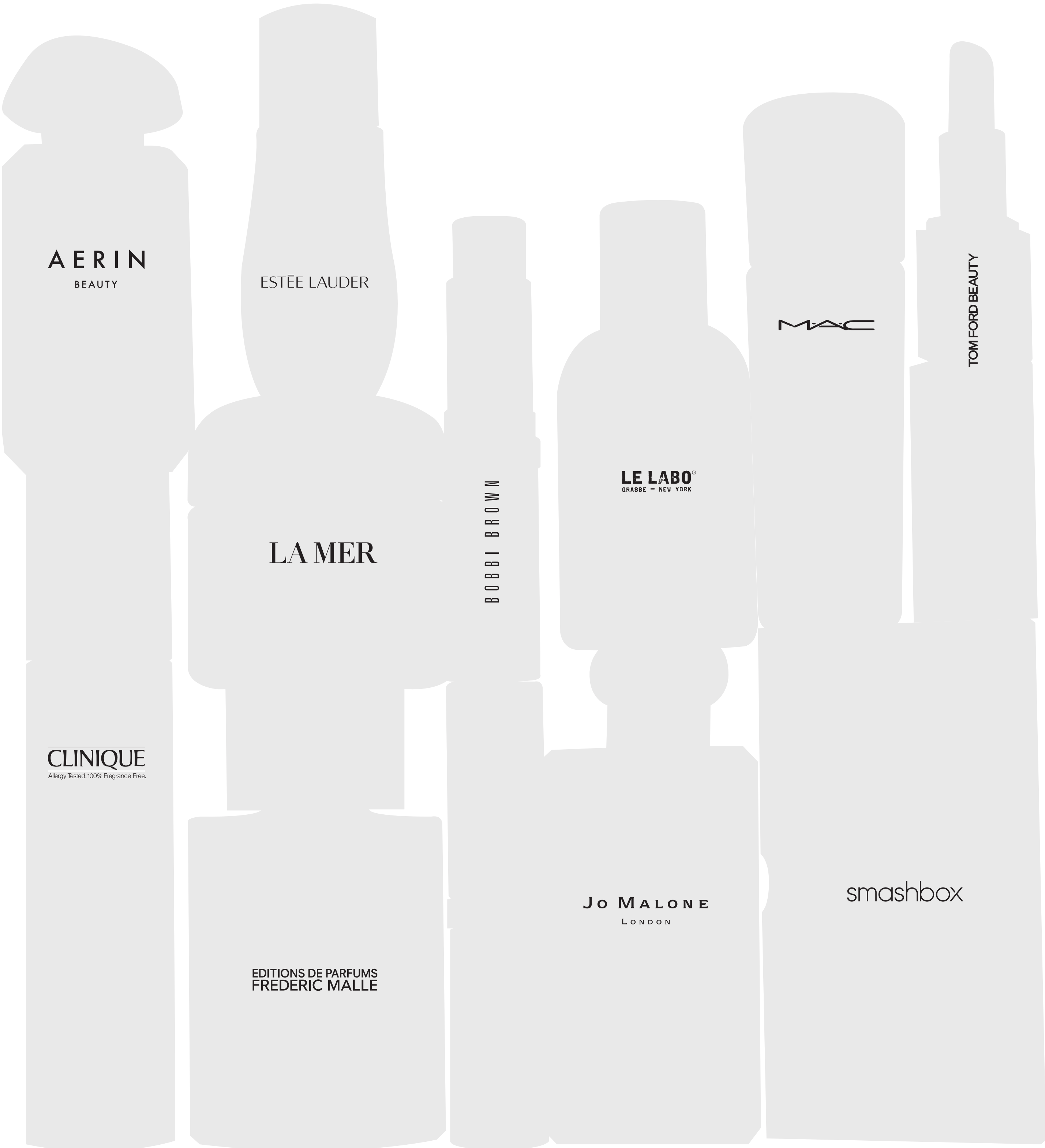
THE ESTĒE LAUDER COMPANIES INC.

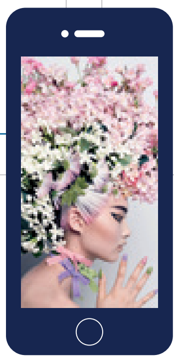
The Global House of Prestige Beauty

2017 ANNUAL REPORT



Cover Art: A selection of products from our prestige brand portfolio. Please visit ELCompanies.com for more information on all our brands.

The Global House of
PRESTIGE BEAUTY



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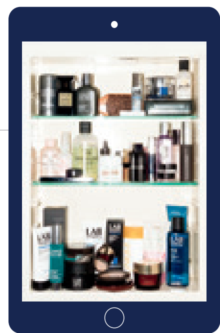

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“Our performance this year is a testament to our best-in-class global team and to the strength of our diversified portfolio and multiple engines of growth.”

WILLIAM P. LAUDER

Executive Chairman

Dear Fellow Stockholders,

The Estée Lauder Companies achieved another year of strong performance in fiscal 2017. At the same time, our commitment to the well-being of our employees and the sustainability of the markets in which we work has never been stronger. We continue to build upon our position as *The Global House of Prestige Beauty,* delivering outstanding products and experiences to our consumers, while growing our global community investments in both scope and impact.

Our performance this year is a testament to our best-in-class global team and to the strength of our diversified portfolio and multiple engines of growth. Despite a constantly evolving landscape, our ability to embrace and initiate change has empowered us to successfully address industry shifts, reach new consumers, and position ourselves for continued long-term, sustainable growth.

In fiscal 2017, we welcomed two fast-growing makeup brands, Too Faced and BECCA, to The Estée Lauder Companies. Too Faced, a brand known for innovative formulas that create an authentic connection with consumers, has a strong following among Millennials. BECCA, a highly coveted brand, is committed to developing premium products in a range of wearable shades for all skin tones. Both brands are expected to strengthen the Company’s leadership in prestige beauty globally.

We are a Company that has invested in our digital capabilities for many years. Today, the intersection of social media, digital marketing, and e-commerce is integral to our brands’ strategies, and we are creating a digital-first mindset throughout the Company. In the past year, we have strengthened our social media capabilities, gained share in earned media value, and grown our brands’ influencer partnerships. We also re-launched our corporate website, ELCompanies.com, digitally showcasing our rich history and exceptional portfolio of brands.

As an organization made up of great brands and great people, fostering an innovative, collaborative, and creative culture has always been a top priority. We place the highest importance on providing ongoing development opportunities and offering recognition and advancement across our workforce – from our newest hires to our most seasoned executives. As a learning organization, we encourage employees to take smart risks and celebrate the potential of big ideas. We are proud to have created an environment in which leaders are dedicated to building future leaders, and the opportunities for education and shared insights are plentiful.

Again this year, we received numerous honors and awards that recognize our commitment to our employees. For example, we earned a coveted spot on Indeed's "50 Best Places to Work in the Fortune 500"; were named one of the "Top Companies to Work for in the UAE" by the Great Place to Work Institute UAE; and in China, were presented with the "China Top Employer 2017" certification by the Top Employers Institute. We were also recognized in Mexico as one of "The Places Everyone Wants to Work" for the 10th consecutive year by *Expansión Magazine,* and in the U.K. & Ireland, The Estée Lauder Companies was ranked as one of the *Sunday Times'* "30 Best Big Companies to Work For."

We continue to follow in our founder's footsteps to empower women at all levels of the Company. We recently underscored this effort by supporting the Equal Pay Act; a pledge that demonstrates our deep and ongoing commitment to wage parity. Additionally, this year we launched our newest Employee Resource Group, the Women's Leadership Network, which supports, encourages, and engages women across the Company to reach their full potential both personally and professionally. We are an active participant in the 30% Club, an organization committed to achieving a minimum of 30 percent of women on public company boards, sharing the belief that gender balance on boards encourages better leadership. At the start of the current fiscal 2018 year, about 84 percent of our global workforce is female, nearly 50 percent of U.S.-based senior positions are held by women, and women constitute 40 percent of our Board of Directors.

This year, and every year, we strive to be a welcoming and inclusive workplace for all of our diverse talent, encompassing a wide range of identities, points of view, and orientations. In December 2016, The Estée Lauder Companies achieved a perfect 100 percent score on the 2017 Corporate Equality Index, the most distinguished U.S. benchmarking report on corporate policies and practices related to LGBTQ workplace equality, administered by the Human Rights Campaign. In satisfying all the criteria in the 2017 Corporate Equality Index, the Company is recognized among "Best Places to Work for LGBT Equality."

Sustainability and social investment in the communities in which we live and work remain the key focus of our core values, and our employees continue to drive many of our initiatives in these areas. In our increasingly connected world, sustainable growth is a collective experience driven by shared responsibility. We are steadfast in our belief that in order to grow together, we must learn, act, and support our communities together.

The Estée Lauder Companies Charitable Foundation was established in fiscal 2016 with the launch of our multi-year Girls' Education Initiative. In its second year, fiscal 2017, the Foundation granted funds to support 15 nonprofit organizations and reached more than 30,000 children across five continents via locally-tailored education programs.

The Breast Cancer Campaign, which will celebrate its 25th anniversary in fiscal 2018, has helped fund breast cancer research globally through brand contributions, employee fundraising, outside donations, and the sale of our brands' Pink Ribbon products. In fiscal 2017 alone, the Campaign raised $7.3 million, $5.6 million of which was donated to the Breast Cancer Research Foundation to support individual research grants and research hours. Our goal is a world without breast cancer, and we are proud to be making great strides.

M•A•C has long been a leader in raising critical funds globally for HIV/AIDS awareness, treatment, and prevention through the M•A•C AIDS Fund, and it raised over $32 million this year through its annual VIVA GLAM Campaign. The original idea behind VIVA GLAM was to celebrate life, and this mission remains strong to this day; this year on World AIDS Day, more than 3,000 M•A•C employees volunteered at HIV /AIDS organizations in 35 countries, a tremendous achievement and show of service from the M•A•C team.

Environmentally, we are committed to reducing our own carbon footprint and doing our part to help ensure the health and beauty of our planet for future generations. We continue to hold ourselves accountable to thoughtfully managing our environmental and social impacts.

We are proud to be part of the fight against climate change. It is our responsibility as a global company, employer, and corporate citizen. We believe that working together toward a low-carbon future will help ensure a healthier and safer world for all, which is why in 2016, we made an important pledge to work towards a net zero carbon goal by the year 2020. In addition, by signing on to the We Are Still In campaign and joining RE100, we are underscoring our commitment and standing with cities, states, and businesses around the world on this important issue.

As we look forward to continuing our momentum and executing our long-term strategy, I extend my heartfelt thanks to my father, Leonard A. Lauder; our President and Chief Executive Officer, Fabrizio Freda; our Board of Directors; our Executive Leadership Team for their vision; to all of our employees for so successfully putting that vision in action; and to you, our stockholders for your continued support.

William P. Lauder
Executive Chairman

“We proved that we can pivot our business, execute with speed and excellence, and make courageous choices that create momentum for the coming years.”

FABRIZIO FREDA

President and Chief Executive Officer

Dear Fellow Stockholders,

The Estée Lauder Companies achieved another year of strong financial performance in fiscal 2017, demonstrating the strength of our winning strategy of multiple engines of growth fueled by our diversified portfolio of brands. This is the eighth consecutive year we generated strong organic growth and outperformed the industry. We proved that we can pivot our business, execute with speed and excellence, and make courageous choices that create momentum for the coming years. As *The Global House of Prestige Beauty,* we aim to exceed our consumers’ expectations, and this drive for excellence permeates all that we do.

In fiscal 2017, we delivered net sales of $11.82 billion, net earnings of $1.25 billion and diluted earnings per share of $3.35. In constant currency, net sales rose 7 percent, which was ahead of global prestige beauty growth, and adjusted constant currency diluted earnings per share increased 11 percent.* During fiscal 2017, we returned $899 million to our stockholders through dividends and stock repurchases; we increased our common stock dividend 13 percent and repurchased 4.7 million shares of our Class A Common Stock.

We achieved these results against a backdrop of geopolitical and economic challenges. Declining foot traffic in some brick and mortar U.S. department stores, particularly in smaller malls and certain tourist-driven doors, weakness in international markets such as the Middle East, geopolitical tensions and currency volatility are just some of the headwinds that we faced. Once again, we demonstrated the resilience and sustainability of our strategy and our ability to execute with excellence. Our overall performance helped us gain share and strengthened our leadership in global prestige beauty.

Throughout fiscal 2017, we remained focused on long-term value creation. We continue to be guided by our 10-Year Compass, an important tool that identifies our most promising growth areas and the future trends we believe will drive growth in prestige beauty. We drew upon our enduring strengths — distinct brand equities, superior product quality, engaging consumer communication and High-Touch service — and pivoted towards those areas of prestige beauty where we saw the greatest opportunities. This broadened our reach across fast-growing channels, younger and more diverse consumer groups, and in new emerging markets. In the process, we demonstrated our ability to address changes while positioning our Company for sustainable growth.

GLOBAL PRESTIGE BEAUTY: DYNAMIC AND GROWING

Beauty is an industry that has been growing steadily for many years, outpacing most other household and personal care sectors. Within our industry, we've kept our focus solely on prestige beauty, which means delivering quality products, consumer education, customization and High-Touch service. Global prestige beauty has grown approximately 4 to 5 percent a year, and we believe our goal of exceeding that pace by at least 1 percent annually continues to be attainable under our strategy.

With a desire to always be camera-ready, consumers' appetites for beauty products is intensifying, particularly in the luxury arena. The playing field for high-end cosmetics continues to expand as the barriers to entry have come down, largely due to digital commerce and social media. Awareness and sampling of new products is made easier as a result of these new platforms, yet it is the repeat purchase that is a true sign of success. We recognize the staying power of "hero" products – iconic products of the highest-quality that are the backbone of our brands. We are confident that with our mix of innovative new products and services, our coveted collection of bestsellers, and our digital-first mindset, we are well-positioned to sustain strong and profitable growth over the long-term.

MULTIPLE ENGINES OF GROWTH

Our long-term strategy is working well as we are responding to new consumer preferences while identifying new opportunities to fuel growth in our brands, categories, geographies and channels of distribution. In a world where volatility and change is the new normal, these multiple engines of growth are driving our business performance and reinforcing our leadership position.

ENRICHING OUR PORTFOLIO

Our portfolio strategy includes growing existing brands and discovering and acquiring high-potential brands that align with our values and complement our other brands. This past year we welcomed two exciting additions to The Estée Lauder Companies' family of brands, BECCA and Too Faced. Key considerations for us in these acquisitions were the brands' entrepreneurial approaches to beauty, creative spirits, and distinct strengths in specialty-multi, social media, and with Millennial consumers. We also made a minority investment in DECIEM, a fast-growing multi-brand beauty company with a nimble, consumer-centric focus.

Our mid-sized luxury brands each experienced strong double-digit growth this fiscal year. Tom Ford's innovative Lips & Boys collection grew exponentially and helped the brand gain share in the prestige lip sub-category, while the brand overall captured the hearts of the Chinese consumer by strategically engaging social media influencers and accelerating its Travel Retail distribution. Jo Malone London had numerous successful product launches, including Star Magnolia Hair Mist, a new product form for the brand. La Mer's introduction of the Soft Fluid Long Wear Foundation, infused with its Miracle Broth, exceeded expectations and is helping to attract new, younger consumers to the brand.

Among our large brands, Estée Lauder achieved a solid return to growth in fiscal 2017, with higher sales in skin care and makeup compared to the prior year. The brand was well-positioned to capitalize on increased travel and consumption from Chinese consumers, and its makeup sales excelled internationally. Estée Lauder continued to support two of its hero franchises, Advanced Night Repair and Double Wear, with new products and more effective marketing and communications. The investment paid off with these two highly desirable product lines reaching new consumers and posting positive growth in every region. Double Wear is now the best-selling prestige foundation in many markets, and it attracts consumers across generations to the brand, including Millennials.

Clinique is reaching new consumers and building on its authority in skin care to drive growth. The brand accelerated distribution in North America specialty-multi, both in-store and online, and with high-growth, brand-building channels and retailers internationally. The global launch of Clinique's Fresh Pressed Daily Booster with Pure Vitamin C 10% was highly successful and is having a halo effect, increasing sales of the brand's core moisturizing business because the product is used in tandem with Moisture Surge and Even Better Moisturizer.

M•A•C remains the number one prestige makeup brand in the world and continues to increase consumer reach globally through targeted distribution and increased social media outreach. The brand grew well internationally, but experienced weakness in the U.S., attributed, in part, to its overexposure in mid-tier department stores. M•A•C had a successful fourth quarter launch in fast-growing Ulta Beauty and on Tmall, a digital platform in China. The brand's collaborations with locally relevant social media influencers in various countries also generated high consumer engagement and positive sales trends. In fact, M•A•C is mobilizing its global team of 20,000 makeup artists to engage consumers with impactful social media content, using influencer and user-generated posts to augment its storytelling.

POWERFUL GROWTH IN MAKEUP

Staying ahead of the curve is critical to our success. The desire for instant, camera-ready beauty is driving growth in makeup, not only with Millennials and Generation Z, but across demographic groups around the world. We continued to see strong organic growth in this category through the performance of Estée Lauder, Tom Ford, and Smashbox, and we added incremental sales from our recently acquired brands, Too Faced and BECCA. M•A•C and Bobbi Brown performed well internationally. One of the most anticipated and successful launches in M•A•C's history was the introduction of M•A•C Selena, celebrating the life of the late Latina singer Selena Quintanilla. Bobbi Brown's Art Stick Liquid Lip became the U.K.'s number one color launch in brand history and, in Asia, helped drive over 75 percent growth in the brand's lip business in its launch month.

NEW GROWTH ENGINE IN LUXURY FRAGRANCE

Artisanal and luxury fragrances have emerged as a profitable new growth engine for the Company. We began cultivating this sub-category a number of years ago based on our strategic Compass insights. We recognized a growing trend in customization and Millennials' interest in individuality. We set out to create a more personalized fragrance journey for consumers, which was a tremendous opportunity for existing brands like Jo Malone London, Tom Ford, and AERIN. It also encouraged us to identify and acquire brands that emphasize craftsmanship and the art of fragrance, such as Le Labo, Editions de Parfums Frédéric Malle, and By Kilian. This strategy is paying off, as our ultra-prestige fragrance portfolio experienced double-digit growth in fiscal 2017, a trend we expect to continue in fiscal 2018.

REIGNITION OF SKIN CARE

The demand for skin care products is on the rise, and we anticipate it will continue to grow as Millennials age. We are pleased to see an acceleration of sales growth in this category, as a result of the resurgence in Chinese demand for Estée Lauder and La Mer products, as well as an improved retail strategy for Darphin. We also saw outstanding double-digit growth from GLAMGLOW through additional product assortments and targeted expanded consumer reach. Several other brands, including Bobbi Brown, Origins, and Aveda, each posted solid gains in the category during fiscal 2017.

MOMENTUM AROUND THE GLOBE

Geographically, we benefited from growth in each region and in some key emerging markets. And, we are pleased to report that our sales in more than a quarter of our markets grew by double-digits this fiscal year.

Asia/Pacific (APAC) growth accelerated, up 9 percent in constant currency, driven by a resurgence of our business in China as well as solid sales growth in Japan, Korea, Taiwan, and Indonesia. Selfie culture, which is thriving in APAC, has revolutionized the way consumers shop and what they are buying, with makeup growing three to four times faster than skin care. We have been able to capitalize on this trend with our leading makeup brand portfolio and strategic initiatives like the launch of M•A•C on Tmall in the fourth quarter, considered the most successful launch in Tmall prestige beauty history. Our luxury fragrances Jo Malone London and Tom Ford drove the growth of the fragrance category in the region.

Our business in Europe, the Middle East & Africa (EMEA) performed strongly with sales rising 10 percent in constant currency over the prior year. Virtually all countries generated sales gains, from both developed countries like Italy, to emerging markets like Russia. Among the many successful programs, we expanded our consumer loyalty initiatives to help move consumers from trial to replenishment, and build brand loyalty among shifting consumer preferences across our products, brands, and channels. The region also benefited from accelerations in Travel Retail and online. Online net sales in EMEA grew 32 percent versus last year as we focused on e/m-commerce, digital, and social media efforts to reach and engage our consumers. Our success in the region is notable considering headwinds caused by uncertainties surrounding Brexit and macroeconomic conditions in the Middle East, as well as challenges from increased competition in makeup. Estée Lauder's Double Wear and Advanced Night Repair franchises and Clinique's Moisture Surge achieved double-digit growth, proving that our hero products remain strong engines of growth.

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OF YOUR EYES.
ADVANCED
NIGHT REPAIR
New Eye Concentrate Matrix
REPAIRS the visible signs of aging.
FORTIFIES with cushioning support all around eyes.
HYDRATES for a full 24 hours with a 2X concentrated infusion of Hyaluronic Acid.
Patented until 2033. Proven for all ethnicities.
ESTĒE LAUDER
Advanced Night Repair Eye Concentrate Matrix
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Advanced Night Repair
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Our sales in the Americas grew 2 percent in constant currency this year, with strong growth coming from markets in Latin America, including Argentina, Chile, and Peru. Many of our brands generated strong growth in the region; notably, Tom Ford, Smashbox, and Jo Malone London all had double-digit gains, and La Mer also performed well. U.S. department stores represented approximately 17 percent of our global sales last year, and we are encouraged by new signs of strength in some retailers' top doors. We are working with department stores to improve our merchandising, service, and communications activities, and to boost their online businesses which have been healthier.

BUILDING AWARENESS IN EMERGING MARKETS

We continue to build our presence in emerging markets, bringing our brands and high-quality products to new consumers around the world. Net sales in emerging markets rose 11 percent in constant currency, with the strongest growth from China, Russia, and Mexico, offsetting weaker results from the Middle East and Brazil, markets that have been impacted by economic and political factors. The Estée Lauder brand significantly lifted its sales in China by leveraging outstanding products with a combination of in-store and social media campaigns, particularly around the spokesmodel signing of Yang Mi, famed Chinese actress and beauty icon. Estée Lauder China also achieved the number one position —and the only Genius spot— in the L2 Digital IQ Index: Beauty China 2017. Mexico's e-commerce business grew triple digits this year, and creative initiatives with Mexican social media influencers for Clinique and M•A•C were instrumental in engaging consumers.

REACHING CONSUMERS IN FAST-GROWING CHANNELS

Our Company has built the most desirable portfolio of prestige brands in the industry, and we are known for honoring each of our brand's distinctive qualities when evaluating market opportunities. We have always been deliberate about operating in channels that are brand-builders, and we are actively deploying our brands across the fastest-growing prestige channels and consumer segments around the world.

INCREASED COVERAGE IN SPECIALTY-MULTI

Channels representing nearly one-third of our sales are growing double-digits, including specialty-multi, online, and Travel Retail. Specialty-multi has been an effective channel for attracting new consumers globally, especially Millennials. During fiscal 2017, Jo Malone London created a retail format and business model to enter the specialty-multi channel through Sephora, where it has been very well received. In Latin America, multiple brands also launched in Sephora, including Tom Ford and La Mer, while brands such as Clinique, M•A•C, and Smashbox continue to have strong sales in-store and online. M•A•C launched in Ulta Beauty in the fourth quarter, where it is being introduced to new consumers. In Asia, as more high-growth, brand-building specialty-multi retailers emerge, our brands are capturing this opportunity. For example, Clinique was our first brand in Eve and Boy in Thailand and in Olive Young in Korea.


CLINIQUE
fresh pressed
daily booster
with pure vitamin C 10%
booster quotidien
vitamine C pure 10%

ONLINE SUCCESS

Fiscal 2017 was another excellent year for our online business, which delivered accelerated growth of 33 percent in constant currency. Over the past five years, our online sales, which include sales on our own sites and sales on our authorized retailers' sites, have more than doubled and now account for 11 percent of our total net sales. The U.S. and the U.K. remain our two largest online markets, accounting for approximately 70 percent of our global online business. China, our third largest market, nearly doubled online sales in fiscal 2017. Bright spots included the successful introduction of M•A•C and Lab Series on China's Tmall, and the surge in sales across our brands on Tmall on Singles Day, where we were the beauty category winner. We also made good progress online in other emerging markets. We recently launched in India and plan to roll out in the Middle East and Southeast Asia in fiscal 2018.

Our efforts in support of retailer.com sites also proved fruitful as we helped our authorized retailers win with our brands online. In fact, many of our brands, particularly Estée Lauder, Clinique, and M•A•C, had an outstanding year on Macys.com. Mobile commerce continues to drive our results, as it provides consumers with an always-connected and always-on channel. Currently, two-thirds of our online traffic and nearly half of our online sales come from mobile devices. We expect this trend to accelerate and therefore, we are expanding our mobile team and increasing investments in mobile innovation in order to provide our unique High-Touch services and experiences to consumers. As our Online team likes to say, access to a beauty expert is as easy as reaching for your phone.

We have also been strategically focused on designing a seamless omnichannel experience across our in-store and online direct-to-consumer channels, making it easier for consumers to buy what they want, when and where they want it. Omnichannel initiatives to help enhance this cross-channel consumer journey have included services like click and collect, buy online/return in-store, and order online from in-store. We also developed new loyalty programs for a number of our brands in the U.S., Canada, Korea, and the U.K. Additionally, we advanced the concept of delivering High-Touch service online. For example, we launched the ability to text gift cards in real time and have developed chat bots to drive online appointments and innovative gifting with our pop-up store in the U.K.

GROWTH IN TRAVEL RETAIL

International passenger traffic growth was solid in fiscal 2017, helping to accelerate the Travel Retail channel, where our sales grew 22 percent in constant currency. We are expanding more of our portfolio into additional airports and are finding success with digital acceleration that enables pre-order sales, as well as with new store formats such as our Lip Studio in Shanghai Pudong Airport. Our expanded offerings in luxury fragrance performed very well this year, including products from Le Labo as well as Jo Malone London, particularly its Blossom Belle collection that launched exclusively in Travel Retail. Tom Ford achieved record growth in Travel Retail, winning with traveling Chinese consumers in both makeup and fragrance. Looking forward, we expect higher passenger traffic, coupled with effective marketing, to increase conversion, leading to strong sales growth again in fiscal 2018.

THE BEST IN CONSUMER ENGAGEMENT

Our Company was founded by Mrs. Estée Lauder, an incredible woman who was known for making instant connections with consumers through her commitment to provide individual attention, whether personally applying a cream or a lipstick to demonstrate its benefits, offering a quick lesson in skin care or demonstrating a three-minute beauty regimen. High-Touch service is in our DNA, and we have evolved this concept through the years, giving us a competitive advantage in addressing today's consumer wants and needs. High-Touch in the digital age includes leveraging technology and social media at all touch points in the consumer journey.

Our brands are using new social media strategies and memorable 360° marketing campaigns to drive awareness, trial, purchase, and loyalty, and they are using digital tools to provide real-time analytics and feedback to understand what is resonating. Partnerships with social media influencers are integral to our digital marketing efforts across brands – these efforts have led to increased share in earned media value (EMV). In fact, we ended fiscal 2017 as the number one prestige beauty company in the U.S. in EMV according to Tribe Dynamics. Online how-to content continues to be an effective engagement technique for brands like Bobbi Brown, the top beauty brand on Facebook Live, where the brand hosts weekly demonstrations, reaching as many as 400,000 fans. Aveda has leveraged the professional authority of Aveda Artists and social-savvy influencers to create on-trend, shareable tutorial content, positioning the brand as a trusted source for "do-it-yourself" Millennial consumers. Jo Malone London introduced "The Talk of the Townhouse," a magazine and digital editorial platform offering consumers original content designed to build brand equity, drive sales and elevate the brand's unique boutique positioning, boosting its brand storytelling and voice along the lines of "Estée Stories" and Clinique's "The Wink."

STRENGTHENING OUR CAPABILITIES

In fiscal 2016, we announced the launch of Leading Beauty Forward, a multi-year initiative to build on our strengths and better leverage our cost structure to free resources for investment to continue sustaining our strong growth momentum. This initiative is designed to fuel our long-term, profitable growth, enhance our go-to-market capabilities, and reinforce our leadership position in global prestige beauty.

Leading Beauty Forward is on track to help us increase our effectiveness by infusing additional speed and agility into our business, so that we can more quickly respond to our changing industry. We've begun establishing more efficient structures in certain areas of the Company, including some of our regional organizations and corporate functions, and redesigned our procurement organization to generate further savings opportunities. These efforts have already enabled us to begin accelerating the changes we need to support stronger digital consumer engagement, enable greater cost leverage, and more aggressively reallocate resources into stronger growth drivers.

Leading Beauty Forward is strengthening our capabilities in critical growth areas while designing a lower cost organization for greater net sales leverage. Combined with our more disciplined cost management efforts, we are helping to drive strong topline growth by providing more resources to fuel our business.

CORE STRENGTHS

While our industry has been evolving, there are still certain fundamentals that hold true. We have responded to changing consumer preferences and will continue to leverage our core strengths. These include: high-quality products and authentic brands that engender loyalty and repeat purchase; the nurturing of hero products and franchises; and High-Touch service and experiences in distribution channels committed to brand-building and to excellent consumer engagement.

In an arena marked by incredible variety, where consumers are constantly flooded with options, creativity is still a differentiator that sets great brands apart. To be noticed, we must be daring with our products, business models, and in our communications. Creativity also means making the most of new analytics that technology provides, connecting the market data and consumer insights in ways that are unique and illuminating.

There are a number of ways we are committed to cultivating creativity. Diversity of gender, ethnicity, nationality and experience bring together different perspectives. Fostering an inclusive and diverse workforce is paramount to generating fresh ideas. We are inspired by the various generations represented among our employees. Our reverse mentoring program is a rich source of innovation, and our Millennial Advisory Board is helping us discover and implement new ways to reach consumers.

We also benefit tremendously from the entrepreneurial spirit of new, innovative companies. When we have the privilege to acquire a new brand, our goal is to help it be the best and to learn from it in the process. Our model isn't focused on assimilation. Rather, it's a model of listening and providing a way for our talent to create and succeed.

PIVOTING TO TOMORROW

As *The Global House of Prestige Beauty* with a 70-year heritage of entrepreneurial success, we have a solid foundation to build upon for the future. The art of leading through change is understanding what has not changed—and how to leverage our historical strengths in new and exciting ways.

We are winning in brand-building, high-growth channels, including online, specialty-multi, and Travel Retail. We have a coveted and diverse portfolio of prestige brands that we are leveraging across regions and channels. Our resources are being deployed in growing geographies as we focus on the biggest opportunities to reach new consumers. We are communicating directly with consumers in new ways, and applying our digital-first mindset through social media, influencers, and via new digital/online technologies. We continue to streamline our operations to increase efficiency and agility, positioning us for greater profitability.

We expect the great momentum we built throughout the past year to continue in fiscal 2018. Our full-year outlook in constant currency reflects net sales growth of 7 to 8 percent, including incremental sales from our fiscal 2017 acquisitions, and double-digit adjusted earnings per share growth. Looking out over the next three years, we continue to target constant currency net sales growth of 6 to 8 percent and double-digit adjusted EPS growth.


M·A·C
NEXT TO NOTHING
NEXT TO NOTHING
FACE COLOUR
FLUIDE ILLUMINATEUR
TEINTÉ
35 ML / 1.2 US FL OZ
NEXT TO NOTHING
FACE COLOUR
FLUIDE ILLUMINATEUR
TEINTÉ
35 ML / 1.2 US FL OZ

OUR WORLD-CLASS TEAM

Our talented and dedicated employees drive our Company's achievements by bringing their passion for beauty, innovation, and success to every aspect of our business. Our Executive Leadership Team brings an extraordinary mix of industry experience, entrepreneurial spirit, and commitment to win in this dynamic and highly competitive environment. We announced a number of strategic leadership appointments this past year including the internal promotion of talented employees into senior roles, as well as the recruitment of future leaders into the Company. We are particularly proud that women represent the majority of our global workforce and senior leadership positions. As we continue to build our world-class team, our focus remains on inclusion and diversity, and education and leadership development at all levels. Our results in fiscal 2017 would not be possible without the brilliant execution by our people around the globe, and we thank them for their hard work and commitment.

We are also grateful to the members of our Board of Directors for their wise counsel and their guidance and support of our strategic focus on long-term value creation. On behalf of our entire senior leadership team, I thank the Board for the invaluable advice and oversight as we position the Company for continued success.

As a family-controlled company, we derive tremendous benefits from the Lauder family's dedication to preserving the legacy of our Company while inspiring us to innovate. It is my privilege to partner with William P. Lauder, whose leadership, commitment to ensuring long-term sustainability, and dedication to cultivating the leaders of the future are integral to our Company's performance.

And importantly, I thank you, our valued stockholders, for your continued support and confidence as we look ahead to great achievements in fiscal 2018 and beyond.

Fabrizio Freda

Fabrizio Freda
President and Chief Executive Officer

*This letter contains references to the following non-GAAP financial measures: constant currency and adjusted diluted earnings per share. We use such 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, or reflect the Company's underlying ongoing business, provides transparency for such items and helps investors and others compare and analyze our operating performance from period to period. In the future, we expect to incur charges or adjustments similar in nature to those presented below; however, the impact to the Company's results in a given period may be highly variable and difficult to predict. Our non-GAAP financial measures may not be comparable to similarly titled measures used by, or determined in a manner consistent with, other companies. 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.

During fiscal 2017, the Company recorded restructuring and other charges of $212 million ($143 million after tax) equal to $.38 per diluted common share; goodwill and other intangible asset impairments of $31 million ($23 million after tax) equal to $.06 per diluted common share; a gain related to changes in fair value of contingent consideration of $57 million ($44 million after tax) or $.12 per diluted common share; and a China deferred tax asset valuation allowance reversal of $75 million, or $.20 per diluted common share. During fiscal 2016, the Company recorded restructuring and other charges of $134 million ($90 million after tax) equal to $.24 per diluted common share; and a charge related to changes in fair value of contingent consideration of $8 million ($8 million after tax) or $.02 per diluted common share. Excluding the effect of the items referenced above, adjusted diluted earnings per share for the year ended June 30, 2017 increased 8%. As reported (including these items), for the year ended June 30, 2017, net sales increased 5% and diluted earnings per share increased 13%. Information about GAAP and non-GAAP financial measures, including reconciliation information, is included in the Financial Section beginning on page 31of this Annual Report and in the Company's Form 8-K submitted to the U.S. Securities and Exchange Commission on August 18, 2017.

OUR COMPANY

AT-A-GLANCE

FISCAL 2017

VISION

A well-diversified, brand building powerhouse of unrivaled creativity and innovation

Global Leader
in Prestige Beauty

46K
Global Employees

25+
Prestige Brands

150+
Countries and Territories

$11.8B
Net Sales

10+
Brand Building Distribution Channels

MULTIPLE ENGINES OF GROWTH
Identifying the best opportunities by:
BRAND | CATEGORY | GEOGRAPHY | CHANNEL

Improving our Organizational Efficiency and Effectiveness through
LEADING BEAUTY FORWARD

$49M
Total FY17 Global Philanthropic Investments

The Global House of
PRESTIGE BEAUTY

OUR BRANDS

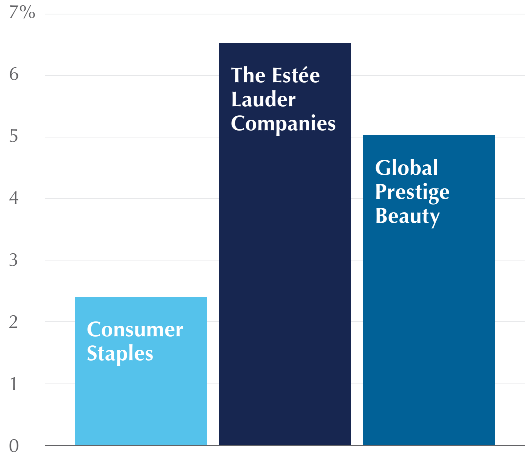
Cultivating an Exceptional Portfolio

AERIN BEAUTY	aramis	AVEDA THE ART AND SCIENCE OF PURE FLOWER AND PLANT ESSENCES	BECCA®	BOBBI BROWN
Bumble and bumble.	CLINIQUE Allergy Tested. 100% Fragrance Free.	DARPHIN PARIS	DKNY DONNA KARAN NEW YORK	DONNA KARAN NEW YORK
EDITIONS DE PARFUMS FREDERIC MALLE	Ermenegildo Zegna PARFUMS	ESTĒE LAUDER	HOLLYWOOD, CALIFORNIA GLAMGLOW®	JO MALONE LONDON
Kilian	Kiton	LA MER	LAB SERIES SKINCARE FOR MEN	LE LABO® GRASSE — NEW YORK
MAC	MICHAEL KORS	ORIGINS	PRESCRIPTIVES Established 1979. Refreshed 2011.	RODIN olio lusso®
smashbox	TOM FORD BEAUTY	TOMMY HILFIGER	Too Faced	TORY BURCH

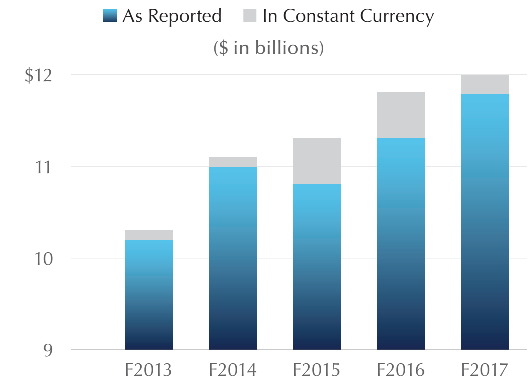
FINANCIAL HIGHLIGHTS

YEAR ENDED JUNE 30

AVERAGE NET SALES GROWTH 2011-2016*



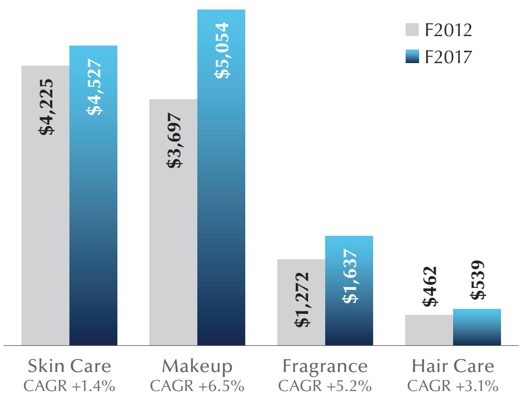
NET SALES**



	F2013	F2014	F2015	F2016	F2017
As Reported	5%	8%	-2%	4%	5%
In Constant Currency	6%	8%	3%	9%	7%

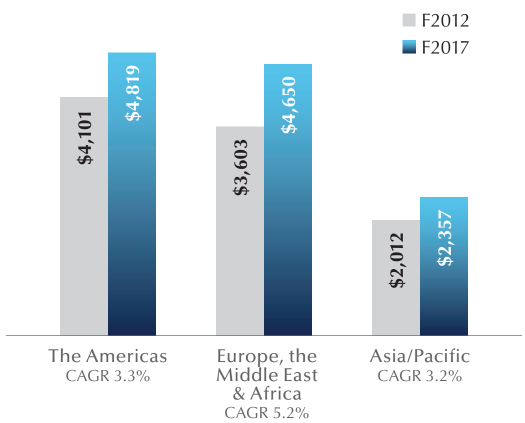
CATEGORY GROWTH

($ in millions)

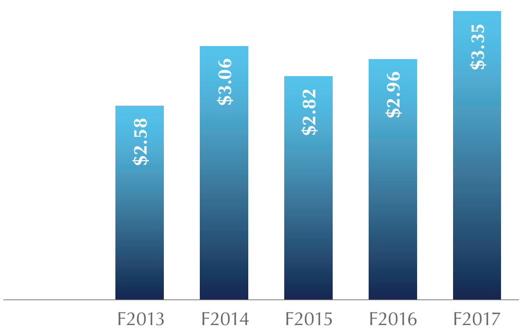


REGION GROWTH

($ in millions)

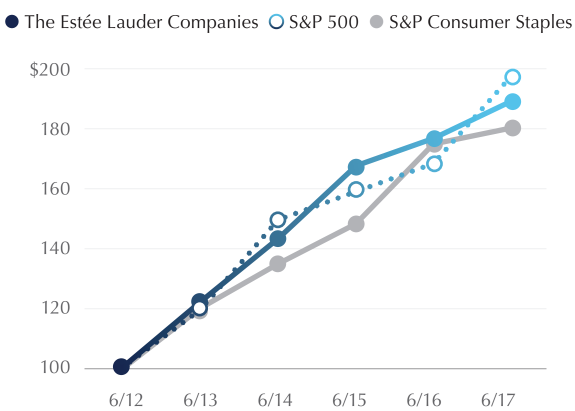


SUSTAINED EPS GROWTH**



	F2013	F2014	F2015	F2016	F2017
As Reported	20%	19%	-8%	5%	13%

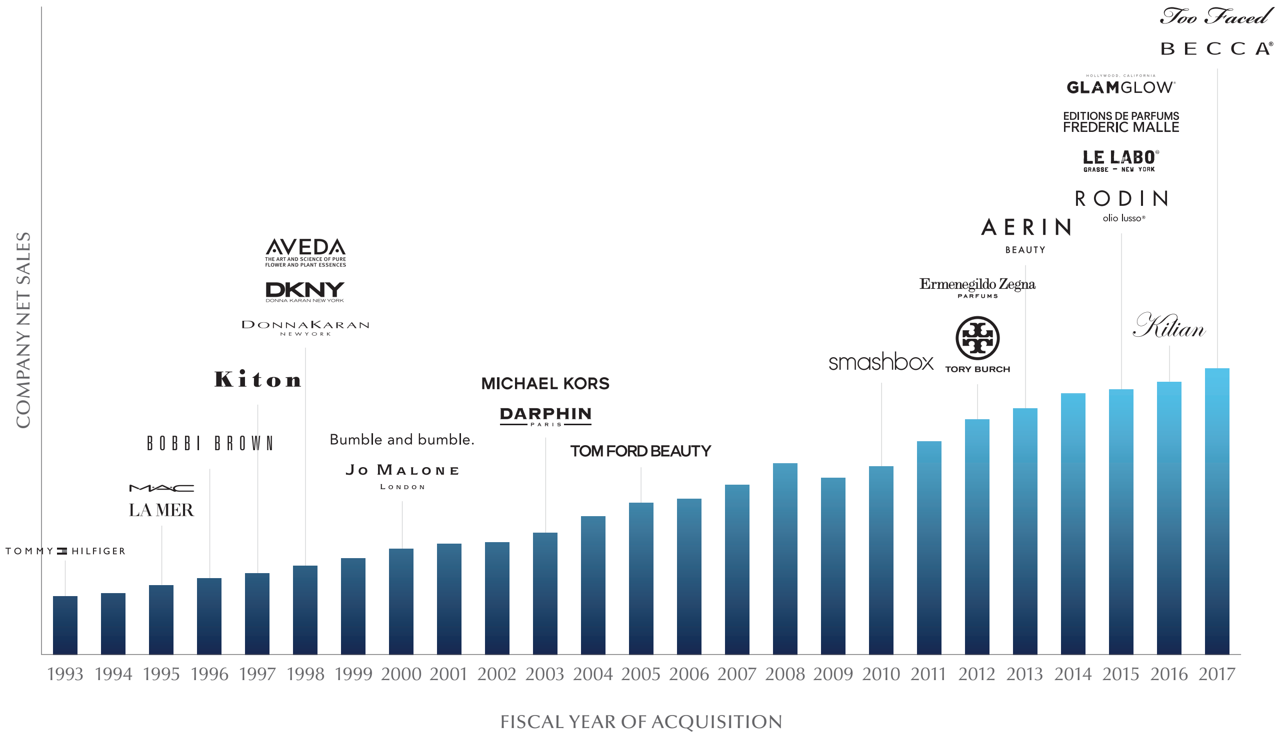
TOTAL STOCKHOLDER RETURN



*Source: ELC sales growth in constant currency for fiscal years 2012 – 2017. Euromonitor 2016 for premium skin care, makeup and fragrances. FactSet data for S&P 500 Consumer Staples sector.

**For more information, see our Financial Section beginning on page 31.

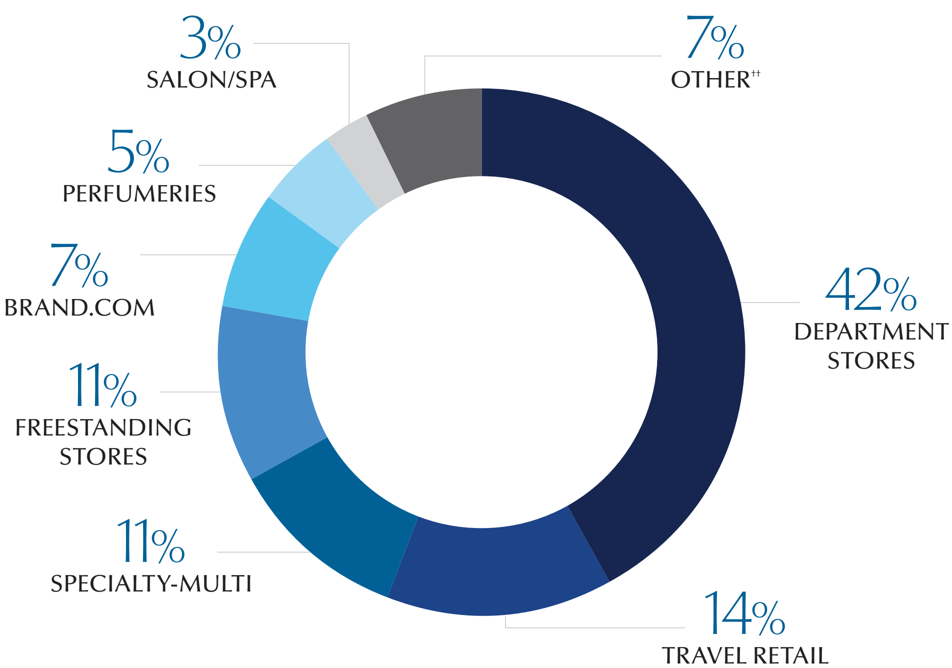
HISTORY OF ACQUISITIONS AND LICENSES†



In addition, the Company made minority investments in Forest Essentials (fiscal 2009), Dr. Jart+ (fiscal 2016), and DECIEM (fiscal 2017).

† Only includes brands in portfolio as of June 30, 2017.

CHANNEL BREAKDOWN



"Brand.com" means the Company's own, branded e/m-commerce websites. E/m-commerce sales are also made by authorized retailers. Our wholesale sales to the retailers are included in the relevant channel (e.g., Department Stores or Specialty-Multi). Including these "retailer.com" sales with our brand.com sales account for about 11% of our overall sales.

†† Other channels include sales primarily to distributors, pharmacies, and military.

BOARD OF DIRECTORS

CHARLENE BARSHEFSKY
Senior International Partner,
WilmerHale

ROSE MARIE BRAVO, CBE
Retail and Marketing Consultant

WEI SUN CHRISTIANSON
Managing Director and Co-CEO
of Asia Pacific and CEO of China,
Morgan Stanley

FABRIZIO FREDA
President and Chief Executive Officer,
The Estée Lauder Companies Inc.

PAUL J. FRIBOURG
Chairman and Chief Executive Officer,
Continental Grain Company

MELLODY HOBSON
President, Ariel Investments, LLC

IRVINE O. HOCKADAY, JR.
Former President and Chief Executive
Officer, Hallmark Cards, Inc.

LEONARD A. LAUDER
Chairman Emeritus,
The Estée Lauder Companies Inc.

JANE LAUDER
Global Brand President, Clinique

RONALD S. LAUDER
Chairman, Clinique Laboratories, LLC

WILLIAM P. LAUDER
Executive Chairman,
The Estée Lauder Companies Inc.

RICHARD D. PARSONS
Senior Advisor,
Providence Equity Partners LLC

LYNN FORESTER DE ROTHSCHILD
Chair, E. L. Rothschild LLC

BARRY S. STERNLICHT
Chairman and Chief Executive Officer,
Starwood Capital Group

RICHARD F. ZANNINO
Managing Director,
CCMP Capital Advisors, LLC

EXECUTIVE OFFICERS

JOHN DEMSEY
Executive Group President

FABRIZIO FREDA
President and Chief Executive Officer

CARL HANEY
Executive Vice President,
Global Research and Development,
Corporate Product Innovation,
Package Development

LEONARD A. LAUDER
Chairman Emeritus

RONALD S. LAUDER
Chairman, Clinique Laboratories, LLC

WILLIAM P. LAUDER
Executive Chairman

SARA E. MOSS
Executive Vice President and
General Counsel

MICHAEL O'HARE
Executive Vice President,
Global Human Resources

GREGORY F. POLCER
Executive Vice President,
Global Supply Chain

CEDRIC PROUVÉ
Group President, International

TRACEY T. TRAVIS
Executive Vice President and
Chief Financial Officer

ALEXANDRA C. TROWER
Executive Vice President,
Global Communications

FINANCIAL SECTION

FINANCIAL CONTENTS

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 62 of this report.

Year Ended or at June 30	2017	2016	2015	2014	2013
(In millions, except per share data)					
STATEMENT OF EARNINGS DATA:					
Net sales [(a) – (b)]	**$ 11,824**	$ 11,262	$ 10,780	$ 10,969	$ 10,182
Net earnings attributable to The Estée Lauder Companies Inc. [(a) - (g)]	**1,249**	1,115	1,089	1,204	1,020
PER SHARE DATA:					
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic [(a) - (g)]	**$ 3.40**	$ 3.01	$ 2.87	$ 3.12	$ 2.63
Diluted [(a) - (g)]	**3.35**	2.96	2.82	3.06	2.58
Cash dividends declared per common share	**1.32**	1.14	.92	.78	1.08
BALANCE SHEET DATA:					
Total assets [(g)]	**$ 11,568**	$ 9,223	$ 8,227	$ 7,860	$ 7,136
Total debt [(d)]	**3,572**	2,242	1,625	1,334	1,335

(a) Fiscal 2017 results included $143 million, after tax, or $.38 per diluted common share related to total charges associated with restructuring and other activities. Fiscal 2016 results included $90 million, after tax, or $.24 per diluted common share related to total charges associated with restructuring and other activities. Fiscal 2014 results included $(2) million, after tax, related to total adjustments associated with restructuring and other activities. Fiscal 2013 results included $12 million, after tax, or $.03 per diluted common share related to total charges associated with restructuring and other activities.

(b) As a result of our July 2014 Strategic Modernization Initiative rollout, approximately $178 million of accelerated orders were recorded as net sales and approximately $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 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 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 February 2017, we issued 1.80%, 3.15% and 4.15% Senior Notes in a public offering, each with an aggregate principal amount of $500 million. These Senior Notes are due in February 2020, March 2027 and March 2047, respectively. We used the net proceeds of the offerings to redeem the Senior Notes due May 15, 2017 and for general corporate purposes. In May 2016, we issued $450 million of 1.70% Senior Notes due May 10, 2021 and an additional $150 million of our 4.375% Senior Notes due June 15, 2045 in a public offering. In June 2015, we issued $300 million of 4.375% Senior Notes due June 15, 2045 in a public offering. In September 2012, we redeemed the $230 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 million ($12 million after tax, or $.03 per diluted share) representing the call premium of $19 million and the pro-rata write-off of less than $1 million of issuance costs and debt discount. In August 2012, we issued $250 million of 2.35% Senior Notes due August 15, 2022 and $250 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) Fiscal 2017 results included $23 million, after tax, or $.06 per diluted common share related to goodwill and other intangible asset impairments.

(f) Fiscal 2017 included a $44 million gain, after tax, or $.12 per diluted common share and fiscal 2016 and 2015 included $8 million and $6 million of expense, after tax, respectively, or $.02 per diluted common share, associated with the changes in fair value of contingent consideration related to certain of our acquisitions.

(g) Fiscal 2017 results include $75 million, or $.20 per diluted common share, related to the reversal of a deferred tax asset valuation allowance. The deferred tax asset and associated valuation allowance related to the accumulated carryforward of excess advertising and promotional expenses. In the fourth quarter of fiscal 2017, a favorable change to the tax law in China was enacted that expanded the corporate income tax deduction allowance for advertising and promotional expenses, resulting in this change in realizability of the asset.

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 2017, 2016 and 2015 and reflects the basis of presentation described in *Note 2 – Summary of Significant Accounting Policies* and *Note 21 – Segment Data and Related Information* of Notes to Consolidated Financial Statements 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	2017	2016	2015
(In millions)			
NET SALES			
By Product Category:			
Skin Care	$ 4,527	$ 4,446	$ 4,479
Makeup	5,054	4,702	4,304
Fragrance	1,637	1,487	1,416
Hair Care	539	554	531
Other	69	74	50
	11,826	11,263	10,780
Returns associated with restructuring and other activities	(2)	(1)	—
Net Sales	$ 11,824	$ 11,262	$ 10,780
By Region:			
The Americas	$ 4,819	$ 4,710	$ 4,514
Europe, the Middle East & Africa	4,650	4,381	4,086
Asia/Pacific	2,357	2,172	2,180
	11,826	11,263	10,780
Returns associated with restructuring and other activities	(2)	(1)	—
Net Sales	$ 11,824	$ 11,262	$ 10,780
OPERATING INCOME (LOSS)			
By Product Category:			
Skin Care	$ 1,014	$ 842	$ 832
Makeup	713	758	659
Fragrance	115	87	83
Hair Care	51	52	38
Other	11	5	(6)
	1,904	1,744	1,606
Charges associated with restructuring and other activities	(212)	(134)	—
Operating Income	$ 1,692	$ 1,610	$ 1,606
By Region:			
The Americas	$ 284	$ 346	$ 302
Europe, the Middle East & Africa	1,203	1,027	943
Asia/Pacific	417	371	361
	1,904	1,744	1,606
Charges associated with restructuring and other activities	(212)	(134)	—
Operating Income	$ 1,692	$ 1,610	$ 1,606

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

Year Ended June 30	2017	2016	2015
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**20.6**	19.4	19.5
Gross profit	**79.4**	80.6	80.5
Operating expenses:			
Selling, general and administrative	**63.3**	65.1	65.6
Goodwill impairment	**0.2**	—	—
Impairment of other intangible assets	—	—	—
Restructuring and other charges	**1.6**	1.2	—
Total operating expenses	**65.1**	66.3	65.6
Operating income	**14.3**	14.3	14.9
Interest expense	**0.8**	0.6	0.6
Interest income and investment income, net	**0.2**	0.1	0.2
Earnings before income taxes	**13.7**	13.8	14.5
Provision for income taxes	**3.1**	3.9	4.4
Net earnings	**10.6**	9.9	10.1
Net earnings attributable to noncontrolling interests	—	—	—
Net earnings attributable to The Estée Lauder Companies Inc.	**10.6%**	9.9%	10.1%

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 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 49 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 increase stockholder value is to continue to provide superior products and services in the most efficient and effective manner while recognizing consumers' changing behaviors and shopping preferences. We are guided by our long-term strategy, 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 build upon and leverage our history of outstanding creativity and innovation, high quality products and services, and engaging communications while investing for long-term sustainable growth.

Our balanced, diverse and highly desirable brand portfolio positions us well to capitalize on opportunities in fast growing and profitable areas of prestige beauty. We believe that 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-market distribution.

- Our skin care product category benefits from hero product lines such as Advanced Night Repair from Estée Lauder and Crème de La Mer from La Mer. During fiscal 2017, we continued to expand these product lines through the introduction of the Advanced Night Repair Eye Concentrate Matrix from Estée Lauder and the Revitalizing Hydrating Serum from La Mer. GLAMGLOW also contributed to the success in the category through targeted expanded consumer reach and new launches such as Plumprageous. In the fourth quarter of fiscal 2017, we purchased a minority interest in DECIEM, a skin care brand, which provides us with a strategic investment in a company that attracts millennials and a diverse consumer base.
- In our makeup category, we further developed hero product lines such as Double Wear and Pure Color Envy from Estée Lauder through the launch of additional products including Double Wear Nude Cushion Stick Radiant Makeup and Pure Color Envy Hi-Lustre Light Sculpting Lipstick. We continuously look to acquire brands that complement our existing business, have significant sales growth potential and provide opportunities for future profitable growth. During our fiscal 2017 second quarter, we expanded our makeup portfolio with the acquisitions of Too Faced and BECCA. Both of these brands are primarily distributed in the faster growing specialty-multi and online channels. They are expected to help us reach new consumers, to increase our sales in these channels and to continue generating strong profitable growth.
- Our fragrance category continues to benefit from increased sales of Jo Malone London and Tom Ford fragrances, as well as from our fiscal 2015 and fiscal 2016 acquisitions. We have also benefited from the growth of the fragrance category in the Asia/Pacific region and look for further opportunities to strengthen our business in this category there.
- In our hair care category, we are reaching new consumers as we expand our presence beyond salons, such as the planned September 2017 launch of Bumble and bumble in Ulta Beauty, a leading specialty-multi retailer in the United States.

Our global footprint provides many avenues of growth. We leverage our regional organizations and the talents and expertise of our people to continue to be locally relevant through evolving the way we connect with our consumers in stores, online and where they travel. This includes the expansion of our digital and social media presence and the engagement of global and local influencers to amplify brand or product stories. We tailor our strategy by country with our products, services, channels, marketing and visual merchandising. We continuously strengthen our presence in large, image-building core markets, such as the United States and the United Kingdom, and broaden our presence in emerging markets, including the Middle East, Russia, South Africa and Brazil.

- In North America, we continue to deploy a number of strategies to accelerate growth, despite a challenging environment especially in brick and mortar department stores, and in Latin America we continue to launch new brands, expand the integration of social media and gain share in prestige beauty by encouraging consumers to trade up from mass-market products.
- In Europe, the Middle East & Africa, we are expanding our digital and social media presence as well as leveraging our makeup strength to gain share in prestige beauty.
- In Asia/Pacific, particularly in China, we are leveraging our diversified brand portfolio to benefit from the growth of the makeup and fragrance categories as well as continuing to launch new skin care products such as the Clinique Fresh Pressed line of products with Vitamin C.

We approach distribution strategically by brand, distribution channel and product category. We are adding brands to faster growing channels, such as e- and m-commerce and specialty multi-brand retailers, and we are expanding certain brands into geographic markets where they are not yet sold.

- In fiscal 2017, we increased our penetration in the specialty-multi channel through the acquisitions of BECCA and Too Faced, and we expanded the representation of our existing brands, such as the launch of M•A•C in Ulta Beauty. In addition, we have opportunities to accelerate our growth within specialty-multi brand retailers as they open new doors.
- Internationally, we are expanding our business in freestanding retail stores operated by us and by authorized third parties, in European perfumeries and pharmacies, and in department stores, particularly in the United Kingdom and certain markets in Asia.
- We seek to optimize distribution in both channels and geographies, matching each brand with appropriate opportunities while maintaining high productivity per door. We focus on brand-building retail opportunities that will expand consumer coverage for our brands. As part of this strategy, we continue to diversify our business in our travel retail channel across brands and product categories. Travel retail continues to be an important channel for brand building and profit margin expansion. At the same time it is susceptible to a number of external factors, including fluctuations in currency exchange rates and consumers' willingness and ability to travel and spend.

- Online net sales continue to grow strongly on a global basis and we are continuing to launch e- and m-commerce sites in new and existing markets. We are also partnering with our retailers globally to drive sales of our products on their online sites. We believe our success in delivering particularly strong online growth is a result of customization of our strategy to meet local market needs. We also continue to develop and implement omnichannel concepts to deliver an integrated consumer experience and better serve consumers as they shop across channels.

While our business is performing well overall, we continue to face strong competition globally and economic challenges in certain countries. In particular, we are cautious of the continued decline in retail traffic primarily related to brick-and-mortar department stores in the United States as a result of the impact of shifts in consumer preferences as to where and how they shop. We are also cautious of foreign currency movements, including their impact on tourism, which has particularly impacted certain tourist-driven stores in the United States. Additionally, we continue to monitor the effects of the macroeconomic environments in certain countries such as Brazil and in the Middle East, the United Kingdom's anticipated exit from the European Union, geopolitical tensions and global security issues.

We believe we can, to some extent, offset the impact of these challenges by accelerating areas of strength among our brands, product categories, channels and markets. However, if economic conditions or the degree of uncertainty or volatility worsen, or the adverse conditions previously described are further prolonged, there could be a negative effect on 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 help promote sustainable results. 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 enable us to introduce products that resonate with consumers. Some initiatives will involve new sub-categories and others may expand key franchises.

Leading Beauty Forward

In May 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 related to the optimization of select corporate functions, supply chain activities, and corporate and regional market support structures, as well as the exit of underperforming businesses, and expect to complete those initiatives through fiscal 2021. Inclusive of charges recorded from inception through June 30, 2017, 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 of these savings in future growth initiatives. For additional information about Leading Beauty Forward, see *Note 8 – Charges Associated with Restructuring and Other Activities* of Notes to Consolidated Financial Statements.

Global Technology Infrastructure

In October 2015, we approved 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. The implementation of the GTI Restructuring was substantially completed during fiscal 2016. For additional information about the GTI restructuring, see *Note 8 – Charges Associated with Restructuring and Other Activities* of Notes to Consolidated Financial Statements.

Strategic Modernization Initiative Implementation

We rolled out the last major wave of our Strategic Modernization Initiative ("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	Net Sales	Operating Results
(In millions)		
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.

Fiscal 2017 Annual Impairment Testing

We assess goodwill and other indefinite-lived intangible assets at least annually for impairment or more frequently if certain events or circumstances exist. Based on our annual goodwill and other intangible asset impairment testing as of April 1, 2017, we determined that the carrying values of the RODIN olio lusso and Editions de Parfums Frédéric Malle reporting units exceeded their fair values. This determination was made based on updated long-term plans, finalized and approved in June 2017, that reflected lower sales growth projections due to a softer than expected retail environment for those brands. As a result, a Step 2 impairment assessment was performed and we recorded an impairment charge of the goodwill related to these reporting units of $28 million. The fair values of the reporting units were based upon the average of the income approach, which utilizes estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of cash flows, and the market approach, which utilizes performance multiples based on market peers. As of June 30, 2017, no goodwill remained related to the RODIN olio lusso reporting unit and the remaining carrying value of the goodwill related to the Editions de Parfums Frédéric Malle reporting unit was $6 million.

We also determined that the carrying values of the RODIN olio lusso and Editions de Parfums Frédéric Malle trademarks, as well as the RODIN olio lusso persona and customer relationship intangible assets exceeded their estimated fair values. The fair values of the trademarks were determined utilizing a royalty rate to determine discounted projected future cash flows. As a result, we recognized impairment charges of $3 million for the remaining carrying values of the RODIN olio lusso trademark, customer relationship and persona intangible assets. We also recognized an impairment charge for the Editions de Parfums Frédéric Malle trademark, which was de minimis. The remaining carrying value of this trademark was $32 million as of June 30, 2017.

The combined goodwill and other intangible asset impairment charges of $9 million and $22 million are reflected in the skin care and fragrance product categories, respectively, and $17 million and $14 million are reflected in the Americas and Europe, the Middle East & Africa regions, respectively.

If the softness in the retail environment impacting our growth projections for the Editions de Parfums Frédéric Malle reporting unit is more severe than we have anticipated, or other business disruptions arise, a resulting change in the long-term plans could have a negative impact on the estimated fair values of the related goodwill and trademark and it is possible we could recognize an impairment charge in the future. Based on the latest quantitative assessment, the fair values of all other reporting units with material goodwill and other indefinite-lived intangible assets, with the exception of our fiscal 2017 acquisitions of Too Faced and BECCA, were substantially in excess of their respective carrying values. With regard to Too Faced and BECCA, the carrying values of the related goodwill and other indefinite-lived intangible assets as of the assessment date approximated their fair values.

NET SALES

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 11,824	$ 11,262
$ Change from prior year	562	482
% Change from prior year	5%	4%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	7%	7%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported net sales in fiscal 2017 increased in each major product category, except hair care, and grew in each geographic region. Skin care net sales primarily benefited from higher sales of La Mer products. Incremental net sales from our fiscal 2017 second quarter acquisitions of Too Faced and BECCA, as well as net sales increases from Tom Ford, Estée Lauder and Smashbox, drove growth in the makeup product category. Our fragrance category primarily benefited from net sales increases from Jo Malone London. Increased net sales from our fiscal 2016 and 2015 acquisitions of GLAMGLOW, By Kilian, Le Labo and Editions de Parfums Frédéric Malle, also contributed to growth in our skin care and fragrance categories. The net sales decrease in our hair care category primarily reflected a difficult comparison with the prior-year period that featured greater launch activity. Each of our product categories benefited from targeted expanded consumer reach, new product offerings and growth from emerging markets and in the specialty-multi and online channels.

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 fiscal 2016 and 2015 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 targeted expanded consumer reach, comparable door sales growth from certain brands, new product offerings and growth from emerging markets.

The reported net sales increases were adversely affected by approximately $187 million and $488 million of unfavorable foreign currency translation for fiscal 2017 and fiscal 2016, respectively.

Returns associated with restructuring and other 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 2017 and 2016 impact of returns associated with restructuring and other activities of approximately $2 million and $1 million, respectively.

Product Categories

Skin Care

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 4,527	$ 4,446
$ Change from prior year	81	(33)
% Change from prior year	2%	(1)%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	3%	1 %

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported skin care net sales increased in fiscal 2017, reflecting higher net sales from La Mer, GLAMGLOW, Estée Lauder, Bobbi Brown and Origins of approximately $157 million, combined, partially offset by lower net sales from Clinique and M•A•C of approximately $93 million, combined. Higher net sales from La Mer were primarily due to targeted expanded consumer reach in the Americas region and in our travel retail business, and the increase in net sales from GLAMGLOW reflected incremental sales from additional product assortments and targeted expanded consumer reach. Higher net sales from Estée Lauder were partially due to net sales growth in our travel retail business and in China resulting from higher net sales of the Advanced Night Repair and Revitalizing Supreme lines of products. Net sales growth from Bobbi Brown was driven by new launches including Instant Confidence Stick and Extra Repair Nourishing Milk. The higher net sales from Origins reflected net sales growth in the Asia/Pacific region and in our travel retail business resulting from higher net sales of toners and facial masks.

The lower net sales of Clinique products primarily reflected a soft retail environment for our products, particularly in our travel retail business, Asia/Pacific and, to a lesser extent, the United Kingdom and brick-and-mortar department stores in the United States. The lower net sales from M•A•C were driven by slower retail traffic in brick-and-mortar stores in the United States reflecting the impact of shifts in consumer preferences as to where and how they shop.

The net sales increase for skin care was adversely affected by approximately $60 million of unfavorable foreign currency translation.

Reported 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.

Makeup

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 5,054	$ 4,702
$ Change from prior year	352	398
% Change from prior year	7%	9%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	9%	13%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported makeup net sales increased in fiscal 2017, reflecting incremental net sales from our fiscal 2017 second quarter acquisitions of Too Faced and BECCA, as well as higher net sales from Tom Ford and Estée Lauder, of approximately $391 million, combined. Increased net sales from Tom Ford were driven by higher sales of lipstick and eyeshadow products, such as the Tom Ford Soleil Color Collection. Increased net sales of Estée Lauder products were due, in part, to higher sales from the Double Wear line of products and the Pure Color franchise.

Partially offsetting these increases were approximately $84 million of lower net sales of M•A•C and Clinique products, primarily reflecting slower retail traffic in brick-and-mortar stores in the United States. Partially offsetting these lower net sales from M•A•C was the net sales growth of the brand in Asia/Pacific and in our travel retail business.

The net sales increase for makeup was adversely affected by approximately $76 million of unfavorable foreign currency translation.

Reported 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.

Fragrance

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 1,637	$ 1,487
$ Change from prior year	150	70
% Change from prior year	10%	5%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	13%	9%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported fragrance net sales increased in fiscal 2017, primarily reflecting higher net sales from our luxury brands of approximately $172 million combined. The higher net sales from Jo Malone London were, in part, due to targeted expanded consumer reach in the travel retail, department store and freestanding store channels, as well as the launch of Basil & Neroli. Increased net sales from Tom Ford reflected, in part, the continued success and growth of existing fragrances such as the Signature and Private Blend Franchises. Partially offsetting the increases was approximately $33 million of lower net sales of certain Estée Lauder and designer fragrances. The lower net sales of certain Estée Lauder fragrances were partially due to a decline in net sales of the Modern Muse franchise. Lower net sales from certain designer fragrances reflected the expiration of our license agreement with Coach.

The net sales increase for fragrance was adversely affected by approximately $47 million of unfavorable foreign currency translation.

Reported 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.

Hair Care

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 539	$ 554
$ Change from prior year	(15)	24
% Change from prior year	(3)%	4%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	(2)%	7%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported hair care net sales decreased in fiscal 2017, primarily reflecting a difficult comparison with the prior-year period that featured greater launch activity.

Reported 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.

Geographic Regions

The Americas

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 4,819	$ 4,710
$ Change from prior year	109	197
% Change from prior year	2%	4%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	2%	5%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported net sales in the Americas increased in fiscal 2017, reflecting incremental sales, primarily in the United States, from our recent acquisitions of Too Faced and BECCA of approximately $220 million, combined. Net sales growth from certain of our brands, including Tom Ford, Smashbox, La Mer and Jo Malone London, also contributed to the higher net sales in the region. Higher net sales in Chile and Brazil contributed an additional increase of approximately $25 million, combined. Net sales in the United States were adversely impacted by slower retail traffic in brick-and-mortar stores that particularly affected M•A•C and our heritage brands. This slower retail traffic reflected the impact of shifts in consumer preferences as to where and how they shop, as well as declines in tourism attributable, in part, to the strong U.S. dollar in relation to most currencies.

Reported 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.

Europe, the Middle East & Africa

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 4,650	$ 4,381
$ Change from prior year	269	294
% Change from prior year	6%	7%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	10%	12%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported net sales in Europe, the Middle East & Africa increased in fiscal 2017, reflecting higher net sales from our travel retail business, Russia and Italy of approximately $338 million, combined. The net sales growth in our travel retail business for fiscal 2017 reflected higher net sales from Tom Ford, Jo Malone London, La Mer and M•A•C, driven, in part, by targeted expanded consumer reach and new product offerings. The higher net sales in Russia were primarily driven by increased net sales from Estée Lauder, Clinique and Bobbi Brown, reflecting successful marketing and promotional activities supporting new and existing products. Russia also benefited from incremental sales from the fiscal 2016 acquisition of By Kilian and the introduction of GLAMGLOW to the market during the current year. The higher net sales in Italy were primarily driven by M•A•C. These increases were partially offset by lower net sales in the United Kingdom and the Middle East of approximately $130 million, combined. Excluding the impact of foreign currency translation, net sales in the United Kingdom increased, primarily driven by higher net sales from Tom Ford, La Mer and Jo Malone London, reflecting an increase in tourism, as well as increased net sales from Estée Lauder partially due to the Victoria Beckham collection. The lower net sales in the Middle East were primarily driven by the impact of the macroeconomic environment on consumer purchases and the associated rebalancing of inventory levels by certain of our distributors.

Net sales in Europe, the Middle East & Africa were adversely affected by approximately $185 million of unfavorable foreign currency translation which primarily impacted the United Kingdom.

Reported 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.

Asia/Pacific

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Net Sales	$ 2,357	$ 2,172
$ Change from prior year	185	(8)
% Change from prior year	9%	Decreased less than 1%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the fiscal 2015 impact of accelerated orders	9%	4%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported net sales in Asia/Pacific increased in fiscal 2017, reflecting higher net sales in China, Japan and Korea of approximately $152 million, combined. These increases were partially offset by lower net sales of approximately $8 million in Hong Kong. The higher net sales in China, led by Estée Lauder, La Mer and M•A•C, benefited from targeted expanded consumer reach and reflected an increase in online sales from all brands, primarily driven by marketing and promotional events. The net sales increase in Japan was primarily due to higher net sales from M•A•C, particularly of lip products, as well as Jo Malone London, which benefited from an increase in tourist traffic and online growth. The net sales growth in Korea reflected higher net sales from M•A•C, particularly of lip products and the cushion compact, La Mer, which benefited from the introduction of new products, and Jo Malone London and Tom Ford, resulting from targeted expanded consumer reach. The lower net sales in Hong Kong were primarily driven by the decrease in Chinese consumers traveling there and changes in their spending patterns, which particularly impacted the Estée Lauder and Clinique brands and, to a lesser extent, La Mer.

Reported 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 Chinese consumers traveling there 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.

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

GROSS MARGIN

Gross margin in fiscal 2017 decreased to 79.4% as compared with 80.6% in fiscal 2016 and 80.5% in fiscal 2015.

	Fiscal 2017 vs. Fiscal 2016 Favorable (Unfavorable) Basis Points	Fiscal 2016 vs. Fiscal 2015 Favorable (Unfavorable) Basis Points
Mix of business	(25)	(20)
Obsolescence charges	(30)	10
Foreign exchange transactions	(25)	(10)
Manufacturing costs and other	15	30
Fiscal 2017 acquisitions	(45)	—
Subtotal	(110)	10
Charges associated with restructuring and other activities	(10)	—
Total	(120)	10

The unfavorable impact of acquisitions for fiscal 2017 was primarily due to a higher cost of sales related to Too Faced and BECCA, which also includes inventory step-up adjustments of $17 million, or approximately 10 basis points.

OPERATING EXPENSES

Operating expenses as a percentage of net sales in fiscal 2017 decreased to 65.1% as compared with 66.3% in fiscal 2016 and 65.6% in fiscal 2015.

	Fiscal 2017 vs. Fiscal 2016 Favorable (Unfavorable) Basis Points	**Fiscal 2016 vs. Fiscal 2015** Favorable (Unfavorable) Basis Points
General and administrative expenses	50	—
Advertising, merchandising, sampling and product development	60	60
Selling	90	20
Shipping	(20)	10
Store operating costs	(30)	(40)
Stock-based compensation	(20)	(10)
Other	10	10
Subtotal	140	50
Charges associated with restructuring and other activities	(50)	(120)
Changes in fair value of contingent consideration	60	—
Goodwill and other intangible asset impairments	(30)	—
Total	120	(70)

Fiscal 2017 as compared with Fiscal 2016

As a percentage of net sales, operating expenses improved as compared to fiscal 2016, reflecting disciplined expense management across all areas and favorable mix shifts in the growth of our brands and channels. The favorable impact of general and administrative expenses also reflected equity investment income, partially offset by transaction costs related to our fiscal 2017 acquisitions. Selling expenses were favorable compared to fiscal 2016, reflecting lower demonstration costs, partially due to changes in distribution channel mix. The changes in the fair value of contingent consideration were due to the reassessment, in June 2017, of the potential earn-out amounts related to certain of our fiscal 2015 and fiscal 2016 acquisitions. See *Note 13 – Fair Value Measurements* of Notes to Consolidated Financial Statements for further information regarding contingent consideration.

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.

OPERATING RESULTS

Year Ended June 30	**2017**	2016
($ in millions)		
As Reported:		
Operating Income	**$ 1,692**	$ 1,610
$ Change from prior year	**82**	4
% Change from prior year	**5%**	Less than 1%
Operating Margin	**14.3%**	14.3%
Non-GAAP Financial Measure[(a)]:		
% Change in operating income from prior year adjusting for the fiscal 2015 impact of accelerated orders, and other charges associated with restructuring and other activities, goodwill and other intangible asset impairments and changes in fair value of contingent consideration	**7%**	1%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported operating results and operating margin in fiscal 2017 were impacted by unfavorable foreign currency translation of $59 million, which had the largest impact on the Europe, the Middle East & Africa region and the makeup product category. Operating margin in fiscal 2017 was flat as compared to fiscal 2016 as the decrease in gross margin was offset by our lower operating expense margin, as previously noted. The change in operating margin was unfavorably impacted by charges associated with restructuring and other activities of approximately 60 basis points and goodwill and other intangible asset impairments of approximately 30 basis points, partially offset by the favorable changes in fair value of contingent consideration of approximately 60 basis points. Adjusting for these items, operating margin for fiscal 2017 would have increased approximately 30 basis points.

The goodwill and intangible asset impairments and changes in fair value of contingent consideration impacted the operating results of our product categories and geographic regions as follows:

(In millions)	Year ended June 30, 2017						Year ended June 30, 2016			
	Goodwill and other intangible asset impairments		Changes in fair value of contingent consideration		Net impact		Changes in fair value of contingent consideration		Year-over-year net impact favorable (unfavorable)	
Product Category:										
Skin Care	$	(9)	$	24	$	15	$	5	$	10
Fragrance		(22)		33		11		(13)		24
Total	$	(31)	$	57	$	26	$	(8)	$	34
Region:										
The Americas	$	(17)	$	43	$	26	$	—	$	26
Europe, the Middle East & Africa		(14)		14		—		(8)		8
Total	$	(31)	$	57	$	26	$	(8)	$	34

Reported 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 and other activities of $134 million. Adjusting for the impact of the accelerated orders and charges associated with restructuring and other activities, operating income would have increased 1% and operating margin would have decreased 30 basis points.

Charges associated with restructuring and other 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 2017 and fiscal 2016 impact of charges associated with restructuring and other activities of $212 million, or 2% of net sales, and $134 million, or 1% of net sales, respectively.

Product Categories

Skin Care

Year Ended June 30	2017		2016	
($ in millions)				
As Reported:				
Operating Income	$	1,014	$	842
$ Change from prior year		172		10
% Change from prior year		20%		1%
Non-GAAP Financial Measure[(a)]:				
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders, goodwill and other intangible asset impairments and changes in fair value of contingent consideration		19%		(8)%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported skin care operating income increased in fiscal 2017, reflecting higher results from La Mer, Estée Lauder and Clinique, partially offset by lower results from M•A•C. The increase in operating income from La Mer and Estée Lauder reflected higher net sales. The higher results from Estée Lauder also reflected a favorable comparison to the higher level of support spending in fiscal 2016. The increase in operating income from Clinique reflected disciplined expense management. The lower results from M•A•C reflected lower net sales. Skin care operating income also reflected the favorable year-over-year net impact of $10 million due to the changes in fair value of contingent consideration partially offset by the impairment of goodwill and other intangible assets in fiscal 2017, as previously discussed.

Reported skin care operating income increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders of $72 million. Excluding this impact, skin care operating income decreased, reflecting lower results from Estée Lauder and Clinique.

Makeup

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Operating Income	$ 713	$ 758
$ Change from prior year	(45)	99
% Change from prior year	(6)%	15%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders	(6)%	8%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported makeup operating income decreased in fiscal 2017, reflecting lower results from M•A•C and Clinique primarily due to a decrease in net sales, as well as transaction costs of $15 million related to our fiscal 2017 acquisitions. Partially offsetting this decrease were higher results from Tom Ford and Estée Lauder, reflecting higher net sales.

Reported makeup operating income increased in fiscal 2016, reflecting higher results from M•A•C, Smashbox, Estée Lauder and Clinique, as well as the favorable comparison due to the fiscal 2015 accelerated orders of $41 million.

Fragrance

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Operating Income	$ 115	$ 87
$ Change from prior year	28	5
% Change from prior year	32%	6%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders, goodwill and other intangible asset impairments and changes in fair value of contingent consideration	4%	0%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported fragrance operating income increased in fiscal 2017, reflecting higher results from Jo Malone London and certain designer fragrances, as well as the favorable year-over-year net impact of $24 million due to the changes in fair value of contingent consideration partially offset by goodwill and other intangible asset impairments, as previously discussed. The higher results from Jo Malone London reflected higher net sales. The higher results from certain of our designer fragrances reflected disciplined expense management and lower selling expenses primarily as a result of a decrease in net sales.

Reported fragrance operating income increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders of $14 million. 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.

Hair Care

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Operating Income	$ 51	$ 52
$ Change from prior year	(1)	14
% Change from prior year	(2)%	37%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders	(2)%	36%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported hair care operating income decreased in fiscal 2017, primarily reflecting lower net sales.

Reported hair care operating results increased in fiscal 2016, reflecting higher results from Aveda and Bumble and bumble due in part to increased sales.

Geographic Regions

The Americas

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Operating Income	$ 284	$ 346
$ Change from prior year	(62)	44
% Change from prior year	(18)%	14%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders, goodwill and other intangible asset impairments and changes in fair value of contingent consideration	(25)%	(4)%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported operating income in the Americas decreased in fiscal 2017, primarily reflecting lower results from M•A•C due to a decrease in net sales. Partially offsetting this decrease was the favorable year-over-year net impact of $26 million due to the changes in fair value of contingent consideration partially offset by the impairment of goodwill and other intangible assets in fiscal 2017, as previously discussed, as well as disciplined expense management by certain of our heritage brands.

Reported operating income in the Americas increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders of $106 million. 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.

Europe, the Middle East & Africa

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Operating Income	$ 1,203	$ 1,027
$ Change from prior year	176	84
% Change from prior year	17%	9%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders, goodwill and other intangible asset impairments and changes in fair value of contingent consideration	16%	4%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported operating income in Europe, the Middle East & Africa increased in fiscal 2017, primarily driven by higher results from our travel retail business and the United Kingdom of approximately $192 million, combined. The higher operating results in our travel retail business were driven by an increase in net sales. Operating income within the United Kingdom partially reflected the favorable year-over-year net impact of $8 million due to the changes in fair value of contingent consideration partially offset by the impairment of goodwill and other intangible assets in fiscal 2017, as previously discussed. The higher results in the region were partially offset by lower results in the Middle East, France and South Africa of approximately $51 million, combined. The lower results in the Middle East reflected lower net sales. The lower results in South Africa and France reflected higher spending on marketing, advertising and promotion behind new and existing products, as well as increased selling costs.

Reported operating income in Europe, the Middle East & Africa increased in fiscal 2016, primarily reflecting higher results from our travel retail business, Germany and the Middle East of approximately $92 million, combined. The higher results from our travel retail business reflected the fiscal 2015 impact of the accelerated orders of $106 million. 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.

Asia/Pacific

Year Ended June 30	2017	2016
($ in millions)		
As Reported:		
Operating Income	$ 417	$ 371
$ Change from prior year	46	11
% Change from prior year	12%	3%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the fiscal 2015 impact of accelerated orders	12%	(3)%

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 49 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

Reported operating income in Asia/Pacific increased in fiscal 2017, primarily reflecting higher results in China, Japan and Korea of approximately $48 million, combined, driven by net sales growth. These higher results were partially offset by lower results in Hong Kong and Indonesia of approximately $9 million, combined, primarily driven by lower net sales.

Reported operating income in Asia/Pacific increased in fiscal 2016, reflecting the favorable comparison due to the fiscal 2015 accelerated orders of $42 million. 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.

INTEREST AND INVESTMENT INCOME

Year Ended June 30	2017	2016	2015
($ in millions)			
Interest expense	$ 103	$ 71	$ 60
Interest income and investment income, net	$ 28	$ 16	$ 14

Interest expense increased in fiscal 2017, primarily due to the issuance of additional long-term debt in May 2016 and February 2017. Interest expense increased in fiscal 2016, primarily due to the issuance of additional long-term debt in June 2015 and May 2016.

Interest income and investment income, net increased in fiscal 2017 primarily due to an increase in cash, short- and long-term investment balances and rates, and in fiscal 2016 primarily due to higher interest income as a result of an increase in short- and long-term investment balances and rates. See *Financial Condition* for further discussion of our modified cash investment strategy.

PROVISION FOR INCOME TAXES

Year Ended June 30	2017	2016	2015
Effective rate for income taxes	22.3%	27.9%	29.9%
Basis-point change from prior year	(560)	(200)	

The effective tax rate in fiscal 2017 decreased approximately 460 basis points due to the reversal of a deferred tax asset valuation allowance (the "China deferred tax asset valuation allowance reversal"). The deferred tax asset and associated valuation allowance related to the accumulated carryforward of excess advertising and promotional expenses. In the fourth quarter of fiscal 2017, a favorable change to the tax law in China was enacted that expanded the corporate income tax deduction allowance for advertising and promotional expenses, resulting in this change in realizability of the asset. Also contributing to this decrease was a reduction in income tax reserve adjustments of approximately 100 basis points.

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 fiscal 2016.

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.

NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.

Year Ended June 30	2017	2016	2015
($ in millions, except per share data)			
As Reported:			
Net earnings attributable to The Estée Lauder Companies Inc.	$ 1,249	$ 1,115	$ 1,089
$ Change from prior year	134	26	
% Change from prior year	12%	2%	
Diluted net earnings per common share	$ 3.35	$ 2.96	$ 2.82
% Change from prior year	13%	5%	
Non-GAAP Financial Measure[(a)]:			
% Change in diluted net earnings per common share from prior year adjusting for the fiscal 2015 impact of accelerated orders, charges associated with restructuring and other activities, the 2015 Venezuela remeasurement charge, goodwill and other intangible asset impairments, changes in fair value of contingent consideration and the China deferred tax asset valuation allowance reversal	8%	5%	

(a) See *Reconciliations of Non-GAAP Financial Measures* below for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures. The fiscal 2015 impact of accelerated orders only impacted the comparison of fiscal 2016 to fiscal 2015.

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 certain items that are not comparable from period to period, or reflect the Company's underlying ongoing business, provides transparency for such items and helps investors and others compare and analyze our operating performance from period to period. In the future, we expect to incur charges or adjustments similar in nature to those presented below; however, the impact to the Company's results in a given period may be highly variable and difficult to predict. Our non-GAAP financial measures may not be comparable to similarly titled measures used by, or determined in a manner consistent with, other companies. 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 charges associated with restructuring and other activities, goodwill and other intangible asset impairments, the changes in the fair value of contingent consideration, the China deferred tax asset valuation allowance reversal, the fiscal 2015 impact of accelerated orders associated with the SMI rollout, 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. Certain information in the prior-year periods have been restated to conform to current period presentation.

Fiscal 2017 as compared with Fiscal 2016

	Year Ended June 30				
($ in millions)	2017	2016	Variance	% Change	% Change in Constant Currency
Net Sales, as reported	$ 11,824	$ 11,262	$ 562	5%	7%
Returns associated with restructuring and other activities	2	1	1		
Net Sales, as adjusted	$ 11,826	$ 11,263	$ 563	5%	7%

	Year Ended June 30				
($ in millions)	2017	2016	Variance	% Change	% Change in Constant Currency
Operating Income, as reported	$ 1,692	$ 1,610	$ 82	5%	9%
Charges associated with restructuring and other activities	212	134	78		
Goodwill and other intangible asset impairments	31	—	31		
Changes in fair value of contingent consideration	(57)	8	(65)		
Operating Income, as adjusted	$ 1,878	$ 1,752	$ 126	7%	11%

	Year Ended June 30				
	2017	2016	Variance	% Change	% Change in Constant Currency
Diluted net earnings per common share, as reported	$ 3.35	$ 2.96	$ .39	13%	17%
Charges associated with restructuring and other activities	.38	.24	.14		
Goodwill and other intangible asset impairments	.06	—	.06		
Changes in fair value of contingent consideration	(.12)	.02	(.14)		
China deferred tax asset valuation allowance reversal	(.20)	—	(.20)		
Diluted net earnings per common share, as adjusted	$ 3.47	$ 3.22	$ .25	8%	11%

As diluted net earnings per common share, as adjusted, is used as a measure of the Company's performance, we consider the impact of current and deferred income taxes when calculating the per-share impact of each of the reconciling items.

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:

(In millions)	As Reported: Year ended June 30, 2017	Year ended June 30, 2016	Variance	Add: Impact of foreign currency translation	Variance, as adjusted	% Change, as reported	% Change, as adjusted
By Product Category:							
Skin Care	**$ 4,527**	$ 4,446	$ 81	$ 60	$ 141	2%	3%
Makeup	**5,054**	4,702	352	76	428	7	9
Fragrance	**1,637**	1,487	150	47	197	10	13
Hair Care	**539**	554	(15)	4	(11)	(3)	(2)
Other	**69**	74	(5)	—	(5)	(7)	(7)
	11,826	11,263	563	187	750	5	7
Returns associated with restructuring and other activities	**(2)**	(1)	(1)	—	(1)		
Total	**$ 11,824**	$ 11,262	$ 562	$ 187	$ 749	5%	7%
By Region:							
The Americas	**$ 4,819**	$ 4,710	$ 109	$ 2	$ 111	2%	2%
Europe, the Middle East & Africa	**4,650**	4,381	269	185	454	6	10
Asia/Pacific	**2,357**	2,172	185	—	185	9	9
	11,826	11,263	563	187	750	5	7
Returns associated with restructuring and other activities	**(2)**	(1)	(1)	—	(1)		
Total	**$ 11,824**	$ 11,262	$ 562	$ 187	$ 749	5%	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 goodwill and other intangible asset impairments and changes in fair value of contingent consideration:

(In millions)	As Reported: Year ended June 30, 2017	Year ended June 30, 2016	Variance	Add: Goodwill and other intangible asset impairments	Add: Changes in fair value of contingent consideration	Variance, as adjusted	% Change, as reported	% Change, as adjusted
By Product Category:								
Skin Care	**$ 1,014**	$ 842	$ 172	$ 9	$ (19)	$ 162	20%	19%
Makeup	**713**	758	(45)	—	—	(45)	(6)	(6)
Fragrance	**115**	87	28	22	(46)	4	32	4
Hair Care	**51**	52	(1)	—	—	(1)	(2)	(2)
Other	**11**	5	6	—	—	6	100+	100+
	1,904	1,744	160	31	(65)	126	9	7
Charges associated with restructuring and other activities	**(212)**	(134)	(78)	—	—	(78)		
Total	**$ 1,692**	$ 1,610	$ 82	$ 31	$ (65)	$ 48	5%	3%
By Region:								
The Americas	**$ 284**	$ 346	$ (62)	$ 17	$ (43)	$ (88)	(18)%	(25)%
Europe, the Middle East & Africa	**1,203**	1,027	176	14	(22)	168	17	16
Asia/Pacific	**417**	371	46	—	—	46	12	12
	1,904	1,744	160	31	(65)	126	9	7
Charges associated with restructuring and other activities	**(212)**	(134)	(78)	—	—	(78)		
Total	**$ 1,692**	$ 1,610	$ 82	$ 31	$ (65)	$ 48	5%	3%

Fiscal 2016 as compared with Fiscal 2015

($ in millions)	Year Ended June 30: 2016	2015	Variance	% Change	% Change in Constant Currency
Net Sales, as reported	$ 11,262	$ 10,780	$ 482	4%	9%
Accelerated orders associated with SMI rollout	—	178	(178)		
Returns associated with restructuring and other activities	1	—	1		
Net Sales, as adjusted	$ 11,263	$ 10,958	$ 305	3%	7%

($ in millions)	Year Ended June 30: 2016	2015	Variance	% Change	% Change in Constant Currency
Operating Income, as reported	$ 1,610	$ 1,606	$ 4	0%	9%
Accelerated orders associated with SMI rollout	—	127	(127)		
Venezuela remeasurement charge	—	5	(5)		
Changes in fair value of contingent consideration	8	7	1		
Charges associated with restructuring and other activities	134	—	134		
Operating Income, as adjusted	$ 1,752	$ 1,745	$ 7	0%	8%

	Year Ended June 30				
	2016	2015	Variance	% Change	% Change in Constant Currency
(Not adjusted for differences caused by rounding)					
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)		
Changes in fair value of contingent consideration	.02	.02	—		
Charges associated with restructuring and other activities	.24	—	.24		
Diluted net earnings per common share, as adjusted	$ 3.22	$ 3.07	$ .15	5%	13%

As diluted net earnings per common share, as adjusted, is used as a measure of the Company's performance, we consider the impact of current and deferred income taxes when calculating the per-share impact of each of the reconciling items.

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:

	As Reported							
(In millions)	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
By Product Category:								
Skin Care	$ 4,446	$ 4,479	$ (33)	$ 163	$ (91)	$ 39	(1)%	1%
Makeup	4,702	4,304	398	233	(65)	566	9	13
Fragrance	1,487	1,416	71	75	(21)	125	5	9
Hair Care	554	531	23	14	(1)	36	4	7
Other	74	50	24	3	—	27	48	54
	11,263	10,780	483	488	(178)	793	4	7
Returns associated with restructuring and other activities	(1)	—	(1)	—	—	(1)		
Total	$ 11,262	$ 10,780	$ 482	$ 488	$ (178)	$ 792	4%	7%
By Region:								
The Americas	$ 4,710	$ 4,514	$ 196	$ 101	$ (84)	$ 213	4%	5%
Europe, the Middle East & Africa	4,381	4,086	295	265	(68)	492	7	12
Asia/Pacific	2,172	2,180	(8)	122	(26)	88	0	4
	11,263	10,780	483	488	(178)	793	4	7
Returns associated with restructuring and other activities	(1)	—	(1)	—	—	(1)		
Total	$ 11,262	$ 10,780	$ 482	$ 488	$ (178)	$ 792	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 and changes in fair value of contingent consideration:

(In millions)	As Reported Year ended June 30, 2016	Year ended June 30, 2015	Variance	Add: Impact of accelerated orders	Add: Changes in fair value of contingent consideration	Variance, as adjusted	% Change, as reported	% Change, as adjusted
By Product Category:								
Skin Care	$ 842	$ 832	$ 10	$ (72)	$ (9)	$ (71)	1%	(8)%
Makeup	758	659	99	(41)	—	58	15	8
Fragrance	87	83	4	(14)	10	—	6	0
Hair Care	52	38	14	—	—	14	37	36
Other	5	(6)	11	—	—	11	100+	100+
	1,744	1,606	138	(127)	1	12	9	1
Charges associated with restructuring and other activities	(134)	—	(134)	—	—	(134)		
Total	$ 1,610	$ 1,606	$ 4	$ (127)	$ 1	$ (122)	0%	(7)%
By Region:								
The Americas	$ 346	$ 302	$ 44	$ (53)	$ (6)	$ (15)	14%	(4)%
Europe, the Middle East & Africa	1,027	943	84	(53)	7	38	9	4
Asia/Pacific	371	361	10	(21)	—	(11)	3	(3)
	1,744	1,606	138	(127)	1	12	9	1
Charges associated with restructuring and other activities	(134)	—	(134)	—	—	(134)		
Total	$ 1,610	$ 1,606	$ 4	$ (127)	$ 1	$ (122)	0%	(7)%

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, 2017, we had cash and cash equivalents of $1,136 million compared with $914 million at June 30, 2016. 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.

In addition, we 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 $1,498 million and $1,505 million at June 30, 2017 and 2016, 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 initiatives, 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, 2017 include $2,376 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.

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. 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 or information. As of August 18, 2017, 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 45% at June 30, 2017 from 39% at June 30, 2016, primarily due to the February 2017 issuance of the 1.80% Senior Notes due February 7, 2020 ("2020 Senior Notes"), 3.15% Senior Notes due March 15, 2027 ("2027 Senior Notes") and 4.15% Senior Notes due March 15, 2047 ("2047 Senior Notes").

For further information regarding our current and long-term debt and available financing, see *Note 11 – Debt* of Notes to Consolidated Financial Statements.

Cash Flows

Year Ended June 30	**2017**	2016	2015
($ in millions)			
Net cash provided by operating activities	**$ 1,800**	$ 1,789	$ 1,943
Net cash used for investing activities	**$ (2,214)**	$ (1,269)	$ (1,616)
Net cash provided by (used for) financing activities	**$ 630**	$ (605)	$ (895)

The fiscal 2017 increase in net cash provided by operating activities as compared with fiscal 2016 was primarily driven by an increase in net earnings, a decrease in discretionary pension and post-retirement benefit contributions and a favorable change in accounts receivable due to the timing of shipments and collections. These improvements were partially offset by unfavorable changes in accounts payable, primarily due to the timing of payments, and other accrued and noncurrent liabilities, related to a change in legal accruals, accrued professional fees and accrued employee incentive compensation, partially offset by advertising and promotional accruals. The overall change in cash flows from certain working capital components was impacted by our fiscal 2017 acquisitions.

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 2017 increase in net cash used for investing activities primarily reflected cash paid in connection with the fiscal 2017 second quarter acquisitions of Too Faced and BECCA, partially offset by lower net purchases of investments in connection with our cash investment strategy.

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 2017 increase in net cash provided by financing activities reflected the issuance of the 2020 Senior Notes, 2027 Senior Notes and 2047 Senior Notes, partially offset by the repayment of the 5.55% Senior Notes due May 15, 2017. The increase also reflected lower treasury stock purchases and higher commercial paper borrowings, partially offset by higher dividend payments.

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 1.70% Senior Notes due May 10, 2021 and additional 4.375% Senior Notes due June 15, 2045, as well as lower treasury stock purchases, partially offset by higher dividend payments.

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, 2017 and through August 18, 2017, see *Note 16 – Common Stock* of Notes to Consolidated Financial Statements.

Pension and Post-retirement Plan Funding

Several factors influence the annual funding requirements for our pension plans. For our domestic trust-based noncontributory qualified defined benefit pension plan ("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 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. For fiscal 2017 and 2016, we met or exceeded all contribution requirements under ERISA regulations for the U.S. Qualified Plan. In fiscal 2016, we made a discretionary cash contribution to the U.S. Qualified Plan of $30 million. 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 2018.

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

(In millions)	Expected 2018	**2017**	2016
Non-qualified domestic noncontributory pension plan benefit payments	$ 23	**$ 7**	$ 9
International defined benefit pension plan contributions	$ 27	**$ 24**	$ 22
Post-retirement plan benefit payments	$ 1	**$ 7**	$ 6

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 *Note 15 – Commitments and Contingencies (Contractual Obligations)* of Notes to Consolidated Financial Statements.

Contractual Obligations

For a discussion of our contractual obligations, see *Note 15 – Commitments and Contingencies (Contractual Obligations)* of Notes to Consolidated Financial Statements.

Derivative Financial Instruments and Hedging Activities

For a discussion of our derivative financial instruments and hedging activities, see *Note 12 – Derivative Financial Instruments* of Notes to Consolidated Financial Statements.

Foreign Exchange Risk Management

For a discussion of foreign exchange risk management, see *Note 12 – Derivative Financial Instruments (Cash-Flow Hedges)* of Notes to Consolidated Financial Statements.

Credit Risk

For a discussion of credit risk, see *Note 12 – Derivative Financial Instruments (Credit Risk)* of Notes to Consolidated Financial Statements.

Market Risk

During the first quarter of fiscal 2017, we changed our market risk assessment model from a value-at-risk model to a sensitivity based model. This sensitivity analysis utilizes hypothetical changes in currency exchange rates and interest rates at the end of the reporting period to express the potential future losses for an instrument or portfolio from adverse changes in market factors. We believe this model provides greater insight into the impact of market risk exposures on our derivative instruments.

We address certain financial exposures through a controlled program of market risk management that includes the use of foreign currency forward contracts to reduce the effects of fluctuating foreign currency exchange rates and to mitigate the change in fair value of specific assets and liabilities on the balance sheet. To perform a sensitivity analysis of our foreign currency forward contracts, we assess the change in fair values from the impact of hypothetical changes in foreign currency exchange rates. A hypothetical 10% weakening of the U.S. dollar against the foreign exchange rates for the currencies in our portfolio would have resulted in a net decrease in the fair value of our portfolio of approximately $26 million and $22 million as of June 30, 2017 and 2016, respectively. This potential change does not consider our underlying foreign currency exposures.

In addition, we enter into interest rate derivatives to manage the effects of interest rate movements on our aggregate liability portfolio, including future debt issuances. Based on a hypothetical 100 basis point increase in interest rates, the estimated fair value of our interest rate derivatives would decrease by $34 million and $15 million as of June 30, 2017 and 2016, respectively.

Our sensitivity analysis 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. 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 *Note 2 – Summary of Significant Accounting Policies* of Notes to Consolidated Financial Statements for discussion regarding the impact of accounting standards that were recently issued but not yet effective, on our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition at June 30, 2017 and our results of operations for the three fiscal years ended June 30, 2017 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.

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, which includes information about the sales return accrual, see *Note 2 – Summary of Significant Accounting Policies* of Notes to Consolidated Financial Statements.

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 *Note 2 – Summary of Significant Accounting Policies* of Notes to Consolidated Financial Statements.

PENSION AND OTHER POST-RETIREMENT BENEFIT COSTS

We offer the following benefits to some or all of our employees: the 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 2017, net periodic benefit cost was determined using discount rates for our Domestic Plans of 3.70% and 3.00% and varying rates on our international plans between .25% and 6.00%. 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.

For fiscal 2017, we used an expected return on plan assets of 7.00% for our U.S. Qualified Plan and varying rates of between 1.50% and 6.00% 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 *Note 14 – Pension, Deferred Compensation and Post-retirement Benefit Plans* of Notes to Consolidated Financial Statements 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 2017, our pension plans had actual return on assets of approximately $99 million as compared with expected return on assets of approximately $68 million. The resulting net deferred gain of approximately $31 million, when combined with gains and losses from previous years, will be amortized over periods ranging from approximately 7 to 19 years. The actual return on plan assets from our global pension plans was higher than expected due to the strong performance of equity assets globally and enhanced by fixed income returns in the United Kingdom plan.

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 2017 pension expense:

(In millions)	25 Basis-Point Increase	25 Basis-Point Decrease
Discount rate	$ (4)	$ 4
Expected return on assets	$ (3)	$ 3

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 2017 would have had the following effects:

(In millions)	100 Basis-Point Increase	100 Basis-Point Decrease
Effect on total service and interest costs	$ 1	$ (1)
Effect on post-retirement benefit obligations	$ 15	$ (13)

To determine the fiscal 2018 net periodic benefit cost, we are using discount rates of 3.90% and 3.40% for the U.S. Qualified Plan and the non-qualified domestic noncontributory pension plan, respectively, and varying rates for our international plans of between .50% and 6.75%. 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 1.75% and 6.75%. The net change in these two key assumptions from those used in fiscal 2017 will result in a decrease in pension expense of approximately $1 million in fiscal 2018.

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 2017 and 2016, we elected to perform the qualitative assessment for certain 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 our other reporting units and other indefinite-lived intangible assets, including those acquired during and subsequent to 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. With regard to our fiscal 2017 acquisitions of BECCA and Too Faced, the carrying values of the related goodwill and other indefinite-lived intangible assets as of the assessment date approximated their fair values.

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 *Note 2 – Summary of Significant Accounting Policies* of Notes to Consolidated Financial Statements.

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, 2017, we have net deferred tax assets of $322 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 $42 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.

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 *Note 2 – Summary of Significant Accounting Policies* of Notes to Consolidated Financial Statements.

QUANTITATIVE ANALYSIS

During the three-year period ended June 30, 2017, 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 2017:

(In millions, except per share data)	250 Basis-Point Increase		250 Basis-Point Decrease	
Gross profit	$	(7)	$	7
Operating income	$	(7)	$	7
Income taxes	$	—	$	—
Net earnings attributable to The Estée Lauder Companies Inc.	$	(6)	$	6
Net earnings attributable to The Estée Lauder Companies Inc. per diluted common share	$	(.02)	$	.02

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 are intended to identify "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;

(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;

(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 the Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

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

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended June 30		2017		2016		2015
(In millions, except per share data)						
Net Sales	$	11,824	$	11,262	$	10,780
Cost of Sales		2,437		2,181		2,100
Gross Profit		9,387		9,081		8,680
Operating expenses						
Selling, general and administrative		7,469		7,338		7,074
Restructuring and other charges		195		133		—
Goodwill impairment		28		—		—
Impairment of other intangible assets		3		—		—
Total operating expenses		7,695		7,471		7,074
Operating Income		1,692		1,610		1,606
Interest expense		103		71		60
Interest income and investment income, net		28		16		15
Earnings before Income Taxes		1,617		1,555		1,561
Provision for income taxes		361		434		467
Net Earnings		1,256		1,121		1,094
Net earnings attributable to noncontrolling interests		(7)		(6)		(5)
Net earnings attributable to The Estée Lauder Companies Inc.	$	1,249	$	1,115	$	1,089
Net earnings attributable to The Estée Lauder Companies Inc. per common share						
Basic	$	3.40	$	3.01	$	2.87
Diluted	$	3.35	$	2.96	$	2.82
Weighted-average common shares outstanding						
Basic		367.1		370.0		379.3
Diluted		373.0		376.6		385.7
Cash dividends declared per common share	$	1.32	$	1.14	$	.92

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Year Ended June 30	2017	2016	2015
(In millions)			
Net earnings	$ 1,256	$ 1,121	$ 1,094
Other comprehensive income (loss):			
Net unrealized investment gain (loss)	(8)	7	(1)
Net derivative instrument gain (loss)	(54)	(18)	70
Amounts included in net periodic benefit cost	102	(88)	(24)
Translation adjustments	32	(101)	(306)
Benefit (provision) for deferred income taxes on components of other comprehensive income	(11)	36	(22)
Total other comprehensive income (loss)	61	(164)	(283)
Comprehensive income	1,317	957	811
Comprehensive (income) loss attributable to noncontrolling interests:			
Net earnings	(7)	(6)	(5)
Translation adjustments	—	—	2
	(7)	(6)	(3)
Comprehensive income attributable to The Estée Lauder Companies Inc.	$ 1,310	$ 951	$ 808

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

June 30		2017		2016
($ in millions)				
ASSETS				
Current Assets				
Cash and cash equivalents	$	1,136	$	914
Short-term investments		605		469
Accounts receivable, net		1,395		1,258
Inventory and promotional merchandise, net		1,479		1,264
Prepaid expenses and other current assets		349		320
Total current assets		4,964		4,225
Property, Plant and Equipment, net		1,671		1,583
Other Assets				
Long-term investments		1,026		1,108
Goodwill		1,916		1,228
Other intangible assets, net		1,327		344
Other assets		664		735
Total other assets		4,933		3,415
Total assets	$	11,568	$	9,223
LIABILITIES AND EQUITY				
Current Liabilities				
Current debt	$	189	$	332
Accounts payable		835		717
Other accrued liabilities		1,799		1,632
Total current liabilities		2,823		2,681
Noncurrent Liabilities				
Long-term debt		3,383		1,910
Other noncurrent liabilities		960		1,045
Total noncurrent liabilities		4,343		2,955
Commitments and Contingencies				
Equity				
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at June 30, 2017 and June 30, 2016; shares issued: 429,968,260 at June 30, 2017 and 424,109,008 at June 30, 2016; Class B shares authorized: 304,000,000 at June 30, 2017 and June 30, 2016; shares issued and outstanding: 143,762,288 at June 30, 2017 and 144,770,237 at June 30, 2016		6		6
Paid-in capital		3,559		3,161
Retained earnings		8,452		7,693
Accumulated other comprehensive loss		(484)		(545)
		11,533		10,315
Less: Treasury stock, at cost; 205,627,082 Class A shares at June 30, 2017 and 201,119,435 Class A shares at June 30, 2016		(7,149)		(6,743)
Total stockholders' equity – The Estée Lauder Companies Inc.		4,384		3,572
Noncontrolling interests		18		15
Total equity		4,402		3,587
Total liabilities and equity	$	11,568	$	9,223

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended June 30	2017	2016	2015
(In millions)			
Common stock, beginning of year	$ 6	$ 6	$ 6
Stock-based compensation	—	—	—
Common stock, end of year	6	6	6
Paid-in capital, beginning of year	3,161	2,872	2,563
Stock-based compensation	398	289	309
Paid-in capital, end of year	3,559	3,161	2,872
Retained earnings, beginning of year	7,693	7,004	6,266
Common stock dividends	(490)	(426)	(351)
Net earnings attributable to The Estée Lauder Companies Inc.	1,249	1,115	1,089
Retained earnings, end of year	8,452	7,693	7,004
Accumulated other comprehensive loss, beginning of year	(545)	(381)	(100)
Other comprehensive income (loss)	61	(164)	(281)
Accumulated other comprehensive loss, end of year	(484)	(545)	(381)
Treasury stock, beginning of year	(6,743)	(5,857)	(4,879)
Acquisition of treasury stock	(355)	(835)	(928)
Stock-based compensation	(51)	(51)	(50)
Treasury stock, end of year	(7,149)	(6,743)	(5,857)
Total stockholders' equity – The Estée Lauder Companies Inc.	4,384	3,572	3,644
Noncontrolling interests, beginning of year	15	11	14
Net earnings attributable to noncontrolling interests	7	6	5
Distributions to noncontrolling interest holders	(4)	(5)	(6)
Acquisition of noncontrolling interest	—	3	—
Other comprehensive loss	—	—	(2)
Noncontrolling interests, end of year	18	15	11
Total equity	$ 4,402	$ 3,587	$ 3,655

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30	2017	2016	2015
(In millions)			
Cash Flows from Operating Activities			
Net earnings	$ 1,256	$ 1,121	$ 1,094
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	464	415	409
Deferred income taxes	(118)	(94)	(53)
Non-cash stock-based compensation	219	184	165
Excess tax benefits from stock-based compensation arrangements	(45)	(23)	(48)
Loss on disposal of property, plant and equipment	5	17	15
Goodwill and other intangible asset impairments	31	—	—
Non-cash restructuring and other charges	3	19	—
Pension and post-retirement benefit expense	80	71	64
Pension and post-retirement benefit contributions	(38)	(67)	(59)
Changes in fair value of contingent consideration	(57)	8	7
Other non-cash items	(21)	(7)	—
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	(92)	(101)	103
Increase in inventory and promotional merchandise, net	(85)	(69)	(26)
Decrease (increase) in other assets, net	(80)	(72)	8
Increase in accounts payable	54	101	147
Increase in other accrued and noncurrent liabilities	224	286	117
Net cash flows provided by operating activities	1,800	1,789	1,943
Cash Flows from Investing Activities			
Capital expenditures	(504)	(525)	(473)
Payments for acquired businesses, net of cash acquired	(1,681)	(101)	(241)
Proceeds from the disposition of investments	1,226	1,373	305
Purchases of investments	(1,267)	(2,016)	(1,207)
Proceeds from sale of property, plant and equipment	12	—	—
Net cash flows used for investing activities	(2,214)	(1,269)	(1,616)
Cash Flows from Financing Activities			
Proceeds of current debt, net	165	—	13
Proceeds from issuance of long-term debt, net	1,498	616	294
Debt issuance costs	(11)	(4)	(4)
Repayments and redemptions of long-term debt	(306)	(8)	(8)
Net proceeds from stock-based compensation transactions	141	85	101
Excess tax benefits from stock-based compensation arrangements	45	23	48
Payments to acquire treasury stock	(413)	(890)	(983)
Dividends paid to stockholders	(486)	(423)	(350)
Payments to noncontrolling interest holders for dividends	(3)	(4)	(6)
Net cash flows provided by (used for) financing activities	630	(605)	(895)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	6	(22)	(40)
Net Increase (Decrease) in Cash and Cash Equivalents	222	(107)	(608)
Cash and Cash Equivalents at Beginning of Year	914	1,021	1,629
Cash and Cash Equivalents at End of Year	$ 1,136	$ 914	$ 1,021

See 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, By Kilian, BECCA and Too Faced. 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.

Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to current year presentation.

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 $32 million, $(109) million and $(322) million, net of tax, in fiscal 2017, 2016 and 2015, respectively. For the Company's Venezuelan and Ukrainian subsidiaries operating in highly inflationary economies, 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. These subsidiaries are not material to the Company's consolidated financial statements or liquidity in fiscal 2017, 2016 and 2015.

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 on foreign currency transactions of $15 million, $16 million and $4 million in fiscal 2017, 2016 and 2015, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include $434 million and $205 million of short-term time deposits at June 30, 2017 and 2016, 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 13 – Fair Value Measurements* for further information about how the fair values of investments are determined.

Investments in the common stock of privately-held companies in which the Company has significant influence, but less than a controlling financial interest, are accounted for under the equity method of accounting. The Company accounts for all other investments using the cost-method of accounting. These investments were not material to the Company's consolidated financial statements as of June 30, 2017 and 2016 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 $30 million and $24 million as of June 30, 2017 and 2016, 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.

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 2017 and 2016, the Company elected to perform the qualitative assessment for certain 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.

For the Company's other reporting units and other indefinite-lived intangible assets, including those acquired during and subsequent to 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. To determine the fair value of other indefinite-lived intangible assets, we use an income approach, the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset.

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 $922 million, or 8%, $1,065 million, or 9%, and $1,060 million, or 10%, of the Company's consolidated net sales in fiscal 2017, 2016 and 2015, respectively. This customer accounted for $112 million, or 8%, and $164 million, or 13%, of the Company's accounts receivable at June 30, 2017 and 2016, 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 3.5% in fiscal 2017, 3.1% in fiscal 2016 and 3.4% in fiscal 2015.

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 $1,405 million, $1,387 million and $1,378 million in fiscal 2017, 2016 and 2015, respectively.

Advertising and Promotion

Global net expenses for advertising, merchandising, sampling, promotion and product development were $2,908 million, $2,821 million and $2,772 million in fiscal 2017, 2016 and 2015, respectively, and are expensed as incurred. Excluding the impact of purchase with purchase and gift with purchase promotions, which are included in Net Sales and Cost of Sales, costs for advertising, merchandising, sampling, promotion and product development included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings were $2,689 million, $2,607 million and $2,559 million in fiscal 2017, 2016 and 2015, respectively.

Research and Development

Research and development costs of $179 million, $191 million and $178 million in fiscal 2017, 2016 and 2015, 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 $400 million, $363 million and $364 million in fiscal 2017, 2016 and 2015, 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 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 Issued Accounting Standards

Pension-related Costs

In March 2017, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that amends how companies present net periodic benefit cost in the income statement and balance sheet relating to defined benefit pension and/or other postretirement benefit plans. Within the income statement, the new guidance requires companies to report the service cost component within operating expenses and report the other components of net periodic benefit cost below operating income (if one is reported). In addition, within the balance sheet, the guidance changes the components of the pension cost eligible for capitalization to the service cost component only (e.g., as a cost of internally manufactured inventory or a self-constructed asset).

Effective for the Company – Fiscal 2019 first quarter, with early adoption permitted as of the first interim period in fiscal 2018. The guidance must be applied (a) retrospectively as it pertains to the income statement classification of the components of net periodic benefit cost and (b) prospectively as it pertains to future capitalization of service costs.

Impact on consolidated financial statements – The Company will adopt this guidance when it becomes effective and although certain components of pension expense will be reclassified out of operating income, the Company does not believe this will have a material impact on reported operating income.

Goodwill

In January 2017, FASB issued authoritative guidance which simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. The single quantitative step test requires companies to compare the fair value of a reporting unit with its carrying amount and record an impairment charge for the amount that the carrying amount exceeds the fair value, up to the total amount of goodwill allocated to that reporting unit. The Company will continue to have the option of first performing a qualitative assessment to determine whether it is necessary to perform the quantitative goodwill impairment test.

Effective for the Company – Fiscal 2021 first quarter, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

Impact on consolidated financial statements – The Company did not elect to apply this guidance to its fiscal 2017 impairment testing and will continue to assess the impact of adopting it on future interim and annual impairment tests.

Income Taxes

In October 2016, the FASB issued authoritative guidance that changes the way companies account for income taxes relating to intra-entity transfers of assets other than inventory. This new guidance requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory in the period in which the transfer takes place. Under current guidance, recognition of current and deferred income taxes of an intra-entity asset transfer is deferred. This new guidance may affect consolidated earnings where the intra-entity transfer of an asset other than inventory occurs between entities in jurisdictions with different tax rates. This guidance must be adopted using a modified retrospective approach with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Effective for the Company – Fiscal 2019 first quarter, with early adoption permitted.

Impact on consolidated financial statements – The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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 for the Company – Fiscal 2021 first quarter.

Impact on consolidated financial statements – The Company is currently evaluating the impact of applying this guidance on its financial instruments, such as accounts receivable and short- and long-term investments.

Compensation - Stock Compensation

In March 2016, 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 for the Company – Fiscal 2018 first quarter, with early adoption permitted.

Impact on consolidated financial statements – The Company will adopt this guidance in its fiscal 2018 first quarter. For the fiscal years ended June 30, 2017 and 2016, the Company recognized $42 million and $22 million of excess tax benefits, respectively, directly in its consolidated statements of equity. These amounts may or may not be representative of future amounts to be recognized in the income statement upon the adoption of this new standard, as the impact of the adoption will be primarily dependent on the timing and intrinsic value of stock-based compensation awards, employee exercise behavior and applicable tax rates.

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 for the Company – Fiscal 2020 first quarter, with early adoption permitted.

Impact on consolidated financial statements – The Company currently has an implementation team in place that is performing a comprehensive evaluation of the impact of the adoption of this guidance. While the Company has not completed its evaluation, it believes the adoption of this standard will have a significant impact on its consolidated balance sheets. As disclosed in *Note 15 – Commitments and Contingencies,* the Company has $2,427 million in future minimum lease commitments as of June 30, 2017. Upon adoption, the Company's lease liability will generally be based on the present value of such payments and the related right-of use asset will generally be based on the lease liability, adjusted for initial direct costs.

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.

In December 2016, the FASB issued authoritative guidance that amends various aspects of the new standard to clarify certain terms, guidance and disclosure requirements. In particular, the guidance addresses disclosure requirements for remaining performance obligations, impairment testing for contract costs and accrual of advertising costs, as well as clarifies several examples.

Effective for the Company – 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.

Impact on consolidated financial statements – The Company will apply all of this new guidance when they become effective in fiscal 2019 and has not yet selected a transition method. Although the Company has not yet completed its evaluation, it has preliminarily determined that certain promotional goods, such as samples and testers, may be reclassified from Selling, general and administrative expenses to Cost of Sales in the consolidated financial statements upon adoption. Additionally, the Company's customer loyalty programs, which have historically been accounted for under the incremental cost approach, will be accounted for as a reduction of revenue based on the fair value of estimated future redemptions when the obligation is created (i.e. upon sale of the product to the consumer).

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, 2017 were as follows:

(In millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 464	$ 2	$ (2)	$ 464
Foreign government and agency securities	103	—	(1)	102
Corporate notes and bonds	506	—	(1)	505
Time deposits	410	—	—	410
Other securities	16	1	—	17
Total	$ 1,499	$ 3	$ (4)	$ 1,498

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	$ 3	$ —	$ 563
Foreign government and agency securities	61	—	—	61
Corporate notes and bonds	454	3	—	457
Time deposits	390	—	—	390
Other securities	32	1	—	33
Total	$ 1,497	$ 7	$ —	$ 1,504

The following table presents the Company's available-for-sale securities by contractual maturity as of June 30, 2017:

(In millions)	Cost	Fair Value
Due within one year	$ 604	$ 605
Due after one through five years	895	893
	$ 1,499	$ 1,498

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, 2017:

	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	$ 739	$ (4)	$ 9	$ —

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

Year Ended June 30	**2017**	2016
(In millions)		
Gross realized gains	**$ 1**	$ 1
Gross realized losses	**(1)**	(1)
Total	**$ —**	$ —

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 $687 million and $794 million in fiscal 2017 and 2016, respectively.

NOTE 4 – INVENTORY AND PROMOTIONAL MERCHANDISE

June 30	**2017**	2016
(In millions)		
Inventory and promotional merchandise, net consists of:		
Raw materials	**$ 334**	$ 306
Work in process	**194**	177
Finished goods	**762**	622
Promotional merchandise	**189**	159
	$ 1,479	$ 1,264

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

June 30	2017	2016
(In millions)		
Assets (Useful Life)		
Land	$ 30	$ 15
Buildings and improvements (10 to 40 years)	192	187
Machinery and equipment (3 to 10 years)	668	680
Computer hardware and software (4 to 15 years)	1,115	1,041
Furniture and fixtures (5 to 10 years)	96	84
Leasehold improvements	1,918	1,789
	4,019	3,796
Less accumulated depreciation and amortization	(2,348)	(2,213)
	$ 1,671	$ 1,583

The cost of assets related to projects in progress of $183 million and $186 million as of June 30, 2017 and 2016, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was $428 million, $401 million and $400 million in fiscal 2017, 2016 and 2015, 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 – ACQUISITION OF BUSINESSES

On December 19, 2016, the Company acquired 100% of Too Faced, a makeup brand, for approximately $1.5 billion. This acquisition is expected to complement the Company's distribution in the specialty-multi channel. The amount paid at closing was funded by cash on hand including the proceeds from the issuance of commercial paper. In February 2017, the Company issued long-term debt to refinance a portion of the outstanding commercial paper, see *Note 11 – Debt*. A working capital adjustment of approximately $8 million was received by the Company in the fourth quarter of fiscal 2017. The results of operations of Too Faced are included in the Company's consolidated financial statements commencing on the acquisition date.

The Company has recorded an allocation of the purchase price to the Company's tangible and identifiable intangible assets acquired and liabilities assumed based on their fair value at the acquisition date. The excess of the purchase price over the fair value of the net tangible and intangible assets was recorded as goodwill, which includes value associated with assembled workforce. The calculation of purchase price and purchase price allocation, which is pending finalization of tax-related items and completion of the related final valuation, is as follows:

(In millions)	
Cash	$ 28
Accounts receivable[1]	42
Inventory	102
Other current assets	4
Property, plant and equipment	8
Intangible assets	860
Goodwill	607
Total assets acquired	1,651
Accounts payable	60
Other accrued liabilities	15
Deferred income taxes	100
Total liabilities assumed	175
Total purchase price	$ 1,476

(1) Represents the gross amount of trade receivables of $42 million, net of estimated customer deductions which were de minimis.

For the year ended June 30, 2017, the Company's statements of earnings included approximately $165 million of net sales and $22 million, net of tax, of net loss, inclusive of acquisition-related costs, related to Too Faced. Acquisition-related costs, which primarily include financial advisory, accounting and legal fees, in the amount of $11 million for the year ended June 30, 2017, are included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings. Measurement period adjustments were not material to the consolidated financial statements.

On November 14, 2016, the Company also acquired 100% of BECCA, a makeup brand. Pro forma results of operations reflecting the Too Faced and BECCA acquisitions have not been presented, as the impact on the Company's consolidated financial results would not have been material.

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

As previously discussed in *Note 6 – Acquisition of Businesses,* during the year ended June 30, 2017, the Company acquired Too Faced and BECCA, which included the addition of goodwill of $705 million, amortizable intangible assets of $397 million (with a weighted-average amortization period of approximately 10 years) and non-amortizable intangible assets of $623 million. Goodwill associated with the acquisitions is primarily attributable to the future revenue growth opportunities associated with additional share in the makeup category. As such, the goodwill has been allocated to the Company's makeup product category. Approximately $316 million of goodwill recorded in connection with certain of these acquisitions is expected to be deductible for tax purposes. These amounts are provisional pending finalization of tax-related items and completion of the related final valuations. During the year ended June 30, 2017, the Company recognized $11 million of goodwill associated with the continuing earn-out obligations related to the acquisition of the Bobbi Brown brand.

The intangible assets acquired in connection with the acquisitions of Too Faced and BECCA are classified as Level 3 in the fair value hierarchy. The estimate of the fair values of acquired amortizable intangible assets was determined using a multi-period excess earnings income approach. Fair value was determined under this approach by estimating future cash flows over multiple periods, as well as a terminal value, and discounting such cash flows at a rate of return that reflects the relative risk of the cash flows. The estimate of the fair values of acquired intangible assets not subject to amortization was determined using an income approach, specifically the relief-from-royalty method.

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, 2015					
Goodwill	$ 184	$ 450	$ 181	$ 395	$ 1,210
Accumulated impairments	(29)	—	—	(36)	(65)
	155	450	181	359	1,145
Goodwill acquired during the year	—	10	78	—	88
Translation and other adjustments	—	—	(4)	(1)	(5)
	—	10	74	(1)	83
Balance as of June 30, 2016					
Goodwill	184	460	255	393	1,292
Accumulated impairments	(29)	—	—	(35)	(64)
	155	460	255	358	1,228
Goodwill acquired during the year	—	716	—	—	716
Impairment charges	(6)	—	(22)	—	(28)
	(6)	716	(22)	—	688
Balance as of June 30, 2017					
Goodwill	184	1,176	255	393	2,008
Accumulated impairments	(35)	—	(22)	(35)	(92)
	$ 149	$ 1,176	$ 233	$ 358	$ 1,916

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 2017 and 2016 were not significant to the Company's results of operations.

Other intangible assets consist of the following:

(In millions)	June 30, 2017 Gross Carrying Value	June 30, 2017 Accumulated Amortization	June 30, 2017 Total Net Book Value	June 30, 2016 Gross Carrying Value	June 30, 2016 Accumulated Amortization	June 30, 2016 Total Net Book Value
Amortizable intangible assets:						
Customer lists and other	$ 696	$ 279	$ 417	$ 299	$ 245	$ 54
License agreements	43	43	—	43	43	—
	$ 739	$ 322	417	$ 342	$ 288	54
Non-amortizable intangible assets:						
Trademarks and other			910			290
Total intangible assets			$ 1,327			$ 344

The aggregate amortization expense related to amortizable intangible assets for fiscal 2017, 2016 and 2015 was $35 million, $16 million and $14 million, respectively. The estimated aggregate amortization expense for each of the next five fiscal years is as follows:

Fiscal	2018	2019	2020	2021	2022
(In millions)					
Estimated aggregate amortization expense	$ 52	$ 51	$ 44	$ 43	$ 42

Fiscal 2017 Annual Impairment Testing

The Company assesses goodwill and other indefinite-lived intangible assets at least annually for impairment or more frequently if certain events or circumstances exist. Based on the Company's annual goodwill and other intangible asset impairment testing as of April 1, 2017, the Company determined that the carrying values of the RODIN olio lusso and Editions de Parfums Frédéric Malle reporting units exceeded their fair values. This determination was made based on updated long-term plans, finalized and approved in June 2017, that reflected lower sales growth projections due to a softer than expected retail environment for those brands. As a result, a Step 2 impairment assessment was performed and the Company recorded an impairment charge of the goodwill related to these reporting units of $28 million. The fair values of the reporting units were based upon the average of the income approach, which utilizes estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of cash flows, and the market approach, which utilizes performance multiples based on market peers.

The Company also determined that the carrying values of the RODIN olio lusso and Editions de Parfums Frédéric Malle trademarks, as well as the RODIN olio lusso persona and customer relationship intangible assets exceeded their estimated fair values. The fair values of the trademarks were determined utilizing a royalty rate to determine discounted projected future cash flows. As a result, the Company recognized impairment charges of $3 million for the remaining carrying values of the RODIN olio lusso trademark, customer relationship and persona intangible assets. The Company also recognized an impairment charge for the Editions de Parfums Frédéric Malle trademark, which was de minimis.

The combined goodwill and other intangible asset impairment charges of $9 million and $22 million are reflected in the skin care and fragrance product categories, respectively, and $17 million and $14 million are reflected in the Americas and Europe, the Middle East & Africa regions, respectively.

NOTE 8 – CHARGES ASSOCIATED WITH RESTRUCTURING AND OTHER ACTIVITIES

During fiscal 2017 and 2016, the Company incurred charges associated with restructuring and other activities in connection with its Leading Beauty Forward and Global Technology Infrastructure initiatives as follows:

			Operating Expenses		
(In millions)	Sales Returns (included in Net Sales)	Cost of Sales	Restructuring Charges	Other Charges	Total
Fiscal 2017					
Leading Beauty Forward	$ 2	$ 15	$ 122	$ 73	$ 212
Fiscal 2016					
Leading Beauty Forward	$ 1	$ —	$ 75	$ 5	$ 81
Global Technology Infrastructure	—	—	46	7	53
Total	$ 1	$ —	$ 121	$ 12	$ 134

The types of activities included in restructuring and other charges, and the related accounting criteria, are described below.

Leading Beauty Forward

Background

In May 2016, the Company announced a multi-year initiative ("Leading Beauty Forward," "LBF" or the "Program") 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 related to the optimization of select corporate functions, supply chain activities, and corporate and regional market support structures, as well as the exit of underperforming businesses, and expects to complete those initiatives through fiscal 2021. Inclusive of charges recorded from inception through June 30, 2017, 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 in existing or lower-cost locations, either using Company resources or through external service providers. 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.

In connection with LBF, at this time, the Company estimates a net reduction over the duration of LBF 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.

Program-to-Date Approvals

Of the $600 million to $700 million restructuring and other charges expected to be incurred, total cumulative charges approved by the Company through June 30, 2017, some of which were recorded during fiscal 2017 and 2016, were:

			Operating Expenses		
(In millions)	Sales Returns (included in Net Sales)	Cost of Sales	Restructuring Charges	Other Charges	Total
Approval Period					
Fiscal 2016	$ 4	$ 28	$ 87	$ 71	$ 190
Fiscal 2017	11	10	132	118	271
Cumulative through June 30, 2017	$ 15	$ 38	$ 219	$ 189	$ 461

The major cost types related to the cumulative restructuring initiatives set forth above were:

(In millions)		Employee-Related Costs		Asset-Related Costs		Contract Terminations		Other Exit Costs		Total
Approval Period										
Fiscal 2016	$	75	$	3	$	5	$	4	$	87
Fiscal 2017		126		1		—		5		132
Cumulative through June 30, 2017	$	201	$	4	$	5	$	9	$	219

Specific actions taken since the Program inception include:

- 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 finance, research and development, human resources, global information systems and legal. Such approvals included consulting, other professional services, temporary labor backfill and, to a lesser extent, costs for training and recruiting related to new capabilities, which are necessary for the design of the future structures, processes and technologies of these functions, as well as similar expenses for certain other corporate functions. 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 other charges to support the LBF Project Management Office ("PMO"), primarily consisting of internal costs for employees dedicated solely to project management activities, with a focus on project integration and change management.

  The future design of certain corporate functions includes the creation of a shared-services structure, either using Company resources or through external service providers. As part of the future service delivery model, the Company approved the organizational design of the management and governance platform of a shared-services structure using Company resources, as well as the transition of select transactional activities to an external service provider, which is expected to result in other charges for implementation, project and consulting costs.

- Optimize Supply Chain – An initiative to centralize the Company's supply chain management was approved. This 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.

  In addition, the Company approved certain activities related to initiatives to enable distribution capabilities and generate efficiencies through an external service provider and to optimize certain supply chain activities through organizational design in certain key areas. Collectively, 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. Initiatives to redesign certain supply chain planning and transportation management activities and to improve the organizational design of manufacturing and engineering processes related to certain product lines were also approved, primarily resulting in consulting fees and, to a lesser extent, 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. The Company also approved consulting and other professional services related to the design of future structures, processes and technologies and, to a lesser extent, other costs for recruitment and training related to new capabilities. In addition, the Company approved initiatives to enhance consumer engagement strategies across certain channels in Europe, which is expected to result in product returns.

- 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.

Program-to-Date Restructuring and Other Charges

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 service 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. Consulting and other professional services, primarily related to the design of supply chain planning activities, are expensed in Cost of Sales as incurred.

Other Charges – The Company approved other charges related to the design and implementation of approved initiatives, which are charged to Operating Expenses as incurred and 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 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 and utilities), and
- 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.

The Company records approved charges that are associated with restructuring and other activities once the relevant accounting criteria have been met. Total cumulative charges recorded associated with restructuring and other activities for LBF were:

(In millions)	Sales Returns (included in Net Sales)	Cost of Sales	Operating Expenses: Restructuring Charges	Operating Expenses: Other Charges	Total
Fiscal 2016	$ 1	$ —	$ 75	$ 5	$ 81
Fiscal 2017	2	15	122	73	212
Cumulative through June 30, 2017	$ 3	$ 15	$ 197	$ 78	$ 293

The major cost types related to the cumulative restructuring charges set forth above were:

(In millions)	Employee-Related Costs	Asset-Related Costs	Contract Terminations	Other Exit Costs	Total
Fiscal 2016	$ 74	$ 1	$ —	$ —	$ 75
Fiscal 2017	116	2	2	2	122
Charges recorded through June 30, 2017	$ 190	$ 3	$ 2	$ 2	$ 197

Accrued restructuring charges from Program inception through June 30, 2017 were:

(In millions)	Employee-Related Costs	Asset-Related Costs	Contract Terminations	Other Exit Costs	Total
Charges	$ 74	$ 1	$ —	$ —	$ 75
Noncash asset write-offs	—	(1)	—	—	(1)
Translation adjustments	(1)	—	—	—	(1)
Balance at June 30, 2016	73	—	—	—	73
Charges	116	2	2	2	122
Cash payments	(39)	—	(2)	(2)	(43)
Noncash asset write-offs	—	(2)	—	—	(2)
Balance at June 30, 2017	$ 150	$ —	$ —	$ —	$ 150

Restructuring charges for employee-related costs in fiscal 2017 are net of adjustments to the accrual estimate for certain employees who either resigned or transferred to other existing positions within the Company. Accrued restructuring charges at June 30, 2017 are expected to result in cash expenditures funded from cash provided by operations of approximately $97 million, $47 million and $6 million in fiscal 2018, 2019 and 2020, respectively.

Global Technology Infrastructure

In October 2015, the Company approved plans to transform and modernize its global technology infrastructure ("GTI") to fundamentally change the way the Company 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 the Company pays for services as they are used. The Company incurred restructuring charges of $46 million for the year ended June 30, 2016, reflecting contract terminations of $24 million, asset write-offs of $18 million and employee-related costs of $4 million. Other charges in connection with the implementation of this initiative were $7 million for the year ended June 30, 2016, primarily related to consulting services. These charges are included in Restructuring and other charges in the accompanying consolidated statements of earnings. The implementation of the GTI Restructuring was substantially completed during fiscal 2016.

NOTE 9 – INCOME TAXES

The provision for income taxes is comprised of the following:

Year Ended June 30	2017	2016	2015
(In millions)			
Current:			
Federal	$ 218	$ 224	$ 237
Foreign	253	293	251
State and local	8	11	32
	479	528	520
Deferred:			
Federal	(58)	(73)	(56)
Foreign	(61)	(22)	2
State and local	1	1	1
	(118)	(94)	(53)
	$ 361	$ 434	$ 467

Earnings before income taxes include amounts contributed by the Company's foreign operations of approximately $1,676 million, $1,448 million and $1,420 million for fiscal 2017, 2016 and 2015, respectively. A portion of these earnings is 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	**2017**	2016	2015
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	**0.7**	0.9	1.1
Taxation of foreign operations	**(7.5)**	(8.0)	(6.8)
China deferred tax asset valuation allowance reversal	**(4.6)**	—	—
Income tax reserve adjustments	**(1.2)**	(0.3)	0.5
Other, net	**(0.1)**	0.3	0.1
Effective tax rate	**22.3%**	27.9%	29.9%

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.

In the fourth quarter of fiscal 2017, a favorable change to the tax law in China was enacted that expanded the corporate income tax deduction allowance for advertising and promotional expenses to include all companies that distribute and sell cosmetics in the country. As a result of the new law, in the fourth quarter of fiscal 2017, the Company released into income its previously established China deferred tax asset valuation allowance of approximately $75 million related to its accumulated carryforward of excess advertising and promotional expenses.

Federal income and foreign withholding taxes have not been provided on approximately $4,136 million of undistributed earnings of foreign subsidiaries at June 30, 2017. 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.

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

June 30 (In millions)	**2017**	2016
Deferred tax assets		
Compensation related expenses	**$ 256**	$ 240
Inventory obsolescence and other inventory related reserves	**97**	86
Retirement benefit obligations	**124**	129
Various accruals not currently deductible	**189**	197
Net operating loss, credit and other carryforwards	**65**	111
Unrecognized state tax benefits and accrued interest	**24**	25
Other differences between tax and financial statement values	**91**	88
	846	876
Valuation allowance for deferred tax assets	**(42)**	(118)
Total deferred tax assets	**804**	758
Deferred tax liabilities		
Depreciation and amortization	**(465)**	(293)
Other differences between tax and financial statement values	**(17)**	(43)
Total deferred tax liabilities	**(482)**	(336)
Total net deferred tax assets	**$ 322**	$ 422

As of June 30, 2017 and 2016, the Company had net deferred tax assets of $322 million and $422 million, respectively, substantially all of which are included in Other assets in the accompanying consolidated balance sheets.

As of June 30, 2017 and 2016, certain subsidiaries had net operating loss and other carryforwards for tax purposes of approximately $230 million and $410 million, respectively. With the exception of approximately $218 million of net operating loss and other carryforwards with an indefinite carryforward period as of June 30, 2017, these carryforwards expire at various dates through fiscal 2024. Deferred tax assets, net of valuation allowances, in the amount of $34 million and $4 million as of June 30, 2017 and 2016, 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, 2017 and 2016, the Company had gross unrecognized tax benefits of $68 million and $82 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $42 million.

The Company classifies applicable interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. During fiscal 2017, the Company recognized a gross interest and penalty benefit of $5 million in the accompanying consolidated statement of earnings. The total gross accrued interest and penalty expense during fiscal 2016 in the accompanying consolidated statement of earnings was de minimis. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at June 30, 2017 and 2016 were $13 million and $18 million, respectively. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

June 30	2017	2016
(In millions)		
Beginning of the year balance of gross unrecognized tax benefits	$ 82	$ 78
Gross amounts of increases as a result of tax positions taken during a prior period	6	16
Gross amounts of decreases as a result of tax positions taken during a prior period	(23)	(14)
Gross amounts of increases as a result of tax positions taken during the current period	10	12
Amounts of decreases in unrecognized tax benefits relating to settlements with taxing authorities	(5)	(8)
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statutes of limitations	(2)	(2)
End of year balance of gross unrecognized tax benefits	$ 68	$ 82

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 2017, the Company formally concluded the compliance process with respect to fiscal 2016 under the IRS CAP. The conclusion of this process did not impact the Company's consolidated financial statements. As of June 30, 2017, the compliance process was ongoing with respect to fiscal 2017.

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 2017, 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, 2017, the Company does not expect any significant changes to the total amount of unrecognized tax benefits within the next 12 months.

The tax years subject to examination vary depending on the tax jurisdiction. As of June 30, 2017, the following tax years remain subject to examination by the major tax jurisdictions indicated:

Major Jurisdiction	Open Fiscal Years
Belgium	2013 – 2017
Canada	2015 – 2017
China	2013 – 2017
France	2013 – 2017
Germany	2013 – 2017
Hong Kong	2011 – 2017
Italy	2014 – 2017
Japan	2016 – 2017
Korea	2014 – 2017
Russia	2015 – 2017
Spain	2013 – 2017
Switzerland	2014 – 2017
United Kingdom	2016 – 2017
United States	2017
State of California	2013 – 2017
State and City of New York	2011 – 2017

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.

NOTE 10 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

June 30	2017	2016
(In millions)		
Advertising, merchandising and sampling	$ 319	$ 283
Employee compensation	522	504
Payroll and other taxes	190	163
Other	768	682
	$ 1,799	$ 1,632

NOTE 11 – 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, 2017	
(In millions)	2017	2016	Committed	Uncommitted
4.15% Senior Notes, due March 15, 2047 ("2047 Senior Notes")	$ 493	$ —	$ —	$ —
4.375% Senior Notes, due June 15, 2045 ("2045 Senior Notes")	455	455	—	—
3.70% Senior Notes, due August 15, 2042 ("2042 Senior Notes")	247	247	—	—
6.00% Senior Notes, due May 15, 2037 ("2037 Senior Notes")	294	293	—	—
5.75% Senior Notes, due October 15, 2033 ("2033 Senior Notes")	197	197	—	—
3.15% Senior Notes, due March 15, 2027 ("2027 Senior Notes")	497	—	—	—
2.35% Senior Notes, due August 15, 2022 ("2022 Senior Notes")	252	267	—	—
1.70% Senior Notes, due May 10, 2021 ("2021 Senior Notes")	445	448	—	—
1.80% Senior Notes, due February 7, 2020 ("2020 Senior Notes")	498	—	—	—
5.55% Senior Notes, due May 15, 2017 ("2017 Senior Notes")	—	307	—	—
Commercial paper that matured through July 2017 (1.07% interest rate)	170	—	—	1,330
Other long-term borrowings	5	3	—	—
Other current borrowings	19	25	—	140
Revolving credit facility	—	—	1,500	—
	3,572	2,242	$ 1,500	$ 1,470
Less current debt including current maturities	(189)	(332)		
	$ 3,383	$ 1,910		

As of June 30, 2017, the Company's long-term debt consisted of the following:

Notes	Issue Date	Price	Yield	Principal	Unamortized Debt (Discount) Premium	Interest rate swap adjustments	Debt Issuance Costs	Semi-annual interest payments
($ in millions)								
2047 Senior Notes[1]	February 2017	99.739%	4.165%	$ 500	$ (2)	$ —	$ (5)	March 15/September 15
2045 Senior Notes[2]	June 2015	97.999	4.497	300	(6)	—	(3)	June 15/December 15
2045 Senior Notes[2]	May 2016	110.847	3.753	150	16	—	(2)	June 15/December 15
2042 Senior Notes	August 2012	99.567	3.724	250	(1)	—	(2)	February 15/August 15
2037 Senior Notes[3]	May 2007	98.722	6.093	300	(3)	—	(3)	May 15/November 15
2033 Senior Notes[4]	September 2003	98.645	5.846	200	(2)	—	(1)	April 15/October 15
2027 Senior Notes[5]	February 2017	99.963	3.154	500	—	—	(3)	March 15/September 15
2022 Senior Notes[6]	August 2012	99.911	2.360	250	—	3	(1)	February 15/August 15
2021 Senior Notes[6,7]	May 2016	99.976	1.705	450	—	(3)	(2)	May 10/November 10
2020 Senior Notes[6]	February 2017	99.986	1.805	500	—	—	(2)	February 7/August 7

(1) In November 2016, in anticipation of the issuance of the 2047 Senior Notes, the Company entered into a series of treasury lock agreements on a notional amount totaling $350 million at a weighted-average all-in rate of 3.01%. The treasury lock agreements were settled upon the issuance of the new debt, and the Company recognized a gain in OCI of $3 million that is being amortized against interest expense over the life of the 2047 Senior Notes. As a result of the treasury lock agreements, the debt discount and debt issuance costs, the effective interest rate on the 2047 Senior Notes will be 4.17% over the life of the debt.

(2) 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 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 $18 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 million for an aggregate amount outstanding of $450 million of 2045 Senior Notes.

(3) 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 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 $1 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.

(4) 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 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 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.

(5) In November 2016, in anticipation of the issuance of the 2027 Senior Notes, the Company entered into a series of treasury lock agreements on a notional amount totaling $450 million at a weighted-average all-in rate of 2.37%. The treasury lock agreements were settled upon the issuance of the new debt, and the Company recognized a gain in OCI of $2 million that is being amortized against interest expense over the life of the 2027 Senior Notes. As a result of the treasury lock agreements, the debt discount and debt issuance costs, the effective interest rate on the 2027 Senior Notes will be 3.18% over the life of the debt.

(6) The Company entered into interest rate swap agreements with a notional amount totaling $250 million, $450 million and $250 million to effectively convert the fixed rate interest on its outstanding 2020 Senior Notes, 2021 Senior Notes and 2022 Senior Notes, respectively, to variable interest rates based on three-month LIBOR plus a margin.

(7) 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 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 $1 million that is being amortized to 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.

In October 2016, the Company replaced its undrawn $1.0 billion unsecured revolving credit facility that was set to expire on July 15, 2020 (the "Prior Facility") with a new $1.5 billion senior unsecured revolving credit facility that expires on October 3, 2021, unless extended for up to two additional years in accordance with the terms set forth in the agreement (the "New Facility"). The New Facility may be used for general corporate purposes. Up to the equivalent of $500 million of the New Facility is available for multi-currency loans. Interest rates on borrowings under the New Facility will be based on prevailing market interest rates in accordance with the agreement. The Company incurred costs of approximately $1 million to establish the New Facility, which will be amortized over the term of the facility. The New Facility has an annual fee of approximately $1 million, payable quarterly, based on the Company's current credit ratings. The New Facility contains a cross-default provision whereby a failure to pay other material financial obligations in excess of $175 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 this facility. At June 30, 2017, no borrowings were outstanding under the New Facility.

In November 2016, the Company increased the size of its commercial paper program, under which it may issue commercial paper in the United States, to $3 billion (from $1.5 billion) to finance the Company's second quarter acquisitions. In November 2016, the Company also entered into a senior unsecured credit agreement that provided for a 364 day revolving credit facility (the "364 Day Facility") in the amount of $1.5 billion for credit support for the Company's commercial paper program and for general corporate purposes.

In February 2017, the Company completed a public offering of $500 million aggregate principal amount of its 2020 Senior Notes, $500 million aggregate principal amount of its 2027 Senior Notes and $500 million aggregate principal amount of its 2047 Senior Notes. The Company used proceeds from this offering for general corporate purposes, including to repay outstanding commercial paper as it matured and to refinance its $300 million aggregate principal amount of the 2017 Senior Notes when it became due in May 2017.

In February 2017, the Company decreased the size of its commercial paper program, under which it may issue commercial paper in the United States, to $1.5 billion and terminated the undrawn $1.5 billion 364 Day Facility.

As of June 30, 2017, the Company had $170 million of commercial paper outstanding that matured through July 2017, which the Company refinanced as it matured. At August 18, 2017, the Company had $431 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 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 2017 and 2016, the monthly average amount outstanding was approximately $17 million and $31 million, respectively, and the annualized monthly weighted-average interest rate incurred was approximately 11.2% and 12.5%, respectively.

Refer to *Note 15 – Commitments and Contingencies* for the Company's projected debt service payments, as of June 30, 2017, over the next five fiscal years.

NOTE 12 – 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.

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

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value[1]		Balance Sheet Location	Fair Value[1]	
		June 30			June 30	
(In millions)		**2017**	2016		**2017**	2016
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 7	$ 37	Other accrued liabilities	$ 44	$ 18
Interest rate swap contracts	Prepaid expenses and other current assets	3	18	Other accrued liabilities	3	—
Total Derivatives Designated as Hedging Instruments		10	55		47	18
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	3	11	Other accrued liabilities	2	8
Total Derivatives		$ 13	$ 66		$ 49	$ 26

(1) See *Note 13 – 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:

	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	
(In millions)	**2017**	2016		**2017**	2016
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	$ (18)	$ 48	Cost of sales	$ 10	$ 17
			Selling, general and administrative	30	48
Interest rate-related derivatives	5	—	Interest expense	1	1
Total derivatives	$ (13)	$ 48		$ 41	$ 66

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $3 million and $(1) million for fiscal 2017 and 2016, respectively. The gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships was de minimis for fiscal 2017. There was no gain (loss) recognized in earnings related to the ineffective portion of hedging relationships for fiscal 2016.

	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives[1]	
		June 30	
(In millions)		**2017**	2016
Derivatives in Fair Value Hedging Relationships:			
Interest rate swap contracts	Interest expense	$ (18)	$ 18

(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:

	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives	
		June 30	
(In millions)		2017	2016
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward contracts	Selling, general and administrative	$ (2)	$ 5

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 2019. 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 may enter 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, 2017, the Company's foreign currency cash-flow hedges were highly effective.

At June 30, 2017, the Company had foreign currency forward contracts in the amount of $2,895 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound ($541 million), Swiss franc ($457 million), Hong Kong dollar ($355 million), Euro ($295 million), Chinese yuan ($160 million), Canadian dollar ($148 million) and Thailand baht ($126 million).

At June 30, 2016, the Company had foreign currency forward contracts in the amount of $3,265 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Euro ($962 million), British pound ($497 million), Chinese yuan ($313 million), Hong Kong dollar ($274 million), Swiss franc ($256 million), Australian dollar ($157 million) and Taiwan dollar ($130 million).

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. In November 2016, in anticipation of the issuance of the 2027 and 2047 Senior Notes, the Company entered into a series of treasury lock agreements, which were designated as cash-flow hedges, see *Note 11 – Debt* for further discussion.

The estimated net loss on the Company's derivative instruments designated as cash-flow hedges as of June 30, 2017 that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is $18 million. The accumulated gain (loss) on derivative instruments in AOCI was $(4) million and $50 million as of June 30, 2017 and 2016, 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 notional amounts totaling $250 million, $450 million and $250 million to effectively convert the fixed rate interest on its 2020 Senior Notes, 2021 Senior Notes and 2022 Senior Notes, respectively, 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 $13 million at June 30, 2017. 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 13 – 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, 2017:

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$ —	$ 10	$ —	$ 10
Interest rate swap contracts	—	3	—	3
Available-for-sale securities:				
U.S. government and agency securities	—	464	—	464
Foreign government and agency securities	—	102	—	102
Corporate notes and bonds	—	505	—	505
Time deposits	—	410	—	410
Other securities	—	17	—	17
Total	$ —	$ 1,511	$ —	$ 1,511
Liabilities:				
Foreign currency forward contracts	$ —	$ 46	$ —	$ 46
Interest rate swap contracts	—	3	—	3
Contingent consideration	—	—	139	139
Total	$ —	$ 49	$ 139	$ 188

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	$ —	$ 48	$ —	$ 48
Interest rate swap contracts	—	18	—	18
Available-for-sale securities:				
U.S. government and agency securities	—	563	—	563
Foreign government and agency securities	—	61	—	61
Corporate notes and bonds	—	457	—	457
Time deposits	—	390	—	390
Other securities	—	33	—	33
Total	$ —	$ 1,570	$ —	$ 1,570
Liabilities:				
Foreign currency forward contracts	$ —	$ 26	$ —	$ 26
Contingent consideration	—	—	196	196
Total	$ —	$ 26	$ 196	$ 222

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

	June 30, 2017		June 30, 2016	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivatives				
Cash and cash equivalents	$ 1,136	$ 1,136	$ 914	$ 914
Available-for-sale securities	1,498	1,498	1,504	1,504
Current and long-term debt	3,572	3,759	2,242	2,482
Additional purchase price payable	38	38	37	37
Contingent consideration	139	139	196	196
Derivatives				
Foreign currency forward contracts – asset (liability), net	(36)	(36)	22	22
Interest rate swap contracts – asset (liability), net	—	—	18	18

The following table presents the Company's impairment charges for certain of its nonfinancial assets measured at fair value on a nonrecurring basis, classified as Level 3, during fiscal 2017:

(In millions)	Impairment charges	Date of Fair Value Measurement	Fair Value
Goodwill	$ 28	April 1, 2017	$ 6
Other intangible assets, net (trademarks)	2	April 1, 2017	32
Other intangible assets, net (customer lists and other)	1	April 1, 2017	—
Total	$ 31		$ 38

To determine the fair value of the RODIN olio lusso and Editions de Parfums Frédéric Malle reporting units as of April 1, 2017, the Company used the average of the income approach, which utilizes estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of cash flows, and the market approach, which utilizes performance multiples based on market peers. For both reporting units, decreased cash flows in future forecasted periods would not support a value in excess of carrying value and therefore the Company concluded that $28 million of goodwill was impaired.

To determine the fair value of the RODIN olio lusso and Editions de Parfums Frédéric Malle trademarks as of April 1, 2017, the Company assessed the future performance of the reporting units and determined that decreased cash flows in future forecasted periods would not support the carrying values of the trademarks. The Company therefore concluded that the remaining carrying value of the RODIN olio lusso trademark was impaired. The impairment charge for the Editions de Parfums Frédéric Malle trademark was de minimis. The fair values of the trademarks were determined utilizing a royalty rate to determine discounted projected future cash flows. An assessment related to the carrying value of the RODIN olio lusso customer relationship and persona intangible assets also led to the conclusion of full impairment.

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 due to 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 treasury yield curves, swap yield curves and LIBOR forward rates, were obtained from independent pricing services.

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 the Company's acquisitions in previous years. 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, in addition to the risk-adjusted projected future operating results of the acquired entities, which include the following ranges at June 30, 2017:

Risk-adjusted discount rate	1.5% to 2.3%
Revenue volatility	3.7% to 8.5%
Asset volatility	21.1% to 27.3%
Revenue and earnings before income tax, depreciation and amortization correlation coefficient factor	80%
Revenue discount rates	3.0% to 4.8%
Earnings before income tax, depreciation and amortization discount rates	10.7% to 13.1%

Significant changes in the projected future operating results would result in a significantly higher or lower fair value measurement. Changes to the discount rates, volatilities 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 year ended June 30, 2017 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, 2016	$ 196
Changes in fair value	(57)
Contingent consideration at June 30, 2017	$ 139

In June 2017, the Company revised and approved the long-term financial projections for its brands. During this update, the Company noted that for certain of its fiscal 2015 and 2016 acquisitions, actual results and the most recent projections were lower during their respective earn-out measurement periods than the financial targets made at June 30, 2016 and it reassessed the likelihood of achieving those targets. As a result, the Company recognized a $57 million gain within Selling, general and administrative expenses to reflect the adjusted fair value of its contingent consideration, primarily related to the acquisitions of GLAMGLOW, Editions de Parfums Frédéric Malle and Le Labo as of June 30, 2017. The gain impacted the skin care and fragrance product categories by $24 million and $33 million, respectively, and the Americas and Europe, the Middle East & Africa regions by $43 million and $14 million, respectively. The Company also considered whether the change in the financial projections impacted the fair values of the related reporting units and intangible assets, see *Note 7 - Goodwill and Other Intangible Assets* for discussion of fiscal 2017 impairments.

NOTE 14 – 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 a portion of these benefits as incurred and may provide discretionary funding for future liabilities 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.

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)	2017	2016	2017	2016	2017	2016
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 877	$ 794	$ 616	$ 586	$ 191	$ 175
Service cost	37	32	28	25	3	3
Interest cost	30	33	11	15	7	7
Plan participant contributions	—	—	4	4	1	1
Actuarial loss (gain)	(1)	62	(26)	53	(11)	13
Foreign currency exchange rate impact	—	—	(2)	(38)	—	(1)
Benefits, expenses, taxes and premiums paid	(40)	(44)	(25)	(29)	(8)	(7)
Settlements and curtailments	—	—	(3)	(1)	—	—
Special termination benefits	—	—	2	1	—	—
Benefit obligation at end of year	$ 903	$ 877	$ 605	$ 616	$ 183	$ 191
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 743	$ 721	$ 529	$ 519	$ 33	$ 32
Actual return on plan assets	71	27	28	57	4	1
Foreign currency exchange rate impact	—	—	(9)	(42)	—	—
Employer contributions	7	39	24	22	7	6
Plan participant contributions	—	—	4	4	1	1
Settlements	—	—	(3)	(2)	—	—
Benefits, expenses, taxes and premiums paid from plan assets	(40)	(44)	(25)	(29)	(8)	(7)
Fair value of plan assets at end of year	$ 781	$ 743	$ 548	$ 529	$ 37	$ 33
Funded status	$ (122)	$ (134)	$ (57)	$ (87)	$ (146)	$ (158)
Amounts recognized in the Balance Sheet consist of:						
Other assets	$ 12	$ —	$ 88	$ 79	$ —	$ —
Other accrued liabilities	(23)	(17)	(5)	(4)	—	(7)
Other noncurrent liabilities	(111)	(117)	(140)	(162)	(146)	(151)
Funded status	(122)	(134)	(57)	(87)	(146)	(158)
Accumulated other comprehensive loss	232	270	72	123	21	35
Net amount recognized	$ 110	$ 136	$ 15	$ 36	$ (125)	$ (123)

	Pension Plans						Other than Pension Plans		
	U.S.			International			Post-retirement		
(In millions)	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Components of net periodic benefit cost:									
Service cost	**$ 37**	$ 32	$ 32	**$ 28**	$ 25	$ 24	**$ 3**	$ 3	$ 3
Interest cost	**30**	33	30	**11**	15	17	**7**	7	8
Expected return on assets	**(52)**	(49)	(50)	**(16)**	(20)	(21)	**(1)**	(2)	(2)
Amortization of:									
Actuarial loss	**16**	11	10	**11**	11	10	**1**	—	1
Prior service cost	**1**	1	—	**2**	2	2	**—**	1	1
Curtailments	**—**	—	—	**—**	—	(1)	**—**	—	—
Special termination benefits	**—**	—	—	**2**	1	—	**—**	—	—
Net periodic benefit cost	**$ 32**	$ 28	$ 22	**$ 38**	$ 34	$ 31	**$ 10**	$ 9	$ 11
Weighted-average assumptions used to determine benefit obligations at June 30:									
Discount rate	**3.40 – 3.90%**	3.00 – 3.70%	3.70 – 4.40%	**.50 – 6.75%**	.25 – 6.00%	.75 – 7.00%	**3.70 – 9.75%**	3.50 – 9.50%	4.25 – 9.00%
Rate of compensation increase	**3.00 – 7.00%**	3.00 – 7.00%	3.00 – 7.00%	**1.00 – 5.50%**	0 – 5.50%	0 – 5.50%	**N/A**	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30:									
Discount rate	**3.00 – 3.70%**	3.70 – 4.40%	3.60 – 4.30%	**.25 – 6.00%**	.75 – 7.00%	.50 – 6.75%	**3.50 – 9.50%**	4.25 – 9.00%	4.10 – 9.00%
Expected return on assets	**7.00%**	7.00%	7.50%	**1.50 – 6.00%**	2.00 – 7.00%	2.00 – 6.75%	**7.00%**	7.00%	7.50%
Rate of compensation increase	**3.00 – 7.00%**	3.00 – 7.00%	3.00 – 7.00%	**0 – 5.50%**	0 – 5.50%	1.00 – 5.50%	**N/A**	N/A	N/A

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. The discount rate for the Company's Domestic Plans is based on a bond portfolio that includes only long-term bonds with an Aa rating, or equivalent, from a major rating agency. The Company 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 the Company's Domestic Plans. For the Company's 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. In determining the long-term rate of return for a plan, the Company considers the historical rates of return, the nature of the plan's investments and an expectation for the plan's investment strategies.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The assumed weighted-average health care cost trend rate for the coming year is 7.33% while the weighted-average ultimate trend rate of 4.53% is expected to be reached in approximately 19 years. A 100 basis-point change in assumed health care cost trend rates for fiscal 2017 would have had the following effects:

(In millions)	100 Basis-Point Increase	100 Basis-Point Decrease
Effect on total service and interest costs	$ 1	$ (1)
Effect on post-retirement benefit obligations	$ 15	$ (13)

Amounts recognized in AOCI (before tax) as of June 30, 2017 are as follows:

	Pension Plans		Other than Pension Plans	
(In millions)	U.S.	International	Post-retirement	Total
Net actuarial losses, beginning of year	$ 267	$ 123	$ 33	$ 423
Actuarial gains recognized	(21)	(38)	(12)	(71)
Amortization included in net periodic benefit cost	(16)	(11)	(1)	(28)
Net actuarial losses, end of year	230	74	20	324
Net prior service cost, beginning of year	3	—	1	4
Amortization included in net periodic benefit cost	(1)	(2)	—	(3)
Net prior service cost, end of year	2	(2)	1	1
Total amounts recognized in AOCI	$ 232	$ 72	$ 21	$ 325

Amounts in AOCI expected to be amortized as components of net periodic benefit cost during fiscal 2018 are as follows:

	Pension Plans		Other than Pension Plans
(In millions)	U.S.	International	Post-retirement
Net prior service cost	$ 1	$ —	$ 1
Net actuarial losses	$ 13	$ 5	$ —

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the Company's pension plans at June 30 are as follows:

	Pension Plans					
	Retirement Growth Account		Restoration		International	
(In millions)	**2017**	2016	**2017**	2016	**2017**	2016
Projected benefit obligation	**$ 769**	$ 754	**$ 134**	$ 123	**$ 605**	$ 616
Accumulated benefit obligation	**$ 726**	$ 710	**$ 120**	$ 109	**$ 540**	$ 549
Fair value of plan assets	**$ 781**	$ 743	**$ —**	$ —	**$ 548**	$ 529

International pension plans with projected benefit obligations in excess of the plans' assets had aggregate projected benefit obligations of $281 million and $330 million and aggregate fair value of plan assets of $137 million and $165 million at June 30, 2017 and 2016, respectively. International pension plans with accumulated benefit obligations in excess of the plans' assets had aggregate accumulated benefit obligations of $220 million and $226 million and aggregate fair value of plan assets of $103 million and $93 million at June 30, 2017 and 2016, respectively.

The expected cash flows for the Company's pension and post-retirement plans are as follows:

	Pension Plans		Other than Pension Plans
(In millions)	U.S.	International	Post-retirement
Expected employer contributions for year ending June 30, 2018	$ —	$ 27	$ —
Expected benefit payments for year ending June 30,			
2018	83	22	7
2019	72	20	8
2020	68	22	8
2021	63	22	9
2022	63	28	10
Years 2023 – 2027	333	132	57

Plan Assets

The Company's investment strategy for its pension and post-retirement plan assets is to maintain a diversified portfolio of asset classes with the primary goal of meeting long-term cash requirements as they become due. Assets are primarily invested in diversified funds that hold equity or debt securities to maintain the security of the funds while maximizing the returns within each plan's investment policy. The investment policy for each plan specifies the type of investment vehicles appropriate for the plan, asset allocation guidelines, criteria for selection of investment managers and procedures to monitor overall investment performance, as well as investment manager performance.

The Company's target asset allocation at June 30, 2017 is as follows:

	Pension Plans		Other than Pension Plans
	U.S.	International	Post-retirement
Equity	44%	15%	44%
Debt securities	39%	60%	39%
Other	17%	25%	17%
	100%	100%	100%

The following is a description of the valuation methodologies used for plan assets measured at fair 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 and time deposits. The carrying amount approximates fair value, primarily because of the short maturity of cash equivalent instruments.

Short-term investment funds – The fair values are determined using the Net Asset Value ("NAV") provided by the administrator of the fund when the Company has the ability to redeem the assets at the measurement date. These assets are classified within Level 2 of the valuation hierarchy. For some assets the Company is utilizing the NAV as a practical expedient and those investments are not included in the valuation hierarchy.

Government and agency securities – The fair values are determined using third-party pricing services using market prices or prices derived from observable market inputs such as benchmark curves, broker/dealer quotes, and other industry and economic factors. These investments are classified within Level 2 of the valuation hierarchy.

Debt instruments – The fair values are determined using third-party pricing services using market prices or prices derived from observable market inputs such as credit spreads, broker/dealer quotes, benchmark curves and other industry and economic factors. These investments are classified within Level 2 of the valuation hierarchy.

Equity securities – The fair values are determined using the closing price reported on a major market where the individual securities are traded. These investments are classified within Level 1 of the valuation hierarchy.

Commingled funds – The fair values of publicly traded funds are based upon market quotes and are classified within Level 1 of the valuation hierarchy. The fair values for non-publicly traded funds are determined using the NAV provided by the administrator of the fund when the Company has the ability to redeem the assets at the measurement date. These assets are classified within Level 2 of the valuation hierarchy. When the Company is utilizing the NAV as a practical expedient those investments are not included in the valuation hierarchy. These investments have monthly redemption frequencies with redemption notice periods ranging from 10 to 30 days. There are no unfunded commitments related to these investments.

Insurance contracts – The fair values are based on negotiated value and the underlying investments held in separate account portfolios, as well as the consideration of the creditworthiness of the issuer. The underlying investments are primarily government, asset-backed and fixed income securities. Insurance contracts are generally classified as Level 3 as there are no quoted prices or other observable inputs for pricing.

Interests in limited partnerships and hedge fund investments – The fair values are determined using the NAV provided by the administrator as a practical expedient, and therefore these investments are not included in the valuation hierarchy. These investments have monthly and quarterly redemption frequencies with redemption notice periods ranging from 30 to 90 days. Unfunded commitments related to these investments are de minimis.

The following table presents the fair values of the Company's pension and post-retirement plan assets by asset category as of June 30, 2017:

(In millions)	Level 1	Level 2	Level 3	Assets Measured at NAV(1)	Total
Cash and cash equivalents	$ 3	$ —	$ —	$ —	$ 3
Short-term investment funds	—	17	—	6	23
Government and agency securities	—	37	—	—	37
Debt instruments	—	59	—	—	59
Commingled funds	147	761	—	194	1,102
Insurance contracts	—	—	48	—	48
Limited partnerships and hedge fund investments	—	—	—	94	94
Total	$ 150	$ 874	$ 48	$ 294	$ 1,366

(1) Per the fiscal 2017 adoption of new accounting guidance issued by the FASB, certain assets that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

The following table presents the fair values of the Company's pension and post-retirement plan assets by asset category as of June 30, 2016:

(In millions)	Level 1	Level 2	Level 3	Assets Measured at NAV(1)	Total
Cash and cash equivalents	$ 14	$ —	$ —	$ —	$ 14
Short-term investment funds	—	43	—	5	48
Government and agency securities	—	29	—	—	29
Equity securities	17	—	—	—	17
Debt instruments	—	145	—	—	145
Commingled funds	207	582	—	100	889
Insurance contracts	—	—	45	—	45
Limited partnerships and hedge fund investments	—	—	—	118	118
Total	$ 238	$ 799	$ 45	$ 223	$ 1,305

(1) Per the fiscal 2017 adoption of new accounting guidance issued by the FASB, certain assets that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

The following table presents the changes in Level 3 plan assets for fiscal 2017:

(In millions)	Insurance Contracts
Balance as of June 30, 2016	$ 45
Actual return on plan assets:	
Relating to assets still held at the reporting date	1
Purchases, sales, issuances and settlements, net	1
Foreign exchange impact	1
Balance as of June 30, 2017	$ 48

401(k) Savings Plan (U.S.)

The Company's 401(k) Savings Plan ("Savings Plan") is a contributory defined contribution plan covering substantially all regular U.S. employees who have completed the hours and service requirements, as defined by the plan document. Regular full-time employees are eligible to participate in the Savings Plan thirty days following their date of hire. The Savings Plan is subject to the applicable provisions of ERISA. The Company matches a portion of the participant's contributions after one year of service under a predetermined formula based on the participant's contribution level. The Company's contributions were $39 million, $37 million and $35 million for fiscal 2017, 2016 and 2015, respectively. Shares of the Company's Class A Common Stock are not an investment option in the Savings Plan and the Company does not use such shares to match participants' contributions.

Deferred Compensation

The Company has agreements with certain employees and outside directors who defer compensation. The Company accrues for such compensation, and either interest thereon or for the change in the value of cash units. The amounts included in the accompanying consolidated balance sheets under these plans were $75 million and $71 million as of June 30, 2017 and 2016, respectively. The expense for fiscal 2017, 2016 and 2015 was $6 million, $6 million and $9 million, respectively.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Contractual Obligations

The following table summarizes scheduled maturities of the Company's contractual obligations for which cash flows are fixed and determinable as of June 30, 2017:

		Payments Due in Fiscal					
(In millions)	Total	2018	2019	2020	2021	2022	Thereafter
Debt service[1]	$ 5,805	$ 312	$ 122	$ 617	$ 558	$ 101	$ 4,095
Operating lease commitments[2]	2,427	377	349	301	239	212	949
Unconditional purchase obligations[3]	3,035	1,434	407	435	368	342	49
Gross unrecognized tax benefits and interest – current[4]	3	3	—	—	—	—	—
Total contractual obligations	$ 11,270	$ 2,126	$ 878	$ 1,353	$ 1,165	$ 655	$ 5,093

(1) Includes long-term and current debt and the related projected interest costs, and to a lesser extent, capital lease commitments. Interest costs on long-term and current debt in fiscal 2018, 2019, 2020, 2021, 2022 and thereafter are projected to be $123 million, $117 million, $117 million, $108 million, $101 million and $1,645 million, respectively. Projected interest costs on variable rate instruments were calculated using market rates at June 30, 2017.

(2) Minimum operating lease commitments only include base rent. Certain leases provide for contingent rents that are not measurable at inception and primarily include rents based on a percentage of sales in excess of stipulated levels, as well as common area maintenance. These amounts are excluded from minimum operating lease commitments and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably measurable. Such amounts have not been material to total rent expense. Total rental expense included in the accompanying consolidated statements of earnings was $457 million, $442 million and $402 million in fiscal 2017, 2016 and 2015, respectively. In July 2017, the Company entered into new lease commitments for its principal offices at the same location. The Company's rental obligations under the new leases will commence in fiscal 2020 and expire in fiscal 2040. Minimum lease obligations pursuant to the leases in fiscal 2020, 2021, 2022 and thereafter are $5 million, $24 million, $32 million and $597 million, respectively.

(3) Unconditional purchase obligations primarily include: inventory commitments, additional purchase price payable and contingent consideration which resulted from the fiscal 2016 and 2015 acquisitions, earn-out payments related to the acquisition of Bobbi Brown, royalty payments pursuant to license agreements, advertising commitments, capital improvement commitments, non-discretionary planned funding of pension and other post-retirement benefit obligations and commitments pursuant to executive compensation arrangements. Future contingent consideration, earn-out payments and royalty and advertising commitments were estimated based on planned future sales for the term that was in effect at June 30, 2017, without consideration for potential renewal periods.

(4) Refer to *Note 9 – Income Taxes* for information regarding unrecognized tax benefits. As of June 30, 2017, the noncurrent portion of the Company's unrecognized tax benefits, including related accrued interest and penalties was $73 million. At this time, the settlement period for the noncurrent portion of the unrecognized tax benefits, including related accrued interest and penalties, cannot be determined and therefore was not included.

Legal Proceedings

The Company is involved, from time to time, in litigation and other legal proceedings incidental to its business. Management believes that the outcome of current litigation and legal proceedings will not have a material adverse effect upon the Company's results of operations, financial condition or cash flows. However, management's assessment of the Company's current litigation and other legal proceedings could change in light of the discovery of facts with respect to legal actions or other proceedings pending against the Company, not presently known to the Company or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or proceedings. Reasonably possible losses in addition to the amounts accrued for litigation and other legal proceedings are not material to the Company's consolidated financial statements.

NOTE 16 – COMMON STOCK

As of June 30, 2017, the Company's authorized common stock consists of 1,300 million shares of Class A Common Stock, par value $.01 per share, and 304 million shares of Class B Common Stock, par value $.01 per share. Class B Common Stock is convertible into Class A Common Stock, in whole or in part, at any time and from time to time at the option of the holder, on the basis of one share of Class A Common Stock for each share of Class B Common Stock converted. Holders of the Company's Class A Common Stock are entitled to one vote per share and holders of the Company's Class B Common Stock are entitled to ten votes per share.

Information about the Company's common stock outstanding is as follows:

(Shares in thousands)	Class A	Class B
Balance at June 30, 2014	234,156.4	148,728.1
Acquisition of treasury stock	(12,397.1)	—
Conversion of Class B to Class A	1,682.0	(1,682.0)
Stock-based compensation	4,394.9	—
Balance at June 30, 2015	227,836.2	147,046.1
Acquisition of treasury stock	(10,534.4)	—
Conversion of Class B to Class A	2,275.9	(2,275.9)
Stock-based compensation	3,411.9	—
Balance at June 30, 2016	222,989.6	144,770.2
Acquisition of treasury stock	(4,694.8)	—
Conversion of Class B to Class A	1,007.9	(1,007.9)
Stock-based compensation	5,038.5	—
Balance at June 30, 2017	224,341.2	143,762.3

The Company is authorized by the Board of Directors to repurchase Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of June 30, 2017, the remaining authorized share repurchase balance was 14.5 million shares. Subsequent to June 30, 2017 and as of August 18, 2017, the Company purchased approximately 0.5 million additional shares of its Class A Common Stock for $45 million pursuant to its share repurchase program.

The following is a summary of cash dividends declared per share on the Company's Class A and Class B Common Stock during the year ended June 30, 2017:

Date Declared	Record Date	Payable Date	Amount per Share
August 18, 2016	August 31, 2016	September 15, 2016	$.30
November 1, 2016	November 30, 2016	December 15, 2016	$.34
February 1, 2017	February 28, 2017	March 15, 2017	$.34
May 2, 2017	May 31, 2017	June 15, 2017	$.34

On August 17, 2017, a dividend was declared in the amount of $.34 per share on the Company's Class A and Class B Common Stock. The dividend is payable in cash on September 15, 2017 to stockholders of record at the close of business on August 31, 2017.

NOTE 17 – STOCK PROGRAMS

As of June 30, 2017, the Company has two active equity compensation plans which include the Amended and Restated Fiscal 2002 Share Incentive Plan (the "Fiscal 2002 Plan") and the Amended and Restated Non-Employee Director Share Incentive Plan (collectively, the "Plans"). These Plans currently provide for the issuance of approximately 76.8 million shares of Class A Common Stock, which consist of shares originally provided for and shares transferred to the Fiscal 2002 Plan from other inactive plans and employment agreements, to be granted in the form of stock-based awards to key employees, consultants and non-employee directors of the Company. As of June 30, 2017, approximately 11.9 million shares of Class A Common Stock were reserved and available to be granted pursuant to these Plans. The Company may satisfy the obligation of its stock-based compensation awards with either new or treasury shares. The Company's equity compensation awards include stock options, restricted stock units ("RSU"), performance share units ("PSU"), PSUs based on total stockholder return, long-term PSUs and share units.

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of stock options, RSUs, PSUs, PSUs based on total stockholder return, long-term PSUs and share units. Compensation expense attributable to net stock-based compensation is as follows:

Year Ended June 30	2017	2016	2015
(In millions)			
Compensation expense	$ 219	$ 184	$ 165
Income tax benefit	72	60	54

As of June 30, 2017, the total unrecognized compensation cost related to unvested stock-based awards was $170 million and the related weighted-average period over which it is expected to be recognized is approximately two years.

Stock Options

The following is a summary of the Company's stock option programs as of June 30, 2017 and changes during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value[1] (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2016	14,007.5	$ 52.92		
Granted at fair value	2,477.8	89.24		
Exercised	(3,361.6)	41.81		
Expired	(23.9)	70.93		
Forfeited	(135.5)	81.23		
Outstanding at June 30, 2017	12,964.3	62.42	$ 435	6.1
Vested and expected to vest at June 30, 2017	12,858.0	62.22	$ 434	6.0
Exercisable at June 30, 2017	8,458.1	51.17	$ 379	4.8

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The exercise period for all stock options generally may not exceed ten years from the date of grant. Stock option grants to individuals generally become exercisable in three substantively equal tranches over a service period of up to four years. The Company attributes the value of option awards on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The following is a summary of the per-share weighted-average grant date fair value of stock options granted and total intrinsic value of stock options exercised:

Year Ended June 30	2017	2016	2015
(In millions, except per share data)			
Per-share weighted-average grant date fair value of stock options granted	$ 22.79	$ 21.51	$ 22.44
Intrinsic value of stock options exercised	$ 149	$ 75	$ 114

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Year Ended June 30	2017	2016	2015
Weighted-average expected stock-price volatility	26%	27%	28%
Weighted-average expected option life	7 years	7 years	7 years
Average risk-free interest rate	1.5%	1.9%	2.2%
Average dividend yield	1.3%	1.2%	1.1%

The Company uses a weighted-average expected stock-price volatility assumption that is a combination of both current and historical implied volatilities of the underlying stock. The implied volatilities were obtained from publicly available data sources. For the weighted-average expected option life assumption, the Company considers the exercise behavior for past grants and models the pattern of aggregate exercises. The average risk-free interest rate is based on the U.S. Treasury strip rate for the expected term of the options and the average dividend yield is based on historical experience.

Restricted Stock Units

The Company granted approximately 1.6 million RSUs during fiscal 2017 which, at the time of grant, were scheduled to vest as follows: 0.5 million in fiscal 2018, 0.5 million in fiscal 2019, 0.5 million in fiscal 2020 and 0.1 million in fiscal 2022. Vesting of RSUs granted is generally subject to the continued employment of the grantees. RSUs are accompanied by dividend equivalent rights, payable upon settlement of the RSU either in cash or shares (based on the terms of the particular award) upon settlement of the RSU and, as such, were valued at the closing market price of the Company's Class A Common Stock on the date of grant.

The following is a summary of the status of the Company's RSUs as of June 30, 2017 and activity during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2016	2,795.4	$ 75.55
Granted	1,594.1	88.91
Dividend equivalents	34.1	86.38
Vested	(1,337.9)	74.05
Forfeited	(146.5)	80.58
Nonvested at June 30, 2017	2,939.2	83.35

Performance Share Units

During fiscal 2017, the Company granted PSUs with a target payout of approximately 0.3 million shares with a grant date fair value per share of $89.47, which will be settled in stock subject to the achievement of the Company's net sales, diluted net earnings per common share and return on invested capital goals for the three fiscal years ending June 30, 2020, all subject to the continued employment or retirement of the grantees. In January 2017, the Company granted PSUs with a target payout of approximately 0.3 million shares with a grant date fair value per share of $80.79, which will be settled in stock subject to the achievement of certain net sales and net operating profit goals of a subsidiary of the Company for the fiscal year ending June 30, 2020. In January 2017, the Company also granted PSUs with a target payout of approximately 0.2 million shares with a grant date fair value per share of $80.79, which will be settled in stock subject to the achievement of certain net sales and net operating profit goals of a subsidiary of the Company for the fiscal year ending June 30, 2022.

Settlement of all PSUs will be made pursuant to a range of opportunities relative to the target goals and, as such, the compensation cost of the PSU is subject to adjustment based upon the attainability of these target goals. No settlement will occur for results below the applicable minimum threshold of a target and additional shares shall be issued if performance exceeds the targeted performance goals. PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant. These awards are subject to the provisions of the agreement under which the PSUs are granted. The PSUs generally vest at the end of the performance period. Approximately 0.2 million shares of Class A Common Stock are anticipated to be issued, relative to the target goals set at the time of issuance, in settlement of the 0.3 million PSUs that vested as of June 30, 2017. In September 2016, approximately 0.3 million shares of the Company's Class A Common Stock were issued and related accrued dividends were paid, relative to the target goals set at the time of issuance, in settlement of 0.3 million PSUs which vested as of June 30, 2016.

The following is a summary of the status of the Company's PSUs as of June 30, 2017 and activity during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2016	539.1	$ 76.81
Granted	749.2	83.73
Vested	(259.8)	76.23
Forfeited	(6.3)	81.11
Nonvested at June 30, 2017	1,022.2	82.00

Performance Share Units Based on Total Stockholder Return

During fiscal 2013, the Company granted PSUs to an executive of the Company with an aggregate target payout of 162,760 shares of the Company's Class A Common Stock, subject to continued employment through the end of the relative performance periods of June 30, 2015, 2016, and 2017. Settlement of the PSUs are based upon the Company's relative total stockholder return ("TSR") over the relevant performance period as compared to companies in the S&P 500 on July 1, 2012. The PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement. The grant date fair value of the PSUs of $11 million was estimated using a lattice model with a Monte Carlo simulation and the following assumptions for each performance period, respectively: contractual life of 33, 45 and 57 months, average risk-free interest rate of 0.3%, 0.5% and 0.7% and a dividend yield of 1.0%. Using the historical stock prices and dividends from public sources, the Company estimated the covariance structure of the returns on S&P 500 stocks. The volatility for the Company's stock produced by this estimation was 32%. The average risk-free interest rate is based on the U.S. Treasury strip rates over the contractual term of the grant, and the dividend yield is based on historical experience.

Through June 30, 2017, 92,431 shares of the Company's Class A Common Stock were issued, and related dividends were paid, in accordance with the terms of the grant, related to the performance periods ended June 30, 2016 and 2015. In August 2017, an additional 30,267 shares of the Company's Class A Common Stock are anticipated to be issued, and related dividends to be paid, in accordance with the terms of the grant, related to the performance period ended June 30, 2017.

Long-term Performance Share Units

During September 2015, the Company granted PSUs to an executive of the Company with an aggregate target payout of 387,848 shares (in three tranches of approximately 129,283 each) of the Company's Class A Common Stock, generally subject to continued employment through the end of relative performance periods, which end June 30, 2018, 2019 and 2020. Since the Company achieved positive Net Earnings, as defined in the PSU award agreement, for the fiscal year ended June 30, 2016, performance and vesting of each tranche will be based on the Company achieving positive Cumulative Operating Income, as defined in the PSU award agreement, during the relative performance period. Payment with respect to a tranche will be made on the third anniversary of the last day of the respective performance period. The PSUs are accompanied by dividend equivalent rights that will be payable in cash at the same time as the payment of shares of Class A Common Stock. The grant date fair value of these PSUs of $30 million was estimated using the closing stock price of the Company's Class A Common Stock as of September 4, 2015, the date of grant.

During January 2016, the Company granted PSUs to an executive of the Company with an aggregate target payout of 71,694 shares (in three tranches of 23,898 each) of the Company's Class A Common Stock. Since the Company achieved positive Net Earnings, as defined in the PSU award agreement, for the fiscal year ended June 30, 2017, the vesting of each tranche will generally be subject to continued employment through the end of relative service periods that end on January 29, 2018, 2019 and 2020. Payment with respect to a tranche will be made within 30 business days of the date on which the PSUs vest. The PSUs are accompanied by dividend equivalent rights that will be payable in cash at the same time as the payment of shares of the Company's Class A Common Stock. The grant date fair value of these PSUs of $6 million was estimated using the closing stock price of the Company's Class A Common Stock as of January 28, 2016, the date of grant.

Share Units

The Company grants share units to certain non-employee directors under the Amended and Restated Non-Employee Director Share Incentive Plan. The share units are convertible into shares of the Company's Class A Common Stock as provided for in that plan. Share units are accompanied by dividend equivalent rights that are converted to additional share units when such dividends are declared.

The following is a summary of the status of the Company's share units as of June 30, 2017 and activity during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at June 30, 2016	120.7	$ 45.00
Granted	8.9	78.36
Dividend equivalents	2.0	86.46
Converted	—	—
Outstanding at June 30, 2017	131.6	47.87

Cash Units

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company's Class A Common Stock. The Company recorded $2 million, $2 million and $3 million as compensation expense to reflect additional deferrals and the change in the market value for fiscal 2017, 2016 and 2015, respectively.

NOTE 18 – NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE

Net earnings attributable to The Estée Lauder Companies Inc. per common share ("basic EPS") is computed by dividing net earnings attributable to The Estée Lauder Companies Inc. by the weighted-average number of common shares outstanding and contingently issuable shares (which satisfy certain conditions). Net earnings attributable to The Estée Lauder Companies Inc. per common share assuming dilution ("diluted EPS") is computed by reflecting potential dilution from stock-based awards.

A reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

Year Ended June 30	2017	2016	2015
(In millions, except per share data)			
Numerator:			
Net earnings attributable to The Estée Lauder Companies Inc.	**$ 1,249**	$ 1,115	$ 1,089
Denominator:			
Weighted-average common shares outstanding – Basic	**367.1**	370.0	379.3
Effect of dilutive stock options	**3.8**	4.6	4.6
Effect of PSUs	**0.2**	0.1	0.1
Effect of RSUs	**1.9**	1.8	1.6
Effect of performance share units based on TSR	—	0.1	0.1
Weighted-average common shares outstanding – Diluted	**373.0**	376.6	385.7
Net earnings attributable to The Estée Lauder Companies Inc. per common share:			
Basic	**$ 3.40**	$ 3.01	$ 2.87
Diluted	**3.35**	2.96	2.82

As of June 30, 2017, there were 1.8 million stock options excluded from the computation of diluted EPS because their inclusion would be anti-dilutive. As of June 30, 2016, there were 0.2 million stock options excluded from the computation of diluted EPS because their inclusion would be anti-dilutive. As of June 30, 2015, there were no anti-dilutive stock options to be excluded from the computation of diluted EPS. As of June 30, 2017, 2016 and 2015, 1.0 million, 0.5 million and 0.6 million, respectively, of PSUs have been excluded from the calculation of diluted EPS because the number of shares ultimately issued is contingent on the achievement of certain performance targets of the Company, as discussed in *Note 17 – Stock Programs*.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of AOCI included in the accompanying consolidated balance sheets consist of the following:

Year Ended June 30	2017	2016	2015
(In millions)			
Net unrealized investment gains, beginning of year	$ 7	$ —	$ 1
Unrealized investment gains (losses)	(8)	7	1
Reclassification to earnings during the year[1]	—	—	(2)
Net unrealized investment gains (losses), end of year	(1)	7	—
Net derivative instruments, beginning of year	32	44	(1)
Gain (loss) on derivative instruments	(13)	48	108
Benefit (provision) for deferred income taxes	5	(17)	(38)
Reclassification to earnings during the year:			
Foreign currency forward contracts[2]	(40)	(65)	(38)
Interest rate-related derivatives[3]	(1)	(1)	—
Benefit for deferred income taxes on reclassification[4]	14	23	13
Net derivative instruments, end of year	(3)	32	44
Net pension and post-retirement adjustments, beginning of year	(285)	(235)	(233)
Changes in plan assets and benefit obligations:			
Net actuarial gains (losses) recognized	71	(114)	(48)
Translation adjustments	—	6	16
Benefit (provision) for deferred income taxes	(20)	39	13
Amortization, settlements and curtailments included in net periodic benefit cost[5]:			
Net actuarial losses	28	22	21
Net prior service cost	3	4	3
Provision for deferred income taxes on reclassification[4]	(10)	(7)	(7)
Net pension and post-retirement adjustments, end of year	(213)	(285)	(235)
Cumulative translation adjustments, beginning of year	(299)	(190)	132
Translation adjustments	32	(107)	(319)
Provision for deferred income taxes	—	(2)	(3)
Cumulative translation adjustments, end of year	(267)	(299)	(190)
Accumulated other comprehensive loss	$ (484)	$ (545)	$ (381)

(1) Amounts recorded in Interest income and investment income, net in the accompanying consolidated statements of earnings.

(2) For the year ended June 30, 2017, $10 million and $30 million were recorded in Cost of Sales and Selling, general and administrative expenses, respectively, in the accompanying consolidated statements of earnings. For the year ended June 30, 2016, $17 million and $48 million were recorded in Cost of Sales and Selling, general and administrative expenses, respectively, in the accompanying consolidated statements of earnings. For the year ended June 30, 2015, $9 million and $29 million were recorded in Cost of Sales and Selling, general and administrative expenses, respectively, in the accompanying consolidated statements of earnings.

(3) Amounts recorded in Interest expense in the accompanying consolidated statements of earnings.

(4) Amounts recorded in Provision for income taxes in the accompanying consolidated statements of earnings.

(5) See *Note 14 – Pension, Deferred Compensation and Post-Retirement Benefit Plans* for additional information.

NOTE 20 – STATEMENT OF CASH FLOWS

Supplemental cash flow information is as follows:

Year Ended June 30	2017	2016	2015
(In millions)			
Cash:			
Cash paid during the year for interest	$ 96	$ 79	$ 66
Cash paid during the year for income taxes	$ 456	$ 451	$ 417
Non-cash investing and financing activities:			
Capital lease and asset retirement obligations incurred	$ 12	$ 27	$ 9
Pending purchase price true-up payment	$ —	$ —	$ 11
Non-cash purchases (sales) of short- and long-term investments, net	$ 6	$ (3)	$ 2
Property, plant and equipment accrued but unpaid	$ 29	$ 29	$ 29

NOTE 21 – SEGMENT DATA AND RELATED INFORMATION

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the "Chief Executive") in deciding how to allocate resources and in assessing performance. As a result of the similarities in the manufacturing, marketing and distribution processes for all of the Company's products, much of the information provided in the consolidated financial statements is similar to, or the same as, that reviewed on a regular basis by the Chief Executive. Although the Company operates in one business segment, beauty products, management also evaluates performance on a product category basis.

While the Company's results of operations are also reviewed on a consolidated basis, the Chief Executive reviews data segmented on a basis that facilitates comparison to industry statistics. Accordingly, net sales, depreciation and amortization, and operating income are available with respect to the manufacture and distribution of skin care, makeup, fragrance, hair care and other products. These product categories meet the definition of operating segments and, accordingly, additional financial data are provided below.

The "other" segment includes the sales and related results of ancillary products and services that do not fit the definition of skin care, makeup, fragrance and hair care.

Product category performance is measured based upon net sales before returns associated with restructuring and other activities, and earnings before income taxes, interest expense, interest income and investment income, net, and charges associated with restructuring and other activities. Returns and charges associated with restructuring and other activities are not allocated to the product categories 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. The accounting policies for the Company's reportable segments are the same as those described in the summary of significant accounting policies, except for depreciation and amortization charges, which are allocated, primarily, based upon net sales. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein.

Year Ended June 30	2017	2016	2015
(In millions)			
PRODUCT CATEGORY DATA			
Net Sales:			
Skin Care	$ 4,527	$ 4,446	$ 4,479
Makeup	5,054	4,702	4,304
Fragrance	1,637	1,487	1,416
Hair Care	539	554	531
Other	69	74	50
	11,826	11,263	10,780
Returns associated with restructuring and other activities	(2)	(1)	—
	$ 11,824	$ 11,262	$ 10,780
Depreciation and Amortization:			
Skin Care	$ 161	$ 151	$ 158
Makeup	218	184	168
Fragrance	59	52	54
Hair Care	23	24	26
Other	3	4	3
	$ 464	$ 415	$ 409
Operating Income (Loss) before charges associated with restructuring and other activities:			
Skin Care	$ 1,014	$ 842	$ 832
Makeup	713	758	659
Fragrance	115	87	83
Hair Care	51	52	38
Other	11	5	(6)
	1,904	1,744	1,606
Reconciliation:			
Charges associated with restructuring and other activities	(212)	(134)	—
Interest expense	(103)	(71)	(60)
Interest income and investment income, net	28	16	15
Earnings before income taxes	$ 1,617	$ 1,555	$ 1,561

Year Ended or at June 30	2017	2016	2015
(In millions)			
GEOGRAPHIC DATA			
Net Sales:			
The Americas	$ 4,819	$ 4,710	$ 4,514
Europe, the Middle East & Africa	4,650	4,381	4,086
Asia/Pacific	2,357	2,172	2,180
	11,826	11,263	10,780
Returns associated with restructuring and other activities	(2)	(1)	—
	$ 11,824	$ 11,262	$ 10,780
Operating Income (Loss):			
The Americas	$ 284	$ 346	$ 302
Europe, the Middle East & Africa	1,203	1,027	943
Asia/Pacific	417	371	361
	1,904	1,744	1,606
Charges associated with restructuring and other activities	(212)	(134)	—
	$ 1,692	$ 1,610	$ 1,606
Total Assets:			
The Americas	$ 7,061	$ 5,423	$ 4,898
Europe, the Middle East & Africa	3,367	3,016	2,614
Asia/Pacific	1,140	784	715
	$ 11,568	$ 9,223	$ 8,227
Long-Lived Assets (property, plant and equipment, net):			
The Americas	$ 1,071	$ 978	$ 957
Europe, the Middle East & Africa	456	464	400
Asia/Pacific	144	141	133
	$ 1,671	$ 1,583	$ 1,490

Net sales are predominantly attributed to a country within a geographic segment based on the location of the customer. The net sales from the Company's travel retail business are included in the Europe, the Middle East & Africa region. The Company is domiciled in the United States. Net sales in the United States in fiscal 2017, 2016 and 2015 were $4,238 million, $4,151 million and $3,972 million, respectively. The Company's long-lived assets in the United States at June 30, 2017, 2016 and 2015 were $869 million, $862 million and $856 million, respectively.

NOTE 22 – UNAUDITED QUARTERLY FINANCIAL DATA

The following summarizes the unaudited quarterly operating results of the Company for fiscal 2017 and 2016:

(In millions, except per share data)	Quarter Ended September 30[1]	December 31[2]	March 31[3]	June 30[4]	Total Year
Fiscal 2017					
Net Sales	$ 2,865	$ 3,208	$ 2,857	$ 2,894	$ 11,824
Gross Profit	2,269	2,571	2,266	2,281	9,387
Operating Income	418	617	427	230	1,692
Net Earnings Attributable to The Estée Lauder Companies Inc.	294	428	298	229	1,249
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic	.80	1.17	.81	.62	3.40
Diluted	.79	1.15	.80	.61	3.35
Fiscal 2016					
Net Sales	$ 2,835	$ 3,124	$ 2,657	$ 2,646	$ 11,262
Gross Profit	2,258	2,535	2,153	2,135	9,081
Operating Income	453	630	384	143	1,610
Net Earnings Attributable to The Estée Lauder Companies Inc.	309	447	265	94	1,115
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic	.83	1.21	.72	.25	3.01
Diluted	.82	1.19	.71	.25	2.96

(1) Fiscal 2017 first quarter results include charges associated with restructuring and other activities of $(31) million ($(20) million after tax, or $(.05) per diluted common share).

(2) Fiscal 2017 second quarter results include charges associated with restructuring and other activities of $(41) million ($(26) million after tax, or $(.07) per diluted common share). Fiscal 2016 second quarter results include charges associated with restructuring and other activities of $(19) million ($(12) million after tax, or $(.03) per diluted common share).

(3) Fiscal 2017 third quarter results include charges associated with restructuring and other activities of $(62) million ($(42) million after tax, or $(.11) per diluted common share). Fiscal 2016 third quarter results include charges associated with restructuring and other activities of $(15) million ($(10) million after tax, or $(.02) per diluted common share).

(4) Fiscal 2017 fourth quarter results include charges associated with restructuring and other activities of $(78) million ($(55) million after tax, or $(.15) per diluted common share), the changes in fair value of contingent consideration of $58 million ($42 million after tax, or $.11 per diluted common share), goodwill and other intangible asset impairments of $(31) million ($(23) million after tax, or $(.06) per diluted common share) and the China deferred tax asset valuation allowance reversal of $75 million, or $.20 per diluted common share. Fiscal 2016 fourth quarter results include charges associated with restructuring and other activities of $(100) million ($(68) million after tax, or $(.18) per diluted common share).

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

THREE YEARS ENDED JUNE 30, 2017

Description	Balance at Beginning of Period	ADDITIONS (1) Charged to Costs and Expenses	ADDITIONS (2) Charged to Other Accounts	Deductions	Balance at End of Period
(In millions)					
Reserves deducted in the balance sheet from the assets to which they apply:					
Allowance for doubtful accounts and customer deductions:					
Year ended June 30, 2017	$ 24	$ 18	$ —	$ 12[(a)]	$ 30
Year ended June 30, 2016	$ 21	$ 13	$ —	$ 10[(a)]	$ 24
Year ended June 30, 2015	$ 24	$ 8	$ —	$ 11[(a)]	$ 21
Sales return accrual:					
Year ended June 30, 2017	$ 96	$ 463	$ —	$ 450[(b)]	$ 109
Year ended June 30, 2016	$ 97	$ 373	$ —	$ 374[(b)]	$ 96
Year ended June 30, 2015	$ 94	$ 400	$ —	$ 397[(b)]	$ 97
Deferred tax valuation allowance:					
Year ended June 30, 2017	$ 118	$ 3	$ —	$ 79	$ 42
Year ended June 30, 2016	$ 121	$ 6	$ —	$ 9	$ 118
Year ended June 30, 2015	$ 115	$ 10	$ —	$ 4	$ 121
Accrued restructuring initiatives:					
Year ended June 30, 2017	$ 77	$ 122	$ —	$ 48	$ 151
Year ended June 30, 2016	$ —	$ 122	$ —	$ 45	$ 77
Year ended June 30, 2015	$ —	$ —	$ —	$ —	$ —

(a) Includes amounts written-off, net of recoveries.
(b) Represents actual returns.

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 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. Based on this assessment, the Company's management has concluded that, as of June 30, 2017, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of June 30, 2017 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears under the heading "Report of Independent Registered Public Accounting Firm."

Fabrizio Freda
President and Chief Executive Officer

Tracey T. Travis
Executive Vice President and Chief Financial Officer

August 25, 2017

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, 2017, 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.

In our opinion, The Estée Lauder Companies Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2017 and 2016, 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, 2017 and our report dated August 25, 2017 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

New York, New York
August 25, 2017

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, 2017 and 2016, 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, 2017. 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 32. 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2017, 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, 2017, 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 25, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

New York, New York
August 25, 2017

STOCKHOLDER INFORMATION

Company Headquarters

The Estée Lauder Companies Inc.
767 Fifth Avenue
New York, New York 10153
212-572-4200

Stockholder Information

Stockholders may access Company information, including a summary of the latest financial results, 24 hours a day, by dialing our toll-free information line, 800-308-2334. Company news releases are available online at www.elcompanies.com.

Investor Inquiries

We welcome inquiries from investors, securities analysts and other members of the professional financial community. Please contact the Investor Relations Department in writing at the Company's headquarters, by email at irdept@estee.com or by telephone at 212-572-4384.

Annual Report on Form 10-K

If you would like a copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, please call the toll-free information line, 800-308-2334, or write to the Investor Relations Department at the Company's headquarters. Our Form 10-K is also available on our website at www.elcompanies.com, as well as at the Securities and Exchange Commission website at www.sec.gov.

Common Stock Information

The Class A Common Stock of The Estée Lauder Companies Inc. is listed on the New York Stock Exchange with the symbol EL.

Quarterly Per Share Market Prices and Cash Dividends on Common Stock

Fiscal 2017 Quarter Ended	Market Price of Common Stock High	Low	Close	Cash Dividends
September 30	$95.38	$86.57	$88.56	$.30
December 31	88.74	75.30	76.49	.34
March 31	87.55	76.34	84.79	.34
June 30	98.40	83.34	95.98	.34

Dividends

Following the declaration by the Board of Directors, dividends on the common stock are paid, typically in March, June, September and December.

Annual Meeting

The Company's Annual Meeting of Stockholders will be held on Tuesday, November 14, 2017, at 10:00 a.m. at:

JW Marriott Essex House New York
160 Central Park South
New York, New York 10019

Attendance at the Annual Meeting will require an admission ticket.

Stockholder Services

Computershare, Inc. is the Company's transfer agent and registrar. Please contact Computershare directly with all inquiries and requests to:

- Change the name, address, or ownership of stock
- Replace lost certificates or dividend checks
- Obtain information about dividend reinvestment, direct stock purchase or direct deposit of dividends

Computershare, Inc.

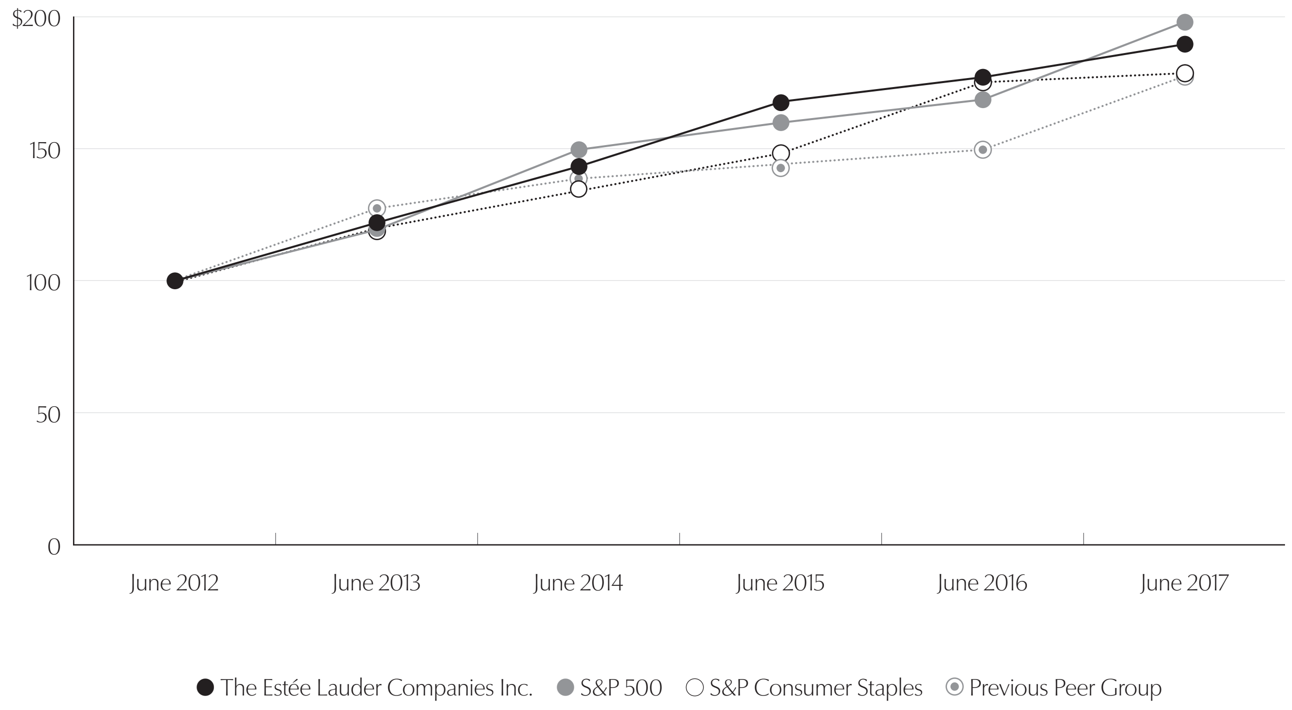
P.O. Box 505008
Louisville, KY 40233-9814
888-860-6295
www.computershare.com/investor

Performance Graph

The following graph compares the cumulative five-year total stockholder return (stock price appreciation plus dividends) on the Company's Class A Common Stock with the cumulative total return of the S&P 500 Index, the S&P Consumer Staples Index and a market weighted index of a publicly traded peer group. The returns are calculated by assuming an investment of $100 in the Class A Common Stock and in each index on June 30, 2012.

The publicly traded companies included in our previous peer group are: Avon Products, Inc., Beiersdorf AG, L'Oreal S.A., LVMH Moët Hennessy Louis Vuitton S.A., The Procter & Gamble Company and Shiseido Company, Ltd. After The Procter & Gamble Company divested substantially all of its prestige beauty brands, our Company reviewed its use of this peer group. Beginning in fiscal 2017, the Company is using the S&P Consumer Staples Index to provide for a broader relative comparison.

Cumulative five-year total stockholder return



Trademarks

The Estée Lauder Companies Inc. and its subsidiaries own numerous trademarks. Those appearing in the text in this report include:

Advanced Night Repair, Aramis, Art Stick, Aveda, BECCA, Blossom Belle, Bobbi Brown, Bumble and bumble, By Kilian, Clinique, Darphin, Double Wear, Editions de Parfums Frédéric Malle, Estée Lauder, Even Better, Eye Concentrate Matrix, Fresh Pressed, GLAMGLOW, Jo Malone London, La Mer, Lab Series, Le Labo, M•A•C, M•A•C AIDS Fund, M•A•C Selena, Miracle Broth, Moisture Surge, Next to Nothing, Origins, Prescriptives, RODIN olio lusso, Smashbox, Soft Fluid Long Wear Foundation, Star Magnolia, The Talk of The Townhouse, Too Faced, The Wink, and Viva Glam.

The trademark DECIEM is owned by Deciem Beauty Group, Inc.; the trademark Dr. JART+ is owned by Have & Be Co. Ltd.; and the trademark FOREST ESSENTIALS is owned by Mountain Valley Springs India Private Limited. The Estée Lauder Companies Inc. owns a minority interest in each of these entities.

AERIN is a licensed trademark from AERIN LLC; DKNY and Donna Karan New York are licensed trademarks from Donna Karan Studio; Michael Kors is a licensed trademark from Michael Kors (Switzerland) International Gmbh; Tom Ford and Lips & Boys are licensed trademarks from 001 Corporation; Tommy Hilfiger is a licensed trademark from Tommy Hilfiger Licensing LLC.; Tory Burch is a licensed trademark from Tory Burch LLC; Ermenegildo Zegna is a licensed trademark from Consitex S.A.; Kiton is a licensed trademark from Ciro Paone S.p.A.

THE ESTĒE LAUDER COMPANIES INC. 2017 ANNUAL REPORT ENVIRONMENTAL FIGURES

The Estée Lauder Companies Inc. 2017 Annual Report is printed on paper that is made with certified renewable electricity and is Forest Stewardship Council® (FSC®) Certified, ensuring all papers come from responsibly managed forests. Paper used in the financial section is made with 100% post-consumer recycled fiber (PCRF), Green Seal™ Certified and Carbon Neutral Plus, all of which ensure a reduction in carbon emissions and demonstrate a commitment to conserve the environment.

The coated paper in the Annual Report is Elemental Chlorine Free (ECF), a technique that uses chlorine dioxide for the bleaching of wood pulp. It does not use elemental chlorine gas during the bleaching process and prevents the formation of dioxin. The paper made with 100% PCRF is Processed Chlorine Free (PCF), recycled paper in which the recycled content is unbleached or bleached without chlorine or chlorine derivatives.

Combined savings from using 5,885 lbs of paper made with 100% PCRF and 5,535 lbs of paper made with 20% PCRF to produce this report:

26,183 lbs wood	A total of 88 trees, which supply enough oxygen for 44 people annually.
17 trees	PCRF displaces wood fiber with savings translated as trees. (Assumes a mix of hardwoods and softwoods 6″ to 8″ in diameter and 40′ tall.)
36,835 gal water	Enough water to take 2,203 eight-minute showers.
7,485 gal waste water	PCRF content eliminates wastewater produced by processing equivalent virgin fiber. (Swimming pools—1 Olympic-sized swimming pool holds 660,430 gallons.)
492 lbs solid waste	PCRF content eliminates solid waste generated through the pulp and paper manufacturing process. (Garbage trucks—1 fully loaded garbage truck weighs an average of 28,000 lbs.)
2,220 lbs solid waste	Solid waste trash thrown away by 495 people in a single day.
6.79 million BTU	PCRF content displaces energy used to process equivalent virgin fiber. (Homes per year—The average US household uses 91 million BTUs of energy in a year.)
25 min BTUs energy	Enough energy to power an average American household for 103 days.
8,189 lbs emissions	Carbon sequestered by 65 tree seedlings grown for 5 years.

Reduction of emissions derived from using paper made with 100% renewable energy:

5,614 lbs	Combined amount of CO2, SO2, and NOx not emitted.
6,882 lbs (1 cars/year)	Greenhouse Gas Reduction—PCRF content reduces greenhouse gas emissions (measured in CO2 equivalents) that would be generated by equivalent virgin fiber production. Purchasing green power significantly reduces greenhouse gas emissions, as well. (Cars per year—the average car emits 11,013 pounds of CO2 in a year.)

Savings of these greenhouse gas emissions are equivalent to:

2,906 hours	Number of kilowatt-hours of electricity offset by purchase of renewable energy.
744 hours	Total continuous electricity used by a single-family home.
3,474 lbs	Amount of waste recycled instead of disposed in landfills.

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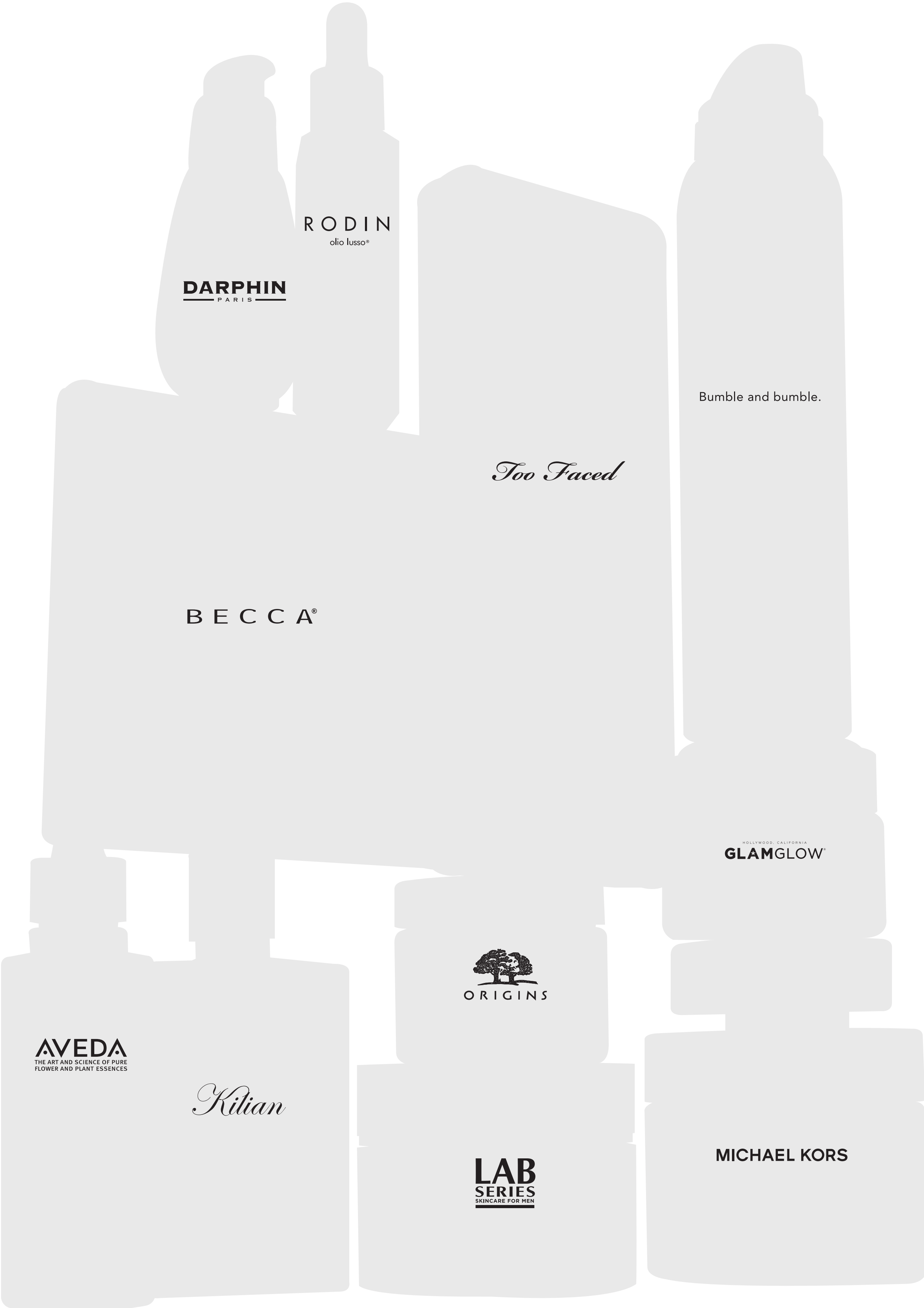
Reduction of emissions from printing using wind-generated electricity:
2,858 lbs of CO2 not emitted.

This amount of wind-generated electricity is equivalent to:
2,480 miles not driven in an automobile or 195 trees being planted.

Sandy Alexander
100% wind energy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