales and earnings per share for the quarter ending September 30, 2016 and the fiscal year ending June 30, 2017. While we generally expect to provide updates to our guidance when we report our results each fiscal quarter, we assume no responsibility to update any of our forward-looking statements at such times or otherwise. In addition, the longer-term guidance we provide is based on goals that we believe, at the time guidance is given, are reasonably attainable for growth and performance over a number of years. Such targets are more difficult to predict than our current quarter and fiscal year expectations. We historically have paid dividends on our common stock and repurchased shares of our Class A Common Stock. At any time, we could stop or suspend payment of dividends or stop or suspend our stock repurchase program, and any such action could cause the market price of our stock to decline.

In all of our public statements when we make, or update, a forward-looking statement about our net sales and/or earnings expectations or expectations regarding restructuring or other initiatives, we accompany such statements directly, or by reference to a public document, with a list of factors that could cause our actual results to differ materially from those we expect. Such a list is included, among other places, in our earnings press release and in our periodic filings with the Securities and Exchange Commission (e.g., in our reports on Form 10-K and Form 10-Q). These and other factors may make it difficult for us and for outside observers, such as research analysts, to predict what our earnings will be in any given fiscal quarter or year.

Outside analysts and investors have the right to make their own predictions of our financial results for any future period. Outside analysts, however, have access to no more material information about our results or plans than any other public investor, and we do not endorse their predictions as to our future performance. Nor do we assume any responsibility to correct the predictions of outside analysts or others when they differ from our own internal expectations. If and when we announce actual results that differ from those that outside analysts or others have been predicting, the market price of our securities could be affected. Investors who rely on the predictions of outside analysts or others when making investment decisions with respect to our securities do so at their own risk. We take no responsibility for any losses suffered as a result of such changes in the prices of our securities.

We are controlled by the Lauder family. As a result of their control of us, the Lauder family has the ability to prevent or cause a change in control or approve, prevent or influence certain actions by us.

As of August 18, 2016, members of the Lauder family beneficially own, directly or indirectly, shares of the Company s Class A Common Stock (with one vote per share) and Class B Common Stock (with 10 votes per share) having approximately 87% of the outstanding voting power of the Common Stock. In addition, there are four members of the Lauder family who are employees, including three who are members of our Board of Directors. Another family member is on our board and is a party to a consulting agreement and a license agreement with us.

As a result of the stock ownership and their positions at the Company, the Lauder family has the ability to exercise significant control and influence over our business, including, all matters requiring stockholder approval, including the election of directors, amendments to the certificate of incorporation and significant corporate transactions, such as a merger or other sale of our Company or its assets, for the foreseeable future.

Table of Contents

We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, are relying on exemptions from certain corporate governance requirements that are designed to provide protection to stockholders of companies that are not controlled companies.

The Lauder family and their related entities own more than 50% of the total voting power of our common shares and, as a result, we are a controlled company under the New York Stock Exchange corporate governance standards. As a controlled company, we are exempt under the New York Stock Exchange standards from the obligation to comply with certain New York Stock Exchange corporate governance requirements, including the requirements; (1) that a majority of our board of directors consists of independent directors; (2) that we have a nominating committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and (3) that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities.

While we have voluntarily caused our Board to have a majority of independent directors and the written charters of our Nominating and Board Affairs Committee and the Compensation Committee to have the required provisions, we are not requiring our Nominating and Board Affairs Committee and Compensation Committee to be comprised solely of independent directors. As a result of our use of the controlled company exemptions, investors will not have the same protection afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Item 1B. ***Unresolved Staff Comments.***

As of the filing of this annual report on Form 10-K, there were no unresolved comments from the Staff of the Securities and Exchange Commission.

Item 2. ***Properties*.**

The following table sets forth our principal owned and leased manufacturing, assembly, research and development and distribution facilities as of August 18, 2016. The leases expire at various times through 2034 subject to certain renewal options.

Location		**Use**	**Approximate Square Footage**
The Americas			
Blaine, Minnesota	Owned	Manufacturing and R&D	275,000
Blaine, Minnesota	Leased	Distribution	187,000
Melville, New York	Owned	Manufacturing	353,000
Melville, New York	Owned	R&D	134,000
Bristol, Pennsylvania	Leased	Manufacturing	67,000
Bristol, Pennsylvania	Leased	Manufacturing and Assembly	100,000
Bristol, Pennsylvania	Leased	Distribution	782,000

Trevose, Pennsylvania	Leased	Manufacturing and Assembly	80,000
Agincourt, Ontario, Canada	Owned	Manufacturing	96,000
Markham, Ontario, Canada	Leased	Manufacturing	137,000
Markham, Ontario, Canada	Leased	R&D	42,000
Toronto, Ontario, Canada	Leased	Distribution	186,000
Europe, the Middle East & Africa			
Oevel, Belgium	Owned	Manufacturing	113,000
Oevel, Belgium	Leased	Manufacturing and R&D	70,000
Oevel, Belgium	Leased	Distribution	100,000
Kerpen, Germany	Leased	Distribution	98,000
Sandton, South Africa	Leased	Distribution	63,750
Madrid, Spain	Leased	Distribution	90,000
Lachen, Switzerland	Owned	Manufacturing	53,000
Lachen, Switzerland	Owned	Distribution	125,000
Hampshire, United Kingdom	Leased	Distribution	203,000
Petersfield, United Kingdom	Owned	Manufacturing	225,000
Asia/Pacific			
Alexandria, Australia	Leased	Distribution	87,150
Shanghai, China	Leased	R&D	20,925
Shanghai, China	Leased	Distribution	71,400
Hong Kong	Leased	Distribution	90,000
Tokyo, Japan	Leased	Distribution and R&D	187,000
Yongin, Korea	Leased	Distribution	160,000

Table of Contents

We own, lease and occupy numerous offices, assembly and distribution facilities and warehouses in the United States and abroad. We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. We lease approximately 741,000 square feet of rentable space for our principal offices in New York, New York. We own a building of approximately 57,000 square feet of office space in Melville, New York. As of June 30, 2016, we directly leased and operated approximately 1,260 retail stores.

Item 3. ***Legal Proceedings*.**

For a discussion of legal proceedings, see *Item 8. Financial Statements and Supplementary Data Note 14 Commitments and Contingencies.*

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.***

Market for Registrant s Common Equity and Related Stockholder Matters

Our Class A Common Stock is publicly traded on the New York Stock Exchange under the symbol EL. The following table shows the high and low per share sales prices as reported on the New York Stock Exchange Composite Tape and the cash dividends per share declared in fiscal 2016 and fiscal 2015:

	Fiscal 2016			Fiscal 2015		
	High	**Low**	**Cash Dividends**	**High**	**Low**	**Cash Dividends**
First Quarter	$ 91.68	$ 73.67	$ .24	$ 77.66	$ 72.83	$ .20
Second Quarter	89.93	79.49	.30	77.98	70.18	.24
Third Quarter	94.93	81.02	.30	85.28	70.38	.24
Fourth Quarter	97.48	87.08	.30	90.33	81.08	.24
Fiscal Year	97.48	73.67	$ 1.14	90.33	70.18	$ .92

We expect to continue the payment of cash dividends in the future, but there can be no assurance that the Board of Directors will continue to declare them. On August 18, 2016, a dividend was declared in the amount of $.30 per share on our Class A and Class B Common Stock. The dividend is payable in cash on September 15, 2016 to stockholders of record at the close of business on August 31, 2016.

As of August 18, 2016, there were 8,503 record holders of Class A Common Stock and 16 record holders of Class B Common Stock.

Table of Contents

Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 216.0 million shares of our Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of June 30, 2016, the cumulative total of acquired shares pursuant to the authorization was 197.5 million, reducing the remaining authorized share repurchase balance to 18.5 million. During fiscal 2016, we purchased approximately 9.9 million shares pursuant to the authorization for $835.0 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program(1)
July 2015	1,990,780	$87.91	1,990,780	26,385,805
August 2015	1,719,181(2)	78.20	1,695,400	24,690,405
September 2015	986,471(2)	78.63	854,597	23,835,808
October 2015	1,463,501	80.08	1,463,501	22,372,307
November 2015	1,284,801(2)	84.63	813,441	21,558,866
December 2015	174,297(2)	85.20	174,528	21,384,338
January 2016	895,751(2)	84.03	892,538	20,491,800
February 2016				20,491,800
March 2016	33(2)	86.37		20,491,800
April 2016	3,784(2)	94.75		20,491,800
May 2016	1,175,000	92.52	1,175,000	19,316,800
June 2016	840,822(2)	92.51	824,245	18,492,555
	10,534,421	84.48	9,884,030	

(1) In November 2012, the Board of Directors authorized the repurchase of 40.0 million shares.

(2) Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of stock-based compensation.

Subsequent to June 30, 2016 and as of August 18, 2016, we purchased approximately 2.2 million additional shares of our Class A Common Stock for $200.0 million pursuant to our share repurchase program.

Sales of Unregistered Securities

Shares of Class B Common Stock may be converted immediately into Class A Common Stock on a one-for-one basis by the holder and are automatically converted into Class A Common Stock on a one-for-one basis upon transfer to a person or entity that is not a Permitted Transferee or soon after a record date for a meeting of stockholders where the outstanding Class B Common Stock constitutes less than 10% of the outstanding shares of Common Stock of the Company. There is no cash or other consideration paid by the holder converting the shares and, accordingly, there is no cash or other consideration received by the Company. The shares of Class A Common Stock issued by the Company in such conversions are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(9) thereof.

During the year ended June 30, 2016, the stockholders set forth in the table below converted shares of Class B Common Stock into Class A Common Stock on the dates set forth below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares Converted/ Received
LAL Family Partners L.P.	June 8, 2016	200,000
LAL Family Partners L.P.	June 7, 2016	200,000
LAL Family Partners L.P.	June 6, 2016	200,000
LAL Family Partners L.P.	June 3, 2016	200,000
The 4202 Corporation	May 11, 2016	88,500
LAL Family Partners L.P.	May 11, 2016	500,000
LAL Family Partners L.P.	May 9, 2016	500,000
The 4202 Corporation	September 2, 2015	152,400
The 4202 Corporation	August 27, 2015	200,000
Ronald S. Lauder	August 27, 2015	35,000

Table of Contents

Item 6. ***Selected Financial Data*****.**

The table below summarizes selected financial information. For further information, refer to the audited consolidated financial statements and the notes thereto beginning on page F-1 of this report.

	Year Ended or at June 30				
	2016 (a)	2015	2014 (a)	2013 (a)	2012 (a)
	(In millions, except per share data)				
Statement of Earnings Data:					
Net sales (b)	$ 11,262.3	$ 10,780.4	$ 10,968.8	$ 10,181.7	$ 9,713.6
Net earnings attributable to The Estée Lauder Companies Inc. (b) (d)	1,114.6	1,088.9	1,204.1	1,019.8	856.9
Per Share Data:					
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic (b) (d)	$ 3.01	$ 2.87	$ 3.12	$ 2.63	$ 2.20
Diluted (b) (d)	2.96	2.82	3.06	2.58	2.16
Cash dividends declared per common share	1.14	.92	.78	1.08	.525
Balance Sheet Data:					
Total assets (e)	$ 9,223.3	$ 8,226.9	$ 7,860.0	$ 7,135.5	$ 6,586.3
Total debt (d)(e)	2,241.5	1,624.9	1,334.3	1,334.6	1,281.4

(a) Fiscal 2016 results included $91.3 million, after tax, or $.24 per diluted share related to total charges associated with restructuring activities. Fiscal 2014 results included $(1.8) million, after tax, related to total adjustments associated with restructuring activities. Fiscal 2013 results included $11.7 million, after tax, or $.03 per diluted share related to total charges associated with restructuring activities. Fiscal 2012 results included $44.1 million, after tax, or $.11 per diluted share related to total charges associated with restructuring activities.

(b) As a result of our July 2014 SMI rollout, approximately $178 million of accelerated orders were recorded as net sales and $127 million as operating income in fiscal 2014 that would have occurred in the fiscal 2015 first quarter, equal to approximately $.21 per diluted common share.

(c) During the third quarter of fiscal 2015, we recorded a $5.3 million charge, on a before and after tax basis, related to the remeasurement of net monetary assets in Venezuela, equal to $.01 per diluted common share. During the third quarter of fiscal 2014, we recorded a $38.3 million charge, on a before and after tax basis, related to the remeasurement of net monetary assets in Venezuela, equal to $.10 per diluted common share.

(d) In May 2016, we issued $450.0 million of 1.70% Senior Notes due May 10, 2021 and an additional $150.0 million of our 4.375% Senior Notes due June 15, 2045. In June 2015, we issued $300.0 million of 4.375% Senior Notes due June 15, 2045 in a public offering. We are using the net proceeds of the offerings for general corporate purposes. In September 2012, we redeemed the $230.1 million principal amount of our 7.75% Senior Notes due November 1, 2013 (2013 Senior Notes) at a price of 108% of the principal amount. We recorded a pre-tax expense on the extinguishment of debt of $19.1 million ($12.2 million after tax, or $.03 per diluted share) representing the call premium of $18.6 million and the pro-rata write-off of $0.5 million of issuance costs and debt discount. In August 2012, we issued $250.0 million of 2.35% Senior Notes due August 15, 2022 and $250.0 million of 3.70% Senior Notes due August 15, 2042 in a public offering. We used the net proceeds of the offering to redeem the 2013 Senior Notes and for general corporate purposes.

(e) For the year ended June 30, 2016, we retrospectively adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. As a result, we restated the June 30, 2015, 2014, 2013 and 2012 consolidated balance sheets to reclassify $12.4 million, $8.8 million, $9.7 million and $6.7 million, respectively, from Other assets to Long-term debt.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations*****.**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition at June 30, 2016 and our results of operations for the three fiscal years ended June 30, 2016 are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements. These estimates and assumptions can be subjective and complex and, consequently, actual results could differ from those estimates. We consider accounting estimates to be critical if both (i) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (ii) the impact within a reasonable range of outcomes of the estimate and assumption is material to the Company s financial condition. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets and income taxes.

Management of the Company has discussed the selection of significant accounting policies and the effect of estimates with the Audit Committee of the Company s Board of Directors.

Table of Contents

Revenue Recognition

Our sales return accrual is a subjective critical estimate that has a direct impact on reported net sales. This accrual is calculated based on a history of actual returns, estimated future returns and information provided by retailers regarding their inventory levels. Consideration of these factors results in an accrual for anticipated sales returns that reflects increases or decreases related to seasonal fluctuations. Experience has shown a relationship between retailer inventory levels and sales returns in the subsequent period, as well as a consistent pattern of returns due to the seasonal nature of our business. In addition, as necessary, specific accruals may be established for significant future known or anticipated events. The types of known or anticipated events that we have considered, and will continue to consider, include, but are not limited to, the financial condition of our customers, store closings by retailers, changes in the retail environment and our decision to continue to support new and existing products.

For a discussion of our Revenue Recognition accounting policy, see *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies*.

Inventory

We state our inventory at the lower of cost or fair-market value, with cost being based on standard cost and production variances, which approximate actual cost on the first-in, first-out method. We believe this method most closely matches the flow of our products from manufacture through sale. The reported net value of our inventory includes saleable products, promotional products, raw materials and componentry and work in process that will be sold or used in future periods.

We also record an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. In addition, and as necessary, we may establish specific reserves for future known or anticipated events.

For further discussion of our Inventory accounting policy, see *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies.*

Pension and Other Post-retirement Benefit Costs

We offer the following benefits to some or all of our employees: a domestic trust-based noncontributory qualified defined benefit pension plan (U.S. Qualified Plan) and an unfunded, non-qualified domestic noncontributory pension plan to provide benefits in excess of statutory limitations (collectively with the U.S. Qualified Plan, the Domestic Plans); a domestic contributory defined contribution plan; international pension plans, which vary by country, consisting of both defined benefit and defined contribution pension plans; deferred compensation arrangements; and certain other post-retirement benefit plans.

The amounts needed to fund future payouts under our defined benefit pension and post-retirement benefit plans are subject to numerous assumptions such as an anticipated discount rate, expected rate of return on plan assets, mortality rates and future compensation levels. We evaluate these assumptions with our actuarial advisors and select assumptions that we believe reflect the economics underlying our pension and post-retirement obligations. While we believe these assumptions are within accepted industry ranges, an increase or decrease in the assumptions or economic events outside our control could have a direct impact on reported net earnings.

The discount rate for each plan used for determining future net periodic benefit cost is based on a review of highly rated long-term bonds. For fiscal 2016, net periodic benefit cost was determined using discount rates for our Domestic Plans of 4.40% and 3.70% and varying rates on our international plans between 0.75% and 7.00%. The discount rates for our Domestic Plans were based on a bond portfolio that includes only long-term bonds with an Aa rating, or equivalent, from a major rating agency. We used an above-mean yield curve which represents an estimate of the effective settlement rate of the obligation, and the timing and amount of cash flows related to the bonds included in this portfolio are expected to match the estimated defined benefit payment streams of our Domestic Plans. For our international plans, the discount rate in a particular country was principally determined based on a yield curve constructed from high quality corporate bonds in each country, with the resulting portfolio having a duration matching that particular plan.

Table of Contents

For fiscal 2016, we used an expected return on plan assets of 7.00% for our U.S. Qualified Plan and varying rates of between 2.00% and 7.00% for our international plans. In determining the long-term rate of return for a plan, we consider the historical rates of return, the nature of the plan s investments and an expectation for the plan s investment strategies. See *Item 8. Financial Statements and Supplementary Data Note 13 Pension, Deferred Compensation and Post-retirement Benefit Plans* for details regarding the nature of our pension and post-retirement plan investments. The difference between actual and expected return on plan assets is reported as a component of accumulated other comprehensive income. Those gains/losses that are subject to amortization over future periods will be recognized as a component of the net periodic benefit cost in such future periods. For fiscal 2016, our pension plans had actual return on assets of approximately $84 million as compared with expected return on assets of approximately $68 million. The resulting net deferred gain of approximately $16 million, when combined with gains and losses from previous years, will be amortized over periods ranging from approximately 8 to 19 years. The actual return on plan assets from our global pension plans was higher than expected, primarily due to strong performance of fixed income assets attributable to our international pension plan in the United Kingdom and the U.S. Qualified Plan, partially offset by equity underperformance globally.

A 25 basis-point change in the discount rate or the expected rate of return on plan assets would have had the following effect on fiscal 2016 pension expense:

(In millions)	**25 Basis-Point Increase**	**25 Basis-Point Decrease**
Discount rate	$ (4.3)	$ 4.4
Expected return on assets	$ (2.9)	$ 2.8

Our post-retirement plans are comprised of health care plans that could be impacted by health care cost trend rates, which may have a significant effect on the amounts reported. A 100 basis-point change in assumed health care cost trend rates for fiscal 2016 would have had the following effects:

(In millions)	**100 Basis-Point Increase**	**100 Basis-Point Decrease**
Effect on total service and interest costs	$ 1.2	$ (0.9)
Effect on post-retirement benefit obligations	$ 14.8	$ (12.7)

To determine the fiscal 2017 net periodic benefit cost, we are using discount rates of 3.70% and 3.00% for the U.S. Qualified Plan and the non-qualified domestic noncontributory pension plan, respectively, and varying rates for our international plans of between .25% and 6.00%. We are using an expected return on plan assets of 7.00% for the U.S. Qualified Plan and varying rates for our international pension plans of between 1.50% and 6.00%. The net change in these two key assumptions from those used in fiscal 2016 will result in an increase in pension expense of approximately $17 million in fiscal 2017.

Goodwill, Other Intangible Assets and Long-Lived Assets

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. Other indefinite-lived intangible assets principally consist of trademarks. Goodwill and other indefinite-lived intangible assets are not amortized.

When testing goodwill and other indefinite-lived intangible assets for impairment, we have the option of first performing a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. For fiscal 2016 and 2015, we elected to perform the qualitative assessment for the majority of our reporting units and indefinite-lived intangible assets. This qualitative assessment included the review of certain macroeconomic factors and entity-specific qualitative factors to determine if it was more-likely-than-not that the fair values of our reporting units were below carrying value. For those reporting units acquired in fiscal 2015, a quantitative assessment was performed. We engaged third-party valuation specialists and used industry accepted valuation models and criteria that were reviewed and approved by various levels of management.

For further discussion of the methods used and factors considered in our estimates as part of the impairment testing for Goodwill, Other Intangible Assets and Long-Lived Assets, see *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies*.

Income Taxes

We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. As of June 30, 2016, we have net deferred tax assets of $422.3 million. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance of $118.4 million for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction.

Table of Contents

We provide tax reserves for U.S. federal, state, local and foreign exposures relating to periods subject to audit. The development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective critical estimate. We assess our tax positions and record tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting dates.

For further discussion of our Income Taxes accounting policy, see *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies*.

Quantitative Analysis

During the three-year period ended June 30, 2016, there have not been material changes in the assumptions underlying these critical accounting policies, nor to the related significant estimates. The results of our business underlying these assumptions have not differed significantly from our expectations.

While we believe that the estimates that we have made are proper and the related results of operations for the period are presented fairly in all material respects, other assumptions could reasonably be justified that would change the amount of reported net sales, cost of sales or our provision for income taxes as they relate to the provisions for anticipated sales returns, inventory obsolescence reserve and income taxes.

A 250 basis-point change in the items above collectively would have had the following effects for fiscal 2016:

(In millions, except per share data)		**250 Basis-Point Increase**		**250 Basis-Point Decrease**
Gross profit	$	(5.7)	$	5.7
Operating income	$	(5.7)	$	5.7
Income taxes	$	(0.1)	$	0.1
Net earnings attributable to The Estée Lauder Companies Inc.	$	(5.6)	$	5.6
Net earnings attributable to The Estée Lauder Companies Inc. per diluted common share	$	(.02)	$	.02

Table of Contents

RESULTS OF OPERATIONS

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results for fiscal 2016, 2015 and 2014 and reflects the basis of presentation described in *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies* and *Note 20 Segment Data* and *Related Information* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance and hair care have been included in the other category.

	Year Ended June 30 2016	2015 (In millions)	2014
NET SALES			
By Region:			
The Americas	$ 4,710.3	$ 4,513.8	$ 4,572.3
Europe, the Middle East & Africa	4,380.7	4,086.4	4,163.7
Asia/Pacific	2,172.7	2,180.2	2,232.7
	11,263.7	10,780.4	10,968.7
(Returns) adjustments associated with restructuring activities	(1.4)		0.1
Net Sales	$ 11,262.3	$ 10,780.4	$ 10,968.8
By Product Category:			
Skin Care	$ 4,446.2	$ 4,478.7	$ 4,769.8
Makeup	4,702.6	4,304.6	4,210.2
Fragrance	1,486.7	1,416.4	1,425.0
Hair Care	554.2	530.6	515.6
Other	74.0	50.1	48.1
	11,263.7	10,780.4	10,968.7
(Returns) adjustments associated with restructuring activities	(1.4)		0.1
Net Sales	$ 11,262.3	$ 10,780.4	$ 10,968.8
OPERATING INCOME (LOSS)			
By Region:			
The Americas	$ 346.1	$ 302.3	$ 537.3
Europe, the Middle East & Africa	1,027.1	943.3	938.3
Asia/Pacific	371.8	360.7	349.1
	1,745.0	1,606.3	1,824.7
(Charges) adjustments associated with restructuring activities	(134.7)		2.9
Operating Income	$ 1,610.3	$ 1,606.3	$ 1,827.6
By Product Category:			
Skin Care	$ 842.1	$ 832.2	$ 975.8
Makeup	758.3	659.3	715.9
Fragrance	87.4	82.8	104.1
Hair Care	51.8	37.9	33.7
Other	5.4	(5.9)	(4.8)
	1,745.0	1,606.3	1,824.7
(Charges) adjustments associated with restructuring activities	(134.7)		2.9
Operating Income	$ 1,610.3	$ 1,606.3	$ 1,827.6

Table of Contents

The following table presents certain consolidated earnings data as a percentage of net sales:

	Year Ended June 30 2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	19.4	19.5	19.7
Gross profit	80.6	80.5	80.3
Operating expenses:			
Selling, general and administrative	65.1	65.6	63.6
Restructuring and other charges	1.2		
Total operating expenses	66.3	65.6	63.6
Operating income	14.3	14.9	16.7
Interest expense	0.6	0.6	0.5
Interest income and investment income, net	0.1	0.2	
Earnings before income taxes	13.8	14.5	16.2
Provision for income taxes	3.9	4.4	5.2
Net earnings	9.9	10.1	11.0
Net earnings attributable to noncontrolling interests			
Net earnings attributable to The Estée Lauder Companies Inc.	9.9%	10.1%	11.0%

In order to meet the demands of consumers, we continually introduce new products, support new and established products through advertising, merchandising and sampling and phase out existing products that no longer meet the needs of our consumers or our objectives. The economics of developing, producing, launching, supporting and discontinuing products impact our sales and operating performance each period. The introduction of new products may have some cannibalizing effect on sales of existing products, which we take into account in our business planning.

Non-GAAP Financial Measures

We use certain non-GAAP financial measures, among other financial measures, to evaluate our operating performance, which represent the manner in which we conduct and view our business. Management believes that excluding certain items that are not comparable from period to period helps investors and others compare operating performance between two periods. While we consider the non-GAAP measures useful in analyzing our results, they are not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with U.S. GAAP. See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

We operate on a global basis, with the majority of our net sales generated outside the United States. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations. Therefore, we present certain net sales, operating results and diluted net earnings per common share information excluding the effect of foreign currency rate fluctuations to provide a framework for assessing the performance of our underlying business outside the United States. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We calculate constant currency information by translating current year results using prior year weighted-average foreign currency exchange rates.

Overview

We believe the best way to continue to increase stockholder value is to provide our customers and consumers with superior products and services in the most efficient and profitable manner while recognizing consumers   changing behaviors and shopping preferences. We are guided by our long-term strategy through fiscal 2019, which has numerous initiatives across geographic regions, product categories, brands, channels of distribution and functions that are designed to grow our sales, provide cost efficiencies, leverage our strengths and make us more productive and profitable. We plan to continue to build upon and leverage our history of outstanding creativity, innovation, entrepreneurship, high quality products and services, and engaging communications while investing for long-term sustainable growth.

Table of Contents

Our diverse and highly desirable brand portfolio positions us well to capitalize on opportunities in fast growing and profitable areas of prestige beauty. We believe our range of prestige product offerings allows us to increase our share of a consumer s beauty routine and source consumers from brands sold in mass distribution. Skin care, our most profitable product category historically, remains a strategic priority for us, and we continue to support our large, long-standing skin care product lines including Advanced Night Repair from Estée Lauder, Clinique s 3-Step Skin Care System and Crème de la Mer from La Mer. We have also continued to develop and introduce new products, such as New Dimension and Re-Nutriv Ultimate Diamond Transformative Energy eye crème from Estée Lauder, Clinique Smart moisturizers, Clinique Smart treatment oil and Clinique Sculptwear lift and contour serum for face and neck, as well as The Renewal Oil and Genaissance de La Mer The Serum Essence from La Mer. We supplemented our skin care offerings through the fiscal 2015 acquisitions of GLAMGLOW and RODIN olio lusso. While growth in global prestige skin care remained relatively slow in fiscal 2016, growth in global prestige makeup continued to show the fastest acceleration. This trend benefited our makeup sales, particularly in certain areas in Europe, the Middle East & Africa, such as the United Kingdom. We also introduced new products, including new collections from our makeup artist brands and Smashbox, Double Wear Makeup to Go liquid compact and Pure Color Envy liquid lip potion from Estée Lauder, and Chubby Lash fattening mascara and Beyond Perfecting foundation + concealer from Clinique. We believe that the makeup category represents one of our most compelling growth opportunities. Our fragrance category continues to benefit from increased sales of Jo Malone London and Tom Ford fragrances, new launches such as Mimosa & Cardamom from Jo Malone London and Tom Ford Noir Pour Femme, and incremental net sales from our fiscal 2015 acquisitions of Le Labo and Editions de Parfums Frédéric Malle. In addition, we are expanding our hair care brands in salons and other retail channels. To complement the strategies in our existing business, we are continuously looking to acquire and grow smaller brands that we believe have significant growth potential and may provide unique opportunities for profitable growth in the future. During our fiscal 2016 third quarter, we further expanded our luxury fragrance portfolio with the acquisition of By Kilian, a prestige fragrance brand.

Our global footprint provides many avenues of growth. We are leveraging our regional organizations and the talents and expertise of our people in an effort to continue to be locally relevant with our products, services, channels, marketing and visual merchandising. We are seeking share growth in large, image-building core markets such as the United States, the United Kingdom, France, Italy, Japan and Korea by strengthening our presence in these areas. During the second quarter of fiscal 2016, we purchased a minority interest in Have & Be Co. Ltd., the Korean company behind the skin care brands Dr. Jart + and Do The Right Thing. This investment provides us with a strategic opportunity to participate in the expanding Korean beauty trend. In addition, we are broadening our presence in emerging markets such as China, the Middle East, Eastern Europe, Brazil, Russia, India, Mexico and South Africa. While we continue to see slow department store traffic in some markets, which is particularly affecting Estée Lauder and Clinique, we are growing faster in other channels such as e- and m-commerce.

In North America, we are hosting targeted in-store events to support key innovations in multiple channels, and we are increasing our presence in specialty multi-brand retailers and freestanding retail stores. Internationally, we are expanding our business in freestanding stores, in European perfumeries and pharmacies, and in department stores, particularly in the United Kingdom and certain markets in Asia. We approach distribution strategically by brand, as each is at a different stage of development. We seek to optimize distribution in both channels and geographies, matching each brand with appropriate opportunities. We focus on those areas where we believe our brands will expand consumer coverage and gain high-quality distribution consistent with their positioning. As part of this strategy, we continue to expand brands in our travel retail channel, which benefits from increasing international passenger traffic. Travel retail continues to be an important channel for brand building and profit margin expansion, although it is susceptible to a number of external factors, including fluctuations in currency exchange rates and consumers willingness and ability to travel and spend. We have strategies focused on consumers who purchase in the travel retail channel, in stores at their travel destinations or when they return to their home market. This includes partnering with our retailers to open individual boutiques within airports to compete more effectively in this channel. We are broadening our online portfolio around the world by adding brands to existing markets and entering new markets, resulting in strong net sales growth in the online channel, and we continue to develop and test omnichannel concepts to better serve consumers as they shop across channels. We have identified opportunities to expand our online portfolio around the world, which we expect will result in continued net sales growth in this channel. Our success in delivering particularly strong online growth in emerging markets is a result of taking key learnings from our online strategy in established markets, such as the United States, the United Kingdom and Germany, and customizing them to meet local market needs. To further drive our online sales, we are planning new e- and m-commerce site launches in new and existing markets, and we are extending our third-party platform model, which has been successful in China, into certain other international locations.

While our business is performing well overall, we are faced with strong competition globally and economic challenges in certain countries. In particular, we are cautious of the continued slow retail growth in Hong Kong, the decline in retail traffic primarily related to mid-tier department stores, as well as certain M A C freestanding stores, in the United States as a result of the impact of shifts in preferences of certain consumers as to where and how they shop for our products. We are also cautious of the continued strength of the U.S. dollar in relation to most currencies. Additionally, we are continuing to monitor the effects of the macroeconomic environment in Brazil, the United Kingdom s anticipated exit from the European Union, the political instability in Turkey, the impact of declining oil prices on consumer purchases in the Middle East, and global security issues.

Table of Contents

We believe we can, to some extent, offset the impact of these challenges by accelerating areas of strength, utilizing the various growth drivers among our brands, channels and markets. However, if economic conditions or the degree of uncertainty or volatility worsen, or the adverse conditions previously discussed are further prolonged, then there could be a negative effect on ongoing consumer confidence, demand and spending and, as a result, on our business. We will continue to monitor these and other risks that may affect our business.

We navigate through short-term volatility while focusing on our long-term strategy and using our multiple engines of growth that we believe will promote sustainable growth. We are increasing our presence in emerging markets, continuing efforts to revitalize and accelerate growth in our heritage brands, focusing on key demographics and seeking opportunities to add to our diverse brand portfolio. We are also strengthening our consumer engagement by leveraging digital marketing and enhancing our social media strategies and execution. We will continue to drive product, packaging, and conceptual innovation and creativity that we believe will enable us to introduce products that resonate with consumers. Some initiatives will involve new sub-categories and others may expand key franchises. We expect to leverage our top line growth through greater productivity, due in part to cost savings and efficiencies from our Strategic Modernization Initiative (SMI).

On May 3, 2016, we announced a multi-year initiative (Leading Beauty Forward) to build on our strengths and better leverage our cost structure to free resources for investment to continue our growth momentum. Leading Beauty Forward is designed to enhance our go-to-market capabilities, reinforce our leadership in global prestige beauty and continue creating sustainable value. We plan to approve specific initiatives under Leading Beauty Forward through fiscal 2019 and expect to complete those initiatives through fiscal 2021. We expect that Leading Beauty Forward will result in related restructuring and other charges totaling between $600 million and $700 million, before taxes, consisting of employee-related costs, asset write-offs and other costs to implement these initiatives. After its full implementation, we expect Leading Beauty Forward to yield annual net benefits, primarily in selling, general and administrative expenses, of between $200 million and $300 million, before taxes. We expect to reinvest a portion behind future growth initiatives. For additional information about Leading Beauty Forward, see *Item 8. Financial Statements and Supplementary Data Note 7 Charges Associated with Restructuring Activities*.

In addition to Leading Beauty Forward, investment in our global information systems is an ongoing process. We have implemented initiatives to leverage our SMI foundation that are focused on sustainment and global efficiencies. As we modernize our key processes, related systems and infrastructure, we continue to develop upgraded capabilities to support our human resource operations and are making investments to upgrade our global technology infrastructure (GTI), as well as our retail systems and retail capabilities globally. These initiatives are expected to improve profitability by enhancing gross margin and supporting efficiencies in select operating expenses and working capital, freeing resources to strategically reinvest in activities to support our future growth.

In October 2015, we approved plans to transform and modernize our GTI to fundamentally change the way we deliver information technology services internally (such initiative, the GTI Restructuring). As part of the GTI Restructuring, we transitioned our GTI from Company-owned assets to a primarily vendor-owned, cloud-based model where we pay for services as they are used. This model, with a different third-party provider, is expected to provide an enhanced scalable platform to better support current and future requirements, help us achieve key strategic opportunities and improve our agility and flexibility to respond to the demands of the business by leveraging more advanced technologies. This transition is expected to result in operational efficiencies and reduce our information technology service and infrastructure costs in the future. The implementation of the GTI Restructuring was substantially completed during fiscal 2016. Net savings from this initiative may be partially reinvested in other strategic areas of our business. For additional information about the GTI Restructuring initiative, see *Item 8. Financial Statements and Supplementary Data Note 7 Charges Associated with Restructuring Activities*.

Table of Contents

We rolled out the last major wave of SMI in July 2014, and most of our locations are now SAP-enabled. We plan to continue the implementation of SAP at our remaining locations throughout the next few fiscal years. In connection with the July 2014 implementation, some retailers accelerated their sales orders that would have occurred in our fiscal 2015 first quarter into our fiscal 2014 fourth quarter in advance of this implementation to provide adequate safety stock to mitigate any potential short-term business interruption associated with the SMI rollout. The negative impact on the net sales and operating results for the year ended June 30, 2015 by product category and geographic region was as follows:

	Year Ended June 30, 2015	
(In millions)	**Net Sales**	**Operating Results**
Product Category:		
Skin Care	$ 91	$ 72
Makeup	65	41
Fragrance	21	14
Hair Care	1	
Other		
Total	$ 178	$ 127
Region:		
The Americas	$ 84	$ 53
Europe, the Middle East & Africa	68	53
Asia/Pacific	26	21
Total	$ 178	$ 127

The lower orders during the year ended June 30, 2015 created a favorable comparison between fiscal 2016 and fiscal 2015 of approximately $178 million in net sales and approximately $127 million in operating results and impacted our operating margin comparisons. We believe that the presentation of certain year-to-date comparative information in the following discussions that excludes the impact of the timing of these orders is useful in analyzing the net sales performance and operating results of our business.

See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

NET SALES

	Year Ended June 30	
($ in millions)	**2016**	**2015**
As Reported:		
Net Sales	$ 11,262.3	$ 10,780.4
$ Change from prior year	481.9	(188.4)
% Change from prior year	4%	(2)%
Non-GAAP Financial Measure (a):		
	7%	6%

% Change from prior year in constant currency and adjusting for the impact of accelerated orders

---

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Reported net sales in fiscal 2016 grew in each product category, with the exception of skin care, and in each geographic region, with the exception of Asia/Pacific. The overall decline in the skin care category was primarily due to the unfavorable impact of foreign currency translation and the relatively slow growth in global prestige skin care that particularly impacted net sales in North America, Asia/Pacific and travel retail. However, this category benefited from increased sales of certain products, particularly from La Mer and Origins. Net sales increases in product offerings by M A C, Smashbox, Tom Ford, Clinique, Bobbi Brown and Estée Lauder globally drove the growth in the makeup category. Our fragrance category benefited from net sales increases from our luxury brands. Incremental sales from our acquisitions during the past two years also helped drive our skin care and fragrance sales. The net sales increase in our hair care category was driven by product offerings from Aveda and Bumble and bumble, as well as expanded consumer coverage. Each of our product categories benefited from brand expansion, comparable door sales growth from certain brands, new product offerings and growth from emerging markets.

Table of Contents

Net sales in fiscal 2015 decreased from fiscal 2014, entirely driven by the negative impact of foreign currency translation of approximately $519 million and the difficult comparison due to the accelerated orders, as discussed above, of approximately $357 million. Inclusive of these items, higher net sales in our makeup and hair care product categories were more than offset by declines in our skin care and fragrance product categories, while geographically, we experienced lower net sales in each region. Our makeup artist and luxury brands continued to grow net sales through successful product launches and the broadening of their presence globally. However, net sales from Estée Lauder and Clinique were challenged in all of our product categories and reflected a difficult comparison to fiscal 2014, which featured significant launch activity related to the reformulation of certain iconic skin care products and several significant fragrance launches. In addition, we experienced strong growth in certain channels such as specialty-multi, online and freestanding stores, as well as expansion in emerging markets. Excluding the impact of foreign currency translation and the impact of the accelerated orders, net sales would have increased in each of our major product categories and within each geographic region.

Returns associated with restructuring activities are not allocated to our product categories or geographic regions because they result from activities that are deemed a company-wide initiative to redesign, resize and reorganize select corporate functions and go-to-market structures. Accordingly, the following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the fiscal 2016 impact of returns associated with restructuring activities of $1.4 million.

Product Categories

Skin Care

	Year Ended June 30	
($ in millions)	**2016**	**2015**
As Reported:		
Net Sales	$ 4,446.2	$ 4,478.7
$ Change from prior year	(32.5)	(291.1)
% Change from prior year	(1)%	(6)%
Non-GAAP Financial Measure (a):		
% Change from prior year in constant currency and adjusting for the impact of accelerated orders	1%	2%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Skin care net sales decreased in fiscal 2016, reflecting approximately $163 million of unfavorable foreign currency translation, partially offset by the favorable comparison due to the fiscal 2015 accelerated orders of approximately $91 million. The reported net sales decrease reflected lower net sales from Estée Lauder and Clinique of approximately $138 million, combined. The decrease in net sales of Estée Lauder and Clinique products was due, in part, to lower sales in certain countries within Asia/Pacific, particularly Hong Kong reflecting continued retail softness. The lower net sales from Clinique also reflected decreased sales in travel retail. These decreases were partially offset by higher net sales of La Mer and Origins products, as well as incremental sales from our fiscal 2015 acquisitions of GLAMGLOW and RODIN olio lusso, of approximately $108 million, combined. Net sales of La Mer products grew in all regions, driven by the continued momentum of the fiscal 2016 launches of The Renewal Oil, The Lifting Eye Serum and Genaissance de La Mer The Serum Essence and an increase in distribution in specialty-multi brand retailers and department stores. Net sales growth of Origins products benefited from higher sales of facial mask products.

Skin care net sales decreased in fiscal 2015, reflecting the negative impact of foreign currency translation of approximately $215 million. The decrease, as reported, reflected lower net sales of Estée Lauder and Clinique products of approximately $303 million, combined, primarily due to the accelerated orders and significant launch activity in fiscal 2014 related to the reformulation of certain iconic products. These decreases were partially offset by higher sales of La Mer products, primarily due to fiscal 2015 launches and expanded distribution in the travel retail channel, and incremental sales from our fiscal 2015 acquisitions of approximately $23 million, combined.

Table of Contents

Makeup

($ in millions)	Year Ended June 30 2016		2015	
As Reported:				
Net Sales	$	4,702.6	$	4,304.6
$ Change from prior year		398.0		94.4
% Change from prior year		9%		2%
Non-GAAP Financial Measure (a):				
% Change from prior year in constant currency and adjusting for the impact of accelerated orders		13%		10%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Makeup net sales increased in fiscal 2016 despite approximately $233 million of unfavorable foreign currency translation. The increase was also impacted by the favorable comparison due to the fiscal 2015 accelerated orders of approximately $65 million. The reported net sales increase primarily reflected higher net sales from our makeup artist brands, Clinique, Smashbox, Tom Ford and Estée Lauder of approximately $397 million, combined. Sales from our makeup artist brands benefited from new product offerings, as well as the continued broadening of the brands presence in a number of channels, including our freestanding retail stores and travel retail. The higher net sales from Clinique reflected incremental sales from new launches such as Clinique Beyond Perfecting makeup products. Sales from Smashbox were primarily driven by specialty multi-brand retailers, reflecting the overall strength of the makeup category in that channel. The increase in Tom Ford net sales was driven by higher sales of lip color products. Net sales of Estée Lauder products improved partially due to higher sales from the Double Wear line of products and the Pure Color Envy franchise.

Makeup net sales increased in fiscal 2015 and included the negative impact of foreign currency translation of approximately $205 million. The net sales increase, as reported, primarily reflected higher net sales from our makeup artist brands, Tom Ford and Smashbox of approximately $293 million, combined. Sales from our makeup artist brands benefited from new product offerings, as well as expanded distribution in a number of channels, including our freestanding retail stores. The higher net sales from Tom Ford and Smashbox were primarily due to expanded distribution of Tom Ford in the travel retail channel and Smashbox in specialty multi-brand retailers. Partially offsetting these increases were lower sales of Clinique and Estée Lauder products of approximately $161 million, combined.

Fragrance

($ in millions)	Year Ended June 30 2016		2015	
As Reported:				
Net Sales	$	1,486.7	$	1,416.4
$ Change from prior year		70.3		(8.6)

% Change from prior year	5%	(1)%
Non-GAAP Financial Measure (a):		
% Change from prior year in constant currency and adjusting for the impact of accelerated orders	9%	8%

____

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Fragrance net sales increased in fiscal 2016 despite approximately $75 million of unfavorable foreign currency translation. This increase was also impacted by the favorable comparison due to the fiscal 2015 accelerated orders of approximately $21 million. The reported net sales increase primarily reflected higher net sales of luxury fragrances from Jo Malone London and Tom Ford, as well as incremental sales from our fiscal 2015 acquisitions of Le Labo and Editions de Parfums Frédéric Malle and the fiscal 2016 acquisition of By Kilian of approximately $134 million, combined. The higher net sales from Jo Malone London were, in part, due to brand expansion in department stores, freestanding stores and travel retail, the recent launch of Mimosa & Cardamom, and increased sales of existing products. The increase in Tom Ford net sales reflected incremental sales from new product launches, including Tom Ford Noir Pour Femme and increased distribution, particularly in travel retail. Partially offsetting these increases were lower sales of certain fragrances from our heritage brands and certain designer fragrances of approximately $62 million, combined.

Table of Contents

Fragrance net sales decreased in fiscal 2015, driven entirely by the negative impact of foreign currency translation of approximately $75 million. The decrease, as reported, primarily reflected lower sales of certain Estée Lauder, Clinique, Coach and Tommy Hilfiger fragrances of approximately $98 million, combined. These decreases were mostly offset by the strong performance of luxury fragrances from Jo Malone London and Tom Ford that resulted in higher net sales of approximately $91 million, combined.

Hair Care

($ in millions)	Year Ended June 30 2016		2015	
As Reported:				
Net Sales	$	554.2	$	530.6
$ Change from prior year		23.6		15.0
% Change from prior year		4%		3%
Non-GAAP Financial Measure (a):				
% Change from prior year in constant currency and adjusting for the impact of accelerated orders		7%		7%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Hair care net sales increased in fiscal 2016 despite the negative impact of foreign currency translation of approximately $14 million. The increase in net sales reflected new product launches from Aveda, such as Invati Men and Shampure dry shampoo and, to a lesser extent, an increase in distribution of Aveda products in salons and travel retail and Bumble and bumble products in specialty multi-brand retailers.

Hair care net sales increased in fiscal 2015 and included the negative impact of foreign currency translation of approximately $22 million. The increase in net sales reflected expanded global distribution of Aveda products in department stores, freestanding retail stores, salons and in the travel retail channel, and Bumble and bumble products in specialty multi-brand retailers. The category also benefited from increased sales of Smooth Infusion Naturally Straight from Aveda, as well as the expansion of the Hairdresser s invisible oil line of products from Bumble and bumble which contributed approximately $12 million to the increase, combined. Partially offsetting these increases were lower sales of the Invati line of products and Dry Remedy moisturizing shampoo from Aveda of approximately $6 million, combined.

Geographic Regions

The Americas

($ in millions)	Year Ended June 30 2016		Year Ended June 30 2015	
As Reported:				
Net Sales	$	4,710.3	$	4,513.8
$ Change from prior year		196.5		(58.5)
% Change from prior year		4%		(1)%
Non-GAAP Financial Measure (a):				
% Change from prior year in constant currency and adjusting for the impact of accelerated orders		5%		6%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Table of Contents

Net sales in the Americas increased in fiscal 2016 despite the negative impact of approximately $101 million of unfavorable foreign currency translation. Net sales in the United States and Canada increased approximately $191 million, combined, and reflected the favorable comparison due to the fiscal 2015 accelerated orders of approximately $84 million. The increase also reflected higher makeup net sales, driven by Clinique, Smashbox, Estée Lauder and M A C, as well as higher skin care and hair care net sales from La Mer and Aveda, respectively. Also contributing were higher fragrance net sales from Tom Ford and Jo Malone London, which were more than offset by lower net sales of Estée Lauder fragrances. Net sales were impacted by a decline in retail traffic in the United States related primarily to mid-tier department stores that principally affected Estée Lauder and Clinique, as well as certain M A C freestanding stores, as a result of a decrease in tourism, particularly from Brazilian travelers. Net sales in Latin America increased approximately $6 million, primarily reflecting higher net sales in Mexico and Argentina, partially offset by lower sales in Brazil as a result of unfavorable foreign currency translation of approximately $33 million. Excluding the impact of foreign currency translation, the emerging markets of Brazil and Mexico had net sales increases of approximately $56 million, primarily driven by M A C.

Net sales in the Americas decreased in fiscal 2015. Net sales in the United States and Canada decreased by approximately $53 million, combined, primarily due to lower net sales from certain of our heritage brands, driven by the impact of the accelerated orders and a difficult comparison with fiscal 2014, which featured significant launch activity related to the reformulation of certain iconic products. These decreases were partially offset by higher net sales from our makeup artist, luxury and hair care brands. Net sales in Latin America decreased approximately $5 million, primarily reflecting lower net sales in Venezuela, partially offset by higher net sales in Brazil.

Europe, the Middle East & Africa

	Year Ended June 30	
($ in millions)	**2016**	**2015**
As Reported:		
Net Sales	$ 4,380.7	$ 4,086.4
$ Change from prior year	294.3	(77.3)
% Change from prior year	7%	(2)%
Non-GAAP Financial Measure (a):		
% Change from prior year in constant currency and adjusting for the impact of accelerated orders	12%	8%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Net sales in Europe, the Middle East & Africa increased in fiscal 2016. This increase includes approximately $265 million of unfavorable foreign currency translation due to the strength of the U.S. dollar in relation to all currencies in the region. The increase was also impacted by the favorable comparison due to the fiscal 2015 accelerated orders of approximately $68 million. Higher sales in our travel retail business, the United Kingdom and the Middle East totaled approximately $225 million, combined. The sales growth in our travel retail business was partially driven by the favorable comparison due to the fiscal 2015 accelerated orders. Travel retail growth also reflected higher net sales from Jo Malone London, Tom Ford, M A C and Smashbox, driven in part by increased distribution and new product offerings. Higher sales in the United Kingdom and the Middle East were primarily due to increased net sales from Estée Lauder, our makeup artist brands and Smashbox, reflecting the strength of our makeup category, as well as higher sales from certain of our luxury brands. These increases were partially offset by lower net sales in Russia and South Africa of approximately $17 million, combined, driven by the negative impact of foreign currency translation. Excluding this impact, net sales in Russia and South Africa increased $57 million, combined. The sales growth in Russia was primarily due to higher net sales from certain of our heritage and luxury brands. The higher net sales in South Africa were primarily driven by our makeup artist brands and certain of our luxury brands, reflecting successful in-store promotional events.

Net sales in Europe, the Middle East & Africa decreased in fiscal 2015, driven by approximately $285 million of unfavorable foreign currency translation due to the strength of the U.S. dollar in relation to most currencies in the region. Lower sales in our travel retail business, Germany, Iberia and Italy totaled approximately $185 million, combined. The lower sales in our travel retail business were driven by the impact of the accelerated orders. Excluding this impact, travel retail net sales increased due to a strategic expansion of certain of our luxury brands and our makeup artist brands, partially offset by the negative impact of the social instability in Hong Kong, as well as changes in the purchasing power of key groups of travelers. The decrease in sales in Germany, Iberia and Italy was due to the weakening of the Euro against the U.S. dollar. Excluding this impact, net sales in Germany, Iberia and Italy increased, primarily driven by certain of our luxury, makeup artist and hair care brands as a result of expanded distribution and new product introductions. Partially offsetting these reported decreases were higher sales in the United Kingdom and the Middle East of approximately $122 million, combined. The increase in sales in the United Kingdom was primarily driven by our makeup artist and luxury brands. Higher sales in the Middle East were primarily driven by certain of our luxury brands and makeup artist brands as a result of new product introductions and expanded distribution.

Table of Contents

Asia/Pacific

($ in millions)	Year Ended June 30 2016	2015
As Reported:		
Net Sales	$ 2,172.7	$ 2,180.2
$ Change from prior year	(7.5)	(52.5)
% Change from prior year	Decreased less than 1%	(2)%
Non-GAAP Financial Measure (a):		
% Change from prior year in constant currency and adjusting for the impact of accelerated orders	4%	4%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Net sales in Asia/Pacific decreased in fiscal 2016, reflecting approximately $122 million of unfavorable foreign currency translation due to the strength of the U.S. dollar in relation to all currencies in the region, partially offset by the favorable comparison due to the fiscal 2015 accelerated orders of approximately $26 million. Lower sales in Hong Kong, Thailand, Malaysia and Korea totaled approximately $56 million, combined. The lower net sales in Hong Kong were primarily driven by a decrease in traveling Chinese consumers and changes in their spending patterns, which particularly impacted the Estée Lauder, Clinique and La Mer brands. The decrease in net sales in Thailand, Malaysia, and Korea was driven by the negative impact of foreign currency translation. Excluding this negative impact, the higher sales in Korea were primarily driven by our makeup artist brands, reflecting successful in-store promotional events from M A C and the launch of the Skin Foundation Cushion Compact from Bobbi Brown, as well as new product introductions from certain of our luxury brands, such as Genaissance de La Mer The Serum Essence from La Mer. These decreases were partially offset by higher net sales in Japan and, to a lesser extent, the Philippines of approximately $48 million, combined. The net sales in Japan reflected higher tourism and increased net sales from virtually all of our brands, which was primarily driven by the makeup product category. In the Philippines, the higher net sales reflected the introduction of Jo Malone London and Origins.

Net sales in Asia/Pacific decreased in fiscal 2015, driven by approximately $79 million of unfavorable foreign currency translation due to the strength of the U.S. dollar in relation to certain currencies in the region. Lower sales in Japan and Hong Kong totaled approximately $94 million, combined. The decrease in net sales in Japan primarily reflected the impact of the accelerated orders and foreign currency translation, partially offset by higher sales of certain of our luxury and makeup artist brands. The lower sales in Hong Kong were primarily due to the negative impact to our business as a result of the social instability there. These decreases were partially offset by higher net sales in China, Australia and Korea of approximately $46 million, combined. The higher net sales in China were primarily driven by certain of our heritage and luxury brands, and our makeup artist brands as a result of expanded distribution in department stores, freestanding stores and online. For Australia and Korea, the higher net sales were from certain of our makeup artist and luxury brands.

We strategically stagger our new product launches by geographic market, which may account for differences in regional sales growth.

GROSS PROFIT

Gross profit in fiscal 2016 increased to 80.6% as compared with 80.5% in fiscal 2015 and 80.3% in fiscal 2014.

Fiscal 2016 vs. Fiscal 2015 Favorable (Unfavorable) Basis Points	
Manufacturing variances	40
Obsolescence charges	10
Mix of business	(20)
Foreign exchange transactions	(10)
Other	(10)
Total	10

Fiscal 2015 vs. Fiscal 2014 Favorable (Unfavorable) Basis Points	
Foreign exchange transactions	20
Other	10
Obsolescence charges	(10)
Total	20

Table of Contents

OPERATING EXPENSES

Operating expenses as a percentage of net sales in fiscal 2016 increased to 66.3% as compared with 65.6% in fiscal 2015 and 63.6% in fiscal 2014.

Fiscal 2016 vs. Fiscal 2015 Favorable (Unfavorable) Basis Points	
Store operating costs	(40)
Stock-based compensation costs	(10)
Advertising, merchandising and sampling	60
Selling and shipping	30
Foreign exchange transactions	10
Subtotal	50
Charges associated with restructuring activities	(120)
Total	(70)

Fiscal 2015 vs. Fiscal 2014 Favorable (Unfavorable) Basis Points	
General and administrative expenses	(100)
Store operating and selling costs	(110)
Stock-based compensation costs	(10)
Advertising, merchandising and sampling	(10)
Foreign exchange transactions	10
Other expenses	(10)
Subtotal	(230)
Venezuela remeasurement charge	30
Total	(200)

Fiscal 2016 as compared with Fiscal 2015

The lower advertising, merchandising and sampling costs in fiscal 2016, as a percentage of net sales, as compared to fiscal 2015, were in part due to the brand and channel mix of our spend as certain media formats carry different cost structures. Certain of our brands have lower costs associated with advertising as they focus on digital and social media strategies and rely less on print and television advertising, which carry a higher media cost.

Adjusting for the impact of the fiscal 2015 accelerated orders, operating expense margin in fiscal 2016 would have increased an additional 90 basis points, to 160 basis points unfavorable as compared to fiscal 2015. This additional increase, as a percentage of net sales, was reflected in general and administrative, selling and shipping, and advertising, merchandising and sampling costs.

Fiscal 2015 as compared with Fiscal 2014

The increase in general and administrative expenses in fiscal 2015 as compared to fiscal 2014 was a result of higher support spending behind capability-building initiatives, such as information technology, as well as for acquisition-related expenses. The higher store operating and selling costs in fiscal 2015 as compared to fiscal 2014 were primarily driven by the expansion of M A C and Jo Malone London freestanding retail stores.

In fiscal 2015, adjusting for the impact of the accelerated orders into the fiscal 2014 fourth quarter, operating expenses as a percentage of net sales would have increased approximately 10 basis points, primarily reflecting an increase in general and administrative expenses and higher store operating costs, partially offset by lower spending on advertising, merchandising and sampling and lower charges related to the remeasurement of net monetary assets in Venezuela.

Changes in advertising, merchandising and sampling spending result from the type, timing and level of activities related to product launches and rollouts, as well as the markets and brands being emphasized.

Table of Contents

OPERATING RESULTS

($ in millions)	Year Ended June 30 2016	2015
As Reported:		
Operating Income	$ 1,610.3	$ 1,606.3
$ Change from prior year	4.0	(221.3)
% Change from prior year	Less than 1%	(12)%
Operating Margin	14.3%	14.9%
Non-GAAP Financial Measure (a):		
% Change in operating income from prior year adjusting for the impact of accelerated orders and charges associated with restructuring activities	1%	2%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

The overall operating results and operating margin in fiscal 2016 were impacted by a favorable comparison of approximately $127 million related to the fiscal 2015 accelerated orders, more than offset by unfavorable foreign currency translation of approximately $134 million, which negatively impacted each product category and geographic region. In addition, the operating results for fiscal 2016 include the impact of charges associated with restructuring activities of $134.7 million. Adjusting for the impact of the accelerated orders and charges associated with restructuring activities, operating income would have increased 1% and operating margin would have decreased 30 basis points.

In fiscal 2015, operating margin decreased reflecting an increase in our operating expense margin, partially offset by our higher gross margin. Our skin care, makeup and fragrance results declined, primarily reflecting the accelerated orders, as well as certain challenges and difficult comparisons affecting our net sales growth in certain markets and channels by our heritage brands as previously discussed. These decreases were partially offset by improved results from our makeup artist, certain luxury, and our hair care brands. While certain operating expenses have increased as a percentage of net sales during fiscal 2015, we were able to implement cost containment measures to mitigate the impact.

Charges associated with restructuring activities are not allocated to our product categories or geographic regions because they result from activities that are deemed a company-wide initiative to redesign, resize and reorganize select corporate functions and go-to-market structures and to transform and modernize the Company s GTI. Accordingly, the following discussions of Operating Income by *Product Categories* and *Geographic Regions* exclude the fiscal 2016 impact of charges associated with restructuring activities of $134.7 million, or 1% of net sales.

Product Categories

The overall change in operating results in each product category was negatively impacted by the accelerated orders into the fiscal 2014 fourth quarter from certain of our retailers due to our implementation of SMI as follows:

(In millions)		**Operating Results**
Product Category:		
Skin Care	$	72
Makeup		41
Fragrance		14
Hair Care		
Total	$	127

Table of Contents

Skin Care

($ in millions)	Year Ended June 30 2016		2015	
As Reported:				
Operating Income	$	842.1	$	832.2
$ Change from prior year		9.9		(143.6)
% Change from prior year		1%		(15)%
Non-GAAP Financial Measure (a):				
% Change from prior year adjusting for the impact of accelerated orders		(7)%		

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Skin care operating income increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders. Excluding this impact, skin care operating income decreased, reflecting lower results from Estée Lauder and Clinique. Skin care operating income decreased in fiscal 2015, reflecting the impact of the accelerated orders and a difficult comparison to the significant launch activity in fiscal 2014 by certain of our heritage brands.

Makeup

($ in millions)	Year Ended June 30 2016		2015	
As Reported:				
Operating Income	$	758.3	$	659.3
$ Change from prior year		99.0		(56.6)
% Change from prior year		15%		(8)%
Non-GAAP Financial Measure (a):				
% Change from prior year adjusting for the impact of accelerated orders		8%		4%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Makeup operating income increased in fiscal 2016, reflecting higher results from M A C, Smashbox, Estée Lauder and Clinique. Makeup operating income decreased in fiscal 2015, primarily due to lower results from our heritage brands, reflecting the impact of the accelerated orders, partially offset by improved results from our makeup artist brands.

Fragrance

($ in millions)		Year Ended June 30 2016		2015
As Reported:				
Operating Income	$	87.4	$	82.8
$ Change from prior year		4.6		(21.3)
% Change from prior year		6%		(20)%
Non-GAAP Financial Measure (a):				
% Change from prior year adjusting for the impact of accelerated orders		(9)%		7%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Fragrance operating income increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders. Excluding this impact, fragrance operating income decreased, reflecting lower results from Estée Lauder and higher investment spending behind our recently acquired brands, partially offset by higher results from certain of our luxury fragrance brands. Fragrance operating income decreased in fiscal 2015, reflecting the lower launch activity from certain designer fragrances and heritage brands, partially offset by higher results from certain of our luxury fragrance brands.

Table of Contents

Hair Care

($ in millions)	Year Ended June 30 2016		2015	
As Reported:				
Operating Income	$	51.8	$	37.9
$ Change from prior year		13.9		4.2
% Change from prior year		37%		12%
Non-GAAP Financial Measure (a):				
% Change from prior year adjusting for the impact of accelerated orders		36%		13%

____

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Hair care operating results increased in fiscal 2016, reflecting higher results from our two hair care brands due in part to increased sales. Hair care operating results increased in fiscal 2015, primarily reflecting higher net sales driven by expanded global distribution and new product launches, as well as lower investment spending as compared with the higher level of spending in fiscal 2014 to support the Invati line of products.

Geographic Regions

The overall change in operating results in each geographic region was negatively impacted by the accelerated orders into the fiscal 2014 fourth quarter from certain of our retailers due to our implementation of SMI as follows:

(In millions)	Operating Results	
Region:		
The Americas	$	106
Europe, the Middle East & Africa		106
Asia/Pacific		42
Total	$	254

The Americas

($ in millions)	Year Ended June 30 2016	2015

As Reported:				
Operating Income	$	346.1	$	302.3
$ Change from prior year		43.8		235.0
% Change from prior year		14%		(44)%
Non-GAAP Financial Measure (a)**:**				
% Change from prior year adjusting for the impact of accelerated orders		(3)%		(27)%

____

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Operating income in the Americas increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders. Excluding the impact of the accelerated orders, operating income decreased, primarily reflecting an increase in advertising, merchandising and sampling expenses related to M A C in-store promotional events and certain of our luxury brands, as well as higher store operating and selling costs as a result of increased distribution. Operating income was impacted by a decline in retail traffic in the United States related primarily to mid-tier department stores that primarily affected Estée Lauder and Clinique, as well as certain M A C freestanding stores, as a result of a decrease in tourism, particularly from Brazilian travelers.

Table of Contents

Operating income in the Americas decreased in fiscal 2015, primarily reflecting the decrease in net sales from our heritage brands in the United States and Canada associated with the accelerated orders and the significant launch activity in fiscal 2014 related to the reformulation of certain iconic products, as well as higher general and administrative expenses, which include acquisition-related expenses. This decrease was partially offset by lower advertising, merchandising and sampling spending by our heritage brands due to the lower launch activity and a reallocation of spending among media formats. The region also benefited from higher results in Latin America, primarily driven by lower charges related to the remeasurement of net monetary assets in Venezuela.

Europe, the Middle East & Africa

	Year Ended June 30	
($ in millions)	**2016**	**2015**
As Reported:		
Operating Income	$ 1,027.1	$ 943.3
$ Change from prior year	83.8	5.0
% Change from prior year	9%	Less than 1%
Non-GAAP Financial Measure (a):		
% Change from prior year adjusting for the impact of accelerated orders	3%	13%

____

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

In Europe, the Middle East & Africa, operating income increased in fiscal 2016, primarily reflecting higher results from our travel retail business, which benefited mostly from the accelerated orders, Germany and the Middle East of approximately $92 million, combined. The higher results in Germany were due to increased sales from certain of our heritage brands and our makeup artist brands, primarily due to new product introductions, as well as more effective promotional programs. These higher results were partially offset by lower results in the United Kingdom, France and Russia of approximately $33 million. The lower results in the United Kingdom were driven by the negative impact of foreign currency. The lower results in France were partially due to higher investment spending behind certain of our heritage and luxury brands.

Operating income in Europe, the Middle East & Africa increased in fiscal 2015. Higher operating results in the United Kingdom, the Middle East, France, India, Russia and Switzerland of approximately $83 million, combined, were partially offset by lower operating results in our travel retail business, due to the accelerated orders, and, to a lesser extent, Germany of approximately $79 million, combined. The higher results in France, India, Russia and Switzerland were primarily due to an increase in constant currency net sales.

Asia/Pacific

Year Ended June 30

($ in millions)	**2016**	**2015**
As Reported:		
Operating Income	$ 371.8	$ 360.7
$ Change from prior year	11.1	11.6
% Change from prior year	3%	3%
Non-GAAP Financial Measure (a):		
% Change from prior year adjusting for the impact of accelerated orders	(3)%	16%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 42 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

In fiscal 2016, operating income increased in Asia/Pacific, reflecting the favorable comparison due to the fiscal 2015 accelerated orders. Excluding this impact, operating income decreased. Lower results in Hong Kong and China totaled approximately $36 million, combined. The decline in operating results in China was also attributable to higher selling and shipping costs. These lower results were partially offset by higher results in Japan, driven by the impact of the accelerated orders, and, to a lesser extent, Australia, Korea and Taiwan of approximately $44 million, combined. The improved results in Australia were due to higher sales from virtually all of our brands, as well as an improvement in selling and shipping costs. The higher results in Korea were primarily due to lower advertising, merchandising and sampling expenses. The improved results from Taiwan were primarily due to an increase in net sales.

Table of Contents

In fiscal 2015, operating income in Asia/Pacific increased, primarily reflecting higher results in China, Korea and Australia of approximately $49 million, combined. These higher results were partially offset by lower results in Japan, due to the accelerated orders, and Singapore of approximately $40 million, combined.

INTEREST AND INVESTMENT INCOME

	Year Ended June 30		
($ in millions)	**2016**	**2015**	**2014**
Interest expense	$ 70.7	$ 60.0	$ 59.4
Interest income and investment income, net	$ 15.6	$ 14.3	$ 8.6

Interest expense increased in fiscal 2016, primarily due to the issuance of additional long-term debt in June 2015 and May 2016.

Interest expense increased in fiscal 2015, primarily due to higher short- and long- term debt levels.

Interest income and investment income, net increased in fiscal 2016 and 2015, primarily due to higher interest income as a result of an increase in short- and long-term investment balances and rates in connection with our cash investment strategy. The increase in fiscal 2015 also reflected realized gains on investments. See *Financial Condition* below for further discussion of our modified cash investment strategy.

PROVISION FOR INCOME TAXES

	Year Ended June 30		
	2016	**2015**	**2014**
Effective rate for income taxes	27.9%	29.9%	32.0%
Basis-point change from prior year	(200)	(210)	

The decrease in the effective tax rate in fiscal 2016 was principally attributable to a lower effective tax rate related to our foreign operations, as well as a decrease in income tax reserve adjustments recorded in the current year.

The decrease in the effective tax rate in fiscal 2015 was principally attributable to a lower effective tax rate related to our foreign operations, which included Venezuela remeasurement charges in fiscal 2015 and 2014 of $5.3 million and $38.3 million, respectively, for which no tax benefit was provided. This reduction was partially offset by an increase in income tax reserve adjustments recorded in fiscal 2015.

The provision for income taxes represents U.S. federal, foreign, state and local income taxes. The effective rate differs from the federal statutory rate primarily due to the effect of state and local income taxes, the taxation of foreign income and income tax reserve adjustments, which represent changes in our net liability for unrecognized tax benefits including tax settlements and lapses of the applicable statutes of limitations. Our effective tax rate will change from quarter to quarter based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax reserve adjustments, the ultimate disposition of deferred tax assets relating to stock-based compensation and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of change.

Table of Contents

NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.

	Year Ended June 30		
($ in millions, except per share data)	**2016**	**2015**	**2014**
As Reported:			
Net earnings attributable to The Estée Lauder Companies Inc.	$ 1,114.6	$ 1,088.9	$ 1,204.1
$ Change from prior year	25.7	(115.2)	
% Change from prior year	2%	(10)%	
Diluted net earnings per common share	$ 2.96	$ 2.82	$ 3.06
% Change from prior year	5%	(8)%	
Non-GAAP Financial Measure (a)**:**			
% Change in diluted net earnings per common share from prior year adjusting for the impact of accelerated orders, charges associated with restructuring activities and Venezuela remeasurement charges	5%	3%	

____

(a) See *Non-GAAP Financial Measures* below for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

We use certain non-GAAP financial measures, among other financial measures, to evaluate our operating performance, which represent the manner in which we conduct and view our business. Management believes that excluding these items that are not comparable from period to period helps investors and others compare operating performance between two periods. While we consider the non-GAAP measures useful in analyzing our results, they are not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with U.S. GAAP. The following tables present Net Sales, Operating Income and Diluted net earnings per common share adjusted to exclude the impact of accelerated orders associated with the July 2014 SMI rollout (i.e. the fiscal 2015 accelerated orders), charges associated with restructuring activities, the fiscal 2015 Venezuela remeasurement charge and the effects of foreign currency translation. The tables provide reconciliations between these non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Fiscal 2016 as compared with Fiscal 2015

	Year Ended June 30				% Change in
($ in millions)	**2016**	**2015**	**Variance**	**% Change**	**Constant Currency**

					% Change in Constant Currency
Net Sales, as reported	$ 11,262.3	$ 10,780.4	$ 481.9	4%	9%
Accelerated orders associated with SMI rollout		178.3	(178.3)		
Returns associated with restructuring activities	1.4		1.4		
Net Sales, as adjusted	$ 11,263.7	$ 10,958.7	$ 305.0	3%	7%

($ in millions)	Year Ended June 30 2016	2015	Variance	% Change	% Change in Constant Currency
Operating Income, as reported	$ 1,610.3	$ 1,606.3	$ 4.0	0%	9%
Accelerated orders associated with SMI rollout		127.2	(127.2)		
Venezuela remeasurement charge		5.3	(5.3)		
Charges associated with restructuring activities	134.7		134.7		
Operating Income, as adjusted	$ 1,745.0	$ 1,738.8	$ 6.2	0%	8%

Table of Contents

(Not adjusted for differences caused by rounding)	Year Ended June 30 2016	2015	Variance	% Change	% Change in Constant Currency
Diluted net earnings per common share, as reported	$ 2.96	$ 2.82	$ .14	5%	14%
Accelerated orders associated with SMI rollout		.21	(.21)		
Venezuela remeasurement charge		.01	(.01)		
Charges associated with restructuring activities	.24		.24		
Diluted net earnings per common share, as adjusted	$ 3.20	$ 3.05	$ .15	5%	13%

The following table reconciles the change in net sales by product category and geographic region, as reported, to the change in net sales excluding the effects of foreign currency translation and the impact of the accelerated orders:

(In millions)	As Reported Year ended June 30, 2016	Year ended June 30, 2015	Variance	Add: Impact of foreign currency translation	Add: Impact of accelerated orders	Variance, as adjusted	% Change, as reported	% Change, as adjusted
Product Category:								
Skin Care	$ 4,446.2	$ 4,478.7	$ (32.5)	$ 162.8	$ (91.4)	$ 38.9	(1)%	1%
Makeup	4,702.6	4,304.6	398.0	233.3	(65.4)	565.9	9	13
Fragrance	1,486.7	1,416.4	70.3	74.6	(21.0)	123.9	5	9
Hair Care	554.2	530.6	23.6	13.6	(0.5)	36.7	4	7
Other	74.0	50.1	23.9	3.2		27.1	48	54
Total	$ 11,263.7	$ 10,780.4	$ 483.3	$ 487.5	$ (178.3)	$ 792.5	4%	7%
Region:								
The Americas	$ 4,710.3	$ 4,513.8	$ 196.5	$ 100.5	$ (84.3)	$ 212.7	4%	5%
Europe, the Middle East & Africa	4,380.7	4,086.4	294.3	264.6	(67.9)	491.0	7	12
Asia/Pacific	2,172.7	2,180.2	(7.5)	122.4	(26.1)	88.8	0	4
Total	$ 11,263.7	$ 10,780.4	$ 483.3	$ 487.5	$ (178.3)	$ 792.5	4%	7%

The following table reconciles the change in operating income by product category and geographic region, as reported, to the change in operating income excluding the impact of the accelerated orders:

(In millions)	As Reported Year ended June 30, 2016	Year ended June 30, 2015	Variance	Add: Impact of accelerated orders	Variance, as adjusted	% Change, as reported	% Change, as adjusted
Product Category:							
Skin Care	$ 842.1	$ 832.2	$ 9.9	$ (71.7)	$ (61.8)	1%	(7)%
Makeup	758.3	659.3	99.0	(41.7)	57.3	15	8
Fragrance	87.4	82.8	4.6	(13.7)	(9.1)	6	(9)
Hair Care	51.8	37.9	13.9	(0.1)	13.8	37	36
Other	5.4	(5.9)	11.3		11.3	100+	100+
	1,745.0	1,606.3	138.7	(127.2)	11.5	9%	1%
Charges associated with restructuring activities	(134.7)		(134.7)		(134.7)		
Total	$ 1,610.3	$ 1,606.3	$ 4.0	$ (127.2)	$ (123.2)	0%	(7)%

Region:							
The Americas	$ 346.1	$ 302.3	$ 43.8	$ (52.8)	$ (9.0)	14%	(3)%
Europe, the Middle East & Africa	1,027.1	943.3	83.8	(53.2)	30.6	9	3
Asia/Pacific	371.8	360.7	11.1	(21.2)	(10.1)	3	(3)
	1,745.0	1,606.3	138.7	(127.2)	11.5	9%	1%
Charges associated with restructuring activities	(134.7)		(134.7)		(134.7)		
Total	$ 1,610.3	$ 1,606.3	$ 4.0	$ (127.2)	$ (123.2)	0%	(7)%

Table of Contents

Fiscal 2015 as compared with Fiscal 2014

($ in millions)	Year Ended June 30 2015	2014	Variance	% Change	% Change in Constant Currency
Net Sales, as reported	$ 10,780.4	$ 10,968.8	$ (188.4)	(2)%	3%
Accelerated orders associated with SMI rollout	178.3	(178.3)	356.6		
Adjustments associated with restructuring activities		(0.1)	0.1		
Net Sales, as adjusted	$ 10,958.7	$ 10,790.4	$ 168.3	2%	6%

($ in millions)	Year Ended June 30 2015	2014	Variance	% Change	% Change in Constant Currency
Operating Income, as reported	$ 1,606.3	$ 1,827.6	$ (221.3)	(12)%	(5)%
Accelerated orders associated with SMI rollout	127.2	(127.2)	254.4		
Venezuela remeasurement charge	5.3	38.3	(33.0)		
Total adjustments associated with restructuring activities		(2.9)	2.9		
Operating Income, as adjusted	$ 1,738.8	$ 1,735.8	$ 3.0	0%	8%

(Not adjusted for differences caused by rounding)	Year Ended June 30 2015	2014	Variance	% Change	% Change in Constant Currency
Diluted net earnings per common share, as reported	$ 2.82	$ 3.06	$ (.24)	(8)%	0%
Accelerated orders associated with SMI rollout	.21	(.21)	.42		
Venezuela remeasurement charge	.01	.10	(.08)		
Total adjustments associated with restructuring activities		(.00)			
Diluted net earnings per common share, as adjusted	$ 3.05	$ 2.95	$ .10	3%	12%

The following table reconciles the change in net sales by product category and geographic region, as reported, to the change in net sales excluding the effects of foreign currency translation and the impact of the accelerated orders:

(In millions)	As Reported Year ended June 30, 2015	Year ended June 30, 2014	Variance	Add: Impact of foreign currency translation	Add: Impact of accelerated orders	Variance, as adjusted	% Change, as reported	% Change, as adjusted

Product Category:														
Skin Care	$	4,478.7	$	4,769.8	$	(291.1)	$	215.4	$	182.8	$	107.1	(6)%	2%
Makeup		4,304.6		4,210.2		94.4		204.9		130.8		430.1	2	10
Fragrance		1,416.4		1,425.0		(8.6)		74.7		42.0		108.1	(1)	8
Hair Care		530.6		515.6		15.0		22.0		1.0		38.0	3	7
Other		50.1		48.1		2.0		2.1				4.1	4	9
Total	$	10,780.4	$	10,968.7	$	(188.3)	$	519.1	$	356.6	$	687.4	(2)%	6%
Region:														
The Americas	$	4,513.8	$	4,572.3	$	(58.5)	$	154.5	$	168.6	$	264.6	(1)%	6%
Europe, the Middle East & Africa		4,086.4		4,163.7		(77.3)		285.2		135.8		343.7	(2)	8
Asia/Pacific		2,180.2		2,232.7		(52.5)		79.4		52.2		79.1	(2)	4
Total	$	10,780.4	$	10,968.7	$	(188.3)	$	519.1	$	356.6	$	687.4	(2)%	6%

Table of Contents

The following table reconciles the change in operating income by product category and geographic region, as reported, to the change in operating income excluding the impact of the accelerated orders:

	As Reported						
(In millions)	Year ended June 30, 2015	Year ended June 30, 2014	Variance	Add: Impact of accelerated orders	Variance, as adjusted	% Change, as reported	% Change, as adjusted
Product Category:							
Skin Care	$ 832.2	$ 975.8	$ (143.6)	$ 143.4	$ (0.2)	(15)%	0%
Makeup	659.3	715.9	(56.6)	83.3	26.7	(8)	4
Fragrance	82.8	104.1	(21.3)	27.5	6.2	(20)	7
Hair Care	37.9	33.7	4.2	0.2	4.4	12	13
Other	(5.9)	(4.8)	(1.1)		(1.1)	23	23
Total	$ 1,606.3	$ 1,824.7	$ (218.4)	$ 254.4	$ 36.0	(12)%	2%
Region:							
The Americas	$ 302.3	$ 537.3	$ (235.0)	$ 105.6	$ (129.4)	(44)%	(27)%
Europe, the Middle East & Africa	943.3	938.3	5.0	106.4	111.4	1	13
Asia/Pacific	360.7	349.1	11.6	42.4	54.0	3	16
Total	$ 1,606.3	$ 1,824.7	$ (218.4)	$ 254.4	$ 36.0	(12)%	2%

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At June 30, 2016, we had cash and cash equivalents of $914.1 million compared with $1,021.4 million at June 30, 2015. Our cash and cash equivalents are maintained at a number of financial institutions. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength and we perform ongoing evaluations of these institutions to limit our concentration risk exposure.

The decrease in cash and cash equivalents from the prior year primarily reflects cash used to purchase short- and long-term investments pursuant to our cash investment strategy. Our investment objectives include capital preservation, maintaining adequate liquidity, asset diversification, and achieving appropriate returns within the guidelines set forth in our investment policy. These investments are classified as available-for-sale and totaled $1,504.5 million and $917.8 million at June 30, 2016 and 2015, respectively.

Our business is seasonal in nature and, accordingly, our working capital needs vary. From time to time, we may enter into investing and financing transactions that require additional funding. To the extent that these needs exceed cash from operations, we could, subject to market conditions, issue commercial paper, issue long-term debt securities or borrow under our revolving credit facilities.

Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, potential stock repurchases, restructuring activities, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents and short- and long-term investment balances at June 30, 2016 include approximately $2,002 million of cash and short- and long-term investments in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional taxes.

The effects of inflation have not been significant to our overall operating results in recent years. Generally, we have been able to introduce new products at higher prices, increase prices and implement other operating efficiencies to sufficiently offset cost increases, which have been moderate.

Table of Contents

Credit Ratings

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of August 18, 2016, our commercial paper is rated A-1 by Standard & Poor s and P-1 by Moody s and our long-term debt is rated A+ with a stable outlook by Standard & Poor s and A2 with a stable outlook by Moody s.

Debt and Access to Liquidity

Total debt as a percent of total capitalization (excluding noncontrolling interests) increased to 39% at June 30, 2016 from 31% at June 30, 2015, primarily due to the issuance of the $450.0 million of 1.70% Senior Notes due May 2021 (2021 Senior Notes) and an additional $150.0 million of our 4.375% Senior Notes due June 2045 (2045 Senior Notes).

For further information regarding our current and long-term debt and available financing, see *Item 8. Financial Statements and Supplementary Data Note 10 Debt.*

Cash Flows

($ in millions)	**Year Ended June 30** **2016**	**2015**	**2014**
Net cash provided by operating activities	$ 1,788.7	$ 1,943.3	$ 1,535.2
Net cash used for investing activities	$ 1,269.3	$ 1,616.2	$ 511.6
Net cash used for financing activities	$ 604.9	$ 894.8	$ 856.9

The fiscal 2016 decrease in net cash provided by operating activities as compared with fiscal 2015 was primarily driven by the accelerated orders in connection with our July 2014 SMI implementation, which contributed to an unfavorable comparison in certain working capital components and the increase in net earnings. The decrease in net cash provided by operating activities also reflected an unfavorable change in accounts receivable, reflecting the timing of shipments and collections, and higher long-term payments related to new freestanding retail store locations, including cash payments made to former tenants to acquire the rights under commercial property leases. Also contributing to the decrease was an unfavorable change in accounts payable, primarily due to the timing of expenses. These decreases were partially offset by an increase in other accrued liabilities, due, in part, to higher accrued restructuring costs and employee incentive compensation.

The fiscal 2015 increase in net cash provided by operating activities as compared with fiscal 2014 primarily reflected a favorable change in accounts receivable, reflecting the timing of shipments and improved collections, a favorable change in inventory, reflecting our initiative to better align supply levels with forecasted demand and other supply chain improvements, and a favorable change in accounts payable, primarily due to the timing of payments. The accelerated orders in connection with our July 2014 SMI implementation also contributed to the favorable changes in these working capital components and the decrease in net earnings as compared to fiscal 2014.

The fiscal 2016 decrease in net cash used for investing activities as compared with fiscal 2015 primarily reflected lower net purchases of investments in connection with our cash investment strategy. The decrease in cash used for investing activities also reflected lower payments related to acquisitions. Cash paid in connection with the fiscal 2015 acquisitions was partially offset by cash paid in connection with the fiscal 2016 acquisition of By Kilian and an additional purchase price true-up payment related to a fiscal 2015 acquisition. Partially offsetting the decrease was cash paid in the second quarter of fiscal 2016 for the long-term investment in Have & Be Co. Ltd., the company behind the skin care brands Dr. Jart + and Do The Right Thing, as well as higher capital expenditure activity, primarily related to leasehold improvements.

The fiscal 2015 increase in net cash used for investing activities as compared with fiscal 2014 primarily reflected purchases of investments in connection with the implementation of our cash investment strategy, as previously discussed. Also contributing to the increase was cash paid in connection with the acquisitions of RODIN olio lusso, Le Labo, Editions de Parfums Frédéric Malle and GLAMGLOW. Partially offsetting cash used for investing activities were proceeds from the disposition of investments and, to a lesser extent, lower capital expenditure activity.

The fiscal 2016 decrease in net cash used for financing activities as compared with fiscal 2015 primarily reflected the proceeds from the issuance of the 2021 Senior Notes and additional 2045 Senior Notes, as well as lower treasury stock purchases, partially offset by higher dividend payments.

Table of Contents

The fiscal 2015 increase in net cash used for financing activities as compared with fiscal 2014 primarily reflected an increase in treasury stock purchases and higher dividend payments, partially offset by the proceeds from the issuance of the 2045 Senior Notes.

Dividends

For a summary of quarterly cash dividends declared per share on our Class A and Class B Common Stock during the year ended June 30, 2016 and through August 18, 2016, see *Item 8. Financial Statements and Supplementary Data Note 15 Common Stock.*

Pension and Post-retirement Plan Funding

Several factors influence the annual funding requirements for our pension plans. For the U.S. Qualified Plan, we seek to maintain appropriate funded percentages. For any future contributions to the U.S. Qualified Plan, we would seek to contribute an amount or amounts that would not be less than the minimum required by the Employee Retirement Income Security Act of 1974, as amended, (ERISA) and subsequent pension legislation, and would not be more than the maximum amount deductible for income tax purposes. For each international plan, our funding policies are determined by local laws and regulations. In addition, amounts necessary to fund future obligations under these plans could vary depending on estimated assumptions as detailed in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.* The effect of our pension plan funding on future operating results will depend on economic conditions, employee demographics, mortality rates, the number of participants electing to take lump-sum distributions, investment performance and funding decisions.

For the U.S. Qualified Plan, we maintain an investment strategy of matching the duration of a substantial portion of the plan assets with the duration of the underlying plan liabilities. This strategy assists us in maintaining our overall funded ratio. During fiscal 2016, we made a cash contribution to the U.S. Qualified Plan of $30.0 million. For fiscal 2016 and 2015, we met or exceeded all contribution requirements under ERISA regulations for the U.S. Qualified Plan. As we continue to monitor the funded status, we may decide to make cash contributions to the U.S. Qualified Plan or our post-retirement medical plan in the United States during fiscal 2017.

The following table summarizes actual and expected benefit payments and contributions for our other pension and post-retirement plans:

(In millions)	**Expected 2017**	**2016**	**2015**
Non-qualified domestic noncontributory pension plan benefit payments	$ 17.1	$ 8.6	$ 4.9
International defined benefit pension plan contributions	$ 22.4	$ 21.8	$ 22.8
Post-retirement plan benefit payments	$ 6.6	$ 6.2	$ 6.3

Commitments and Contingencies

Certain of our business acquisition agreements include contingent consideration or earn-out provisions. These provisions generally require that we pay to the seller or sellers of the business additional amounts based on the performance of the acquired business. Since the size of each payment depends upon performance of the acquired business, we do not expect that such payments will have a material adverse impact on our future results of operations or financial condition.

For additional contingencies refer to *Item 8. Financial Statements and Supplementary Data Note 14 Commitments and Contingencies (Contractual Obligations).*

Contractual Obligations

For a discussion of our contractual obligations, see *Item 8. Financial Statements and Supplementary Data Note 14 Commitments and Contingencies (Contractual Obligations).*

Derivative Financial Instruments and Hedging Activities

For a discussion of our derivative financial instruments and hedging activities, see *Item 8. Financial Statements and Supplementary Data Note 11 Derivative Financial Instruments.*

Foreign Exchange Risk Management

For a discussion of foreign exchange risk management, see *Item 8. Financial Statements and Supplementary Data Note 11 Derivative Financial Instruments (Cash-Flow Hedges).*

Table of Contents

Credit Risk

For a discussion of credit risk, see *Item 8. Financial Statements and Supplementary Data Note 11 Derivative Financial Instruments (Credit Risk).*

Market Risk

We use a value-at-risk model to assess the market risk of our derivative financial instruments. Value-at-risk represents the potential losses for an instrument or portfolio from adverse changes in market factors for a specified time period and confidence level. We estimate value-at-risk across all of our derivative financial instruments using a model with historical volatilities and correlations calculated over the past 250-day period. The high, low and average measured value-at-risk during fiscal 2016 and 2015 related to our derivative financial instruments is as follows:

(In millions)	**June 30, 2016**			**June 30, 2015**		
	High	**Low**	**Average**	**High**	**Low**	**Average**
Foreign exchange contracts	$ 160.7	$ 15.4	$ 54.2	$ 28.6	$ 7.4	$ 17.8
Interest rate contracts	16.1	9.2	12.7	16.1	16.1	16.1

The model estimates were made assuming normal market conditions and a 95 percent confidence level. We used a statistical simulation model that valued our derivative financial instruments against one thousand randomly generated market price paths.

Our calculated value-at-risk exposure represents an estimate of reasonably possible net losses that would be recognized on our portfolio of derivative financial instruments assuming hypothetical movements in future market rates and is not necessarily indicative of actual results, which may or may not occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated, based upon actual fluctuations in market rates, operating exposures, and the timing thereof, and changes in our portfolio of derivative financial instruments during the year. Value-at-risk during fiscal 2016 was higher than fiscal 2015, primarily due to higher volatility in foreign exchange rates. We believe, however, that any such loss incurred would be offset by the effects of market rate movements on the respective underlying transactions for which the derivative financial instrument was intended.

OFF-BALANCE SHEET ARRANGEMENTS

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities, other than operating leases, that would be expected to have a material current or future effect upon our financial condition or results of operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies* for discussion regarding the impact of accounting standards that were recently issued but not yet effective, on our consolidated financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

We and our representatives from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission, in our press releases and in our reports to stockholders. The words and phrases will likely result, expect, believe, planned, may, should, could, anticipate, estimate, project, intend, forecast or similar expressions a forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, our expectations regarding sales, earnings or other future financial performance and liquidity, product introductions, entry into new geographic regions, information systems initiatives, new methods of sale, our long-term strategy, restructuring and other charges and resulting cost savings, and future operations or operating results. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, actual results may differ materially from our expectations. Factors that could cause actual results to differ from expectations include:

(1) increased competitive activity from companies in the skin care, makeup, fragrance and hair care businesses;

(2) our ability to develop, produce and market new products on which future operating results may depend and to successfully address challenges in our business;

(3) consolidations, restructurings, bankruptcies and reorganizations in the retail industry causing a decrease in the number of stores that sell our products, an increase in the ownership concentration within the retail industry, ownership of retailers by our competitors or ownership of competitors by our customers that are retailers and our inability to collect receivables;

(4) destocking and tighter working capital management by retailers;

Table of Contents

(5) the success, or changes in timing or scope, of new product launches and the success, or changes in the timing or the scope, of advertising, sampling and merchandising programs;

(6) shifts in the preferences of consumers as to where and how they shop for the types of products and services we sell;

(7) social, political and economic risks to our foreign or domestic manufacturing, distribution and retail operations, including changes in foreign investment and trade policies and regulations of the host countries and of the United States;

(8) changes in the laws, regulations and policies (including the interpretations and enforcement thereof) that affect, or will affect, our business, including those relating to our products or distribution networks, changes in accounting standards, tax laws and regulations, environmental or climate change laws, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result;

(9) foreign currency fluctuations affecting our results of operations and the value of our foreign assets, the relative prices at which we and our foreign competitors sell products in the same markets and our operating and manufacturing costs outside of the United States;

(10) changes in global or local conditions, including those due to the volatility in the global credit and equity markets, natural or man-made disasters, real or perceived epidemics, or energy costs, that could affect consumer purchasing, the willingness or ability of consumers to travel and/or purchase our products while traveling, the financial strength of our customers, suppliers or other contract counterparties, our operations, the cost and availability of capital which we may need for new equipment, facilities or acquisitions, the returns that we are able to generate on our pension assets and the resulting impact on funding obligations, the cost and availability of raw materials and the assumptions underlying our critical accounting estimates;

(11) shipment delays, commodity pricing, depletion of inventory and increased production costs resulting from disruptions of operations at any of the facilities that manufacture nearly all of our supply of a particular type of product (i.e. focus factories) or at our distribution or inventory centers, including disruptions that may be caused by the implementation of information technology initiatives, or by restructurings;

(12) real estate rates and availability, which may affect our ability to increase or maintain the number of retail locations at which we sell our products and the costs associated with our other facilities;

(13) changes in product mix to products which are less profitable;

(14) our ability to acquire, develop or implement new information and distribution technologies and initiatives on a timely basis and within our cost estimates and our ability to maintain continuous operations of such systems and the security of data and other information that may be

stored in such systems or other systems or media;

(15) our ability to capitalize on opportunities for improved efficiency, such as publicly-announced strategies and restructuring and cost-savings initiatives, and to integrate acquired businesses and realize value therefrom;

(16) consequences attributable to local or international conflicts around the world, as well as from any terrorist action, retaliation and the threat of further action or retaliation;

(17) the timing and impact of acquisitions, investments and divestitures; and

(18) additional factors as described in our filings with the Securities and Exchange Commission, including this Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

We assume no responsibility to update forward-looking statements made herein or otherwise.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

The information required by this item is set forth in Item 7 of this Annual Report on Form 10-K under the caption *Liquidity and Capital Resources Market Risk* and is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data.***

The information required by this item appears beginning on page F-1 of this Annual Report on Form 10-K and is incorporated herein by reference.

Table of Contents

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

(a) Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of June 30, 2016 and, based on their evaluation, have concluded that the disclosure controls and procedures were not effective as of such date, due to a material weakness in internal control over financial reporting.

(b) Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During the fourth quarter of fiscal 2016, we identified a material weakness in internal control over financial reporting related to ineffective general information technology controls in the areas of user access and program change management over certain information technology systems that are relevant to the Company s financial reporting processes and system of internal control over financial reporting. As a result, our business process automated and manual controls that are dependent on the affected general information technology controls were also ineffective because they could have been adversely impacted. However, this material weakness did not result in any identified misstatements to the financial statements or restatement of prior-period financial statements, and there were no changes in previously released financial results.

As a result of the material weakness noted above, we completed additional substantive procedures prior to filing this Annual Report on Form 10-K for the year ended June 30, 2016 (Form 10-K). Based on these procedures, management believes that our consolidated financial statements included in this Form 10-K have been prepared in accordance with generally accepted accounting principles. Our CEO and CFO have certified that, based on such officer s knowledge, the financial statements, and other financial information included in this Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-K. In addition, we have developed a remediation plan for this material weakness, which is described below.

Management s Report on Internal Control over Financial Reporting and the description of the material weakness are included on page F-2 of this Annual Report on Form 10-K and is incorporated herein by reference. The Company s independent registered public accounting firm has issued an adverse audit report on the effectiveness of the Company s internal control over financial reporting as of June 30, 2016, which appears on page F-3 of this Annual Report on Form 10-K.

(c) Changes in Internal Controls Over Financial Reporting

Except for the control deficiencies discussed above that have been assessed as a material weakness as of June 30, 2016, there have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

(d) Remediation Plan

Management is actively implementing a remediation plan to ensure that control deficiencies contributing to the material weakness are remediated such that these controls will operate effectively. The remediation actions we are taking, and expect to take, include: (i) improving general information technology program change control activities and policies, including processes to maintain sufficient documentation evidencing execution of these policies; (ii) improving the control activities and procedures associated with user access to certain information technology systems, including proper segregation of duties related to the affected information systems; (iii) educating and re-training control owners regarding internal control processes to mitigate identified risks and maintaining adequate documentation to evidence the effective design and operation of such processes and (iv) implementing enhanced controls to monitor the effectiveness of the underlying business process controls that are dependent on the data and financial reports generated from the relevant information systems.

We believe that these actions, and the improvements we expect to achieve as a result, will effectively remediate the material weakness. However, the material weakness in our internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed in fiscal 2017.

Table of Contents

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

The information required by this Item, not already provided herein under *Item 1. Business Executive Officers,* will be included in our Proxy Statement for the 2016 Annual Meeting of Stockholders (the 2016 Proxy Statement). The 2016 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2016 and such information is incorporated herein by reference.

Item 11. ***Executive Compensation.***

The information required by this Item will be included in the 2016 Proxy Statement. The 2016 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2016 and such information is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item, not already provided under *Equity Compensation Plan Information* as set forth below, will be included in the 2016 Proxy Statement. The 2016 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2016 and such information is incorporated herein by reference.

Equity Compensation Plan Information

The following table summarizes the equity compensation plans under which our securities may be issued as of June 30, 2016 and does not include grants made or cancelled and options exercised after such date. The securities that may be issued consist solely of shares of our Class A Common Stock and all plans were approved by stockholders of the Company.

Equity Compensation Plan Information as of June 30, 2016

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders(a)	18,604,070(b)	$ 52.92(c)	17,121,772(d)

(a) Includes the Amended and Restated Fiscal 2002 Share Incentive Plan (the 2002 Plan) and the Amended and Restated Non-Employee Director Share Incentive Plan (the Director Plan).

(b) Consists of 14,007,516 shares issuable upon exercise of outstanding options, 2,795,424 shares issuable upon conversion of outstanding Restricted Stock Units, 1,084,198 shares issuable upon conversion of outstanding Performance Share Units (PSUs) (assuming maximum payout and approval by the Stock Plan Subcommittee of our Board of Directors of expected payouts for PSUs vested as of June 30, 2016), 120,702 shares issuable upon conversion of Share Units, 136,688 shares issuable upon conversion of PSUs based on total stockholder return (assuming maximum payout and approval by the Stock Plan Subcommittee of our Board of Directors of expected payouts for those vested as of June 30, 2016) and 459,542 shares issuable upon conversion of Long-term PSUs.

(c) Calculated based upon outstanding options in respect of 14,007,516 shares of our Class A Common Stock.

(d) The 2002 Plan authorizes the grant of shares and benefits other than stock options. As of June 30, 2016, there were 16,477,446 shares of Class A Common Stock available for issuance under the 2002 Plan (subject to the approval by the Stock Plan Subcommittee of expected payouts for PSUs and PSUs based on total stockholder return vested as of June 30, 2016). Shares underlying grants cancelled or forfeited under prior plans or agreements may be used for grants under the 2002 Plan. The Director Plan currently provides for an annual grant of options and stock units to non-employee directors. As of June 30, 2016, there were 644,326 shares available for issuance under the Director Plan.

Table of Contents

If all of the outstanding options, warrants, rights, stock units and share units, as well as the securities available for future issuance, included in the first and third columns in the table above were converted to shares of Class A Common Stock as of June 30, 2016, the total shares of Common Stock outstanding (i.e. Class A plus Class B) would increase 10% to 403,485,652. Of the outstanding options to purchase 14,007,516 shares of Class A Common Stock, all such shares are exercisable at a price less than $91.02, the closing price on June 30, 2016. Assuming the exercise of only in-the-money options, the total shares outstanding would increase by 4% to 381,767,326.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item will be included in the 2016 Proxy Statement. The 2016 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2016 and such information is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services.***

The information required by this Item will be included in the 2016 Proxy Statement. The 2016 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2016 and such information is incorporated herein by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) 1 and 2. Financial Statements and Schedules - See index on Page F-1.

3. Exhibits:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, dated November 16, 1995 (filed as Exhibit 3.1 to our Annual Report on Form 10-K filed on September 15, 2003) (SEC File No. 1-14064).*
3.1a	Certificate of Amendment of the Restated Certificate of Incorporation of The Estée Lauder Companies Inc. (filed as Exhibit 3.1 to our Current Report on Form 8-K filed on November 14, 2012) (SEC File No. 1-14064).*
3.2	Certificate of Amendment to Restated Certificate of Incorporation (filed as Exhibit 3.1 to our Quarterly Report on Form 10-Q filed on January 27, 2000) (SEC File No. 1-14064).*
3.3	Certificate of Retirement of $6.50 Cumulative Redeemable Preferred Stock (filed as Exhibit 3.2 to our Current Report on Form 8-K filed on July 19, 2012) (SEC File No. 1-14064).*

3.4	Amended and Restated Bylaws (filed as Exhibit 3.1 to our Current Report on Form 8-K filed on May 23, 2012) (SEC File No. 1-14064).*
4.1	Indenture, dated November 5, 1999, between the Company and State Street Bank and Trust Company, N.A. (filed as Exhibit 4 to Amendment No. 1 to our Registration Statement on Form S-3 (No. 333-85947) filed on November 5, 1999) (SEC File No. 1-14064).*
4.2	Officers Certificate, dated September 29, 2003, defining certain terms of the 5.75% Senior Notes due 2033 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on September 29, 2003) (SEC File No. 1-14064).*
4.3	Global Note for 5.75% Senior Notes due 2033 (filed as Exhibit 4.3 to our Current Report on Form 8-K filed on September 29, 2003) (SEC File No. 1-14064).*
4.4	Officers Certificate, dated May 1, 2007, defining certain terms of the 5.550% Senior Notes due 2017 (filed as Exhibit 4.1 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.5	Global Note for 5.550% Senior Notes due 2017 (filed as Exhibit 4.3 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.6	Officers Certificate, dated May 1, 2007, defining certain terms of the 6.000% Senior Notes due 2037 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.7	Global Note for 6.000% Senior Notes due 2037 (filed as Exhibit 4.4 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.8	Officers Certificate, dated August 2, 2012, defining certain terms of the 2.350% Senior Notes due 2022 (filed as Exhibit 4.1 to our Current Report on Form 8-K filed on August 2, 2012) (SEC File No. 1-14064).*

Table of Contents

Exhibit Number	Description
4.9	Global Note for the 2.350% Senior Notes due 2022 (filed as Exhibit 4.3 to our Current Report on Form 8-K filed on August 2, 2012) (SEC File No. 1-14064).*
4.10	Officers Certificate, dated August 2, 2012, defining certain terms of the 3.700% Senior Notes due 2042 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on August 2, 2012) (SEC File No. 1-14064).*
4.11	Global Note for the 3.700% Senior Notes due 2042 (filed as Exhibit 4.4 to our Current Report on Form 8-K filed on August 2, 2012) (SEC File No. 1-14064).*
4.12	Officers Certificate, dated June 4, 2015, defining certain terms of the 4.375% Senior Notes due 2045 (filed as Exhibit 4.1 to our Current Report on Form 8-K filed on June 4, 2015) (SEC File No. 1-14064).*
4.13	Global Note for the 4.375% Senior Notes due 2045 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on June 4, 2015) (SEC File No. 1-14064).*
4.14	Officers Certificate, dated May 10, 2016, defining certain terms of the 1.700% Senior Notes due 2021 (filed as Exhibit 4.1 to our Current Report on Form 8-K filed on May 10, 2016) (SEC File No. 1-14064).*
4.15	Global Note for the 1.700% Senior Notes due 2021 (filed as Exhibit A in Exhibit 4.1 to our Current Report on Form 8-K filed on May 10, 2016) (SEC File No. 1-14064).*
4.16	Officers Certificate, dated May 10, 2016, defining certain terms of the 4.375% Senior Notes due 2045 (filed as Exhibit 4.3 to our Current Report on Form 8-K filed on May 10, 2016) (SEC File No. 1-14064).*
4.17	Global Note for the 4.375% Senior Notes due 2045 (filed as Exhibit B in Exhibit 4.3 to our Current Report on Form 8-K filed on May 10, 2016) (SEC File No. 1-14064).*
10.1	Stockholders Agreement, dated November 22, 1995 (filed as Exhibit 10.1 to our Annual Report on Form 10-K filed on September 15, 2003) (SEC File No. 1-14064).*
10.1a	Amendment No. 1 to Stockholders Agreement (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on October 30, 1996) (SEC File No. 1-14064).*
10.1b	Amendment No. 2 to Stockholders Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 28, 1997) (SEC File No. 1-14064).*
10.1c	Amendment No. 3 to Stockholders Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on April 29, 1997) (SEC File No. 1-14064).*
10.1d	Amendment No. 4 to Stockholders Agreement (filed as Exhibit 10.1d to our Annual Report on Form 10-K filed on September 18, 2000) (SEC File No. 1-14064).*
10.1e	Amendment No. 5 to Stockholders Agreement (filed as Exhibit 10.1e to our Annual Report on Form 10-K filed on September 17, 2002) (SEC File No. 1-14064).*
10.1f	Amendment No. 6 to Stockholders Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 27, 2005) (SEC File No. 1-14064).*
10.1g	Amendment No. 7 to Stockholders Agreement (filed as Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.2	Registration Rights Agreement, dated November 22, 1995 (filed as Exhibit 10.2 to our Annual Report on Form 10-K filed on September 15, 2003) (SEC File No. 1-14064).*
10.2a	First Amendment to Registration Rights Agreement (filed as Exhibit 10.3 to our Annual Report on Form 10-K filed on September 10, 1996) (SEC File No. 1-14064).*

10.2b	Second Amendment to Registration Rights Agreement (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on April 29, 1997) (SEC File No. 1-14064).*
10.2c	Third Amendment to Registration Rights Agreement (filed as Exhibit 10.2c to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).*

Table of Contents

Exhibit Number	Description
10.2d	Fourth Amendment to Registration Rights Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 29, 2004) (SEC File No. 1-14064).*
10.3	The Estee Lauder Companies Retirement Growth Account Plan, as amended (filed as Exhibit 10.4 to our Annual Report on Form 10-K filed on August 23, 2013) (SEC File No. 1-14064).*
10.4	The Estee Lauder Inc. Retirement Benefits Restoration Plan (filed as Exhibit 10.5 to our Annual Report on Form 10-K filed on August 20, 2010) (SEC File No. 1-14064).*
10.5	Executive Annual Incentive Plan (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on November 14, 2013) (SEC File No. 1-14064).*
10.6	Employment Agreement with Tracey T. Travis (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on July 20, 2012) (SEC File No. 1-14064).*
10.7	Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.8 to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).*
10.7a	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.8a to our Annual Report on Form 10-K filed on September 17, 2002) (SEC File No. 1-14064).*
10.7b	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on November 17, 2005) (SEC File No. 1-14064).*
10.7c	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on February 5, 2009) (SEC File No. 1-14064).*
10.7d	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.8 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.7e	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on November 1, 2010) (SEC File No. 1-14064).*
10.7f	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.7f to our Annual Report on Form 10-K filed on August 20, 2015).*
10.8	Employment Agreement with William P. Lauder (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on September 17, 2010) (SEC File No. 1-14064).*
10.8a	Amendment to Employment Agreement with William P. Lauder (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on February 26, 2013) (SEC File No. 1-14064).*
10.9	Employment Agreement with Fabrizio Freda (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on February 11, 2011) (SEC File No. 1-14064).*
10.9a	Amendment to Employment Agreement with Fabrizio Freda and Stock Option Agreements (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on February 26, 2013) (SEC File No. 1-14064).*
10.10	Employment Agreement with John Demsey (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on September 24, 2010) (SEC File No. 1-14064).*
10.10a	Amendment to Employment Agreement with John Demsey (filed as Exhibit 10.3 to our Current Report on Form 8-K filed on February 26, 2013) (SEC File No. 1-14064).*
10.11	Employment Agreement with Cedric Prouvé (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on September 20, 2011) (SEC File No. 1-14064).*

10.11a	Amendment to Employment Agreement with Cedric Prouvé (filed as Exhibit 10.4 to our Current Report on Form 8-K filed on February 26, 2013) (SEC File No. 1-14064).*
10.12	Form of Deferred Compensation Agreement (interest-based) with Outside Directors (filed as Exhibit 10.14 to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).*

Table of Contents

Exhibit Number	Description
10.13	Form of Deferred Compensation Agreement (stock-based) with Outside Directors (filed as Exhibit 10.15 to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).*
10.14	The Estee Lauder Companies Inc. Non-Employee Director Share Incentive Plan (as amended and restated on November 9, 2007) (filed as Exhibit 99.1 to our Registration Statement on Form S-8 filed on November 9, 2007) (SEC File No. 1-14064).*
10.14a	The Estee Lauder Companies Inc. Non-Employee Director Share Incentive Plan (as amended on July 14, 2011) (filed as exhibit 10.15a to our Annual Report on Form 10-K filed on August 22, 2011) (SEC File No. 1-14064).*
10.14b	The Estée Lauder Companies Inc. Amended and Restated Non-Employee Director Share Incentive Plan (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on November 16, 2015) (SEC File No. 1-14064).*
10.15	Form of Stock Option Agreement for Annual Stock Option Grants under Non-Employee Director Share Incentive Plan (filed as Exhibit 99.2 to our Registration Statement on Form S-8 filed on November 9, 2007) (SEC File No. 1-14064).*
10.15a	Form of Stock Option Agreement for Elective Stock Option Grants under Non-Employee Director Share Incentive Plan (filed as Exhibit 99.3 to our Registration Statement on Form S-8 filed on November 9, 2007) (SEC File No. 1-14064).*
10.16	The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (filed as Exhibit 10.17 to our Annual Report on Form 10-K filed on August 17, 2012) (SEC File No. 1-14064).*
10.16a	The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on November 16, 2015) (SEC File No. 1-14064).*
10.16b	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on May 4, 2006) (SEC File No. 1-14064).*
10.16c	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.3 to our Current Report on Form 8-K filed on September 25, 2007) (SEC File No. 1-14064).*
10.16d	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).*
10.16e	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.16f	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 1, 2010) (SEC File No. 1-14064).*
10.16g	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 4, 2011) (SEC File No. 1-14064).*
10.16h	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*
10.16i	Form of Stock Option Agreement with Fabrizio Freda under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*

Table of Contents

Exhibit Number	Description
10.16j	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.16y to our Annual Report on Form 10-K filed on August 20, 2014) (SEC File No. 1-14064).*
10.16k	Form of Stock Option Agreement with Fabrizio Freda under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.16z to our Annual Report on Form 10-K filed on August 20, 2014) (SEC File No. 1-14064).*
10.16l	Form of Performance Share Unit Award Agreement for Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*
10.16m	Form of Performance Share Unit Award Agreement for Employees other than Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*
10.16n	Form of Performance Share Unit Award Agreement with Fabrizio Freda under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*
10.16o	Form of Performance Share Unit Award Agreement for Employees including Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.16aa to our Annual Report on Form 10-K filed on August 20, 2014) (SEC File No. 1-14064). *
10.16p	Form of Performance Share Unit Award Agreement for Employees including Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on August 28, 2015) (SEC File No. 1-14064).*
10.16q	Performance Share Unit Award Agreement with Fabrizio Freda under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Notice of Grant) (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on September 11, 2015) (SEC File No. 1-14064).*
10.16r	Performance Share Unit Award Agreement with John Demsey under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Notice of Grant) (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on February 1, 2016) (SEC File No. 1-14064).*
10.16s	Form of Performance Share Unit Award Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Notice of Grant) (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on February 1, 2016) (SEC File No. 1-14064).*
10.16t	Form of Restricted Stock Unit Award Agreement for Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*
10.16u	Form of Restricted Stock Unit Award Agreement for Employees other than Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on November 2, 2012) (SEC File No. 1-14064).*
10.16v	Form of Restricted Stock Unit Award Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on February 6, 2013) (SEC File No. 1-14064).*
10.16w	Form of Restricted Stock Unit Award Agreement for Executive Officers under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.16bb to our Annual Report on Form 10-K filed on August 20, 2014) (SEC File No. 1-14064). *

10.17	Summary of Compensation For Non-Employee Directors of the Company (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 1, 2013) (SEC File No. 1-14064).*

Table of Contents

Exhibit Number	Description
10.18	$1 Billion Credit Agreement, dated as of July 15, 2014, by and among The Estée Lauder Companies Inc. (the Company), the Eligible Subsidiaries of the Company, as defined therein, the lenders listed therein, JPMorgan Chase Bank, N.A., as administrative agent, Citibank, N.A. and BNP Paribas, as syndication agents, and Bank of America, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as documentation agents (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on July 17, 2014) (SEC File No. 1-14064).*
10.18a	Amendment No. 1 dated as of May 28, 2015, to the Credit Agreement, dated as of July 15, 2014 (the Credit Agreement), by and among The Estée Lauder Companies Inc. (the Company), the eligible subsidiaries of the Company as listed in the Credit Agreement, the lenders party to the Credit Agreement and JPMorgan Chase Bank, N.A., as administrative agent, issuing bank and swingline lender (filed as Exhibit 10.18a to our Annual Report on Form 10-K filed on August 20, 2015) (SEC File No. 1-14064).*
10.19	Services Agreement, dated January 1, 2003, among Estee Lauder Inc., Melville Management Corp., Leonard A. Lauder, and William P. Lauder (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC File No. 1-14064).*
10.20	Services Agreement, dated November 22, 1995, between Estee Lauder Inc. and RSL Investment Corp. (filed as Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC File No. 1-14064).*
10.21	Agreement of Sublease and Guarantee of Sublease, dated April 1, 2005, among Aramis Inc., RSL Management Corp., and Ronald S. Lauder (filed as Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC File No. 1-14064).*
10.21a	First Amendment to Sublease, dated February 28, 2007, between Aramis Inc. and RSL Management Corp. (filed as Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC File No. 1-14064).*
10.21b	Second Amendment to Sublease, dated January 27, 2010, between Aramis Inc. and RSL Management Corp. (filed as Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC File No. 1-14064).*
10.21c	Third Amendment to Sublease, dated November 3, 2010, between Aramis Inc., and RSL Management Corp. (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on February 4, 2011) (SEC File No. 1-14064).*
10.22	Form of Art Loan Agreement between Lender and Estee Lauder Inc. (filed as Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC file No. 1-14064).*
10.23	Creative Consultant Agreement, dated April 6, 2011, between Estee Lauder Inc. and Aerin Lauder Zinterhofer (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on April 8, 2011) (SEC File No. 1-14064).*
10.23a	First Amendment to Creative Consultant Agreement between Estee Lauder Inc. and Aerin Lauder Zinterhofer dated October 28, 2014 (filed as Exhibit 10.23a to our Annual Report on Form 10-K filed on August 20, 2015).*
10.23b	Second Amendment to Creative Consultant Agreement between Estee Lauder Inc. and Aerin Lauder Zinterhofer effective July 1, 2016.
10.24	License Agreement, dated April 6, 2011, by and among Aerin LLC, Aerin Lauder Zinterhofer and Estee Lauder Inc. (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on April 8, 2011) (SEC File No. 1-14064).*
21.1	List of significant subsidiaries.
23.1	Consent of KPMG LLP.
24.1	Power of Attorney.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO).
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO).

Table of Contents

Exhibit Number	Description
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO). (furnished)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Incorporated herein by reference.

Exhibit is a management contract or compensatory plan or arrangement.

Table of Contents

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.

THE ESTÉE LAUDER COMPANIES INC.

By /s/ TRACEY T. TRAVIS
Tracey T. Travis
Executive Vice President
and Chief Financial Officer

Date: August 24, 2016

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 and on the date indicated.

Signature	Title (s)	Date
FABRIZIO FREDA* Fabrizio Freda	President, Chief Executive Officer and a Director (Principal Executive Officer)	August 24, 2016
WILLIAM P. LAUDER* William P. Lauder	Executive Chairman and a Director	August 24, 2016
LEONARD A. LAUDER* Leonard A. Lauder	Director	August 24, 2016
CHARLENE BARSHEFSKY* Charlene Barshefsky	Director	August 24, 2016
ROSE MARIE BRAVO* Rose Marie Bravo	Director	August 24, 2016
WEI SUN CHRISTIANSON* Wei Sun Christianson	Director	August 24, 2016
PAUL J. FRIBOURG* Paul J. Fribourg	Director	August 24, 2016
MELLODY HOBSON* Mellody Hobson	Director	August 24, 2016
IRVINE O. HOCKADAY, JR.* Irvine O. Hockaday, Jr.	Director	August 24, 2016
AERIN LAUDER* Aerin Lauder	Director	August 24, 2016
JANE LAUDER* Jane Lauder	Director	August 24, 2016
RICHARD D. PARSONS*	Director	August 24, 2016

Richard D. Parsons

LYNN FORESTER DE ROTHSCHILD* Lynn Forester de Rothschild	Director	August 24, 2016
BARRY S. STERNLICHT* Barry S. Sternlicht	Director	August 24, 2016
RICHARD F. ZANNINO* Richard F. Zannino	Director	August 24, 2016
/s/ TRACEY T. TRAVIS Tracey T. Travis	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 24, 2016

* By signing her name hereto, Tracey T. Travis signs this document in the capacities indicated above and on behalf of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed herewith.

By /s/ TRACEY T. TRAVIS
Tracey T. Travis
(Attorney-in-Fact)

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

Table of Contents

Management s Report on Internal Control Over Financial Reporting

Management of The Estée Lauder Companies Inc. (including its subsidiaries) (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934, as amended).

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 U.S. generally accepted accounting principles. A company s internal control over financial reporting also 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 U.S. 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.

Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, the Company s management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework and criteria established in *Internal Control Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During this assessment, management identified a material weakness in internal control over financial reporting related to ineffective general information technology controls in the areas of user access and program change management over certain information technology systems that are relevant to the Company s financial reporting processes and system of internal control over financial reporting. As a result, our business process automated and manual controls that are dependent on the affected general information technology controls were also ineffective because they could have been adversely impacted. These control deficiencies are a result of insufficient awareness of, and training related to, internal control over financial reporting by information technology control owners in connection with a transition to a new information technology service provider. However, this material weakness did not result in any identified misstatements to the financial statements or restatement of prior-period financial statements, and there were no changes in previously released financial results. Based on this material weakness, the Company s management has concluded that, as of June 30, 2016, the Company s internal control over financial reporting was not effective.

Our independent registered public accounting firm, KPMG LLP, has issued an adverse audit report on the effectiveness of the Company s internal control over financial reporting as of June 30, 2016, which appears on page F-3 below.

/s/ Fabrizio Freda	/s/ Tracey T. Travis
Fabrizio Freda	Tracey T. Travis
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

August 24, 2016

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

The Estée Lauder Companies Inc.:

We have audited The Estée Lauder Companies Inc. and subsidiaries (the Company) internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment:

There were ineffective general information technology controls in the areas of user access and program change management over certain information technology systems that are relevant to the Company s financial reporting processes and system of internal control over financial reporting. As a result, business process automated and manual controls that are dependent on the affected general information technology controls were also ineffective because they could have been adversely impacted. These control deficiencies are a result of insufficient awareness of, and training related to, internal control over financial reporting by information technology control owners in connection with a transition to a new information technology service provider.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Estée Lauder Companies Inc. and subsidiaries as of June 30, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended June 30, 2016. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 consolidated financial statements, and this report does not affect our report dated August 24, 2016, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, The Estée Lauder Companies Inc. has not maintained effective internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We do not express an opinion or any other form of assurance on management s statements referring to corrective actions taken after June 30, 2016, relative to the aforementioned material weakness in internal control over financial reporting.

/s/ KPMG LLP

New York, New York

August 24, 2016

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

The Estée Lauder Companies Inc.:

We have audited the accompanying consolidated balance sheets of The Estée Lauder Companies Inc. and subsidiaries (the Company) as of June 30, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended June 30, 2016. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed on the index on page F-1. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Estée Lauder Companies Inc. and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Estée Lauder Companies Inc. and subsidiaries internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 24, 2016 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

New York, New York
August 24, 2016

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended June 30		
	2016	**2015**	**2014**
	(In millions, except per share data)		
Net Sales	$ 11,262.3	$ 10,780.4	$ 10,968.8
Cost of Sales	2,181.1	2,100.6	2,158.2
Gross Profit	9,081.2	8,679.8	8,810.6
Operating expenses			
Selling, general and administrative	7,337.8	7,073.5	6,985.9
Restructuring and other charges	133.1		(2.9)
Total operating expenses	7,470.9	7,073.5	6,983.0
Operating Income	1,610.3	1,606.3	1,827.6
Interest expense	70.7	60.0	59.4
Interest income and investment income, net	15.6	14.3	8.6
Earnings before Income Taxes	1,555.2	1,560.6	1,776.8
Provision for income taxes	434.4	467.2	567.7
Net Earnings	1,120.8	1,093.4	1,209.1
Net earnings attributable to noncontrolling interests	(6.2)	(4.5)	(5.0)
Net earnings attributable to The Estée Lauder Companies Inc.	$ 1,114.6	$ 1,088.9	$ 1,204.1
Net earnings attributable to The Estée Lauder Companies Inc. per common share			
Basic	$ 3.01	$ 2.87	$ 3.12
Diluted	$ 2.96	$ 2.82	$ 3.06
Weighted-average common shares outstanding			
Basic	370.0	379.3	386.2
Diluted	376.6	385.7	393.1
Cash dividends declared per common share	$ 1.14	$ .92	$ .78

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended June 30 2016	2015	2014
	(In millions)		
Net earnings	$ 1,120.8	$ 1,093.4	$ 1,209.1
Other comprehensive income (loss):			
Net unrealized investment gain (loss)	6.7	(1.9)	0.9
Net derivative instrument gain (loss)	(18.2)	69.6	(29.7)
Amounts included in net periodic benefit cost	(87.3)	(23.8)	(13.0)
Translation adjustments	(100.5)	(306.0)	87.2
Benefit (provision) for deferred income taxes on components of other comprehensive income	35.8	(21.2)	12.5
Total other comprehensive income (loss)	(163.5)	(283.3)	57.9
Comprehensive income (loss)	957.3	810.1	1,267.0
Comprehensive (income) loss attributable to noncontrolling interests:			
Net earnings	(6.2)	(4.5)	(5.0)
Translation adjustments	0.2	2.1	(0.7)
	(6.0)	(2.4)	(5.7)
Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.	$ 951.3	$ 807.7	$ 1,261.3

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	June 30 2016	2015
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 914.1	$ 1,021.4
Short-term investments	469.3	503.7
Accounts receivable, net	1,258.3	1,174.5
Inventory and promotional merchandise, net	1,263.4	1,215.8
Prepaid expenses and other current assets	320.0	268.2
Total current assets	4,225.1	4,183.6
Property, Plant and Equipment, net	1,583.3	1,490.2
Other Assets		
Long-term investments	1,107.7	420.3
Goodwill	1,227.8	1,144.8
Other intangible assets, net	344.5	326.6
Other assets	734.9	661.4
Total other assets	3,414.9	2,553.1
Total assets	$ 9,223.3	$ 8,226.9
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 331.5	$ 29.8
Accounts payable	716.7	635.4
Other accrued liabilities	1,632.3	1,464.6
Total current liabilities	2,680.5	2,129.8
Noncurrent Liabilities		
Long-term debt	1,910.0	1,595.1
Other noncurrent liabilities	1,045.5	847.7
Total noncurrent liabilities	2,955.5	2,442.8
Commitments and Contingencies		
Equity		
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at June 30, 2016 and June 30, 2015; shares issued: 424,109,008 at June 30, 2016 and 418,530,857 at June 30, 2015; Class B shares authorized: 304,000,000 at June 30, 2016 and June 30, 2015; shares issued and outstanding: 144,770,237 at June 30, 2016 and 147,046,137 at June 30, 2015	5.7	5.7
Paid-in capital	3,160.7	2,871.6
Retained earnings	7,693.3	7,004.1
Accumulated other comprehensive loss	(544.8)	(381.5)
	10,314.9	9,499.9
	(6,743.0)	(5,856.7)

Less: Treasury stock, at cost; 201,119,435 Class A shares at June 30, 2016 and 190,694,630 Class A shares at June 30, 2015				
Total stockholders equity The Estée Lauder Companies Inc.		3,571.9		3,643.2
Noncontrolling interests		15.4		11.1
Total equity		3,587.3		3,654.3
Total liabilities and equity	$	9,223.3	$	8,226.9

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended June 30 2016	2015 (In millions)	2014
Common stock, beginning of year	$ 5.7	$ 5.6	$ 5.6
Stock-based compensation		0.1	
Common stock, end of year	5.7	5.7	5.6
Paid-in capital, beginning of year	2,871.6	2,562.7	2,289.9
Stock-based compensation	289.1	308.9	272.8
Paid-in capital, end of year	3,160.7	2,871.6	2,562.7
Retained earnings, beginning of year	7,004.1	6,265.8	5,364.1
Common stock dividends	(425.4)	(350.6)	(302.4)
Net earnings attributable to The Estée Lauder Companies Inc.	1,114.6	1,088.9	1,204.1
Retained earnings, end of year	7,693.3	7,004.1	6,265.8
Accumulated other comprehensive income (loss), beginning of year	(381.5)	(100.3)	(157.5)
Other comprehensive income (loss)	(163.3)	(281.2)	57.2
Accumulated other comprehensive income (loss), end of year	(544.8)	(381.5)	(100.3)
Treasury stock, beginning of year	(5,856.7)	(4,878.9)	(4,215.2)
Acquisition of treasury stock	(835.0)	(927.7)	(617.1)
Stock-based compensation	(51.3)	(50.1)	(46.6)
Treasury stock, end of year	(6,743.0)	(5,856.7)	(4,878.9)
Total stockholders equity The Estée Lauder Companies Inc.	3,571.9	3,643.2	3,854.9
Noncontrolling interests, beginning of year	11.1	14.5	15.0
Net earnings attributable to noncontrolling interests	6.2	4.5	5.0
Distributions to noncontrolling interest holders	(5.3)	(5.8)	(6.2)
Acquisition of noncontrolling interest	3.6		
Other comprehensive income (loss)	(0.2)	(2.1)	0.7
Noncontrolling interests, end of year	15.4	11.1	14.5
Total equity	$ 3,587.3	$ 3,654.3	$ 3,869.4

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30		
	2016	**2015**	**2014**
		(In millions)	
Cash Flows from Operating Activities			
Net earnings	$ 1,120.8	$ 1,093.4	$ 1,209.1
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	414.7	409.3	384.6
Deferred income taxes	(94.1)	(52.6)	(56.4)
Non-cash stock-based compensation	183.5	165.0	152.6
Excess tax benefits from stock-based compensation arrangements	(23.1)	(47.6)	(40.2)
Loss on disposal of property, plant and equipment	17.3	14.5	13.4
Goodwill and other intangible asset impairments		0.5	
Non-cash restructuring and other charges	18.6		
Pension and post-retirement benefit expense	71.1	64.5	70.9
Pension and post-retirement benefit contributions	(66.6)	(59.0)	(41.3)
Loss on Venezuela remeasurement		5.3	38.3
Change in fair value of contingent consideration	8.2	7.3	
Other non-cash items	(6.7)	(5.5)	(0.5)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	(100.9)	103.2	(196.2)
Increase in inventory and promotional merchandise, net	(69.0)	(26.2)	(156.8)
Decrease (increase) in other assets, net	(72.0)	7.8	(45.2)
Increase in accounts payable	101.4	146.5	34.0
Increase in other accrued and noncurrent liabilities	285.5	116.9	168.9
Net cash flows provided by operating activities	1,788.7	1,943.3	1,535.2
Cash Flows from Investing Activities			
Capital expenditures	(525.3)	(473.0)	(510.2)
Payments for acquired businesses, net of cash acquired	(101.3)	(241.0)	(9.2)
Proceeds from the disposition of investments	1,373.5	305.0	8.4
Purchases of investments	(2,016.2)	(1,207.2)	(0.6)
Net cash flows used for investing activities	(1,269.3)	(1,616.2)	(511.6)
Cash Flows from Financing Activities			
Proceeds (repayments) of current debt, net	(0.4)	13.5	5.1
Proceeds from issuance of long-term debt, net	616.2	294.0	
Debt issuance costs	(4.0)	(4.5)	
Repayments and redemptions of long-term debt	(7.6)	(8.3)	(11.8)
Net proceeds from stock-based compensation transactions	84.4	101.4	84.8
Excess tax benefits from stock-based compensation arrangements	23.1	47.6	40.2
Payments to acquire treasury stock	(889.9)	(982.8)	(667.2)
Dividends paid to stockholders	(422.5)	(349.9)	(301.8)
Payments to noncontrolling interest holders for dividends	(4.2)	(5.8)	(6.2)
Net cash flows used for financing activities	(604.9)	(894.8)	(856.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(21.8)	(40.0)	(33.3)
Net Increase (Decrease) in Cash and Cash Equivalents	(107.3)	(607.7)	133.4

Cash and Cash Equivalents at Beginning of Year		1,021.4		1,629.1		1,495.7
Cash and Cash Equivalents at End of Year	$	914.1	$	1,021.4	$	1,629.1

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF BUSINESS

The Estée Lauder Companies Inc. manufactures, markets and sells skin care, makeup, fragrance and hair care products around the world. Products are marketed under brand names, including: Estée Lauder, Aramis, Clinique, Prescriptives, Lab Series, Origins, M A C, Bobbi Brown, La Mer, Aveda, Jo Malone London, Bumble and bumble, Darphin, Ojon, Smashbox, RODIN olio lusso, Le Labo, Editions de Parfums Frédéric Malle, GLAMGLOW and By Kilian. Certain subsidiaries of The Estée Lauder Companies Inc. are also the global licensee of the Tommy Hilfiger, Kiton, Donna Karan New York, DKNY, Michael Kors, Tom Ford, Ermenegildo Zegna, Tory Burch and AERIN brand names for fragrances and/or cosmetics.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Estée Lauder Companies Inc. and its subsidiaries (collectively, the Company). All significant intercompany balances and transactions have been eliminated.

During the year ended June 30, 2016, the Company retrospectively adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) that requires all deferred tax assets and liabilities to be classified as non-current. As a result, the Company restated the June 30, 2015 consolidated balance sheet to reclassify $284.9 million related to deferred taxes from Prepaid expenses and other current assets to Other assets, and $5.9 million from Other accrued liabilities to Other noncurrent liabilities. The Company also retrospectively adopted new accounting guidance issued by the FASB that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. As a result, the Company restated the June 30, 2015 balance sheet to reclassify $12.4 million from Other assets to Long-term debt.

Management Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, and income taxes. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Currency Translation and Transactions

All assets and liabilities of foreign subsidiaries and affiliates are translated at year-end rates of exchange, while revenue and expenses are translated at weighted-average rates of exchange for the period. Unrealized translation gains (losses) reported as cumulative translation adjustments through other comprehensive income (loss) (OCI) attributable to The Estée Lauder Companies Inc. amounted to $(108.2) million, $(322.5) million and $95.1 million, net of tax, in fiscal 2016, 2015 and 2014, respectively.

For the Company s Venezuelan subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings. During the third quarter of fiscal 2014, the Venezuelan government enacted changes to the foreign exchange controls that expanded the use of its then-existing exchange mechanisms and created another exchange control mechanism (SICAD II), which allowed companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose. The Company considered its specific facts and circumstances in determining the appropriate remeasurment rate and determined the SICAD II rate was the most appropriate rate that reflected the economics of its Venezuelan subsidiary s business as of March 24, 2014, when the SICAD II mechanism became operational. As a result, the Company changed the exchange rate used to remeasure the monetary assets and liabilities of its Venezuelan subsidiary from 6.3 to the SICAD II rate, which was 49.98 as of June 30, 2014. Accordingly, a remeasurement charge of $38.3 million, on a before and after tax basis, was reflected in Selling, general and administrative expenses in the Company s consolidated statement of earnings for the year ended June 30, 2014.

In February 2015, the Venezuelan government introduced an open market foreign exchange system (SIMADI). As a result, the Company recorded a remeasurement charge of $5.3 million, on a before and after tax basis, for the year ended June 30, 2015. In March 2016, the Venezuelan government made changes to certain of its foreign currency exchange systems. As part of these changes, a new free-floating exchange rate mechanism (DICOM) replaced the SIMADI foreign exchange system and is the only mechanism legally available for the Company s highest priority transactions, which are the import of goods. This change had a de minimis impact on the Company s consolidated statements of earnings. The Company s Venezuelan subsidiary is not material to the Company s consolidated financial statements or liquidity at June 30, 2016.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company enters into foreign currency forward contracts and may enter into option contracts to hedge foreign currency transactions for periods consistent with its identified exposures. Accordingly, the Company categorizes these instruments as entered into for purposes other than trading.

The accompanying consolidated statements of earnings include net exchange (gains) losses on foreign currency transactions, including the effect of the Venezuela remeasurement charges, of $(15.7) million, $(4.1) million and $46.7 million in fiscal 2016, 2015 and 2014, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include $204.5 million and $373.4 million of short-term time deposits at June 30, 2016 and 2015, respectively. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

The Company s investment objectives include capital preservation, maintaining adequate liquidity, asset diversification, and achieving appropriate returns within the guidelines set forth in the Company s investment policy. These investments are classified as available-for-sale, with any temporary difference between the cost and fair value of an investment presented as a separate component of accumulated other comprehensive income (loss) (AOCI). See Note 12 Fair Value Measurements for further information about how the fair values of investments are determined.

Investments in privately-held companies in which the Company has significant influence, but less than a controlling financial interest, are generally accounted for under the equity method of accounting. These investments were not material to the Company s consolidated financial statements as of June 30, 2016 and 2015 and are included in Long-term investments in the accompanying consolidated balance sheets.

The Company evaluates investments held in unrealized loss positions for other-than-temporary impairment on a quarterly basis. Such evaluation involves a variety of considerations, including assessments of the risks and uncertainties associated with general economic conditions and distinct conditions affecting specific issuers. Factors considered by the Company include, but are not limited to (i) the length of time and extent the security has been in a material loss position; (ii) the financial condition and creditworthiness of the issuer; (iii) future economic conditions and market forecasts related to the issuer s industry, sector, or geography; (iv) the Company s intent and ability to retain its investment until maturity or for a period of time sufficient to allow for recovery of market value; and (v) an assessment of whether it is more likely than not that the Company will be required to sell its investment before recovery of market value.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $24.1 million and $20.6 million as of June 30, 2016 and 2015, respectively. This reserve is based upon the evaluation of accounts receivable aging, specific exposures and historical trends.

Inventory and Promotional Merchandise

Inventory and promotional merchandise only includes inventory considered saleable or usable in future periods, and is stated at the lower of cost or fair-market value, with cost being based on standard cost and production variances, which approximate actual cost on the first-in, first-out method. Cost components include raw materials, componentry, direct labor and overhead (e.g., indirect labor, utilities, depreciation, purchasing, receiving, inspection and warehousing) as well as inbound freight. Manufacturing overhead is allocated to the cost of inventory based on the normal production capacity. Unallocated overhead during periods of abnormally low production levels are recognized as cost of sales in the period in which they are incurred. Promotional merchandise is charged to expense at the time the merchandise is shipped to the Company s customers. Included in inventory and promotional merchandise is an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. In addition, and as necessary, specific reserves for future known or anticipated events may be established.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Financial Instruments

The Company s derivative financial instruments are recorded as either assets or liabilities on the balance sheet and measured at fair value. All derivatives are (i) designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), (ii) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), or (iii) not designated as a hedging instrument. Changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge that is highly effective are recorded in current-period earnings, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on unrecognized firm commitments). Changes in the fair value of a derivative that is designated and qualifies as a cash-flow hedge of a forecasted transaction that is highly effective are recorded in OCI. Gains and losses deferred in OCI are then recognized in current-period earnings when earnings are affected by the variability of cash flows of the hedged forecasted transaction (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Changes in the fair value of derivative instruments not designated as hedging instruments are reported in current-period earnings.

Property, Plant and Equipment

Property, plant and equipment, including leasehold and other improvements that extend an asset s useful life or productive capabilities, are carried at cost less accumulated depreciation and amortization. Costs incurred for computer software developed or obtained for internal use are capitalized during the application development stage and expensed as incurred during the preliminary project and post-implementation stages. For financial statement purposes, depreciation is provided principally on the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lives of the respective leases or the expected useful lives of those improvements.

Goodwill and Other Indefinite-lived Intangible Assets

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. Other indefinite-lived intangible assets principally consist of trademarks. Goodwill and other indefinite-lived intangible assets are not amortized.

The Company assesses goodwill and other indefinite-lived intangible assets at least annually for impairment as of the beginning of the fiscal fourth quarter, or more frequently if certain events or circumstances exist. The Company tests goodwill for impairment at the reporting unit level, which is one level below the Company s operating segments. The Company identifies its reporting units by assessing whether the components of its operating segments constitute businesses for which discrete financial information is available and management of each operating segment regularly reviews the operating results of those components. The Company makes certain judgments and assumptions in allocating assets and liabilities to determine carrying values for its reporting units. When testing goodwill for impairment, the Company has the option of first performing a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. If necessary, the quantitative impairment test is performed in two steps: (i) the Company determines if an indication of impairment exists by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. When testing other indefinite-lived intangible assets for impairment, the Company also has the option of first performing a qualitative assessment to determine whether it is more-likely-than-not that the indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative test. The quantitative impairment test for indefinite-lived intangible assets encompasses calculating the fair value of an indefinite-lived intangible asset and comparing the fair value to its carrying value. If the carrying value exceeds the fair value, an impairment charge is recorded.

For fiscal 2016 and 2015, the Company elected to perform the qualitative assessment for the majority of its reporting units and indefinite-lived intangible assets. This qualitative assessment included the review of certain macroeconomic factors and entity-specific qualitative factors to determine if it was more-likely-than-not that the fair values of its reporting units were below carrying value. The Company considered macroeconomic factors including the global economic growth, general macroeconomic trends for the markets in which the reporting units operate and the intangible assets are employed, and the growth of the global prestige beauty industry. In addition to these macroeconomic factors, among other things, the Company considered the reporting units current results and forecasts, any changes in the nature of the business, any significant legal, regulatory, contractual, political or other business climate factors, changes in the industry/competitive environment, changes in the composition or carrying amount of net assets and its intention to sell or dispose of a reporting unit or cease the use of a trademark.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For those reporting units acquired in fiscal 2015, a quantitative assessment was performed. The Company engaged third-party valuation specialists and used industry accepted valuation models and criteria that were reviewed and approved by various levels of management. To determine the fair value of the reporting units, the Company used an equal weighting of the income and market approaches. Under the income approach, we determined fair value using a discounted cash flow method, projecting future cash flows of each reporting unit, as well as a terminal value, and discounting such cash flows at a rate of return that reflected the relative risk of the cash flows. Under the market approach, we utilized market multiples from publicly traded companies with similar operating and investment characteristics as the reporting unit. The key estimates and factors used in these two approaches include revenue growth rates and profit margins based on internal forecasts, terminal value, the weighted-average cost of capital used to discount future cash flows and comparable market multiples.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying value. If the projected undiscounted cash flows are less than the carrying value, then an impairment charge would be recorded for the excess of the carrying value over the fair value, which is determined by discounting estimated future cash flows.

Concentration of Credit Risk

The Company is a worldwide manufacturer, marketer and distributor of skin care, makeup, fragrance and hair care products. The Company s sales that are subject to credit risk are made primarily to department stores, perfumeries, specialty multi-brand retailers and retailers in its travel retail business. The Company grants credit to all qualified customers and does not believe it is exposed significantly to any undue concentration of credit risk.

The Company s largest customer sells products primarily within the United States and accounted for $1,064.5 million, or 9%, $1,060.4 million, or 10%, and $1,142.7 million, or 10%, of the Company s consolidated net sales in fiscal 2016, 2015 and 2014, respectively. This customer accounted for $164.0 million, or 13%, and $139.1 million, or 12%, of the Company s accounts receivable at June 30, 2016 and 2015, respectively.

Revenue Recognition

Revenues from product sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of the risk of loss related to those goods. In the Americas region, sales are generally recognized at the time the product is shipped to the customer and in the Europe, the Middle East & Africa and Asia/Pacific regions, sales are generally recognized based upon the customer s receipt. In certain circumstances, transfer of title takes place at the point of sale, for example, at the Company s retail stores. The Company records revenues generated from purchase with purchase promotions in Net Sales and costs of its purchase with purchase and gift with purchase promotions in Cost of Sales.

Revenues are reported on a net sales basis, which is computed by deducting from gross sales the amount of actual product returns received, discounts, incentive arrangements with retailers and an amount established for anticipated product returns. The Company s practice is to accept product returns from retailers only if properly requested and approved. In accepting returns, the Company typically provides a credit to the retailer against accounts receivable from that retailer. As a percentage of gross sales, returns were 3.1% in fiscal 2016 and 3.4% in fiscal 2015 and 2014.

Payments to Customers

Certain incentive arrangements require the payment of a fee to customers based on their attainment of pre-established sales levels. These fees have been accrued and recorded as a reduction of Net Sales in the accompanying consolidated statements of earnings and were not material to the results of operations in any period presented.

The Company enters into transactions related to demonstration, advertising and counter construction, some of which involve cooperative relationships with customers. These activities may be arranged either with unrelated third parties or in conjunction with the customer. To the extent the Company receives an identifiable benefit in exchange for consideration and the fair-value of the benefit can be reasonably estimated, the Company s share of the counter depreciation and the other costs of these transactions (regardless of to whom they were paid) are reflected in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and were approximately $1,387 million, $1,378 million and $1,410 million in fiscal 2016, 2015 and 2014, respectively.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Advertising and Promotion

Global net expenses for advertising, merchandising, sampling, promotion and product development were $2,820.7 million, $2,771.5 million and $2,840.0 million in fiscal 2016, 2015 and 2014, respectively, and are expensed as incurred. Excluding the impact of purchase with purchase and gift with purchase promotions, costs for advertising, merchandising, sampling, promotion and product development included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings were $2,607.3 million, $2,558.6 million and $2,618.1 million in fiscal 2016, 2015 and 2014, respectively.

Research and Development

Research and development costs of $191.3 million, $178.1 million and $157.9 million in fiscal 2016, 2015 and 2014, respectively, are recorded in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and are expensed as incurred.

Shipping and Handling

Shipping and handling expenses of $362.6 million, $363.6 million and $373.6 million in fiscal 2016, 2015 and 2014, respectively, are recorded in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and include distribution center costs, third-party logistics costs and outbound freight.

Operating Leases

The Company recognizes rent expense from operating leases with periods of free and scheduled rent increases on a straight-line basis over the applicable lease term. The Company considers lease renewals when such renewals are reasonably assured. From time to time, the Company may receive capital improvement funding from its lessors. These amounts are recorded as deferred liabilities and amortized over the remaining lease term as a reduction of rent expense.

License Arrangements

The Company s license agreements provide the Company with worldwide rights to manufacture, market and sell beauty and beauty-related products (or particular categories thereof) using the licensors trademarks. Our current licenses have an initial term of approximately 5 years to 10 years, and are renewable subject to the Company s compliance with the license agreement provisions. Most of our license agreements have renewal terms in 5 year increments, with potential renewal periods ranging from approximately 5 years to 25 years. Under each license, the Company is required to pay royalties to the licensor, at least annually, based on net sales to third parties.

Most of the Company s licenses were entered into to create new business. In some cases, the Company acquired, or entered into, a license where the licensor or another licensee was operating a pre-existing beauty products business. In those cases, other intangible assets are capitalized and amortized over their useful lives.

Certain license agreements may require minimum royalty payments, incremental royalties based on net sales levels and minimum spending on advertising and promotional activities. Royalty expenses are accrued in the period in which net sales are recognized while advertising and promotional expenses are accrued at the time these costs are incurred.

Stock-Based Compensation

The Company records stock-based compensation, measured at the fair value of the awards that are ultimately expected to vest, as an expense in the consolidated financial statements. Upon the exercise of stock options or the vesting of restricted stock units, performance share units, performance share units based on total stockholder return and long-term performance share units, the resulting excess tax benefits, if any, are credited to additional paid-in capital. Any resulting tax deficiencies will first be offset against those cumulative credits to additional paid-in capital. If the cumulative credits to additional paid-in capital are exhausted, tax deficiencies will be recorded to the provision for income taxes.

Income Taxes

The Company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance for deferred tax assets, where management believes it is not more-likely-than-not that the deferred tax assets will be realized in the relevant jurisdiction. If the Company s assessment of realizability of a deferred tax asset changes, an increase to a valuation allowance will result in a reduction of net earnings at that time while the reduction of a valuation allowance will result in an increase of net earnings at that time.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company provides tax reserves for U.S. federal, state, local and foreign exposures relating to periods subject to audit. The development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective critical estimate. The Company assesses its tax positions and records tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a tax authority that has full knowledge of all relevant information. For those tax positions where it is more-likely-than-not that a tax benefit will not be sustained, no tax benefit has been recognized in the consolidated financial statements. The Company classifies applicable interest and penalties as a component of the provision for income taxes. Although the outcome relating to these exposures is uncertain, in management s opinion adequate provisions for income taxes have been made for estimable potential liabilities emanating from these exposures. If actual outcomes differ materially from these estimates, they could have a material impact on the Company s consolidated results of operations.

Recently Adopted Accounting Standards

Debt Issuance Costs

In April 2015, the FASB issued guidance that simplifies the presentation of debt issuance costs. Under the revised guidance, entities would no longer be able to recognize debt issuance costs as an asset in the balance sheet. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. Upon adoption, the Company applied the new guidance on a retrospective basis and complied with the applicable disclosures for a change in an accounting principle, as required.

Adopted date The Company adopted this guidance retrospectively during the fiscal 2016 fourth quarter.

Impact on consolidated financial statements The Company restated the June 30, 2015 balance sheet to reclassify $12.4 million from Other assets to Long-term debt.

Deferred Income Taxes

As part of their simplification initiative to reduce the complexity in accounting standards, in November 2015, the FASB issued authoritative guidance that requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Under current guidance, deferred taxes for each jurisdiction are presented on a net current and net noncurrent basis, requiring an in depth analysis by jurisdiction to make the allocation. The updated guidance simplified the Company s analysis by eliminating the requirement to allocate between current and noncurrent deferred taxes by jurisdiction.

Adopted date The Company adopted this guidance retrospectively during the fiscal 2016 fourth quarter.

Impact on consolidated financial statements The Company restated the June 30, 2015 consolidated balance sheet to reclassify $284.9 million related to deferred taxes from Prepaid expenses and other current assets to Other assets and $5.9 million from Other accrued liabilities to Other noncurrent liabilities.

Recently Issued Accounting Standards

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued authoritative guidance that requires companies to utilize an impairment model for most financial assets measured at amortized cost and certain other financial instruments, which include trade and other receivables, loans and held-to-maturity debt securities, to record an allowance for credit risk based on expected losses rather than incurred losses. In addition, this new guidance changes the recognition method for credit losses on available-for-sale debt securities, which can occur as a result of market and credit risk, as well as additional disclosures. In general, this guidance will require modified retrospective adoption for all outstanding instruments that fall under this guidance.

Effective date This guidance becomes effective for the Company s fiscal 2021 first quarter.

Impact on consolidated financial statements The Company is currently evaluating the impact of applying this guidance on its consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compensation - Stock Compensation

In March 2016, as part of its simplification initiative, the FASB issued authoritative guidance that changes the way companies account for certain aspects of share-based payments to employees. This new guidance requires that all excess tax benefits and tax deficiencies related to share-based compensation awards be recorded as income tax expense or benefit in the income statement. In addition, companies are required to treat the tax effects of exercised or vested awards as discrete items in the period that they occur. This guidance also permits an employer to withhold up to the maximum statutory withholding rates in a jurisdiction without triggering liability classification, allows companies to elect to account for forfeitures as they occur, and provides requirements for the cash flow classification of cash paid by an employer when directly withholding shares for tax-withholding purposes and for the classification of excess tax benefits. The new guidance prescribes different transition methods for the various provisions.

Effective date This guidance becomes effective for the Company s fiscal 2018 first quarter, with early adoption permitted.

Impact on consolidated financial statements The Company is currently evaluating the impact of applying this guidance on its consolidated financial statements.

Leases

In February 2016, the FASB issued authoritative guidance that requires lessees to account for most leases on their balance sheets with the liability being equal to the present value of the lease payments. The right-of-use asset will be based on the lease liability adjusted for certain costs such as direct costs. Lease expense will be recognized similar to current accounting guidance with operating leases resulting in a straight-line expense, and financing leases resulting in a front-loaded expense similar to the current accounting for capital leases. This guidance must be adopted using a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, and provides for certain practical expedients.

Effective date This guidance becomes effective for the Company s fiscal 2020 first quarter, with early adoption permitted.

Impact on consolidated financial statements The Company is currently evaluating the impact of applying this guidance on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued authoritative guidance that defines how companies should report revenues from contracts with customers. The standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It provides companies with a single comprehensive five-step principles-based model to use in accounting for revenue and supersedes current revenue recognition requirements, including most industry-specific and transaction-specific revenue guidance.

In March 2016, the FASB issued authoritative guidance that amended the principal versus agent guidance in its new revenue recognition standard. These amendments do not change the key aspects of the principal versus agent guidance, including the definition that an entity is a principal if it controls the good or service prior to it being transferred to a customer, but the amendments clarify the implementation guidance related to the considerations that must be made during the contract evaluation process.

In April 2016, the FASB issued authoritative guidance that amended the new standard to clarify the guidance on identifying performance obligations and accounting for licenses of intellectual property.

In May 2016, the FASB issued authoritative guidance that clarified certain terms, guidance and disclosure requirements during the transition period related to completed contracts and contract modifications. In addition, the FASB provided clarification on the concept of collectability, the calculation of the fair value of noncash consideration and the presentation of sales and other similar taxes.

In May 2016, the FASB issued authoritative guidance to reflect the Securities and Exchange Commission Staff s rescission of their prior comments that covered, among other things, accounting for shipping and handling costs and accounting for consideration given by a vendor to a customer.

Effective date In August 2015, the FASB deferred the effective date of the new revenue standard by one year. As a result, the new standard is not effective for the Company until fiscal 2019, with early adoption permitted. An entity is permitted to apply the foregoing guidance retrospectively to all prior periods presented, with certain practical expedients, or apply the requirements in the year of adoption, through a cumulative adjustment.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impact on consolidated financial statements The Company will apply all of this new guidance when it becomes effective in fiscal 2019 and has not yet selected a transition method. The Company currently has an implementation team in place that is performing a comprehensive evaluation of the impact of adoption on its consolidated financial statements.

No other recently issued accounting pronouncements are expected to have a material impact on the Company s consolidated financial statements.

NOTE 3 INVESTMENTS

Gains and losses recorded in AOCI related to the Company s available-for-sale investments as of June 30, 2016 were as follows:

(In millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 560.6	$ 2.9	$	$ 563.5
Foreign government and agency securities	60.5	0.3		60.8
Corporate notes and bonds	454.6	3.2	(0.1)	457.7
Time deposits	390.0			390.0
Other securities	32.1	0.4		32.5
Total	$ 1,497.8	$ 6.8	$ (0.1)	$ 1,504.5

Gains and losses recorded in AOCI related to the Company s available-for-sale investments as of June 30, 2015 were as follows:

(In millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 265.8	$ 0.1	$ (0.1)	$ 265.8
Foreign government and agency securities	23.9			23.9
Corporate notes and bonds	182.7	0.1	(0.4)	182.4
Time deposits	410.8			410.8
Other securities	34.8	0.1		34.9
Total	$ 918.0	$ 0.3	$ (0.5)	$ 917.8

The following table presents the Company s available-for-sale securities by contractual maturity as of June 30, 2016:

(In millions)		**Cost**		**Fair Value**
Due within one year	$	469.3	$	469.3
Due after one through five years		1,028.5		1,035.2
	$	1,497.8	$	1,504.5

The following table presents the fair market value of the Company s investments with gross unrealized losses that are not deemed to be other-than temporarily impaired as of June 30, 2016:

	In a Loss Position for Less Than 12 Months				**In a Loss Position for More Than 12 Months**			
(In millions)		**Fair Value**		**Gross Unrealized Losses**		**Fair Value**		**Gross Unrealized Losses**
Available-for-sale securities	$	41.3	$		$	26.0	$	(0.1)

Gross gains and losses realized on sales of investments included in the consolidated statements of earnings were as follows:

	Year Ended June 30			
(In millions)		**2016**		**2015**
Gross realized gains	$	0.7	$	2.5
Gross realized losses		(0.8)		(0.1)
Total	$	(0.1)	$	2.4

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company utilizes the first-in, first-out method to determine the cost of the security sold. Sale proceeds from investments classified as available-for-sale were $794.3 million and $280.6 million in fiscal 2016 and 2015, respectively.

NOTE 4 INVENTORY AND PROMOTIONAL MERCHANDISE

	June 30	
(In millions)	**2016**	**2015**
Inventory and promotional merchandise, net consists of:		
Raw materials	$ 305.7	$ 306.9
Work in process	176.4	168.7
Finished goods	622.4	581.3
Promotional merchandise	158.9	158.9
	$ 1,263.4	$ 1,215.8

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

	June 30	
(In millions)	**2016**	**2015**
Assets (Useful Life)		
Land	$ 15.2	$ 15.4
Buildings and improvements (10 to 40 years)	186.9	184.9
Machinery and equipment (3 to 10 years)	679.8	671.3
Computer hardware and software (4 to 10 years)	1,041.1	1,012.4
Furniture and fixtures (5 to 15 years)	83.6	73.7
Leasehold improvements	1,789.5	1,621.9
	3,796.1	3,579.6
Less accumulated depreciation and amortization	(2,212.8)	(2,089.4)
	$ 1,583.3	$ 1,490.2

The cost of assets related to projects in progress of $186.3 million and $192.0 million as of June 30, 2016 and 2015, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was $401.2 million, $400.0 million and $378.1 million in fiscal 2016, 2015 and 2014, respectively. Depreciation and amortization related to the Company s manufacturing process is included in Cost of Sales and all other depreciation and amortization is included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings.

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS

During the year ended June 30, 2016, the Company acquired By Kilian, a prestige fragrance brand, which included the addition of goodwill of $78.2 million, amortizable intangible assets of $5.5 million (with a weighted-average amortization period of approximately 8 years) and non-amortizable intangible assets of $31.9 million related to the Company s fragrance product category. These amounts are provisional pending final working capital adjustments. During the year ended June 30, 2016, the Company recognized $10.5 million of goodwill associated with the continuing earn-out obligations related to the acquisition of the Bobbi Brown brand.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Goodwill

The Company assigns goodwill of a reporting unit to the product category in which that reporting unit predominantly operates at the time of acquisition. The following table presents goodwill by product category and the related change in the carrying amount:

(In millions)	Skin Care	Makeup	Fragrance	Hair Care	Total
Balance as of June 30, 2014					
Goodwill	$ 68.9	$ 440.7	$ 54.8	$ 402.3	$ 966.7
Accumulated impairments	(33.6)			(39.9)	(73.5)
	35.3	440.7	54.8	362.4	893.2
Goodwill acquired during the year	120.1	9.4	126.8		256.3
Translation and other adjustments	(0.6)	(0.4)	(0.3)	(3.4)	(4.7)
	119.5	9.0	126.5	(3.4)	251.6
Balance as of June 30, 2015					
Goodwill	183.9	449.7	181.3	394.7	1,209.6
Accumulated impairments	(29.1)			(35.7)	(64.8)
	154.8	449.7	181.3	359.0	1,144.8
Goodwill acquired during the year		10.5	78.2		88.7
Translation and other adjustments	0.2		(4.4)	(1.5)	(5.7)
	0.2	10.5	73.8	(1.5)	83.0
Balance as of June 30, 2016					
Goodwill	184.1	460.2	255.1	392.1	1,291.5
Accumulated impairments	(29.1)			(34.6)	(63.7)
	$ 155.0	$ 460.2	$ 255.1	$ 357.5	$ 1,227.8

Other Intangible Assets

Other intangible assets include trademarks and patents, as well as license agreements and other intangible assets resulting from or related to businesses and assets purchased by the Company. Indefinite-lived intangible assets (e.g., trademarks) are not subject to amortization and are assessed at least annually for impairment during the fiscal fourth quarter, or more frequently if certain events or circumstances exist. Other intangible assets (e.g., non-compete agreements, customer lists) are amortized on a straight-line basis over their expected period of benefit, approximately 2 years to 20 years. Intangible assets related to license agreements were amortized on a straight-line basis over their useful lives based on the terms of the respective agreements. The costs incurred and expensed by the Company to extend or renew the term of acquired intangible assets during fiscal 2016 and 2015 were not significant to the Company s results of operations.

Other intangible assets consist of the following:

	June 30, 2016			June 30, 2015		
(In millions)	**Gross Carrying Value**	**Accumulated Amortization**	**Total Net Book Value**	**Gross Carrying Value**	**Accumulated Amortization**	**Total Net Book Value**
Amortizable intangible assets:						
Customer lists and other	$ 298.9	$ 244.1	$ 54.8	$ 294.4	$ 228.7	$ 65.7
License agreements	43.0	43.0		43.0	43.0	
	$ 341.9	$ 287.1	54.8	$ 337.4	$ 271.7	65.7
Non-amortizable intangible assets:						
Trademarks and other			289.7			260.9
Total intangible assets			$ 344.5			$ 326.6

F-19

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The aggregate amortization expense related to amortizable intangible assets for fiscal 2016, 2015 and 2014 was $15.8 million, $13.7 million and $12.4 million, respectively. The estimated aggregate amortization expense for each of the next five fiscal years is as follows:

			Fiscal		
(In millions)	**2017**	**2018**	**2019**	**2020**	**2021**
Estimated aggregate amortization expense	$ 13.5	$ 12.6	$ 11.9	$ 5.0	$ 3.8

NOTE 7 CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES

Charges associated with restructuring activities in fiscal 2016 were as follows:

			Operating Expenses		
(In millions)	**Sales Returns (included in Net Sales)**	**Cost of Sales**	**Restructuring Charges**	**Other Charges**	**Total**
Global Technology Infrastructure	$	$	$ 46.0	$ 7.6	$ 53.6
Leading Beauty Forward	1.4	0.2	75.4	4.1	81.1
Total	$ 1.4	$ 0.2	$ 121.4	$ 11.7	$ 134.7

Restructuring charges are comprised of the following:

Employee-Related Costs Employee-related costs are primarily comprised of severance and other post-employment benefit costs, calculated based on salary levels, prior service and other statutory minimum benefits, if applicable. Employee-related costs are expensed when specific employees have been identified and when payment is probable and estimable, which generally occurs upon approval of the related initiative by management with authority delegated from the Company s Board of Directors.

Asset-Related Costs Asset-related costs primarily consist of asset write-offs or accelerated depreciation related to long-lived assets that will be taken out of service prior to their existing useful life as a direct result of a restructuring initiative. The accelerated portion of depreciation expense will be expensed on a straight-line basis and be classified as restructuring charges, while the portion relating to the previous existing useful life will continue to be reported in Selling, general and administrative expenses.

Contract Terminations Costs related to contract terminations include continuing payments to a third-party after the Company has ceased benefiting from the rights conveyed in the contract, or a payment made to terminate a contract prior to its expiration. These may include continuing operating lease payments (less estimated sublease payments) to a landlord after exiting a location prior to the lease-end date as a direct result of an approved restructuring initiative. Contract terminations also include minimum payments or fees related to the early termination of license or other personal services contracts. Costs related to contract terminations are expensed upon the cease-use date of a leased property or upon the notification date to the third party in the event of a license or personal service contract termination.

Other Exit Costs Other exit costs related to restructuring activities generally include costs to relocate facilities or employees, recruiting to fill positions as a result of relocation of operations, and employee outplacement for separated employees. Other exit costs are charged to expense as incurred.

Other charges associated with restructuring activities are comprised of the following:

Sales Returns and Cost of Sales Product returns (offset by the related cost of sales) and inventory write-offs or write-downs as a direct result of an approved restructuring initiative to exit certain businesses or locations will be recorded as a component of Net Sales and/or Cost of Sales when estimable and reasonably assured.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Charges The Company approved other charges related to the design and implementation of approved initiatives that primarily include the following:

- Consulting and other professional services for organizational design of the future structures, processes and technologies, and implementation thereof
- Temporary labor backfill
- Costs to establish and maintain a Project Management Office (PMO) for the duration of Leading Beauty Forward, including internal costs for employees dedicated solely to project management activities, and other PMO-related expenses incremental to the Company s ongoing operations (e.g., rent, utilities)
- Recruitment and training costs for new and reskilled employees to acquire and apply the capabilities needed to perform responsibilities as a direct result of an approved restructuring initiative

Global Technology Infrastructure

In October 2015, officers authorized by the Company s Board of Directors approved plans to transform and modernize the Company s global technology infrastructure (GTI) to fundamentally change the way it delivers information technology services internally (such initiative, the GTI Restructuring). As part of the GTI Restructuring, the Company transitioned its GTI from Company-owned assets to a primarily vendor-owned, cloud-based model where it pays for services as they are used. This model, with a different third-party provider, is expected to provide an enhanced scalable platform to better support current and future requirements, help the Company achieve key strategic opportunities and improve the Company s agility and flexibility to respond to the demands of the business by leveraging more advanced technologies. The implementation of the GTI Restructuring was substantially completed during fiscal 2016.

The following table presents GTI Restructuring charges and the related activities under this initiative to date:

(In millions)	Employee-Related Costs	Asset-Related Costs	Contract Terminations	Other Exit Costs	Total
Charges	$ 4.3	$ 17.4	$ 24.0	$ 0.3	$ 46.0
Cash payments	(1.2)		(23.6)	(0.3)	(25.1)
Non-cash asset write-offs		(17.4)			(17.4)

Accrued GTI Restructuring balance at June 30, 2016	$	3.1	$	$	0.4	$	$	3.5

Accrued GTI Restructuring charges at June 30, 2016 are expected to result in cash expenditures funded from cash provided by operations in fiscal 2017.

Other charges in connection with the implementation of this initiative were $7.6 million for the year ended June 30, 2016 and primarily relate to consulting services. These charges are included in Restructuring and other charges in the accompanying consolidated statements of earnings.

Leading Beauty Forward

On May 3, 2016, the Company announced a multi-year initiative (Leading Beauty Forward or LBF) to build on its strengths and better leverage its cost structure to free resources for investment to continue its growth momentum. LBF is designed to enhance the Company s go-to-market capabilities, reinforce its leadership in global prestige beauty and continue creating sustainable value.

The Company plans to approve specific initiatives under LBF through fiscal 2019 and expects to complete those initiatives through fiscal 2021. The Company expects that LBF will result in related restructuring and other charges totaling between $600 million and $700 million before taxes.

Restructuring actions to be taken over the duration of LBF involve the redesigning, resizing and reorganization of select corporate functions and go-to-market structures to improve effectiveness and create cost-efficiencies in support of increased investment in growth drivers. As the Company continues to grow, it is important to more efficiently support its diverse portfolio of brands, channels and geographies in the rapidly evolving prestige beauty environment. The initiatives being evaluated include the creation of a shared-services structure, either through Company-owned or third-party service providers in existing or lower-cost locations. The Company also believes that decision-making in key areas of innovation, marketing and digital communications should be moved closer to the consumer to increase speed and local relevance.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In connection with LBF, at this time, the Company estimates a net reduction in the range of approximately 900 to 1,200 positions globally, which is about 2.5% of its current workforce. This reduction takes into account the elimination of some positions, retraining and redeployment of certain employees and investment in new positions in key areas.

Specific actions taken since the Program inception included:

- Optimize Select Corporate Functions The Company approved initiatives to realign and optimize its organization to better leverage scale, improve productivity, reduce complexity and achieve cost savings across various functions, including research and development, global information systems and human resources. These actions will result in a net reduction of the workforce, which includes position eliminations, the re-leveling of certain positions and an investment in new capabilities. The Company also approved consulting and other professional services related to the design of the future structures, processes and technologies of certain corporate functions including finance, legal, real estate, human resources and global consumer care, as well as the initial organizational design phase of a potential shared-services support structure. To a lesser extent, also included in the approved other charges are costs to establish a Leading Beauty Forward PMO.

- Optimize Supply Chain An initiative to centralize the Company s supply chain management, and redesign of supply chain planning and transportation management activities, was approved. This initiative includes the relocation of certain operations and positions, with some employees being separated and positions replaced in a new location. Other charges approved are primarily related to consulting fees for design and implementation, temporary labor backfill during the transition and project management costs.

- Optimize Corporate and Region Market Support Structures The Company approved initiatives to enhance its go-to-market support structures and achieve synergies across certain geographic regions, brands and channels. These initiatives are primarily intended to shift certain areas of focus from traditional to social and digital marketing strategies to provide enhanced consumer experience, as well as to support expanded omnichannel opportunities. These actions will result in a net reduction of the workforce, which includes position eliminations, the re-leveling of certain positions and an investment in new capabilities.

- Exit Underperforming Businesses To further improve profitability in certain areas of the Company s brands and regions, the Company approved initiatives to exit certain businesses in select markets and channels of distribution. The Company has also decided to close a number of underperforming freestanding retail stores and exit mid-tier department stores for certain brands in the United States to redirect resources to other retail locations and channels with potential for greater profitability. These activities will result in product returns, inventory write-offs, reduction of workforce, accelerated depreciation and termination of contracts.

The following table presents LBF restructuring charges and the related activities under this initiative to date:

(In millions)	**Employee-Related Costs**	**Asset-Related Costs**	**Other Exit Costs**	**Total**
Charges	$ 74.5	$ 0.7	$ 0.2	$ 75.4
Cash payments	(0.5)			(0.5)
Non-cash asset write-offs		(0.7)		(0.7)
Translation adjustments	(0.6)			(0.6)
Other adjustments	(0.5)			(0.5)
Accrued Leading Beauty Forward balance at June 30, 2016	$ 72.9	$	$ 0.2	$ 73.1

Accrued restructuring charges at June 30, 2016 are expected to result in cash expenditures funded from cash provided by operations of approximately $30 million, $35 million and $8 million in fiscal 2017, 2018 and 2019, respectively.

Other charges in connection with the implementation of this initiative were $4.1 million for the year ended June 30, 2016 and primarily relate to consulting services. These charges are included in Restructuring and other charges in the accompanying consolidated statements of earnings.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 INCOME TAXES

The provision for income taxes is comprised of the following:

	Year Ended June 30		
(In millions)	**2016**	**2015**	**2014**
Current:			
Federal	$ 224.4	$ 236.8	$ 338.2
Foreign	293.0	251.2	265.4
State and local	11.1	31.8	20.5
	528.5	519.8	624.1
Deferred:			
Federal	(72.7)	(55.5)	(41.7)
Foreign	(21.9)	2.1	(18.6)
State and local	0.5	0.8	3.9
	(94.1)	(52.6)	(56.4)
	$ 434.4	$ 467.2	$ 567.7

Earnings before income taxes include amounts contributed by the Company s foreign operations of approximately $1,448 million, $1,420 million and $1,384 million for fiscal 2016, 2015 and 2014, respectively. A portion of these earnings are taxed in the United States.

A reconciliation of the U.S. federal statutory income tax rate to the Company s actual effective tax rate on earnings before income taxes is as follows:

	Year Ended June 30		
	2016	**2015**	**2014**
Provision for income taxes at statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State and local income taxes, net of federal tax benefit	0.9	1.1	1.4
Taxation of foreign operations	(8.0)	(6.8)	(4.0)
Income tax reserve adjustments	(0.3)	0.5	(0.5)
Other, net	0.3	0.1	0.1
Effective tax rate	27.9%	29.9%	32.0%

Income tax reserve adjustments represent changes in the Company s net liability for unrecognized tax benefits related to prior-year tax positions including the impact of tax settlements and lapses of the applicable statutes of limitations.

Federal income and foreign withholding taxes have not been provided on approximately $3,548 million of undistributed earnings of foreign subsidiaries at June 30, 2016. The Company intends to reinvest these earnings in its foreign operations indefinitely, except where it is able to repatriate these earnings to the United States without material incremental tax provision. The determination and estimation of the future income tax consequences in all relevant taxing jurisdictions involves the application of highly complex tax laws in the countries involved, particularly in the United States, and is based on the tax profile of the Company in the year of earnings repatriation. Accordingly, it is not practicable to determine the amount of tax associated with such undistributed earnings.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant components of the Company s deferred income tax assets and liabilities were as follows:

	June 30	
(In millions)	**2016**	**2015**
Deferred tax assets:		
Compensation related expenses	$ 239.9	$ 218.5
Inventory obsolescence and other inventory related reserves	86.4	82.2
Retirement benefit obligations	129.0	97.4
Various accruals not currently deductible	197.4	167.1
Net operating loss, credit and other carryforwards	111.2	117.5
Unrecognized state tax benefits and accrued interest	24.8	25.8
Other differences between tax and financial statement values	87.4	87.0
	876.1	795.5
Valuation allowance for deferred tax assets	(118.4)	(120.9)
Total deferred tax assets	757.7	674.6
Deferred tax liabilities:		
Depreciation and amortization	(293.4)	(279.6)
Other differences between tax and financial statement values	(42.0)	(43.9)
Total deferred tax liabilities	(335.4)	(323.5)
Total net deferred tax assets	$ 422.3	$ 351.1

As of June 30, 2016 and 2015, the Company had net deferred tax assets of $422.3 million and $351.1 million, respectively, substantially all of which are included in Other assets in the accompanying balance sheets.

As of June 30, 2016 and 2015, certain subsidiaries had net operating loss and other carryforwards for tax purposes of approximately $410 million and $430 million, respectively. With the exception of approximately $390 million of net operating loss and other carryforwards with an indefinite carryforward period as of June 30, 2016, these carryforwards expire at various dates through fiscal 2035. Deferred tax assets, net of valuation allowances, in the amount of $3.5 million and $4.6 million as of June 30, 2016 and 2015, respectively, have been recorded to reflect the tax benefits of the carryforwards not utilized to date.

A full valuation allowance has been provided for those deferred tax assets for which, in the opinion of management, it is more-likely-than-not that the deferred tax assets will not be realized.

As of June 30, 2016 and 2015, the Company had gross unrecognized tax benefits of $82.1 million and $77.8 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $54.8 million.

The Company classifies applicable interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. The total gross accrued interest and penalty expenses during the fiscal years ended June 30, 2016 and June 30, 2015 in the accompanying consolidated statement of earnings was $0.1 million and $5.9 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at June 30, 2016 and 2015 were $18.4 million and $16.5 million, respectively. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	June 30	
(In millions)	**2016**	**2015**
Beginning of the year balance of gross unrecognized tax benefits	$ 77.8	$ 58.1
Gross amounts of increases as a result of tax positions taken during a prior period	16.1	21.9
Gross amounts of decreases as a result of tax positions taken during a prior period	(14.1)	(8.1)
Gross amounts of increases as a result of tax positions taken during the current period	11.8	11.2
Amounts of decreases in unrecognized tax benefits relating to settlements with taxing authorities	(7.5)	(3.1)
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statutes of limitations	(2.0)	(2.2)
End of year balance of gross unrecognized tax benefits	$ 82.1	$ 77.8

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings from the Company s global operations are subject to tax in various jurisdictions both within and outside the United States. The Company participates in the U.S. Internal Revenue Service (the IRS) Compliance Assurance Program (CAP). The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of income tax returns prior to filing, thereby reducing or eliminating the need for post-filing examinations.

During the fourth quarter of fiscal 2016, the Company formally concluded the compliance process with respect to fiscal 2015 under the IRS CAP. The conclusion of this process did not impact the Company s consolidated financial statements. As of June 30, 2016, the compliance process was ongoing with respect to fiscal year 2016.

The Company is currently undergoing income tax examinations and controversies in several state, local and foreign jurisdictions. These matters are in various stages of completion and involve complex multi-jurisdictional issues common among multinational enterprises, including transfer pricing, which may require an extended period of time for resolution.

During fiscal 2016, the Company concluded various state, local and foreign income tax audits and examinations while several other matters, including those noted above, were initiated or remained pending. On the basis of the information available in this regard as of June 30, 2016, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of $10 million to $15 million within 12 months as a result of projected resolutions of global tax examinations and controversies and a potential lapse of the applicable statutes of limitations.

The tax years subject to examination vary depending on the tax jurisdiction. As of June 30, 2016, the following tax years remain subject to examination by the major tax jurisdictions indicated:

Major Jurisdiction	**Open Fiscal Years**
Belgium	2013 2016
Canada	2009 2016
China	2012 2016
France	2013 2016
Germany	2013 2016
Hong Kong	2010 2016
Japan	2016
Korea	2014 2016
Russia	2015 2016
Spain	2012 2016

Switzerland	2011	2016
United Kingdom	2015	2016
United States	2016	
State of California	2012	2016
State and City of New York	2011	2016

The Company is also subject to income tax examinations in numerous other state, local and foreign jurisdictions. The Company believes that its tax reserves are adequate for all years subject to examination.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	June 30	
(In millions)	**2016**	**2015**
Advertising, merchandising and sampling	$ 282.7	$ 293.8
Employee compensation	504.2	463.3
Payroll and other taxes	163.3	142.0
Other	682.1	565.5
	$ 1,632.3	$ 1,464.6

NOTE 10 DEBT

The Company s current and long-term debt and available financing consist of the following:

	Debt at June 30		Available financing at June 30, 2016	
(In millions)	**2016**	**2015**	**Committed**	**Uncommitted**
4.375% Senior Notes, due June 15, 2045 (2045 Senior Notes)	$ 455.4	$ 290.6	$	$
3.70% Senior Notes, due August 15, 2042 (2042 Senior Notes)	246.6	246.6		
6.00% Senior Notes, due May 15, 2037 (2037 Senior Notes)	293.3	293.1		
5.75% Senior Notes, due October 15, 2033 (2033 Senior Notes)	197.3	197.2		
2.35% Senior Notes, due August 15, 2022 (2022 Senior Notes)	266.5	248.5		
1.70% Senior Notes, due May 10, 2021 (2021 Senior Notes)	447.5			
5.55% Senior Notes, due May 15, 2017 (2017 Senior Notes)	306.3	313.4		
Commercial paper				1,000.0
Other long-term borrowings	3.4	5.7		
Other current borrowings	25.2	29.8		132.7

Revolving credit facility			1,000.0	
	2,241.5	1,624.9	$ 1,000.0	$ 1,132.7
Less current debt including current maturities	(331.5)	(29.8)		
	$ 1,910.0	$ 1,595.1		

As of June 30, 2016, the Company s long-term debt consisted of the following:

Notes **($ in millions)**	**Issue Date**	**Price**	**Yield**	**Principal**	**Unamortized Debt (Discount) Premium**	**Interest rate swap adjustments**	**Debt Issuance Costs**	**Semi-annual interest payments**
2045 Senior Notes (1)	June 2015	97.999%	4.497%	$ 300.0	$ (5.9)	$	$ (3.3)	June 15/December 15
2045 Senior Notes (1)	May 2016	110.847	3.753	150.0	16.2		(1.6)	June 15/December 15
2042 Senior Notes	August 2012	99.567	3.724	250.0	(1.0)		(2.4)	February 15/August 15
2037 Senior Notes (2)	May 2007	98.722	6.093	300.0	(3.3)		(3.4)	May 15/November 15
2033 Senior Notes (3)	September 2003	98.645	5.846	200.0	(2.0)		(0.7)	April 15/October 15
2022 Senior Notes (4)	August 2012	99.911	2.360	250.0	(0.2)	17.6	(0.9)	February 15/August 15
2021 Senior Notes (5)	May 2016	99.976	1.705	450.0	(0.1)		(2.4)	May 10/November 10

(1) In April and May 2015, in anticipation of the issuance of the 2045 Senior Notes in June 2015, the Company entered into a series of forward-starting interest rate swap agreements on a notional amount totaling $300.0 million at a weighted-average all-in rate of 2.38%. The forward-starting interest rate swap agreements were settled upon the issuance of the new debt and the Company recognized a gain in OCI of $17.5 million that will be amortized against interest expense over the life of the 2045 Senior Notes. As a result of the forward-starting interest rate swap agreements, the debt discount and debt issuance costs, the effective interest rate on the 2045 Senior Notes will be 4.216% over the life of the debt. In May 2016, the Company reopened this offering with the same terms and issued an additional $150.0 million for an aggregate amount outstanding of $450.0 of 2045 Senior Notes.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) In April 2007, in anticipation of the issuance of the 2037 Senior Notes, the Company entered into a series of forward-starting interest rate swap agreements on a notional amount totaling $210.0 million at a weighted-average all-in rate of 5.45%. The forward-starting interest rate swap agreements were settled upon the issuance of the new debt and the Company recognized a loss in OCI of $0.9 million that is being amortized to interest expense over the life of the 2037 Senior Notes. As a result of the forward-starting interest rate swap agreements, the debt discount and debt issuance costs, the effective interest rate on the 2037 Senior Notes will be 6.181% over the life of the debt.

(3) In May 2003, in anticipation of the issuance of the 2033 Senior Notes, the Company entered into a series of treasury lock agreements on a notional amount totaling $195.0 million at a weighted-average all-in rate of 4.53%. The treasury lock agreements were settled upon the issuance of the new debt and the Company received a payment of $15.0 million that is being amortized against interest expense over the life of the 2033 Senior Notes. As a result of the treasury lock agreements, the debt discount and debt issuance costs, the effective interest rate on the 2033 Senior Notes will be 5.395% over the life of the debt.

(4) In June 2015, the Company entered into interest rate swap agreements with a notional amount totaling $250.0 million to effectively convert the fixed rate interest on its outstanding 2022 Senior Notes to variable interest rates based on three-month LIBOR plus a margin.

(5) In April 2016, in anticipation of the issuance of the 2021 Senior Notes, the Company entered into a series of treasury lock agreements on a notional amount totaling $400.0 million at a weighted-average all-in rate of 1.27%. The treasury lock agreements were settled upon the issuance of the new debt and the Company made a payment of $0.5 million that is being amortized against interest expense over the life of the 2021 Senior Notes. As a result of the treasury lock agreements, the debt discount and debt issuance costs, the effective interest rate on the 2021 Senior Notes will be 1.844% over the life of the debt.

The Company has a $1.0 billion commercial paper program under which it may issue commercial paper in the United States. At June 30, 2016, the Company had no commercial paper outstanding. At August 18, 2016, the Company had $290.0 million of commercial paper outstanding, which may be refinanced on a periodic basis as it matures at the then-prevailing market interest rates.

The Company has a $1.0 billion senior unsecured revolving credit facility (the Facility) that is currently set to expire on July 15, 2020. At June 30, 2016, no borrowings were outstanding under the Facility. The Facility may be used for general corporate purposes and up to the equivalent of $350 million of the Facility is available for multi-currency loans. The interest rate on borrowings under the Facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. The Company incurred costs of approximately $1.0 million to establish the Facility, which are being amortized over the term of the Facility. The Facility has an annual fee of $0.6 million, payable quarterly, based on the Company s current credit ratings. The Facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of $150.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under the Facility.

The Company maintains uncommitted credit facilities in various regions throughout the world. Interest rate terms for these facilities vary by region and reflect prevailing market rates for companies with strong credit ratings. During fiscal 2016 and 2015, the monthly average amount outstanding was approximately $30.5 million and $15.4 million, respectively, and the annualized monthly weighted-average interest rate incurred was approximately 12.5% and 11.3%, respectively.

Refer to Note 14 Commitments and Contingencies for the Company s projected debt service payments, as of June 30, 2016, over the next five fiscal years.

NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS

The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The Company enters into foreign currency forward contracts and may enter into option contracts to reduce the effects of fluctuating foreign currency exchange rates. In addition, the Company enters into interest rate derivatives to manage the effects of interest rate movements on the Company s aggregate liability portfolio, including potential future debt issuances. The Company also enters into foreign currency forward contracts and may use option contracts, not designated as hedging instruments, to mitigate the change in fair value of specific assets and liabilities on the balance sheet. The Company does not utilize derivative financial instruments for trading or speculative purposes. Costs associated with entering into derivative financial instruments have not been material to the Company s consolidated financial results.

For each derivative contract entered into where the Company looks to obtain hedge accounting treatment, the Company formally and contemporaneously documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge transaction, the nature of the risk being hedged, how the hedging instruments effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the inception of the hedges and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that a derivative is not highly effective, or that it has ceased to be a highly effective hedge, the Company will be required to discontinue hedge accounting with respect to that derivative prospectively.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair values of the Company s derivative financial instruments included in the consolidated balance sheets are presented as follows:

(In millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value (1) June 30 2016	Asset Derivatives Fair Value (1) June 30 2015	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value (1) June 30 2016	Liability Derivatives Fair Value (1) June 30 2015
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 36.8	$ 41.1	Other accrued liabilities	$ 18.0	$ 4.2
Interest rate swap contracts	Prepaid expenses and other current assets	17.6		Other accrued liabilities		0.2
Total Derivatives Designated as Hedging Instruments		54.4	41.1		18.0	4.4
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	10.8	2.0	Other accrued liabilities	7.6	4.1
Total Derivatives		$ 65.2	$ 43.1		$ 25.6	$ 8.5

(1) See Note 12 Fair Value Measurements for further information about how the fair value of derivative assets and liabilities are determined.

The amounts of the gains and losses related to the Company s derivative financial instruments designated as hedging instruments are presented as follows:

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) (1)

	June 30			June 30	
	2016	2015		2016	2015
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	$ 48.1	$ 90.3	Cost of sales	$ 17.2	$ 9.1
			Selling, general and administrative	48.0	28.7
Settled interest rate-related derivatives	(0.5)	17.5	Interest expense	0.6	0.4
Total derivatives	$ 47.6	$ 107.8		$ 65.8	$ 38.2

(1) The amount of loss recognized in earnings related to the amount excluded from effectiveness testing was $(1.0) million and $(1.5) million for fiscal 2016 and 2015, respectively. There was no gain (loss) recognized in earnings related to the ineffective portion of hedging relationships for fiscal 2016. The gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships was $1.8 million for fiscal 2015.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives (1) June 30 2016	2015
Derivatives in Fair Value Hedging Relationships:			
Interest rate swap contracts	Interest expense	$ 17.8	$ (0.2)

(1) Changes in the fair value of the interest rate swap agreements are exactly offset by the change in the fair value of the underlying long-term debt.

The amounts of the gains and losses related to the Company s derivative financial instruments not designated as hedging instruments are presented as follows:

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives June 30 2016	2015
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward contracts	Selling, general and administrative	$ 5.2	$ (2.0)

Cash-Flow Hedges

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company s identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The Company may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as cash-flow hedges and have varying maturities through the end of June 2018. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology.

The Company enters into interest rate forward contracts to hedge anticipated issuance of debt for periods consistent with the Company s identified exposures. The purpose of the hedging activities is to minimize the effect of interest rate movements on the cost of debt issuance.

The ineffective portion of both foreign currency forward and interest rate derivatives is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses in AOCI are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in AOCI are reclassified to current-period earnings. As of June 30, 2016, the Company s foreign currency cash-flow hedges were highly effective.

At June 30, 2016, the Company had foreign currency forward contracts in the amount of $3,265.2 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Euro ($961.5 million), British pound ($497.0 million), Chinese yuan ($313.3 million), Hong Kong dollar ($273.8 million), Swiss franc ($256.1 million), Australian dollar ($157.2 million) and Taiwan dollar ($129.7 million).

At June 30, 2015, the Company had foreign currency forward contracts in the amount of $2,193.2 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Euro ($418.2 million), British pound ($409.3 million), Chinese yuan ($168.2 million), Swiss franc ($168.1 million), Canadian dollar ($158.4 million), Hong Kong dollar ($137.7 million) and Australian dollar ($123.0 million).

In April and May 2015, in anticipation of the issuance of the 2045 Senior Notes, the Company entered into a series of forward-starting interest rate swap agreements, which were designated as cash-flow hedges. In April 2016, in anticipation of the issuance of the 2021 Senior Notes, the Company entered into a series of treasury lock agreements, which were designated as cash-flow hedges. See Note 10 Debt for further discussion.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated net gain on the Company s derivative instruments designated as cash-flow hedges as of June 30, 2016 that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is $14.6 million. The accumulated gain on derivative instruments in AOCI was $50.2 million and $68.4 million as of June 30, 2016 and 2015, respectively.

Fair-Value Hedges

The Company enters into interest rate derivative contracts to manage the exposure to interest rate fluctuations on its funded indebtedness. The Company has interest rate swap agreements, with a notional amount totaling $250.0 million to effectively convert the fixed rate interest on its 2022 Senior Notes to variable interest rates based on three-month LIBOR plus a margin. These interest rate swap agreements are designated as fair-value hedges of the related long-term debt, and the changes in the fair value of the interest rate swap agreements are exactly offset by the change in the fair value of the underlying long-term debt.

Credit Risk

As a matter of policy, the Company enters into derivative contracts only with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled $65.2 million at June 30, 2016. To manage this risk, the Company has strict counterparty credit guidelines that are continually monitored. Accordingly, management believes risk of loss under these hedging contracts is remote.

NOTE 12 FAIR VALUE MEASUREMENTS

The Company records certain of its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The accounting for fair value measurements must be applied to nonfinancial assets and nonfinancial liabilities that require initial measurement or remeasurement at fair value, which principally consist of assets and liabilities acquired through business combinations and goodwill, indefinite-lived intangible assets and long-lived assets for the purposes of calculating potential impairment. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for 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: Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument s valuation.

The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

(In millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Foreign currency forward contracts	$	$ 47.6	$	$ 47.6
Interest rate swap contracts		17.6		17.6
Available-for-sale securities:				
U.S. government and agency securities		563.5		563.5
Foreign government and agency securities		60.8		60.8
Corporate notes and bonds		457.7		457.7
Time deposits		390.0		390.0
Other securities		32.5		32.5
Total	$	$ 1,569.7	$	$ 1,569.7
Liabilities:				
Foreign currency forward contracts	$	$ 25.6	$	$ 25.6
Contingent consideration			196.1	196.1
Total	$	$ 25.6	$ 196.1	$ 221.7

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

(In millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Foreign currency forward contracts	$	$ 43.1	$	$ 43.1
Available-for-sale securities:				
U.S. government and agency securities		265.8		265.8
Foreign government and agency securities		23.9		23.9
Corporate notes and bonds		182.4		182.4
Time deposits		410.8		410.8
Other securities		34.9		34.9
Total	$	$ 960.9	$	$ 960.9
Liabilities:				
Foreign currency forward contracts	$	$ 8.3	$	$ 8.3
Interest rate swap contracts		0.2		0.2
Contingent consideration			159.3	159.3
Total	$	$ 8.5	$ 159.3	$ 167.8

The estimated fair values of the Company s financial instruments are as follows:

	June 30			
	2016		**2015**	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Nonderivatives				
Cash and cash equivalents	$ 914.1	$ 914.1	$ 1,021.4	$ 1,021.4
Available-for-sale securities	1,504.5	1,504.5	917.8	917.8
Current and long-term debt	2,241.5	2,482.0	1,624.9	1,688.7
Additional purchase price payable	37.4	37.4	37.0	37.0
Contingent consideration	196.1	196.1	159.3	159.3
Derivatives				
Foreign currency forward contracts asset (liability), net	22.0	22.0	34.8	34.8
Interest rate swap contracts asset (liability)	17.6	17.6	(0.2)	(0.2)

The following methods and assumptions were used to estimate the fair value of the Company s financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents Cash and all highly-liquid securities with original maturities of three months or less are classified as cash and cash equivalents, primarily consisting of cash deposits in interest bearing accounts, money market funds and time deposits. The carrying amount approximates fair value, primarily because of the short maturity of cash equivalent instruments.

Available-for-sale securities Available-for-sale securities are classified within Level 2 of the valuation hierarchy and are valued using third-party pricing services, and for time deposits, the carrying amount approximates fair value. To determine fair value, the pricing services use market prices or prices derived from other observable market inputs such as benchmark curves, credit spreads, broker/dealer quotes, and other industry and economic factors.

Foreign currency forward contracts The fair values of the Company s foreign currency forward contracts were determined using an industry-standard valuation model, which is based on an income approach. The significant observable inputs to the model, such as swap yield curves and currency spot and forward rates, were obtained from an independent pricing service. To determine the fair value of contracts under the model, the difference between the contract price and the current forward rate was discounted using LIBOR for contracts with maturities up to 12 months, and swap yield curves for contracts with maturities greater than 12 months.

Interest rate swap contracts The fair values of the Company s interest rate swap contracts were determined using an industry-standard valuation model, which is based on the income approach. The significant observable inputs to the model, such as swap yield curves and LIBOR forward rates, were obtained from independent pricing services.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Current and long-term debt The fair value of the Company s debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities. To a lesser extent, debt also includes capital lease obligations for which the carrying amount approximates the fair value. The Company s debt is classified within Level 2 of the valuation hierarchy.

Additional purchase price payable The Company s additional purchase price payable represents fixed minimum additional purchase price that was discounted using the Company s incremental borrowing rate, which was approximately 1%. The additional purchase price payable is classified within Level 2 of the valuation hierarchy.

Contingent Consideration Contingent consideration obligations consist of potential obligations related to our acquisitions. The amounts to be paid under these obligations are contingent upon the achievement of stipulated financial targets by the business subsequent to acquisition. The fair values of the contingent consideration related to certain acquisition earn-outs were estimated using a probability-weighted discount model that considers the achievement of the conditions upon which the respective contingent obligation is dependent (Monte Carlo Method). The Monte Carlo Method has various inputs into the valuation model that include the risk-adjusted projected future operating results of the acquired entity, a risk-adjusted discount rate ranging from 1.1% to 1.6%, a measure of revenue volatility ranging from 4.6% to 13.5%, an asset volatility ranging from 27.6% to 30.0% and a revenue/earnings before income tax, depreciation and amortization correlation factor ranging from 80% to 90%. Significant changes in the projected future operating results would result in a significantly higher or lower fair value measurement. Changes to the discount rate, volatility or correlation factors would have a lesser effect. The implied rates are deemed to be unobservable inputs and, as such, the Company s contingent consideration is classified within Level 3 of the valuation hierarchy.

Changes in the fair value of the contingent consideration obligations for the fiscal year ended June 30, 2016 are included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and were as follows:

(In millions)		**Fair Value**
Contingent consideration at June 30, 2015	$	159.3
Acquisitions		28.6
Change in fair value		8.2
Contingent consideration at June 30, 2016	$	196.1

NOTE 13 PENSION, DEFERRED COMPENSATION AND POST-RETIREMENT BENEFIT PLANS

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. Several plans provide pension benefits based primarily on years of service and employees earnings. In certain instances, the Company adjusts benefits in connection with international employee transfers.

Retirement Growth Account Plan (U.S.)

The Retirement Growth Account Plan is a trust-based, noncontributory qualified defined benefit pension plan. The Company seeks to maintain appropriate funded percentages. For contributions, the Company would seek to contribute an amount or amounts that would not be less than the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and subsequent pension legislation, and would not be more than the maximum amount deductible for income tax purposes.

Restoration Plan (U.S.)

The Company also has an unfunded, non-qualified domestic noncontributory pension Restoration Plan to provide benefits in excess of Internal Revenue Code limitations.

International Pension Plans

The Company maintains international pension plans, the most significant of which are defined benefit pension plans. The Company s funding policies for these plans are determined by local laws and regulations. The Company s most significant defined benefit pension obligations are included in the plan summaries below.

Post-retirement Benefit Plans

The Company maintains a domestic post-retirement benefit plan which provides certain medical and dental benefits to eligible employees. Employees hired after January 1, 2002 are not eligible for retiree medical benefits when they retire. Certain retired employees who are receiving monthly pension benefits are eligible for participation in the plan. Contributions required and benefits received by retirees and eligible family members are dependent on the age of the retiree. It is the Company s practice to fund these benefits as incurred and to provide discretionary funding for the future liability up to the maximum amount deductible for income tax purposes.

Certain of the Company s international subsidiaries and affiliates have post-retirement plans, although most participants are covered by government-sponsored or administered programs.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan Summaries

The significant components of the above mentioned plans as of and for the years ended June 30 are summarized as follows:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 794.4	$ 755.2	$ 586.2	$ 598.7	$ 175.3	$ 186.7
Service cost	32.3	31.7	25.0	23.8	2.8	3.3
Interest cost	32.8	30.4	14.9	17.3	7.4	7.6
Plan participant contributions			3.6	3.2	0.9	0.8
Actuarial loss (gain)	61.5	10.0	53.3	38.6	12.5	(11.9)
Foreign currency exchange rate impact			(38.0)	(65.1)		