THE ESTĒE LAUDER COMPANIES INC.

THE GLOBAL HOUSE OF PRESTIGE BEAUTY

2016 ANNUAL REPORT


AERIN
AVEDA
thickening
tonic
Bumble and bumble.
DARPHIN
ESTĒE LAUDER
Ermenegildo Zegna
FM
Jo Malone
London
LAB
SERIES
SKINCARE FOR MEN
CRÈME DE LA MER
LA MER
RODIN
olio lusso
SANTAL 33
smashbox
ESTĒE
LAUDER
COMPANIES

THE GLOBAL HOUSE OF PRESTIGE BEAUTY

TABLE OF CONTENTS

"From our most seasoned leaders to our newest hires, our employees are our greatest assets. Their many talents and diverse experiences are important to our Company's success."

WILLIAM P. LAUDER

Executive Chairman

Dear Fellow Stockholders,

Our strong performance in fiscal 2016 reflects the wonderful execution of our strategy by our best-in-class global team. Thanks to the hard work of our exceptionally talented people around the world, we continue to strengthen our position as *The Global House of Prestige Beauty*, delivering superior products and experiences to our consumers.

Our Company operates in a dynamic global landscape, where the barriers and pathways to success are constantly changing. Under the extraordinary leadership of our President and Chief Executive Officer Fabrizio Freda, and with the counsel of our Board of Directors, we have persevered through uncertainty to generate impressive annual performance, while positioning ourselves for profitable growth over the long-term. Today, we are deploying resources to expand our leadership in the digital world and building additional capabilities that will be essential to our future.

Time and again, we have demonstrated our ability to create new avenues of growth through strategic investments in and acquisitions of entrepreneurial brands. In fiscal 2016, we made a minority investment in South Korean skin care brand Dr. Jart+, which embodies Korea's reputation as a driver of industry innovation. Later in the year, we acquired the prestige fragrance brand By Kilian, further enhancing our presence in the exciting, high-growth fragrance category. With our brand-building expertise, we are eager to transform these visionary, high-potential businesses into iconic global leaders, just as we have done for M·A·C, Jo Malone London and many other brands in our prestige portfolio.

Our world-class talent and leadership pioneered innovative concepts to reach our longtime consumers while expanding to new demographic audiences. For instance, The Estée Edit collection launched this year and is available exclusively at Sephora stores in North America and on sephora.com, as well as in Selfridges stores in the United Kingdom. The collection targets Millennial consumers through social media campaigns featuring Kendall Jenner and Irene Kim. Additionally, Clinique created The Wink, a uniquely designed and shoppable online beauty platform that features engaging lifestyle pieces inspired by the people, places and products of the beloved Clinique brand.

Among our Company's greatest strengths is our unwavering commitment to building and growing the capabilities required for lasting success. This year, we announced *Leading Beauty Forward*, a multi-year initiative that will help us channel our resources to areas that will fuel our sustained growth; adopt new ways of doing business to further accelerate the speed and efficiency with which we create and respond to global trends; and provide our people with enhanced opportunities and tools to both advance our business while advancing their own development.

From our most seasoned leaders to our newest hires, our employees are our greatest assets. Their many talents and diverse experiences are important to our Company's success, and their collective passion continues to cultivate and drive the elements that make our Company truly unique.

For example, our new United Kingdom and Ireland headquarters, which opened in London in February 2016, was designed in collaboration with colleagues from across our brands and functions to exemplify a modern office environment, with beautifully styled collaborative spaces and efficient amenities. Thanks in part to this people-first approach, The Estée Lauder Companies continues to be recognized as a destination for top talent around the world. In the United States, our Company was named to LinkedIn's "Top Attractors List" as a most sought after employer; in Australia and New Zealand, the Company was recognized with one of the "2016 AON Best Employer Awards;" and in the Middle East, we were recognized as a "Top Company to Work for in the UAE" by the Great Place to Work Institute.

With more than 46,000 employees in markets across the world, we are intent on hiring and retaining a workforce that reflects the global populations we serve. We identify and develop compelling, qualified employees from diverse backgrounds and cultivate an inclusive environment in which everyone can thrive. The vast range of voices and viewpoints throughout our Company drive our creativity and, ultimately, our success. By strongly investing in our people, we have built a remarkable team and are cultivating the next generation of diverse and talented leadership.

As a global company, we recognize that we are part of a global community. This was never more apparent than in this past year during which our people and our business exhibited tremendous resilience in the face of challenging and difficult circumstances, such as global terror attacks and economic instability. I am proud of our employees' continued compassion amid these difficult times.

We are continuously looking at how we can better serve the communities that touch our employees and our business. This year, we evolved the structure of our corporate citizenship and sustainability groups to form a combined office that reports directly to both Fabrizio Freda and me so that we can better connect our business priorities with our values.

From our efforts through the M·A·C AIDS Fund to Aveda's environmentally conscious Earth Month program to Bobbi Brown's Pretty Powerful Campaign and to our Company's longtime commitment to The Breast Cancer Awareness Campaign, we have long been involved in areas where we can have meaningful impact. This year, Aveda celebrated 10 years of protecting clean water in over 20 countries, The BCA Campaign raised over $6 million to support breast cancer research, education and medical services, and 3,000 of our global employees volunteered through our Worlds AIDS Day Global Volunteer Initiative in support of the M·A·C AIDS Fund.

Increasingly, we are looking at opportunities to focus our efforts in areas where we can have the greatest long-term impact and resonance with our business, our consumers and our communities. Many of these opportunities are within our sustainability initiatives, where thoughtful management of the economic, environmental and social impacts throughout our entire value chain is important to our long-term success. We look forward to strengthening our efforts to positively contribute solutions to some of our global sustainability challenges.

Thanks to the hard work and dedication of our global employees, the outstanding leadership of our teams and our drive to take on each challenge as an opportunity, we are well-positioned to continue delivering exceptional value for our stockholders. I'd like to extend my thanks to all of our people and to you, our stockholders, for your support.

William P. Lauder
Executive Chairman

"Our results reflect our well-diversified, brand-building powerhouse of unrivaled creativity and innovation. We are confident that we are well-positioned to sustain our strong and profitable growth over the long-term."

FABRIZIO FREDA

President and Chief Executive Officer

Dear Fellow Stockholders,

The strong performance by The Estée Lauder Companies in fiscal 2016 is a testament to the strength of our diversified business and multiple engines of growth, disciplined strategy and capacity for execution. Our results reinforce our entrepreneurial spirit, which inspires our Company to innovate and navigate change to continue exceeding the expectations of prestige beauty consumers worldwide and delivering value to stockholders.

When Mrs. Estée Lauder founded our Company, she challenged the luxury beauty establishment at the time with groundbreaking products and a "High-Touch" experience that enabled her to develop a personal connection with consumers. Since then, we have continued to lead in prestige beauty by building a world-class brand portfolio, developing high-quality, innovative products, and cultivating a culture of anticipating and embracing change. We continue to be, at heart, an entrepreneurial company that breaks accepted norms of our industry.

The dynamics of our industry are changing, and today's global prestige beauty consumers increasingly seek unique experiences from brands with authentic points of view across platforms. Our ability to quickly and nimbly shift resources to our most compelling opportunities, our ability to deliver aspirational, High-Touch brand experiences and our talented team enable us to continue to deliver industry-leading performance in an evolving environment. Importantly, we are continually seeking ways to execute even more efficiently.

In fiscal 2016, we delivered net sales of $11.26 billion, adjusted net earnings of $1.21 billion and adjusted diluted earnings per share of $3.20. In constant currency, adjusted net sales rose 7 percent, which was ahead of global prestige beauty growth, and adjusted constant currency earnings per share increased 13 percent.* Cash flow from operations was $1.79 billion. During the fiscal year, we increased our dividend rate by 25 percent, repurchased $890 million of our outstanding shares and returned over 100 percent of free cash flow to stockholders.

SELECT FISCAL 2016 RESULTS

$11.3 BILLION Net Sales	$1.2 BILLION Adjusted Net Earnings	$3.20 Adjusted Diluted Earnings Per Share

We capitalized on shifting consumer preferences across categories and regions to fuel our growth in makeup and fragrance during fiscal 2016. We also saw strong performances from our online, specialty-multi and freestanding store channels. Our creative approach to digital engagement, particularly across social media, contributed to these changes, driving consumption both in-store and online.

Our results reflect our well-diversified, brand-building powerhouse of unrivaled creativity and innovation. We are confident that we are well-positioned to sustain our strong and profitable growth over the long-term.

PRESTIGE BEAUTY: DYNAMIC AND GROWING

Our Company has a broad geographic footprint – our products are sold in nearly every corner of the world. We see long-term opportunities to reach more global prestige consumers with our portfolio of over 25 brands. Moreover, we are fortunate to be the only large company solely focused on prestige beauty – a thriving, growing segment of the beauty industry.

The growth of prestige beauty is propelled by powerful and enduring global megatrends, including greater consumption in emerging markets that could comprise 25 percent of prestige beauty retail sales in 10 years, and the simultaneous expansion of the global middle class which is occurring at a brisk pace.

The industry should also benefit from changing demographics in the United States, where half the population will be over the age of 50 by mid-2017 and enjoy greater disposable income. In addition to these Ageless consumers who continue to inspire our efforts, Millennial consumers – born between 1980 and 1998 – have demonstrated their insatiable appetite for innovation, novelty and individuality. We view Millennials' fresh approach positively and believe it reinforces prestige beauty as a high-growth consumer area, in many cases exceeding mass beauty in key countries around the world.

SECURING OUR FUTURE LEADERSHIP: OUR 10-YEAR COMPASS

The diversity of our brands and products, combined with our social media capabilities, enables us to capture unique, "of-the-moment" opportunities. For the longer-term trends, we turn to our 10-year Compass, an important tool that identifies future trends that we believe will drive prestige beauty and our most promising growth areas.

Staying ahead of the curve is critical to success in our industry. For example, the Millennial generation is now the largest demographic group in the world and continues to inspire the prestige beauty landscape. While the current Millennial focus on instant camera-ready beauty is driving growth in makeup today, we anticipate that their demand for skin care products will grow as they age.

We are also focused on positioning our brands as leaders with Generation Z. These consumers, born after 1998, will soon outnumber Millennials. They are the first generation to be raised in the era of the smartphone – many do not remember a time before social media – and, in the United States, they will be the most ethnically diverse generation in history. We are hard at work developing the innovative products and experiences to delight these new, younger consumers and draw them to our brands.

Today, beauty consumers from all generations expect seamless experiences among online, mobile and offline channels, and we are continuing to enhance our omnichannel capabilities to serve them. For example, consumers can book makeovers online at M·A·C's first ever Makeup Studio store and at Bobbi Brown's United Kingdom beauty counters. These online bookings have increased store traffic and strengthened our consumers' connection to our brands. Additionally, digital platforms like Clinique's The Wink offer creative and engaging ways for a consumer to interact with the brand seamlessly – from her laptop or mobile phone to the department store.

We are also building our presence in emerging product subcategories. Just as we are meeting the increased demand for products in high-growth subcategories like masks and lipsticks, we are focusing on developing innovative products in other high-growth subcategories for the future.

LAYING THE FOUNDATION FOR THE FUTURE

With an eye to the future, we continue to make strategic decisions to position us for continued leadership in prestige beauty. In the second half of fiscal 2016, we launched *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 strong growth momentum. This initiative is designed to fuel our long-term profitable growth, enhance our go-to-market capabilities and reinforce our leadership in global prestige beauty.

Leading Beauty Forward is expected to help increase our effectiveness by infusing additional speed and agility into our business, so that we can more quickly respond to our changing industry. It should also help us create a better, more efficient cost base and improve productivity to continue investing in our brands' growth and consumer-facing efforts, including new products, social media, communications, in-store merchandising, point-of-sale activities and advertising.

Cost savings from the initiative are expected to provide more resources to continue improving profitability, while the Company further builds its business to be more sustainable, efficient and effective.

ENGINES OF GROWTH

STRONG GROWTH IN MAKEUP AND LUXURY FRAGRANCE

Our makeup-focused brands–M·A·C, Bobbi Brown and Smashbox–drove growth in our high-performing makeup category, providing instant beauty for the "selfie" generation. Compelling social media campaigns like M·A·C's "MIX + MASH" global Instagram program, and the wide availability of digital tutorials, contributed to the category's strong performance. Additionally, our multi-category brands, Estée Lauder and Clinique, experienced solid growth in makeup on a global basis.

Adjusted sales in this vibrant category grew 13 percent in constant currency in fiscal 2016, reflecting double-digit gains in constant currency every quarter. Our growth was balanced across regions, including Asia/Pacific – a market that is traditionally focused on skin care – led by Estée Lauder, Clinique, Bobbi Brown and M·A·C. In fact, M·A·C is the top prestige beauty brand in several markets in the region.

Our high-end brands lifted the fragrance category's performance in fiscal 2016, inspiring consumers around the world with products that offer authentic and unique points of view. Our artisanal fragrances emphasized distinguished voices in this space, with a focus on craftsmanship, artistry, originality and individuality. We were very pleased with the performance of two of our newest additions to our fragrance portfolio, Le Labo and Editions de Parfums Frédéric Malle. Jo Malone London and Tom Ford saw exceptional results on a global basis, with double-digit sales growth in every region.

We continue to believe that luxury fragrance will outpace the broader fragrance category, and we are investing to weight our portfolio towards this tier. To that end, we welcomed By Kilian to our Company this year – a prestige fragrance brand that embodies sophistication and modern luxury. This brand has terrific potential for global expansion, and we look forward to nurturing its growth.

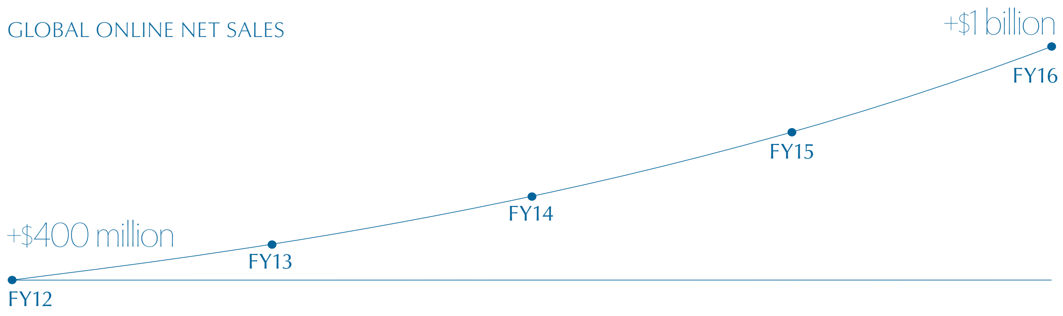
CONTINUED CHANNEL DIVERSIFICATION

Over the past 20 years, we have evolved our distribution to reach more consumers in high-growth prestige channels, and we anticipate that this will continue into fiscal 2017 and beyond. While our distribution strategy differs across our brand portfolio, our focus is on diversified channels that enhance our global reach and connect us with our consumer when and where she shops, whether at a store counter or on her mobile phone. We have many opportunities for greater consumer reach in each of our regions. For example, M·A·C is not as widely distributed as our other brands. In fact, it has approximately one tenth the number of doors of Estée Lauder and Clinique, and about half the distribution of several direct competitors. We believe there are millions of untapped new consumers whom M·A·C can potentially reach.

Department stores remain our largest channel globally, and we experienced strong growth from our stores in international markets and online. At the same time, we are sharply focused on faster growing channels around the world. This year, we enjoyed strong results from e- and m-commerce, specialty-multi and freestanding retail stores.

For the first time in our history, we exceeded $1 billion in online sales through both Company and retailer e- and m-commerce platforms, an increase of 27 percent in constant currency. As global internet connectivity increases, seamless shopping experiences across distribution channels will eliminate the term "offline." This will be an incredible opportunity for companies with effective strategies for online and mobile channels, two of the key investment areas we are targeting through *Leading Beauty Forward*.

We are looking to our online success in the United States and the United Kingdom as models for how to best add brands and depth in other existing geographies, while driving expansion into new ones. We are also enhancing our mobile capabilities, which were responsible for over 35 percent of our global online sales in fiscal 2016.



We strengthened our presence in specialty-multi retailers this year, where our sales rose double-digits. Our global business at Sephora grew double-digits, with strong success from Smashbox and GLAMGLOW. Estée Lauder launched the Millennial-oriented line, The Estée Edit, exclusively in North America in Sephora stores and on sephora.com. We are also encouraged by our business with Bluemercury, the most high-end focused specialty-multi retailer in the United States, where some of our fastest growing brands are featured. In Ulta, we are pleased with our rapid double-digit growth. Outside of the United States, we have strong growth in Boots and Douglas, led by Smashbox.

In fiscal 2016, freestanding stores accounted for over 10 percent of our business and our sales in the channel rose double-digits. We are focused on building new retail capabilities, testing new store formats and connecting the consumer to online via omnichannel initiatives. Freestanding stores embody a brand's identity and represent a great opportunity to engage in an experiential prestige environment. Additionally, they allow us to test and launch new concepts, such as Origins' Discovery retail design which illustrates the journey from plant to formula. Jo Malone London opened its first Global Premier Boutique on London's iconic Regent Street in fiscal 2016, offering consumers the very best in experiential retail such as an indoor scented garden, Artisan's Studio for gift customization, and first ever interactive digital Fragrance Combining Cabinet.

Overall, international passenger traffic growth was solid across all regions in fiscal 2016, helping to drive growth in the Travel Retail channel. Our strategic approach to the channel emphasized diversification by region, category, brand and type of airport, and we currently lead in prestige skin care and makeup combined. We are positioned for even greater success in Travel Retail as we nimbly deploy resources to areas with greater traffic. We are expanding our offerings in luxury fragrance – a category that performs well in the channel, partly due to travelers purchasing fragrances as gifts – with brands like Tom Ford, Jo Malone London and Le Labo. We see tremendous opportunity in the channel over the long-term, particularly given that air travel is expected to double over the next 15 years.

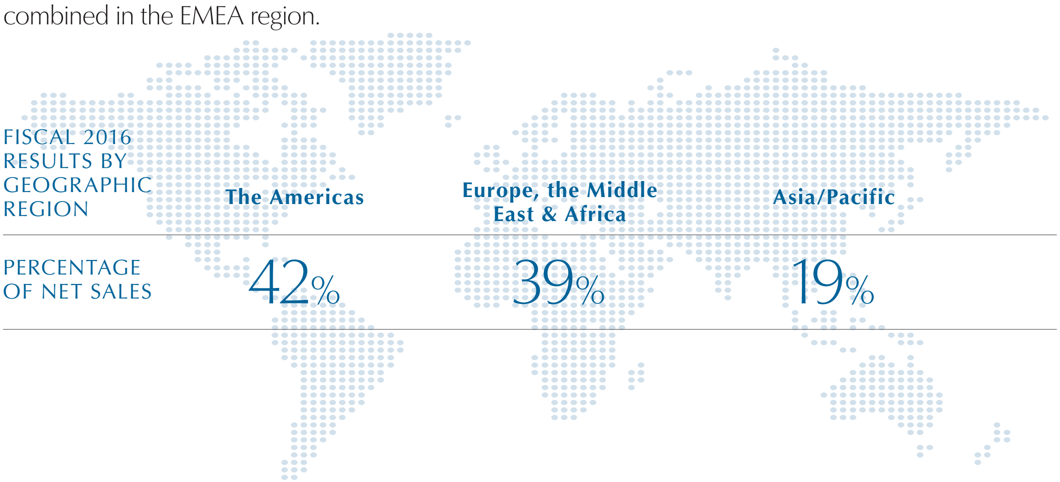
INNOVATIVE DIGITAL ENGAGEMENT

Our strategy to win with today's digitally savvy consumers is constantly evolving – much like the consumers themselves – and continues to be grounded by our High-Touch approach to consumer engagement and retention. Reaching our consumers in a High-Touch manner has been part of our Company's DNA since the beginning. We are building on this unique strength for the digital age, as consumers expect an instant, seamless shopping experience across distribution channels. We have produced popular how-to videos, makeup tutorials from "style-experts" and tips from key influencers, enabling our consumers to establish a personal rapport with our brands both in-store and online.

M·A·C communicates with more than 26 million followers across its digital platforms, offering inspirational looks and technique tips from its talented pool of over 20,000 global artists. Jo Malone London is the number one beauty brand on Pinterest, leveraging the platform's focus on lifestyle and bridal trends. And, La Mer launched its "Celebration of an Icon" campaign in Los Angeles by sharing behind-the-scenes content on Snapchat.

CONTINUED GLOBAL SUCCESS

Geographically, each of our regions contributed to constant currency growth in fiscal 2016. We are especially proud of the success of our business in Europe, the Middle East & Africa (EMEA), which demonstrated resilience in a challenging environment. Adjusted net sales increased 12 percent in constant currency, driven by the strong performance of the makeup and fragrance categories. By understanding consumer insights to target demographic pockets with the right brands, products and services, we have been successful at launching new brands and reaching consumers wherever they shop. Many of our launches have resonated well, and we believe we are number one in prestige skin care and makeup combined in the EMEA region.



In the Americas region, adjusted net sales rose 5 percent in constant currency, led by double-digit increases in Canada as well as Latin America, where we became the number one prestige beauty company this year. Our business in the United States rose double-digits in specialty-multi stores and online. However, weak traffic in mid-tier brick and mortar department stores and tourist-driven doors curtailed sales growth in the United States to low-single-digits. Inbound tourism in the United States declined as the strong dollar led tourists to seek alternative destinations.

In the Asia/Pacific region, adjusted net sales rose 4 percent in constant currency, with the strongest growth from important markets like Australia, Korea and Japan. Shifts in regional consumer preferences accelerated sales growth in the makeup and fragrance categories. In fact, we are leading the growth of luxury fragrance in the region, and believe we grew our share nearly four points in the category in fiscal 2016. Jo Malone London ranks among the top three prestige fragrance brands in key markets in Asia/Pacific. Additionally, online sales now represent more than 6 percent of our total sales in Asia/Pacific, with net sales growth of 48 percent in constant currency versus last year and double-digit increases in every market. Our business in Hong Kong remained weak as Chinese travel to the area continued to decline.

Our business in emerging markets continues to develop rapidly. Net sales in constant currency rose 15 percent overall and jumped 25 percent excluding China, with the strongest growth from Brazil, Turkey, Mexico and Russia. We continue to build our presence in emerging markets, bringing our brands and high-quality products to new consumers around the world. M·A·C continues to be a trailblazer in sub-Saharan Africa, where it most recently entered Zimbabwe. The brand also offered locally relevant products, such as its Modern Twist Kajal eye liners, inspired by trends in the Middle East. In Brazil, a strategic emerging market for us, Jo Malone London and La Mer were introduced and are performing strongly.

We are committed to China and Chinese consumers around the globe. Our business this year was healthy, as we entered 14 new cities, with most brands growing double-digits in constant currency and retail sales gaining momentum. We have strategically diversified our business in China across category and channel, as consumer preferences shift to makeup and fragrance as well as online purchasing. Our online business had the fastest growth of over 70 percent and accounted for approximately 10 percent of total sales in China, reflecting success at both our brand sites and third party sites like T-Mall.

WORLD-CLASS INNOVATION

Innovation and creativity are key pillars of our success at The Estée Lauder Companies. We demonstrated our dedication to creativity, as well as speed and agility in executing our innovative ideas, throughout fiscal 2016. For example, over half of our R&D initiatives were completed in less than 12 months, and approximately 24 percent of our global sales were from new products. Our global patent portfolio has increased 40 percent in the last four years, primarily in skin care and strategic areas with high consumer demand. Our newest patents cover technology that will anchor high-quality products that we believe will surprise and delight our global consumers.

Our innovations across high-growth skin care subcategories are resonating with consumers, such as masks and other products with “instant” benefits. These include Smashbox’s Primers, Estée Lauder’s Advanced Night Repair Concentrated Recovery PowerFoil Mask, Origins’ Original Skin Retexturizing Mask with Rose Clay for instant radiance, GLAMGLOW’s masks for various skin care concerns, and Clinique’s Pep-Start Hydroblur Moisturizer.

In addition to our employees, we look to our most demanding consumers around the world as inspiration for innovation. In particular, Korea, Japan and California are sources of innovation. To that end, we invested in the South Korean brand Dr. Jart+, one of Korea’s most promising, high-growth skin care brands.

AN EXTRAORDINARY TEAM: DEVELOPING TALENT WITH AN EYE TO THE FUTURE

Our Company's success is fueled by our talented and dedicated employees, including an unparalleled Executive Leadership Team. As we have consistently demonstrated, we have the right blend of experienced industry experts and enthusiastic change agents to win in this highly competitive environment against a backdrop of political and economic volatility.

This year, many of our most talented and creative up-and-coming leaders stepped into important new roles that will allow them to have a broader impact on our success and to further develop their skills and talents. We continue to bring on new talent to create the products of the future and partner with entrepreneurs behind some of the most high-growth brands in the prestige beauty space today – brands that have the potential to become the global, iconic brands of the future.

One of our unique strengths is our focus on emphasizing education and leadership at all levels. We are energized by our reverse mentoring program, matching highly engaged members of our executive leadership with our empowered Millennial employees. The Estée Edit, Clinique Pep-Start and the launch of Smashbox's freestanding store concept are successful examples that resulted from this collaboration, and we have more creative ideas in the pipeline.

We take pride in an employee base that joins us from all over the world. Inclusivity and diversity are hallmarks of our Company, and we continue to recruit a workforce that increasingly reflects the consumers we serve. We are particularly proud that women represent the majority of our global workforce and over half of our senior leadership positions. Our results in fiscal 2016 are a testament to the execution by our people around the globe, and we thank them for their hard work and commitment.

We are also extremely fortunate to have a Board of Directors comprised of individuals with diverse and complementary business and leadership experiences. The members of the Board provide invaluable advice and counsel to our management team, review the Company's strategic plans and support management's focus on long-term value creation. I know I speak for our entire senior leadership team in thanking the members of our Board for their counsel and oversight as we position the Company for continued success.

FOCUSED ON THE LONG-TERM

The Lauder Family's dedication to preserving the entrepreneurial spirit of the Company and its commitment to long-term growth are important underpinnings of the success of The Estée Lauder Companies. As William Lauder has said, "our strong heritage and values infuse everything that we do," and I believe that this dedication truly distinguishes our Company from our industry peers.

It is my privilege to partner with William, whose unfailing strategic capacity, dedication to cultivating the leaders of the future and commitment to sustainably running our business are integral to our Company's performance.

We are well-positioned for fiscal 2017 to be another year of strong growth for The Estée Lauder Companies. We remain focused on the fastest-growing segments of our industry, and we continue to build on the success of our various categories in emerging markets as we capitalize on expansion opportunities for our mid-sized brands and nurture our smaller brands. We expect to see increased consumer reach for our brands across the channels in which our products are sold. Our innovation in these areas will be key to supporting our continued global leadership.

Our diversified business is anchored by multiple engines of growth, a wealth of creativity and the ability to quickly react and adapt to events and trends, making us optimistic about our long-term success. Over the next three years, we expect to generate sales growth of 6 to 8 percent and double-digit EPS increases, excluding restructuring and other charges, in constant currency. For fiscal 2017, we expect to once again outpace global prestige beauty growth and gain share, despite external headwinds and challenges.

As we continue to anticipate and navigate change, we remain focused on our unique strengths that make us the leader in global prestige beauty: our unrivaled brand portfolio; our amazing global talent; our commitment to high-quality, innovative products and prestige services; and our outstanding High-Touch approach. We will continue to build on the strengths that have propelled our growth, while embracing new opportunities for even greater success tomorrow.

I thank you, our valued stockholders, for your continued support as we look ahead to great achievements in fiscal 2017 and beyond.

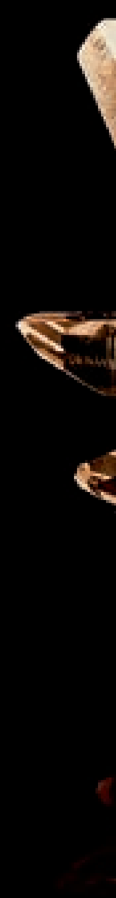
Fabrizio Freda

Fabrizio Freda
President and Chief Executive Officer

* This letter contains references to the following non-GAAP financial measures: constant currency, adjusted net sales, adjusted net earnings and adjusted diluted EPS. 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 helps investors and others compare operating performance between two periods. While we consider the non-GAAP measures useful in analyzing our results, they are not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with U.S. GAAP. During fiscal 2016, the Company recorded restructuring and other charges of approximately $135 million (approximately $91 million after tax) equal to $.24 per diluted common share. Including the impact of restructuring and other charges, net earnings were $1.1 billion and diluted earnings per share were $2.96. The fiscal 2016 net sales and operating results comparisons to fiscal 2015 were favorably impacted by the acceleration of sales orders from certain retailers of approximately $178 million (approximately $82 million after tax) equal to $.21 per diluted common share in connection with the last major wave of the Company's July 2014 implementation of its Strategic Modernization Initiative. Those orders would have occurred in the Company's fiscal 2015 first quarter. Additionally, during fiscal 2015, the Company recorded a remeasurement charge of approximately $5 million related to a change in Venezuelan foreign currency exchange rate mechanisms. Including the effect of the three items referenced above, net sales for the year ended June 30, 2016 increased 4% and diluted earnings per share increased 5%. Information about GAAP and non-GAAP financial measures, including reconciliation information, is included in the Financial Section beginning on page 49 of this Annual Report and in the Company's Form 8-K submitted to the U.S. Securities and Exchange Commission on August 19, 2016.

LUXURY
Power Players

In fiscal 2016, luxury brands La Mer, Jo Malone London and Tom Ford were standouts, showing strong growth. They grew in new channels, in new markets and with new demographics amidst intensifying competition. Today's winning luxury brands are aspirational, yet approachable, creating differentiated points of entry for the luxury consumer to participate in, perhaps for the first time. Luxury brands address consumer desire for "me time," while also offering the highest standards of quality.



Genaissance de La Mer The Serum Essence ad visual.


GENAISSANCE
LA MER
the serum essence
le sérum ultime

Tom Ford Soleil Color Collection visual.

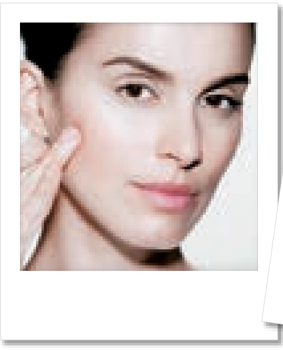
This year, Tom Ford connected fragrance with the energy of makeup to create the highly successful Soleil collection, comprised of bronzers, highlighters, fragrance and skin care products. La Mer launched Genaissance de La Mer The Serum Essence globally, supported with cinematic content, to reaffirm its luxury positioning and high-performance skin care efficacy to deliver accelerated renewal. Jo Malone London once again redefined the Art of Gifting with beautiful holiday campaigns, further driving increased consumer engagement and loyalty.

Right: Jo Malone London Fragrance Combining ad visual.


CURIOUS?
Combine two. Create a scent. Uniquely yours.
JO MALONE
LONDON

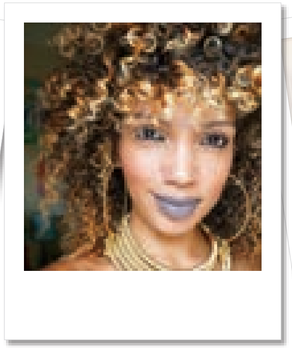
Beauty in an INSTANT

There are over 90 million selfies posted every day globally. This has accelerated the interest in beauty products as consumers of all ages around the world want to be selfie-ready. The rapid rise of photo-based social media apps like Instagram and Snapchat has created a cultural shift in which the consumer is not only visible at all times, but *viewing* all of the time. This means makeup and skin care products that offer "instantaneous gratification" to enhance one's look on social media are essential. With the next selfie only moments away, our brands have pivoted to offer products with "instant" benefits like complexion hybrids, foil masks and Hydroblur technology.



Clinique Pep-Start Hydroblur Moisturizer.

GLAMGLOW Plumprageous Gloss Lip Treatment.



Smashbox Always On Liquid Lipstick in Chill Zone.

The Estée Edit Late Night Eraser.

Right: Origins Maskimizer helps hydrate, soften and optimize skin so it's fully prepped to enhance mask experiences.


ORIGINS
ORIGINS
ORIGINS
ORIGINS

Carolyn Murphy tries out Estée Lauder's Advanced Night Repair Concentrated Recovery PowerFoil Mask.

Right: Bobbi Brown Instant Confidence Stick.


INSTANT
CONFIDENCE
STICK
STICK
CONFIANCE
IMMÉDIATE
LINE SMOOTHER
COMBLEUR DE RIDES


ANTAL 33
ml 3,4 FL.OZ.
de parfum /
ural spray
ounded on 65th St.
01/19/16
Cristina
LE LABO

FRAGRANCE

As an Art Form

Our luxury fragrance portfolio continues to emphasize the qualities consumers crave: uncompromising devotion to fine craftsmanship; personalization in and out of store; tailored service; and an authentic point of view. Educated and discerning, today's fragrance consumer demands the highest olfactive quality, real-time storytelling and exceptional experiential retail within direct channels, such as freestanding stores. Because of this, artisanal fragrance, which embodies all of these traits, is projected to grow more than 20 percent annually by 2020, and our luxury fragrance brands are well-positioned to meet sophisticated and always evolving consumer desires.

Le Labo's guiding principle is that the soul of a fragrance comes from the intention with which it is created and the attention with which it is prepared.

Launched in 2007 by Kilian Hennessy, By Kilian emphasizes sensuous storytelling and embodies sophistication and modern luxury.

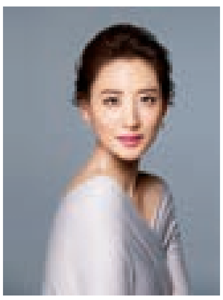

Editions de Parfums Frédéric Malle fragrances are crafted by some of the world's most talented perfumers and personally curated by Frédéric Malle himself.

Right: Behind-the-scenes with Aerin Lauder.

Pacific Rim

INNOVATION

California, Korea and Japan – the Pacific Rim of the planet – are known today for their innovation, influence and ability to create and drive global beauty trends. In California, digital technology, celebrity culture, Hollywood and the health and wellness movement provide fertile ground for new beauty brands and products. "Hallyu" or "the Korean Wave" has helped spread South Korean culture and style across the globe, including innovations in skin care and makeup products like sheet masks, cushion applicators, and powder foaming cleansers. Similarly, Japan has always been at the forefront of cutting-edge skin care, and the country is home to some of the most discerning beauty consumers. While technologically focused, Japan is also steeped in centuries of tradition. Here's how our brands are capturing these trends.



Bobbi Brown announced Korean model and actress Claudia Kim as the brand's first Asian celebrity face.

The Company invested in Have & Be Co. Ltd., the South Korean company behind the brands Dr. Jart+ and Do The Right Thing.

GLAMGLOW is known as "Hollywood's Boutique Secret" for its ubiquity on Hollywood film sets.

Jo Malone London launched the Rare Teas Collection at a global event in Japan.

Smashbox is quintessential Los Angeles. The brand is best known for camera-friendly products born from studio sets.

Right: M·A·C's Transformed Collection hues are inspired by Asian color trends.


M·A·C
TRANSFORMED

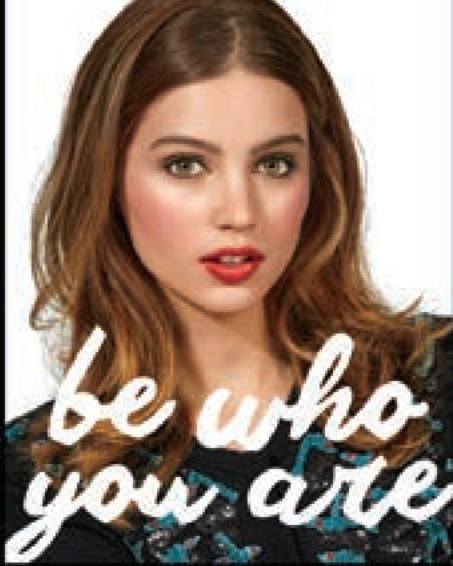

CUSHION STICK RADIANT MAKEUP
NEW
DOUBLE WEAR
NUDE
Makeup + Pro Tool in One
Touch on, buff and blend to your flawless nude. Smooths, evens skintone, polishes for a healthy-looking glow. Instantly hydrating. All day wear.
Learn how to make up like a pro at esteelauder.com
22 shades. Flawless for every skintone.
ESTĒE LAUDER
Double Wear
Nude
Cushion Stick Radiant Makeup
ESTĒE LAUDER

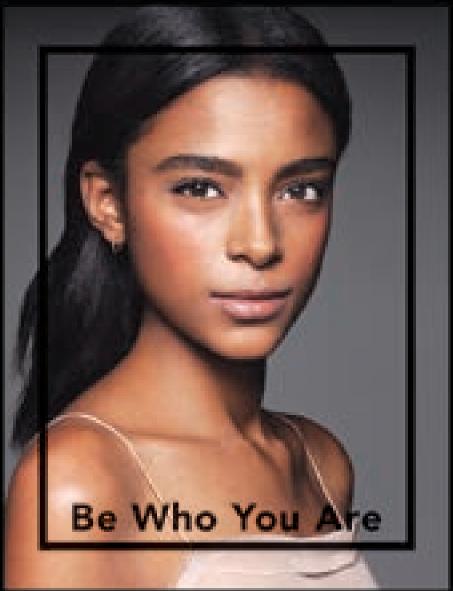
The technology in Estée Lauder Double Wear Nude Cushion Stick Radiant Makeup is inspired by trends in Korea.

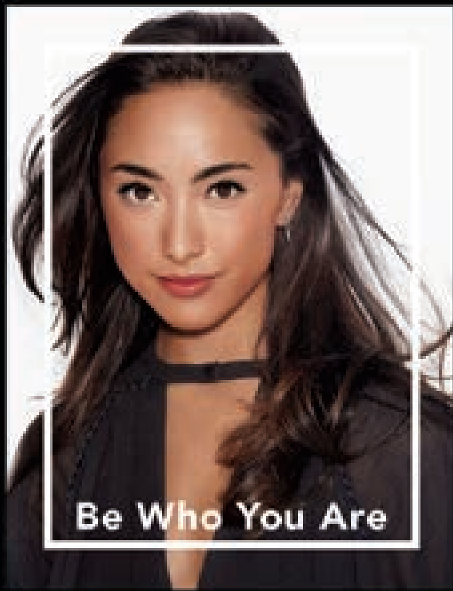
Influencing High-Touch in a DIGITAL WORLD

Consumers are taking a more active role in social media conversations and storytelling today. So, this year, our brands further amplified their own voices with input from influencers, celebrities, brand ambassadors, bloggers, brand artists and stylists and loyal consumers themselves. Influencers with strong social media followings are the new tastemakers, with their stories and events showcased in real time.

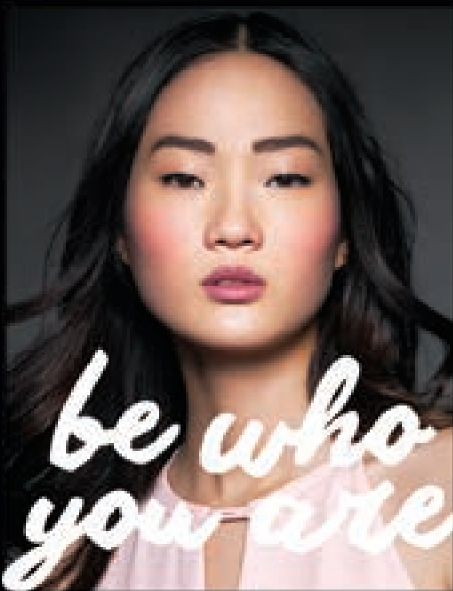
Launched exclusively across all social media platforms, M·A·C's VIVA GLAM Ariana Grande launch was the most engaging VIVA GLAM campaign to date, leading to increased followings on both Instagram and Snapchat.


Be Who You Are

be who
you are

be who you are

Be Who You Are

be who you are

Be Who You Are

BE
WHO
YOU
ARE

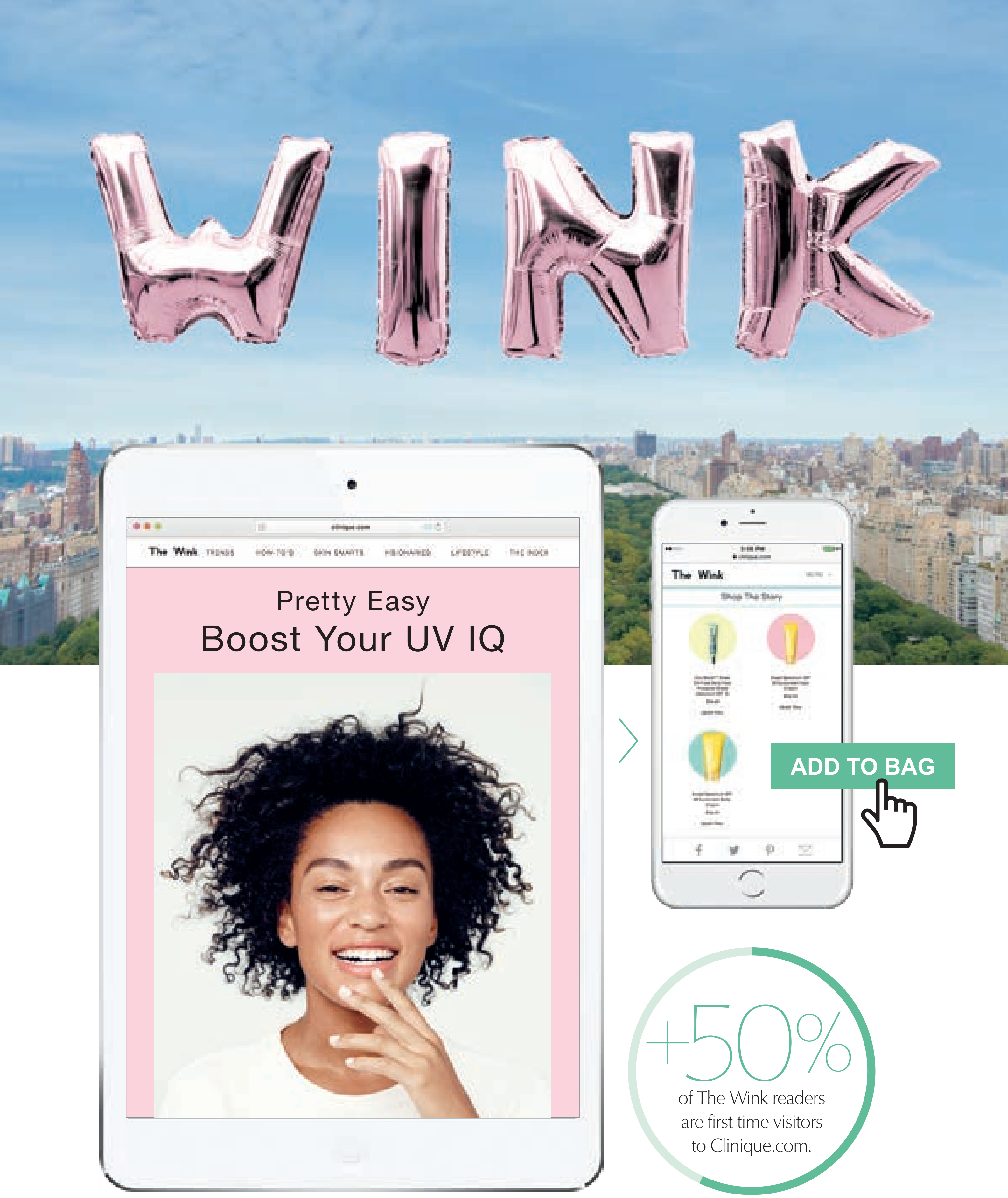

be who
you are

#LILLYXSMASHBOX

YouTube /LillySingh + 9,708,056 FANS

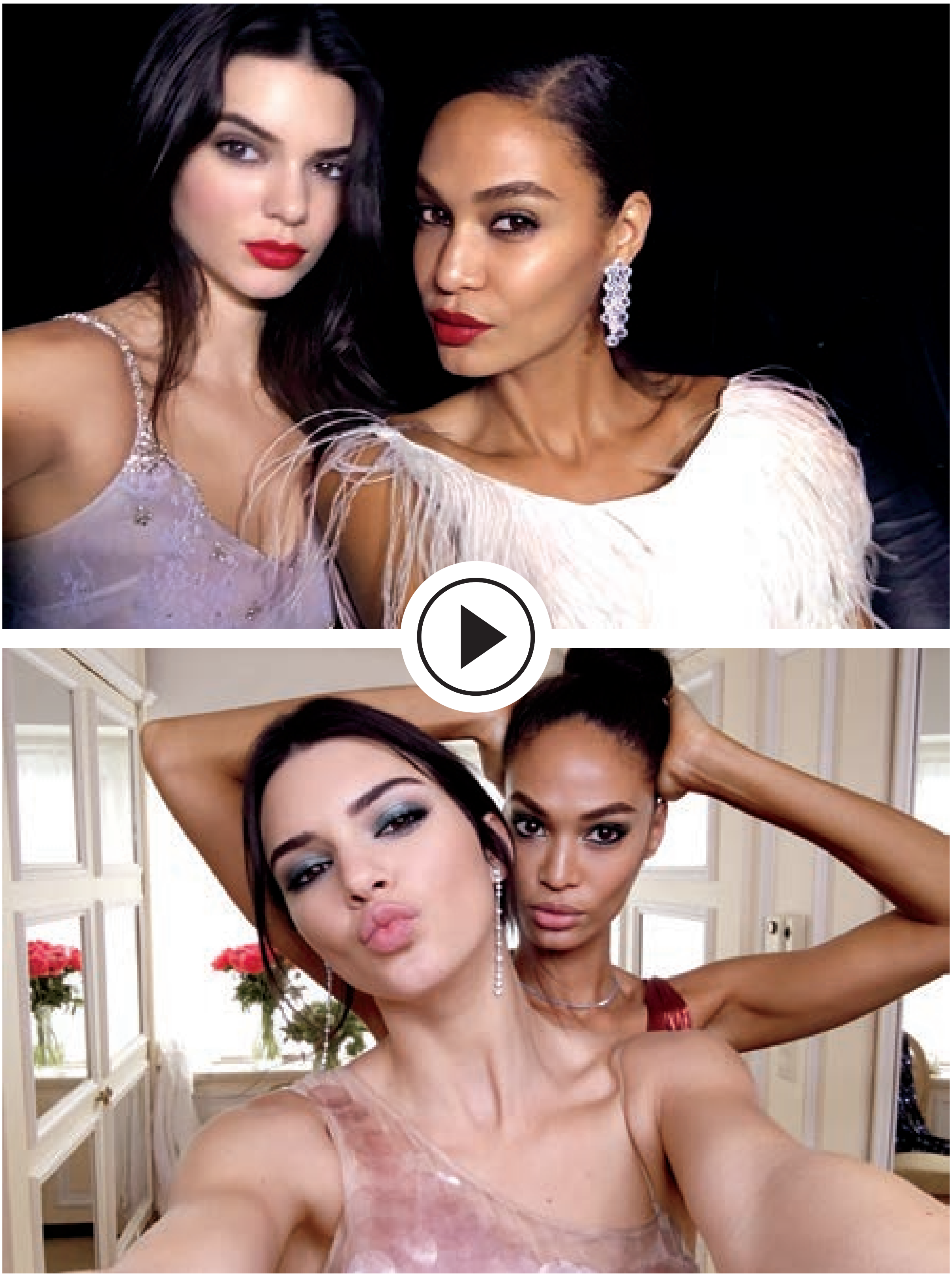
Smashbox collaborated with YouTube megastar Lilly Singh on a limited-edition shade of Always On Liquid Lipstick called Bawse, her signature red lip shade, which sold out on Smashbox.com in 24 hours.

Left: To mark 25 years, the Bobbi Brown brand is celebrating Bobbi's original mantra: *Be Who You Are* with a new campaign announced via Facebook Live that embraces the brand's past, present and future.



+50%
of The Wink readers
are first time visitors
to Clinique.com.

Clinique's The Wink is a buzz-worthy online platform that incorporates content from global influencers and serves as a key business lever.



Estée Lauder partnered with *Vogue* to create digital-first videos featuring social media sensations Kendall Jenner and Joan Smalls, highlighting its Double Wear Stay-In-Place Makeup.

Simultaneously, our brands are offering High-Touch services online, and we continue to enhance our online capabilities to engage with our digitally-savvy consumer. Unique how-to videos, behind-the-scene moments, expert makeup tutorials and online beauty advisory services provide her with education and knowledge in one "click."

Meet the Next GENERATION of Consumers

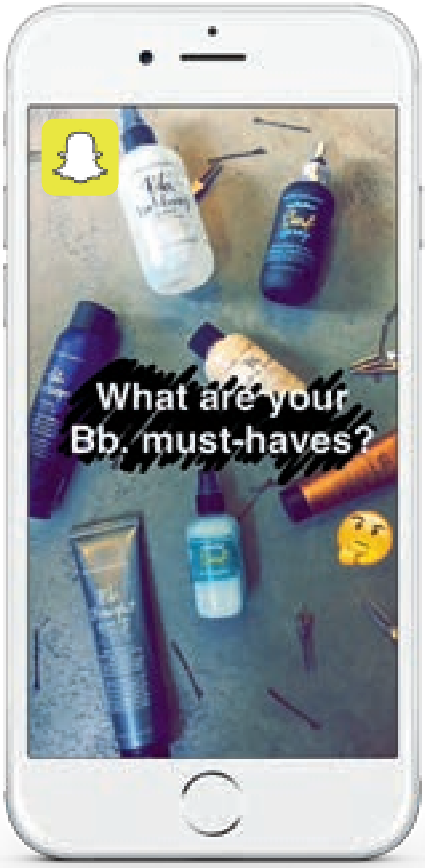
Make way for the next generation of beauty consumers: Generation Z.
Just as we anticipated and delivered upon the needs of Ageless and Millennial consumers, our brands are also looking ahead at the next wave of prestige beauty consumers.

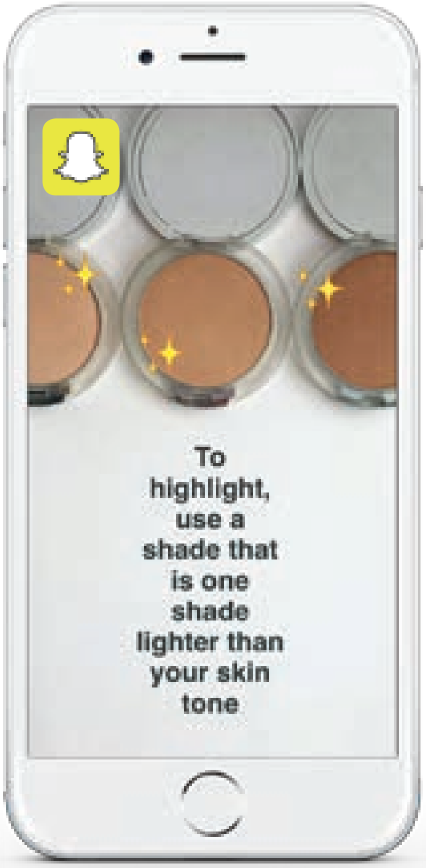
Right: Tommy Hilfiger's new fragrance, The Girl, is inspired by young model Gigi Hadid.

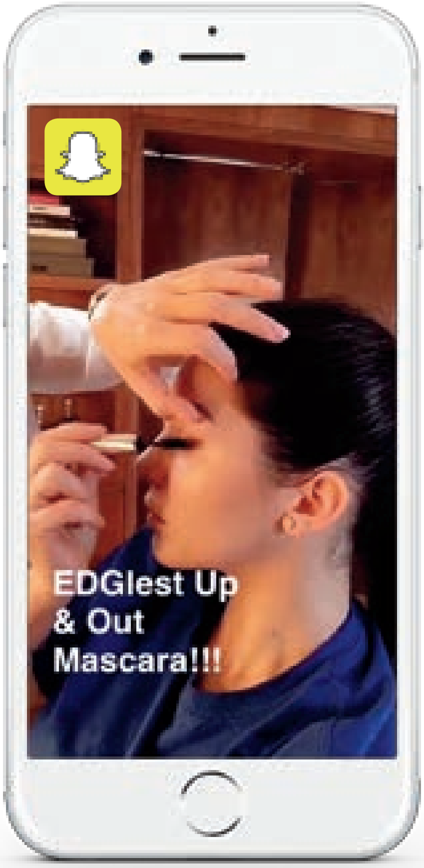

GIGI HADID
#THEGIRL
THE NEW FRAGRANCE FOR HER
TOMMY HILFIGER
the Girl

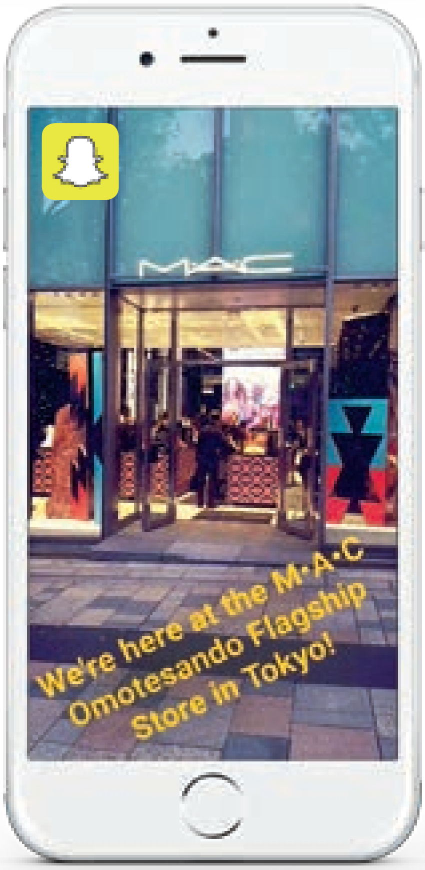

© Clinique Laboratories, LLC
New. Pep-Start™ Eye Cream
Hydrates. Brightens. Smooths the way for makeup.
Apply whenever. clinique.com
CLINIQUE
Allergy Tested. 100% Fragrance Free.

Millennials' influence continues to play an important role in prestige beauty today. Clinique recently developed Pep-Start Eye Cream, a key component of the Pep-Start franchise, a line specifically developed for Millennial consumers.


What are your Bb. must-haves?


To highlight, use a shade that is one shade lighter than your skin tone

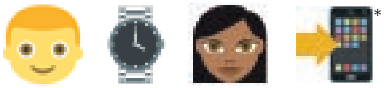

EDGlest Up & Out Mascara!!!

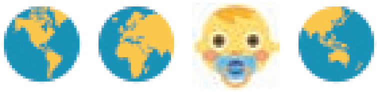

MAC
We're here at the M·A·C Omotesando Flagship Store in Tokyo!


Our brands on Snapchat, a social media platform popular with Generation
Z

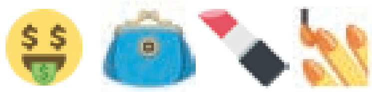

SCREENSHOT
#SMASHBOX

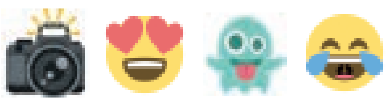
WHO IS GEN Z?

Consumers born after * 1998.

+25% of the global population  is estimated to be comprised of Gen Z.

+50% increase in multi-racial youth  population since 2000.

+$40 billion in purchasing  power.

Communication with  images over words.

*Emojis provided free by EmojiOne.

ROSE MARIE BRAVO, CBE
Retail and Marketing Consultant

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

RICHARD D. PARSONS
Senior Advisor, Providence Equity Partners LLC

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

JANE LAUDER
Global Brand President, Clinique

AERIN LAUDER
Founder and Creative Director, AERIN; Style and Image Director, Estée Lauder

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

Photograph by: Floto+Warner for *Fortune Magazine*, "The Fortune 500" issue, May 21, 2012.

BOARD OF DIRECTORS

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

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

CHARLENE BARSHEFSKY
Senior International Partner, WilmerHale

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

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

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

MELLODY HOBSON
President, Ariel Investments, LLC

LYNN FORESTER
DE ROTHSCHILD
Chair, E.L. Rothschild 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

The table below summarizes selected financial information. For further information, refer to the audited consolidated financial statements and the notes thereto beginning on page 76 of this report.

YEAR ENDED OR AT JUNE 30	**2016[(a)]**	2015	2014[(a)]	2013[(a)]	2012[(a)]
(In millions, except per share data)					
STATEMENT OF EARNINGS DATA:					
Net sales[(b)]	**$11,262.3**	$10,780.4	$10,968.8	$10,181.7	$9,713.6
Net earnings attributable to The Estée Lauder Companies Inc.[(b)–(d)]	**1,114.6**	1,088.9	1,204.1	1,019.8	856.9
PER SHARE DATA:					
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic[(b)–(d)]	**$ 3.01**	$ 2.87	$ 3.12	$ 2.63	$ 2.20
Diluted[(b)–(d)]	**2.96**	2.82	3.06	2.58	2.16
Cash dividends declared per common share	**1.14**	.92	.78	1.08	.525
BALANCE SHEET DATA:					
Total assets[(e)]	**$ 9,223.3**	$ 8,226.9	$ 7,860.0	$ 7,135.5	$6,586.3
Total debt[(d) (e)]	**2,241.5**	1,624.9	1,334.3	1,334.6	1,281.4

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

REVENUE RECOGNITION

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

For a discussion of our Revenue Recognition accounting policy, see *"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: a domestic trust-based noncontributory qualified defined benefit pension plan ("U.S. Qualified Plan") and an unfunded, non-qualified domestic noncontributory pension plan to provide benefits in excess of statutory limitations (collectively with the U.S. Qualified Plan, the "Domestic Plans"); a domestic contributory defined contribution plan; international pension plans, which vary by country, consisting of both defined benefit and defined contribution pension plans; deferred compensation arrangements; and certain other post-retirement benefit plans.

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

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

For fiscal 2016, we used an expected return on plan assets of 7.00% for our U.S. Qualified Plan and varying rates of between 2.00% and 7.00% for our international plans. In determining the long-term rate of return for a plan, we consider the historical rates of return, the nature of the plan's investments and an expectation for the plan's investment strategies. See *"Note 13—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 2016, our pension plans had actual return on assets of approximately $84 million as compared with expected return on assets of approximately $68 million. The resulting net deferred gain of approximately $16 million, when combined with gains and losses from previous years, will be amortized over periods ranging from approximately 8 to 19 years. The actual return on plan assets from our global pension plans was higher than expected, primarily due to strong performance of fixed income assets attributable to our international pension plan in the United Kingdom and the U.S. Qualified Plan, partially offset by equity underperformance globally.

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

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

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

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

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

GOODWILL, OTHER INTANGIBLE ASSETS AND LONG-LIVED ASSETS

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

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

For further discussion of the methods used and factors considered in our estimates as part of the impairment testing for Goodwill, Other Intangible Assets and Long-Lived Assets, see *"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, 2016, we have net deferred tax assets of $422.3 million. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance of $118.4 million for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction.

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, 2016, there have not been material changes in the assumptions underlying these critical accounting policies, nor to the related significant estimates. The results of our business underlying these assumptions have not differed significantly from our expectations.

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

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

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

RESULTS OF OPERATIONS

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results for fiscal 2016, 2015 and 2014 and reflects the basis of presentation described in *"Note 2—Summary of Significant Accounting Policies"* and *"Note 20—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	2016	2015	2014
(In millions)			
NET SALES			
By Region:			
The Americas	**$ 4,710.3**	$ 4,513.8	$ 4,572.3
Europe, the Middle East & Africa	**4,380.7**	4,086.4	4,163.7
Asia/Pacific	**2,172.7**	2,180.2	2,232.7
	11,263.7	10,780.4	10,968.7
(Returns) adjustments associated with restructuring activities	**(1.4)**	—	0.1
Net Sales	**$11,262.3**	$10,780.4	$10,968.8
By Product Category:			
Skin Care	**$ 4,446.2**	$ 4,478.7	$ 4,769.8
Makeup	**4,702.6**	4,304.6	4,210.2
Fragrance	**1,486.7**	1,416.4	1,425.0
Hair Care	**554.2**	530.6	515.6
Other	**74.0**	50.1	48.1
	11,263.7	10,780.4	10,968.7
(Returns) adjustments associated with restructuring activities	**(1.4)**	—	0.1
Net Sales	**$11,262.3**	$10,780.4	$10,968.8
OPERATING INCOME (LOSS)			
By Region:			
The Americas	**$ 346.1**	$ 302.3	$ 537.3
Europe, the Middle East & Africa	**1,027.1**	943.3	938.3
Asia/Pacific	**371.8**	360.7	349.1
	1,745.0	1,606.3	1,824.7
(Charges) adjustments associated with restructuring activities	**(134.7)**	—	2.9
Operating Income	**$ 1,610.3**	$ 1,606.3	$ 1,827.6
By Product Category:			
Skin Care	**$ 842.1**	$ 832.2	$ 975.8
Makeup	**758.3**	659.3	715.9
Fragrance	**87.4**	82.8	104.1
Hair Care	**51.8**	37.9	33.7
Other	**5.4**	(5.9)	(4.8)
	1,745.0	1,606.3	1,824.7
(Charges) adjustments associated with restructuring activities	**(134.7)**	—	2.9
Operating Income	**$ 1,610.3**	$ 1,606.3	$ 1,827.6

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

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

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

NON-GAAP FINANCIAL MEASURES

We use certain non-GAAP financial measures, among other financial measures, to evaluate our operating performance, which represent the manner in which we conduct and view our business. Management believes that excluding certain items that are not comparable from period to period helps investors and others compare operating performance between two periods. While we consider the non-GAAP measures useful in analyzing our results, they are not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with U.S. GAAP. See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

NET SALES

YEAR ENDED JUNE 30	2016	2015
($ in millions)		
As Reported:		
Net Sales	**$11,262.3**	$10,780.4
$ Change from prior year	**481.9**	(188.4)
% Change from prior year	**4%**	(2)%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the impact of accelerated orders	**7%**	6%

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

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

Product Categories

Skin Care

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Makeup

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Fragrance

YEAR ENDED JUNE 30	2016	2015
($ in millions)		
As Reported:		
Net Sales	**$1,486.7**	$1,416.4
$ Change from prior year	**70.3**	(8.6)
% Change from prior year	**5%**	(1)%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year in constant currency and adjusting for the impact of accelerated orders	**9%**	8%

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Hair Care

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Geographic Regions

The Americas

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Europe, the Middle East & Africa

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Asia/Pacific

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Net sales in Asia/Pacific decreased in fiscal 2016, reflecting approximately $122 million of unfavorable foreign currency translation due to the strength of the U.S. dollar in relation to all currencies in the region, partially offset by the favorable comparison due to the fiscal 2015 accelerated orders of approximately $26 million. Lower sales in Hong Kong, Thailand, Malaysia and Korea totaled approximately $56 million, combined. The lower net sales in Hong Kong were primarily driven by a decrease in traveling Chinese consumers and changes in their spending patterns, which particularly impacted the Estée Lauder, Clinique and La Mer brands. The decrease in net sales in

Thailand, Malaysia, and Korea was driven by the negative impact of foreign currency translation. Excluding this negative impact, the higher sales in Korea were primarily driven by our makeup artist brands, reflecting successful in-store promotional events from M·A·C and the launch of the Skin Foundation Cushion Compact from Bobbi Brown, as well as new product introductions from certain of our luxury brands, such as Genaissance de La Mer The Serum Essence from La Mer. These decreases were partially offset by higher net sales in Japan and, to a lesser extent, the Philippines of approximately $48 million, combined. The net sales in Japan reflected higher tourism and increased net sales from virtually all of our brands, which was primarily driven by the makeup product category. In the Philippines, the higher net sales reflected the introduction of Jo Malone London and Origins.

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

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

GROSS PROFIT

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

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

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

OPERATING EXPENSES

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

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

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

Fiscal 2016 as compared with Fiscal 2015

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

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

Fiscal 2015 as compared with Fiscal 2014

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

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

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

OPERATING RESULTS

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

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

Product Categories

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

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

Skin Care

YEAR ENDED JUNE 30	2016	2015
($ in millions)		
As Reported:		
Operating Income	**$842.1**	$832.2
$ Change from prior year	**9.9**	(143.6)
% Change from prior year	**1%**	(15)%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the impact of accelerated orders	**(7)%**	—

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

Makeup

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

Fragrance

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

Hair Care

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

Geographic Regions

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

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

The Americas

YEAR ENDED JUNE 30	2016	2015
($ in millions)		
As Reported:		
Operating Income	**$346.1**	$302.3
$ Change from prior year	**43.8**	235.0
% Change from prior year	**14%**	(44)%
Non-GAAP Financial Measure[a]:		
% Change from prior year adjusting for the impact of accelerated orders	**(3)%**	(27)%

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Europe, the Middle East & Africa

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

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 or reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

Asia/Pacific

YEAR ENDED JUNE 30	2016	2015
($ in millions)		
As Reported:		
Operating Income	**$371.8**	$360.7
$ Change from prior year	**11.1**	11.6
% Change from prior year	**3%**	3%
Non-GAAP Financial Measure[(a)]:		
% Change from prior year adjusting for the impact of accelerated orders	**(3)%**	16%

(a) See *"Reconciliations of Non-GAAP Financial Measures"* beginning on page 68 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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

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

INTEREST AND INVESTMENT INCOME

YEAR ENDED JUNE 30	2016	2015	2014
($ in millions)			
Interest expense	**$70.7**	$60.0	$59.4
Interest income and investment income, net	**$15.6**	$14.3	$ 8.6

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

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

PROVISION FOR INCOME TAXES

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

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

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

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

NET EARNINGS ATTRIBUTABLE TO THE ESTĒE LAUDER COMPANIES INC.

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

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

RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

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

Fiscal 2016 as compared with Fiscal 2015

	Year Ended June 30				% Change in Constant
	2016	2015	Variance	% Change	Currency
($ in millions)					
Net Sales, as reported	**$11,262.3**	$10,780.4	$ 481.9	4%	9%
Accelerated orders associated with SMI rollout	**—**	178.3	(178.3)		
Returns associated with restructuring activities	**1.4**	—	1.4		
Net Sales, as adjusted	**$11,263.7**	$10,958.7	$ 305.0	3%	7%

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

	Year Ended June 30				% Change in Constant
	2016	2015	Variance	% Change	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)		
Charges associated with restructuring activities	**.24**	—	.24		
Diluted net earnings per common share, as adjusted	**$3.20**	$3.05	$ .15	5%	13%

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

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

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

	As Reported						
	Year Ended June 30, 2016	Year Ended June 30, 2015	Variance	Add: Impact of accelerated orders	Variance, as adjusted	% Change, as reported	% Change, as adjusted
(In millions)							
Product Category:							
Skin Care	**$ 842.1**	$ 832.2	$ 9.9	$ (71.7)	$ (61.8)	1%	(7)%
Makeup	**758.3**	659.3	99.0	(41.7)	57.3	15	8
Fragrance	**87.4**	82.8	4.6	(13.7)	(9.1)	6	(9)
Hair Care	**51.8**	37.9	13.9	(0.1)	13.8	37	36
Other	**5.4**	(5.9)	11.3	—	11.3	100+	100+
	1,745.0	1,606.3	138.7	(127.2)	11.5	9%	1%
Charges associated with restructuring activities	**(134.7)**	—	(134.7)	—	(134.7)		
Total	**$1,610.3**	$1,606.3	$ 4.0	$(127.2)	$(123.2)	0%	(7)%
Region:							
The Americas	**$ 346.1**	$ 302.3	$ 43.8	$ (52.8)	$ (9.0)	14%	(3)%
Europe, the Middle East & Africa	**1,027.1**	943.3	83.8	(53.2)	30.6	9	3
Asia/Pacific	**371.8**	360.7	11.1	(21.2)	(10.1)	3	(3)
	1,745.0	1,606.3	138.7	(127.2)	11.5	9%	1%
Charges associated with restructuring activities	**(134.7)**	—	(134.7)	—	(134.7)		
Total	**$1,610.3**	$1,606.3	$ 4.0	$(127.2)	$(123.2)	0%	(7)%

Fiscal 2015 as compared with Fiscal 2014

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

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

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

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

	As Reported							
	Year Ended June 30, 2015	Year Ended June 30, 2014	Variance	Add: Impact of foreign currency translation	Add: Impact of accelerated orders	Variance, as adjusted	% Change, as reported	% Change, as adjusted
(In millions)								
Product Category:								
Skin Care	$ 4,478.7	$ 4,769.8	$(291.1)	$215.4	$182.8	$107.1	(6)%	2%
Makeup	4,304.6	4,210.2	94.4	204.9	130.8	430.1	2	10
Fragrance	1,416.4	1,425.0	(8.6)	74.7	42.0	108.1	(1)	8
Hair Care	530.6	515.6	15.0	22.0	1.0	38.0	3	7
Other	50.1	48.1	2.0	2.1	—	4.1	4	9
Total	$10,780.4	$10,968.7	$(188.3)	$519.1	$356.6	$687.4	(2)%	6%
Region:								
The Americas	$ 4,513.8	$ 4,572.3	$ (58.5)	$154.5	$168.6	$264.6	(1)%	6%
Europe, the Middle East & Africa	4,086.4	4,163.7	(77.3)	285.2	135.8	343.7	(2)	8
Asia/Pacific	2,180.2	2,232.7	(52.5)	79.4	52.2	79.1	(2)	4
Total	$10,780.4	$10,968.7	$(188.3)	$519.1	$356.6	$687.4	(2)%	6%

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

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

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

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

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

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

Credit Ratings

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below.

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

Debt and Access to Liquidity

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

For further information regarding our current and long-term debt and available financing, see *"Note 10—Debt"* of Notes to Consolidated Financial Statements.

Cash Flows

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

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

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

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

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

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

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

Dividends
For a summary of quarterly cash dividends declared per share on our Class A and Class B Common Stock during the year ended June 30, 2016 and through August 18, 2016, see *"Note 15—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 the U.S. Qualified Plan, we seek to maintain appropriate funded percentages. For any future contributions to the U.S. Qualified Plan, we would seek to contribute an amount or amounts that would not be less than the minimum required by the Employee Retirement Income Security Act of 1974, as amended, ("ERISA") and subsequent pension legislation, and would not be more than the maximum amount deductible for income tax purposes. For each international plan, our funding policies are determined by local laws and regulations. In addition, amounts necessary to fund future obligations under these plans could vary depending on estimated assumptions as detailed in *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates."* The effect of our pension plan funding on future operating results will depend on economic conditions, employee demographics, mortality rates, the number of participants electing to take lump-sum distributions, investment performance and funding decisions.

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

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

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

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

For additional contingencies refer to *"Note 14—Commitments and Contingencies (Contractual Obligations)"* of Notes to Consolidated Financial Statements.

Contractual Obligations
For a discussion of our contractual obligations, see *"Note 14—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 11—Derivative Financial Instruments"* of Notes to Consolidated Financial Statements.

Foreign Exchange Risk Management
For a discussion of foreign exchange risk management, see *"Note 11—Derivative Financial Instruments (Cash-Flow Hedges)"* of Notes to Consolidated Financial Statements.

Credit Risk
For a discussion of credit risk, see *"Note 11—Derivative Financial Instruments (Credit Risk)"* of Notes to Consolidated Financial Statements.

Market Risk

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to *"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.

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 for the types of products and services we sell;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

JUNE 30 ($ in millions)	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 914.1	$ 1,021.4
Short-term investments	469.3	503.7
Accounts receivable, net	1,258.3	1,174.5
Inventory and promotional merchandise, net	1,263.4	1,215.8
Prepaid expenses and other current assets	320.0	268.2
Total current assets	4,225.1	4,183.6
Property, Plant and Equipment, net	1,583.3	1,490.2
Other Assets		
Long-term investments	1,107.7	420.3
Goodwill	1,227.8	1,144.8
Other intangible assets, net	344.5	326.6
Other assets	734.9	661.4
Total other assets	3,414.9	2,553.1
Total assets	$ 9,223.3	$ 8,226.9
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 331.5	$ 29.8
Accounts payable	716.7	635.4
Other accrued liabilities	1,632.3	1,464.6
Total current liabilities	2,680.5	2,129.8
Noncurrent Liabilities		
Long-term debt	1,910.0	1,595.1
Other noncurrent liabilities	1,045.5	847.7
Total noncurrent liabilities	2,955.5	2,442.8
Commitments and Contingencies		
Equity		
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at June 30, 2016 and June 30, 2015; shares issued: 424,109,008 at June 30, 2016 and 418,530,857 at June 30, 2015; Class B shares authorized: 304,000,000 at June 30, 2016 and June 30, 2015; shares issued and outstanding: 144,770,237 at June 30, 2016 and 147,046,137 at June 30, 2015	5.7	5.7
Paid-in capital	3,160.7	2,871.6
Retained earnings	7,693.3	7,004.1
Accumulated other comprehensive loss	(544.8)	(381.5)
	10,314.9	9,499.9
Less: Treasury stock, at cost; 201,119,435 Class A shares at June 30, 2016 and 190,694,630 Class A shares at June 30, 2015	(6,743.0)	(5,856.7)
Total stockholders' equity—The Estée Lauder Companies Inc.	3,571.9	3,643.2
Noncontrolling interests	15.4	11.1
Total equity	3,587.3	3,654.3
Total liabilities and equity	$ 9,223.3	$ 8,226.9

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

YEAR ENDED JUNE 30	2016	2015	2014
(In millions)			
Cash Flows from Operating Activities			
Net earnings	**$ 1,120.8**	$ 1,093.4	$1,209.1
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	**414.7**	409.3	384.6
Deferred income taxes	**(94.1)**	(52.6)	(56.4)
Non-cash stock-based compensation	**183.5**	165.0	152.6
Excess tax benefits from stock-based compensation arrangements	**(23.1)**	(47.6)	(40.2)
Loss on disposal of property, plant and equipment	**17.3**	14.5	13.4
Goodwill and other intangible asset impairments	**—**	0.5	—
Non-cash restructuring and other charges	**18.6**	—	—
Pension and post-retirement benefit expense	**71.1**	64.5	70.9
Pension and post-retirement benefit contributions	**(66.6)**	(59.0)	(41.3)
Loss on Venezuela remeasurement	**—**	5.3	38.3
Change in fair value of contingent consideration	**8.2**	7.3	—
Other non-cash items	**(6.7)**	(5.5)	(0.5)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	**(100.9)**	103.2	(196.2)
Increase in inventory and promotional merchandise, net	**(69.0)**	(26.2)	(156.8)
Decrease (increase) in other assets, net	**(72.0)**	7.8	(45.2)
Increase in accounts payable	**101.4**	146.5	34.0
Increase in other accrued and noncurrent liabilities	**285.5**	116.9	168.9
Net cash flows provided by operating activities	**1,788.7**	1,943.3	1,535.2
Cash Flows from Investing Activities			
Capital expenditures	**(525.3)**	(473.0)	(510.2)
Payments for acquired businesses, net of cash acquired	**(101.3)**	(241.0)	(9.2)
Proceeds from the disposition of investments	**1,373.5**	305.0	8.4
Purchases of investments	**(2,016.2)**	(1,207.2)	(0.6)
Net cash flows used for investing activities	**(1,269.3)**	(1,616.2)	(511.6)
Cash Flows from Financing Activities			
Proceeds (repayments) of current debt, net	**(0.4)**	13.5	5.1
Proceeds from issuance of long-term debt, net	**616.2**	294.0	—
Debt issuance costs	**(4.0)**	(4.5)	—
Repayments and redemptions of long-term debt	**(7.6)**	(8.3)	(11.8)
Net proceeds from stock-based compensation transactions	**84.4**	101.4	84.8
Excess tax benefits from stock-based compensation arrangements	**23.1**	47.6	40.2
Payments to acquire treasury stock	**(889.9)**	(982.8)	(667.2)
Dividends paid to stockholders	**(422.5)**	(349.9)	(301.8)
Payments to noncontrolling interest holders for dividends	**(4.2)**	(5.8)	(6.2)
Net cash flows used for financing activities	**(604.9)**	(894.8)	(856.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(21.8)**	(40.0)	(33.3)
Net Increase (Decrease) in Cash and Cash Equivalents	**(107.3)**	(607.7)	133.4
Cash and Cash Equivalents at Beginning of Year	**1,021.4**	1,629.1	1,495.7
Cash and Cash Equivalents at End of Year	**$ 914.1**	$ 1,021.4	$1,629.1

See notes to consolidated financial statements.

NOTE 1—DESCRIPTION OF BUSINESS

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

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

Management Estimates

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

Currency Translation and Transactions

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

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

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

Accounts Receivable

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

Inventory and Promotional Merchandise

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

Derivative Financial Instruments

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

Property, Plant and Equipment

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

Goodwill and Other Indefinite-lived Intangible Assets

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

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

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

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

Long-Lived Assets

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

Concentration of Credit Risk

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

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

Revenue Recognition

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

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

Payments to Customers

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

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

$1,378 million and $1,410 million in fiscal 2016, 2015 and 2014, respectively.

Advertising and Promotion

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

Research and Development

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

Shipping and Handling

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

Operating Leases

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

License Arrangements

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

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

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

Stock-Based Compensation

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

Income Taxes

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

The Company provides tax reserves for U.S. federal, state, local and foreign exposures relating to periods subject to audit. The development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective critical estimate.

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

Recently Adopted Accounting Standards

Debt Issuance Costs

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

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

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

Deferred Income Taxes

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

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

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

Recently Issued Accounting Standards

Measurement of Credit Losses on Financial Instruments

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

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

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

Compensation—Stock Compensation

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

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

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

Leases

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

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

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

Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

NOTE 3—INVESTMENTS

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

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

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

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

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

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

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

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

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

YEAR ENDED JUNE 30	**2016**	2015
(In millions)		
Gross realized gains	**$ 0.7**	$ 2.5
Gross realized losses	**(0.8)**	(0.1)
Total	**$(0.1)**	$ 2.4

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

NOTE 4—INVENTORY AND PROMOTIONAL MERCHANDISE

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

NOTE 5—PROPERTY, PLANT AND EQUIPMENT

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

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

NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS

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

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:

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

Other Intangible Assets

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

Other intangible assets consist of the following:

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

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

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

NOTE 7—CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES

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

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

Restructuring charges are comprised of the following:

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

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

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

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

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

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

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

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

Global Technology Infrastructure

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

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

	Employee-Related Costs	Asset-Related Costs	Contract Terminations	Other Exit Costs	Total
(In millions)					
Charges	$ 4.3	$ 17.4	$ 24.0	$ 0.3	$ 46.0
Cash payments	(1.2)	—	(23.6)	(0.3)	(25.1)
Non-cash asset write-offs	—	(17.4)	—	—	(17.4)
Accrued GTI Restructuring balance at June 30, 2016	$ 3.1	$ —	$ 0.4	$ —	$ 3.5

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

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

Leading Beauty Forward

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

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

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

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

Specific actions taken since the Program inception included:

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

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

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

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

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

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

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

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

NOTE 8—INCOME TAXES

The provision for income taxes is comprised of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Major Jurisdiction	Open Fiscal Years
Belgium	2013–2016
Canada	2009–2016
China	2012–2016
France	2013–2016
Germany	2013–2016
Hong Kong	2010–2016
Japan	2016
Korea	2014–2016
Russia	2015–2016
Spain	2012–2016
Switzerland	2011–2016
United Kingdom	2015–2016
United States	2016
State of California	2012–2016
State and City of New York	2011–2016

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

NOTE 9—OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

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

NOTE 10—DEBT

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

(In millions)	Debt at June 30 2016	Debt at June 30 2015	Available financing at June 30, 2016 Committed	Available financing at June 30, 2016 Uncommitted
4.375% Senior Notes, due June 15, 2045 ("2045 Senior Notes")	**$ 455.4**	$ 290.6	$ —	$ —
3.70% Senior Notes, due August 15, 2042 ("2042 Senior Notes")	**246.6**	246.6	—	—
6.00% Senior Notes, due May 15, 2037 ("2037 Senior Notes")	**293.3**	293.1	—	—
5.75% Senior Notes, due October 15, 2033 ("2033 Senior Notes")	**197.3**	197.2	—	—
2.35% Senior Notes, due August 15, 2022 ("2022 Senior Notes")	**266.5**	248.5	—	—
1.70% Senior Notes, due May 10, 2021 ("2021 Senior Notes")	**447.5**	—	—	—
5.55% Senior Notes, due May 15, 2017 ("2017 Senior Notes")	**306.3**	313.4	—	—
Commercial paper	**—**	—	—	1,000.0
Other long-term borrowings	**3.4**	5.7	—	—
Other current borrowings	**25.2**	29.8	—	132.7
Revolving credit facility	**—**	—	1,000.0	—
	2,241.5	1,624.9	$1,000.0	$1,132.7
Less current debt including current maturities	**(331.5)**	(29.8)		
	$1,910.0	$1,595.1		

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

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

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

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

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

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

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

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

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

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

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

NOTE 11—DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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	
		2016	2015		**2016**	2015
(In millions)						
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	**$36.8**	$41.1	Other accrued liabilities	**$18.0**	$4.2
Interest rate swap contracts	Prepaid expenses and other current assets	**17.6**	—	Other accrued liabilities	**—**	0.2
Total Derivatives Designated as Hedging Instruments		**54.4**	41.1		**18.0**	4.4
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	**10.8**	2.0	Other accrued liabilities	**7.6**	4.1
Total Derivatives		**$65.2**	$43.1		**$25.6**	$8.5

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

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

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)[1]	
	June 30			June 30	
	2016	2015		**2016**	2015
(In millions)					
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	**$48.1**	$ 90.3	Cost of sales	**$17.2**	$ 9.1
			Selling, general and administrative	**48.0**	28.7
Settled interest rate-related derivatives	**(0.5)**	17.5	Interest expense	**0.6**	0.4
Total derivatives	**$47.6**	$107.8		**$65.8**	$38.2

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

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

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

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

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

Cash-Flow Hedges

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

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

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

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

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

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

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

Fair-Value Hedges

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

Credit Risk

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

NOTE 12—FAIR VALUE MEASUREMENTS

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

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

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retirement Growth Account Plan (U.S.)

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

Restoration Plan (U.S.)

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

International Pension Plans

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

Post-retirement Benefit Plans

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

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

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	
	2016	2015	**2016**	2015	**2016**	2015
(In millions)						
Change in benefit obligation:						
Benefit obligation at beginning of year	**$ 794.4**	$ 755.2	**$ 586.2**	$ 598.7	**$ 175.3**	$ 186.7
Service cost	**32.3**	31.7	**25.0**	23.8	**2.8**	3.3
Interest cost	**32.8**	30.4	**14.9**	17.3	**7.4**	7.6
Plan participant contributions	**—**	—	**3.6**	3.2	**0.9**	0.8
Actuarial loss (gain)	**61.5**	10.0	**53.3**	38.6	**12.5**	(11.9)
Foreign currency exchange rate impact	**—**	—	**(38.0)**	(65.1)	**(1.2)**	(4.1)
Benefits, expenses, taxes and premiums paid	**(43.7)**	(32.9)	**(28.8)**	(24.9)	**(7.1)**	(7.1)
Plan amendments	**—**	—	**0.3**	—	**—**	—
Settlements and curtailments	**—**	—	**(1.5)**	(5.9)	**—**	—
Special termination benefits	**—**	—	**0.9**	0.5	**—**	—
Benefit obligation at end of year	**$ 877.3**	$ 794.4	**$ 615.9**	$ 586.2	**$ 190.6**	$ 175.3
Change in plan assets:						
Fair value of plan assets at beginning of year	**$ 721.0**	$ 723.0	**$ 519.3**	$ 513.7	**$ 31.9**	$ 31.7
Actual return on plan assets	**27.4**	1.0	**56.5**	59.5	**1.3**	0.2
Foreign currency exchange rate impact	**—**	—	**(41.8)**	(51.6)	**—**	—
Employer contributions	**38.6**	29.9	**21.8**	22.8	**6.2**	6.3
Plan participant contributions	**—**	—	**3.6**	3.2	**0.9**	0.8
Settlements	**—**	—	**(1.5)**	(3.4)	**—**	—
Benefits, expenses, taxes and premiums paid from plan assets	**(43.7)**	(32.9)	**(28.8)**	(24.9)	**(7.1)**	(7.1)
Fair value of plan assets at end of year	**$ 743.3**	$ 721.0	**$ 529.1**	$ 519.3	**$ 33.2**	$ 31.9
Funded status	**$(134.0)**	$ (73.4)	**$ (86.8)**	$ (66.9)	**$(157.4)**	$(143.4)
Amounts recognized in the Balance Sheet consist of:						
Other assets	**$ —**	$ 44.3	**$ 78.8**	$ 68.8	**$ —**	$ —
Other accrued liabilities	**(16.9)**	(14.4)	**(4.3)**	(3.3)	**(6.5)**	(6.1)
Other noncurrent liabilities	**(117.1)**	(103.3)	**(161.3)**	(132.4)	**(150.9)**	(137.3)
Funded status	**(134.0)**	(73.4)	**(86.8)**	(66.9)	**(157.4)**	(143.4)
Accumulated other comprehensive loss	**269.6**	198.6	**123.1**	125.1	**34.8**	22.5
Net amount recognized	**$ 135.6**	$ 125.2	**$ 36.3**	$ 58.2	**$(122.6)**	$(120.9)

	Pension Plans						Other than Pension Plans		
	U.S.			International			Post-retirement		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
($ in millions)									
Components of net periodic benefit cost:									
Service cost	**$ 32.3**	$ 31.7	$ 31.6	**$ 25.0**	$ 23.8	$ 24.8	**$ 2.8**	$ 3.3	$ 3.4
Interest cost	**32.8**	30.4	31.2	**14.9**	17.3	19.1	**7.4**	7.6	8.0
Expected return on assets	**(48.7)**	(50.1)	(46.8)	**(19.6)**	(21.5)	(20.8)	**(2.2)**	(2.3)	(2.0)
Amortization of:									
Actuarial loss	**11.2**	9.8	7.4	**10.4**	10.4	9.2	**0.3**	1.5	0.8
Prior service cost	**0.6**	0.6	0.7	**1.9**	2.1	2.9	**0.8**	0.8	0.8
Settlements	**—**	–	–	**0.3**	(0.5)	0.6	**—**	–	–
Curtailments	**—**	–	–	**—**	(0.9)	–	**—**	–	–
Special termination benefits	**—**	–	–	**0.9**	0.5	–	**—**	–	–
Net periodic benefit cost	**$ 28.2**	$ 22.4	$ 24.1	**$ 33.8**	$ 31.2	$ 35.8	**$ 9.1**	$10.9	$11.0
Weighted-average assumptions used to determine benefit obligations at 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%
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
Weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30:									
Discount rate	**3.70–4.40%**	3.60–4.30%	4.30–4.90%	**.75–7.00%**	.50–6.75%	1.00–7.25%	**4.25–9.00%**	4.10–9.00%	4.75–8.75%
Expected return on assets	**7.00%**	7.50%	7.50%	**2.00–7.00%**	2.00–6.75%	2.25–7.25%	**7.00%**	7.50%	7.50%
Rate of compensation increase	**3.00–7.00%**	3.00–7.00%	4.00–12.00%	**0–5.50%**	1.00–5.50%	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 7.67% while the weighted-average ultimate trend rate of 4.53% is expected to be reached in approximately 21 years. A 100 basis-point change in assumed health care cost trend rates for fiscal 2016 would have had the following effects:

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

Amounts recognized in AOCI (before tax) as of June 30, 2016 are as follows:

	Pension Plans		Other than Pension Plans	
	U.S.	International	Post-retirement	Total
(In millions)				
Net actuarial losses, beginning of year	$195.1	$122.2	$20.0	$337.3
Actuarial losses recognized	82.8	16.3	13.4	112.5
Amortization and settlements included in net periodic benefit cost	(11.2)	(10.7)	(0.3)	(22.2)
Translation adjustments	—	(4.8)	—	(4.8)
Net actuarial losses, end of year	266.7	123.0	33.1	422.8
Net prior service cost, beginning of year	3.5	2.9	2.5	8.9
Prior service cost recognized	—	0.3	—	0.3
Amortization included in net periodic benefit cost	(0.6)	(1.9)	(0.8)	(3.3)
Translation adjustments	—	(1.2)	—	(1.2)
Net prior service cost, end of year	2.9	0.1	1.7	4.7
Total amounts recognized in AOCI	$269.6	$123.1	$34.8	$427.5

Amounts in AOCI expected to be amortized as components of net periodic benefit cost during fiscal 2017 are as follows:

	Pension Plans		Other than Pension Plans
	U.S.	International	Post-retirement
(In millions)			
Net prior service cost	$ 0.5	$ 1.7	$0.8
Net actuarial losses	$16.0	$10.9	$1.6

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	
	2016	2015	**2016**	2015	**2016**	2015
(In millions)						
Projected benefit obligation	**$754.1**	$676.7	**$123.2**	$117.7	**$615.9**	$586.2
Accumulated benefit obligation	**$709.6**	$632.9	**$108.7**	$103.9	**$548.9**	$524.1
Fair value of plan assets	**$743.3**	$721.0	**$ —**	$ —	**$529.1**	$519.3

International pension plans with projected benefit obligations in excess of the plans' assets had aggregate projected benefit obligations of $330.4 million and $256.8 million and aggregate fair value of plan assets of $164.8 million and $121.1 million at June 30, 2016 and 2015, respectively. International pension plans with accumulated benefit obligations in excess of the plans' assets had aggregate accumulated benefit obligations of $226.1 million and $201.9 million and aggregate fair value of plan assets of $93.1 million and $94.6 million at June 30, 2016 and 2015, respectively.

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

	Pension Plans		Other than Pension Plans
	U.S.	International	Post-retirement
(In millions)			
Expected employer contributions for year ending June 30, 2017	$ —	$ 22.4	$ —
Expected benefit payments for year ending June 30,			
2017	73.3	21.8	6.6
2018	69.2	20.6	7.3
2019	63.0	19.5	8.0
2020	58.9	20.3	8.8
2021	60.4	22.0	9.5
Years 2022 – 2026	314.7	130.5	57.7

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, procedures to monitor overall investment performance, as well as investment manager performance.

The Company's target asset allocation at June 30, 2016 is as follows:

	Pension Plans		Other than Pension Plans
	U.S.	International	Post-retirement
Equity	30%	18%	30%
Debt securities	39%	53%	39%
Other	31%	29%	31%
	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. These assets are classified within Level 2 of the valuation hierarchy and the Company has the ability to redeem at the measurement date or within the near term without redemption restrictions.

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. Those investments where the Company has the ability to redeem at the measurement date or within the near term are classified within Level 2 of the valuation hierarchy. When the Company is unable to redeem in the near term, these investments are classified within Level 3.

Insurance contracts—The fair values are based on negotiated value and the underlying investments held in separate account portfolios as well as considering 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 of the partnership/fund. Those investments where the Company has the ability to redeem at the measurement date or within the near term without redemption restrictions are classified within Level 2 of the valuation hierarchy. When the Company is unable to redeem in the near term, these investments are classified within Level 3.

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	Total
Cash and cash equivalents	$ 13.8	$ —	$ —	$ 13.8
Short-term investment funds	—	48.6	—	48.6
Government and agency securities	—	29.2	—	29.2
Equity securities	17.2	—	—	17.2
Debt instruments	—	145.1	—	145.1
Commingled funds	238.9	640.9	9.2	889.0
Insurance contracts	—	—	44.9	44.9
Limited partnerships and hedge fund investments	—	101.7	16.1	117.8
Total	$269.9	$965.5	$70.2	$1,305.6

The following table presents the fair values of the Company's pension and post-retirement plan assets by asset category as of June 30, 2015:

(In millions)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2.8	$ —	$ —	$ 2.8
Short-term investment funds	—	53.1	—	53.1
Government and agency securities	—	30.5	—	30.5
Equity securities	22.8	—	—	22.8
Debt instruments	—	168.9	—	168.9
Commingled funds	247.5	550.4	35.0	832.9
Insurance contracts	—	—	40.4	40.4
Limited partnerships and hedge fund investments	—	106.8	14.0	120.8
Total	$273.1	$909.7	$89.4	$1,272.2

The following table presents the changes in Level 3 plan assets for fiscal 2016:

(In millions)	Commingled Funds	Insurance Contracts	Limited Partnerships and Hedge Fund Investments	Total
Balance as of June 30, 2015	$ 35.0	$40.4	$14.0	$ 89.4
Actual return on plan assets:				
Relating to assets still held at the reporting date	(0.1)	3.7	2.1	5.7
Relating to assets sold during the year	0.2	—	(1.6)	(1.4)
Purchases, sales, issuances and settlements, net	(23.1)	0.9	1.6	(20.6)
Foreign exchange impact	(2.8)	(0.1)	—	(2.9)
Balance as of June 30, 2016	$ 9.2	$44.9	$16.1	$ 70.2

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 $37.4 million, $35.1 million and $33.3 million for fiscal 2016, 2015 and 2014, 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 accrues for deferred compensation and interest thereon, and for the change in the value of cash units pursuant to agreements with certain key executives and outside directors. The amounts included in the accompanying consolidated balance sheets under these plans were $70.5 million and $74.7 million as of June 30, 2016 and 2015, respectively. The expense for fiscal 2016, 2015 and 2014 was $6.3 million, $8.6 million and $10.6 million, respectively.

NOTE 14—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, 2016:

		Payments Due in Fiscal					
	Total	2017	2018	2019	2020	2021	Thereafter
(In millions)							
Debt service[1]	$3,717.0	$ 414.0	$ 74.0	$ 73.0	$ 72.1	$522.0	$2,561.9
Operating lease commitments[2]	2,111.1	340.0	327.7	278.8	229.3	178.1	757.2
Unconditional purchase obligations[3]	2,542.8	1,155.5	473.4	372.3	398.4	70.7	72.5
Gross unrecognized tax benefits and interest—current[4]	3.9	3.9	—	—	—	—	—
Total contractual obligations	$8,374.8	$1,913.4	$875.1	$724.1	$699.8	$770.8	$3,391.6

(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 are projected to be $88.6 million in fiscal 2017, $72.0 million in each of the years from fiscal 2018 through fiscal 2021 and $1,111.9 million thereafter. Projected interest costs on variable rate instruments were calculated using market rates at June 30, 2016. Refer to Note 10—Debt.

(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 $441.8 million, $402.2 million and $356.1 million in fiscal 2016, 2015 and 2014, 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, 2016, without consideration for potential renewal periods.

(4) Refer to Note 8—Income Taxes for information regarding unrecognized tax benefits. As of June 30, 2016, the noncurrent portion of the Company's unrecognized tax benefits, including related accrued interest and penalties was $96.6 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 15—COMMON STOCK

As of June 30, 2016, 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, 2013	239,016.2	148,978.1
Acquisition of treasury stock	(9,602.2)	—
Conversion of Class B to Class A	250.0	(250.0)
Stock-based compensation	4,492.4	—
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

The Company is authorized by the Board of Directors to repurchase up to 216.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of June 30, 2016, the cumulative total of acquired shares pursuant to the authorization was 197.5 million, reducing the remaining authorized share repurchase balance to 18.5 million. Subsequent to June 30, 2016 and as of August 18, 2016, the Company purchased approximately 2.2 million additional shares of its Class A Common Stock for $200.0 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, 2016:

Date Declared	Record Date	Payable Date	Amount per Share
August 14, 2015	August 31, 2015	September 15, 2015	$.24
October 30, 2015	November 30, 2015	December 15, 2015	$.30
February 4, 2016	February 29, 2016	March 15, 2016	$.30
May 2, 2016	May 31, 2016	June 15, 2016	$.30

On August 18, 2016, a dividend was declared in the amount of $.30 per share on the Company's Class A and Class B Common Stock. The dividend is payable in cash on September 15, 2016 to stockholders of record at the close of business on August 31, 2016.

NOTE 16—STOCK PROGRAMS

As of June 30, 2016, 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 76,806,200 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, 2016, approximately 17,121,800 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, performance share units ("PSU"), restricted stock units ("RSU"), 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	**2016**	2015	2014
(In millions)			
Compensation expense	**$183.5**	$165.0	$152.6
Income tax benefit	**60.4**	54.1	50.2

As of June 30, 2016, the total unrecognized compensation cost related to unvested stock-based awards was $143.5 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, 2016 and changes during the fiscal year then ended:

	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value[1] (in millions)	Weighted-Average Contractual Life Remaining in Years
(Shares in thousands)				
Outstanding at June 30, 2015	13,437.1	$47.73		
Granted at fair value	2,506.9	77.48		
Exercised	(1,795.6)	47.04		
Expired	(12.2)	49.05		
Forfeited	(128.7)	71.63		
Outstanding at June 30, 2016	14,007.5	52.92	$533.7	5.9
Vested and expected to vest at June 30, 2016	13,897.8	52.73	$532.2	5.9
Exercisable at June 30, 2016	9,659.9	42.75	$466.3	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	**2016**	2015	2014
(In millions, except per share data)			
Per-share weighted-average grant date fair value of stock options granted	**$21.51**	$22.44	$23.13
Intrinsic value of stock options exercised	**$ 75.3**	$114.2	$104.7

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	**2016**	2015	2014
Weighted-average expected stock-price volatility	**27%**	28%	33%
Weighted-average expected option life	**7 years**	7 years	7 years
Average risk-free interest rate	**1.9%**	2.2%	2.5%
Average dividend yield	**1.2%**	1.1%	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 1,610,300 RSUs during fiscal 2016 which, at the time of grant, were scheduled to vest as follows: 546,000 in fiscal 2017, 566,800 in fiscal 2018 and 497,500 in fiscal 2019. All RSUs are subject to the continued employment or retirement of the grantees. Beginning in fiscal 2015, the RSUs granted 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, 2016 and activity during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2015	2,592.1	$70.31
Granted	1,610.3	77.62
Dividend equivalents	24.2	63.31
Vested	(1,297.5)	67.59
Forfeited	(133.7)	73.88
Nonvested at June 30, 2016	2,795.4	75.55

Performance Share Units

During fiscal 2016, the Company granted approximately 277,400 PSUs, 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, 2018, all subject to the continued employment or retirement of the grantees. Settlement will be made pursuant to a range of opportunities relative to the net sales, diluted net earnings per common share and return on invested capital targets of the Company 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 274,300 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 284,100 PSUs that vested as of June 30, 2016. In September 2015, approximately 276,200 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 249,900 PSUs which vested as of June 30, 2015.

The following is a summary of the status of the Company's PSUs as of June 30, 2016 and activity during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2015	550.4	$71.59
Granted	277.4	77.35
Vested	(284.1)	67.38
Forfeited	(4.6)	67.31
Nonvested at June 30, 2016	539.1	76.81

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. The first two performance periods ended June 30, 2015 and June 30, 2016, and the remaining performance period ends June 30, 2017. The remaining PSUs will be settled 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. No settlement will occur on the remaining PSUs if the Company's TSR falls below a minimum threshold, and up to an aggregate of 86,806 shares of the Company's Class A Common Stock will be issued depending on the extent to which the Company's TSR equals or exceeds the minimum threshold. The remaining PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement.

The grant date fair value of the PSUs of $11.0 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. In September 2015, 42,549 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 period ended June 30, 2015. In September 2016, an additional 49,882 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, 2016. The remaining PSUs have an aggregate target payout of 54,254 shares as of June 30, 2016.

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 $30.0 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, generally subject to continued employment through the end of relative service periods that end on January 29, 2018, 2019 and 2020. No portion of the award will generally vest unless the Company has achieved positive Net Earnings, as defined in the PSU award agreement, for the fiscal year ending June 30, 2017. 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 $6.0 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, 2016 and activity during the fiscal year then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at June 30, 2015	110.3	$41.24
Granted	8.9	84.35
Dividend equivalents	1.5	87.73
Converted	—	—
Outstanding at June 30, 2016	120.7	45.00

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 $1.7 million, $3.4 million and $2.4 million as compensation expense to reflect additional deferrals and the change in the market value for fiscal 2016, 2015 and 2014, respectively.

NOTE 17—NET EARNINGS ATTRIBUTABLE TO THE ESTĒE 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	2016	2015	2014
(In millions, except per share data)			
Numerator:			
Net earnings attributable to The Estée Lauder Companies Inc.	**$1,114.6**	$1,088.9	$1,204.1
Denominator:			
Weighted-average common shares outstanding—Basic	**370.0**	379.3	386.2
Effect of dilutive stock options	**4.6**	4.6	5.0
Effect of PSUs	**0.1**	0.1	0.1
Effect of RSUs	**1.8**	1.6	1.4
Effect of performance share units based on TSR	**0.1**	0.1	0.1
Effect of market share unit	**—**	—	0.3
Weighted-average common shares outstanding—Diluted	**376.6**	385.7	393.1
Net earnings attributable to The Estée Lauder Companies Inc. per common share:			
Basic	**$ 3.01**	$ 2.87	$ 3.12
Diluted	**2.96**	2.82	3.06

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, 2014, there were 0.1 million anti-dilutive stock options excluded from the computation of diluted EPS. As of June 30, 2016, 2015 and 2014, 0.5 million, 0.6 million and 0.5 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 16—Stock Programs.

NOTE 18—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

YEAR ENDED JUNE 30	**2016**	2015	2014
(In millions)			
Net unrealized investment gains (losses), beginning of year	**$ (0.1)**	$ 1.4	$ 0.8
Unrealized investment gains (losses)	**6.7**	0.5	0.9
Benefit (provision) for deferred income taxes	**—**	(0.2)	(0.3)
Reclassification to earnings during the year[1]	**—**	(2.4)	—
Benefit (provision) for deferred income taxes on reclassification[2]	**—**	0.8	—
Translation adjustments	**—**	(0.2)	—
Net unrealized investment gains (losses), end of year	**6.6**	(0.1)	1.4
Net derivative instruments, beginning of year	**43.9**	(0.9)	18.3
Gain (loss) on derivative instruments	**47.6**	107.8	(22.2)
Benefit (provision) for deferred income taxes	**(16.7)**	(38.3)	7.9
Reclassification to earnings during the year:			
Foreign currency forward contracts[3]	**(65.2)**	(37.8)	(7.2)
Settled interest rate-related derivatives[4]	**(0.6)**	(0.4)	(0.3)
Benefit (provision) for deferred income taxes on reclassification[2]	**23.2**	13.5	2.6
Net derivative instruments, end of year	**32.2**	43.9	(0.9)
Net pension and post-retirement adjustments, beginning of year	**(235.0)**	(233.0)	(213.7)
Changes in plan assets and benefit obligations:			
Net actuarial gains (losses) recognized	**(112.5)**	(48.3)	(42.1)
Net prior service credit (cost) recognized	**(0.3)**	—	6.7
Translation adjustments	**6.0**	15.8	(10.2)
Benefit (provision) for deferred income taxes	**38.5**	13.2	10.4
Amortization, settlements and curtailments included in net periodic benefit cost[5]:			
Net actuarial (gains) losses	**22.2**	21.2	18.0
Net prior service cost (credit)	**3.3**	3.3	4.4
Benefit (provision) for deferred income taxes on reclassification[2]	**(7.3)**	(7.2)	(6.5)
Net pension and post-retirement adjustments, end of year	**(285.1)**	(235.0)	(233.0)
Cumulative translation adjustments, beginning of year	**(190.3)**	132.2	37.1
Translation adjustments	**(106.3)**	(319.5)	96.7
Benefit (provision) for deferred income taxes	**(1.9)**	(3.0)	(1.6)
Cumulative translation adjustments, end of year	**(298.5)**	(190.3)	132.2
Accumulated other comprehensive income (loss)	**$(544.8)**	$(381.5)	$(100.3)

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

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

(3) For the year ended June 30, 2016, $17.2 million and $48.0 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, $9.1 million and $28.7 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, 2014, $4.5 million and $2.7 million were recorded in Cost of Sales and Selling, general and administrative expenses, respectively, in the accompanying consolidated statements of earnings.

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

(5) See Note 13—Pension, Deferred Compensation and Post-Retirement Benefit Plans for additional information.

NOTE 19—STATEMENT OF CASH FLOWS

Supplemental cash flow information is as follows:

YEAR ENDED JUNE 30	2016	2015	2014
(In millions)			
Cash:			
Cash paid during the year for interest	$ 78.8	$ 65.5	$ 66.0
Cash paid during the year for income taxes	$450.9	$417.4	$534.7
Non-cash investing and financing activities:			
Incremental tax benefit from the exercise of stock options	$ (8.0)	$ (10.1)	$ (8.1)
Capital lease and asset retirement obligations incurred	$ 27.1	$ 8.7	$ 12.9
Pending purchase price true-up payment	$ —	$ 10.6	$ —
Non-cash purchases (sales) of short- and long-term investments, net	$ (2.2)	$ 1.8	$ —
Property, plant and equipment accrued but unpaid	$ 28.5	$ 28.6	$ 30.5
Accrued dividend equivalents	$ 5.3	$ 3.4	$ 2.7
Accrued dividend distribution to noncontrolling interest	$ 1.1	$ —	$ —

NOTE 20—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 activities, and earnings before income taxes, other income, interest expense, interest income and investment income, net, and charges associated with restructuring activities. Returns and charges associated with restructuring 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	2016	2015	2014
(In millions)			
PRODUCT CATEGORY DATA			
Net Sales:			
Skin Care	**$ 4,446.2**	$ 4,478.7	$ 4,769.8
Makeup	**4,702.6**	4,304.6	4,210.2
Fragrance	**1,486.7**	1,416.4	1,425.0
Hair Care	**554.2**	530.6	515.6
Other	**74.0**	50.1	48.1
	11,263.7	10,780.4	10,968.7
(Returns) adjustments associated with restructuring activities	**(1.4)**	—	0.1
	$11,262.3	$10,780.4	$10,968.8
Depreciation and Amortization:			
Skin Care	**$ 150.5**	$ 158.1	$ 157.1
Makeup	**184.2**	168.4	166.1
Fragrance	**52.1**	54.3	49.4
Hair Care	**24.2**	25.9	11.1
Other	**3.7**	2.6	0.9
	$ 414.7	$ 409.3	$ 384.6
Operating Income (Loss) before (charges) adjustments associated with restructuring activities:			
Skin Care	**$ 842.1**	$ 832.2	$ 975.8
Makeup	**758.3**	659.3	715.9
Fragrance	**87.4**	82.8	104.1
Hair Care	**51.8**	37.9	33.7
Other	**5.4**	(5.9)	(4.8)
	1,745.0	1,606.3	1,824.7
Reconciliation:			
(Charges) adjustments associated with restructuring activities	**(134.7)**	—	2.9
Interest expense	**(70.7)**	(60.0)	(59.4)
Interest income and investment income, net	**15.6**	14.3	8.6
Earnings before income taxes	**$ 1,555.2**	$ 1,560.6	$ 1,776.8

YEAR ENDED OR AT JUNE 30	2016	2015	2014
(In millions)			
GEOGRAPHIC DATA			
Net Sales:			
The Americas	**$ 4,710.3**	$ 4,513.8	$ 4,572.3
Europe, the Middle East & Africa	**4,380.7**	4,086.4	4,163.7
Asia/Pacific	**2,172.7**	2,180.2	2,232.7
	11,263.7	10,780.4	10,968.7
(Returns) adjustments associated with restructuring activities	**(1.4)**	—	0.1
	$11,262.3	$10,780.4	$10,968.8
Operating Income (Loss):			
The Americas	**$ 346.1**	$ 302.3	$ 537.3
Europe, the Middle East & Africa	**1,027.1**	943.3	938.3
Asia/Pacific	**371.8**	360.7	349.1
	1,745.0	1,606.3	1,824.7
(Charges) adjustments associated with restructuring activities	**(134.7)**	—	2.9
	$ 1,610.3	$ 1,606.3	$ 1,827.6
Total Assets:			
The Americas	**$ 5,423.7**	$ 4,897.6	$ 4,337.4
Europe, the Middle East & Africa	**3,016.0**	2,614.2	2,657.0
Asia/Pacific	**783.6**	715.1	865.6
	$ 9,223.3	$ 8,226.9	$ 7,860.0
Long-Lived Assets (property, plant and equipment, net):			
The Americas	**$ 978.6**	$ 956.8	$ 954.4
Europe, the Middle East & Africa	**463.8**	399.9	410.2
Asia/Pacific	**140.9**	133.5	138.0
	$ 1,583.3	$ 1,490.2	$ 1,502.6

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 2016, 2015 and 2014 were $4,150.9 million, $3,972.1 million and $3,999.5 million, respectively. The Company's long-lived assets in the United States at June 30, 2016, 2015 and 2014 were $862.2 million, $855.9 million and $849.9 million, respectively.

NOTE 21—UNAUDITED QUARTERLY FINANCIAL DATA

The following summarizes the unaudited quarterly operating results of the Company for fiscal 2016 and 2015:

	Quarter Ended				
	September 30[(1)]	December 31[(2)]	March 31[(3)]	June 30[(4)]	Total Year
(In millions, except per share data)					
Fiscal 2016					
Net Sales	$2,834.7	$3,124.8	$2,656.5	$2,646.3	$11,262.3
Gross Profit	2,257.5	2,535.8	2,152.3	2,135.6	9,081.2
Operating Income	453.2	629.4	384.0	143.7	1,610.3
Net Earnings Attributable to The Estée Lauder Companies Inc.	309.3	446.2	265.6	93.5	1,114.6
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
Fiscal 2015					
Net Sales	$2,631.0	$3,044.5	$2,580.5	$2,524.4	$10,780.4
Gross Profit	2,094.4	2,471.4	2,077.6	2,036.4	8,679.8
Operating Income	348.0	632.8	397.2	228.3	1,606.3
Net Earnings Attributable to The Estée Lauder Companies Inc.	228.1	435.7	272.1	153.0	1,088.9
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic	.60	1.15	.72	.41	2.87
Diluted	.59	1.13	.71	.40	2.82

(1) As a result of the Company's July 2014 SMI rollout, approximately $178 million of accelerated orders were recorded as net sales (approximately $127 million as operating income or $.21 per diluted common share) in the fiscal 2014 fourth quarter that would have occurred in the fiscal 2015 first quarter.

(2) Fiscal 2016 second quarter results include charges associated with restructuring activities of $(18.5) million ($(12.4) million after tax, or $(.03) per diluted common share).

(3) Fiscal 2016 third quarter results include charges associated with restructuring activities of $(15.2) million ($(9.3) million after tax, or $(.02) per diluted common share). Fiscal 2015 third quarter results include a charge related to the remeasurement of net monetary assets in Venezuela of $(5.3) million, before and after tax, or $(.01) per diluted common share.

(4) Fiscal 2016 fourth quarter results include charges associated with restructuring activities of $(101.0) million ($(69.6) million after tax, or $(.18) per diluted common share).

THREE YEARS ENDED JUNE 30, 2016		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(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, 2016	$ 20.6	$ 13.5	$—	$ 10.0[(a)]	$ 24.1
Year ended June 30, 2015	$ 23.9	$ 7.2	$—	$ 10.5[(a)]	$ 20.6
Year ended June 30, 2014	$ 22.7	$ 9.5	$—	$ 8.3[(a)]	$ 23.9
Sales return accrual:					
Year ended June 30, 2016	$ 97.3	$373.1	$—	$374.6[(b)]	$ 95.8
Year ended June 30, 2015	$ 93.7	$399.7	$—	$396.1[(b)]	$ 97.3
Year ended June 30, 2014	$ 74.6	$410.2	$—	$391.1[(b)]	$ 93.7
Deferred tax valuation allowance:					
Year ended June 30, 2016	$120.9	$ 6.5	$—	$ 9.0	$118.4
Year ended June 30, 2015	$115.2	$ 9.8	$—	$ 4.1	$120.9
Year ended June 30, 2014	$ 92.9	$ 22.9	$—	$ 0.6	$115.2
Accrued restructuring for fiscal 2016 initiatives:					
Year ended June 30, 2016	$ —	$121.4	$—	$ 44.8	$ 76.6
Year ended June 30, 2015	$ —	$ —	$—	$ —	$ —
Year ended June 30, 2014	$ —	$ —	$—	$ —	$ —

(a) Includes amounts written-off, net of recoveries.

(b) Represents actual returns.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting also includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Our independent registered public accounting firm, KPMG LLP, has issued an adverse audit report on the effectiveness of the Company's internal control over financial reporting as of June 30, 2016, which appears on page 121 below.

Fabrizio Freda
President and Chief Executive Officer

Tracey T. Travis
Executive Vice President and Chief Financial Officer

August 24, 2016

The Board of Directors and Stockholders
The Estée Lauder Companies Inc.:

We have audited The Estée Lauder Companies Inc. and subsidiaries' ("the Company") internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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

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

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

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

KPMG LLP

New York, New York
August 24, 2016

The Board of Directors and Stockholders
The Estée Lauder Companies Inc.:

We have audited the accompanying consolidated balance sheets of The Estée Lauder Companies Inc. and subsidiaries ("the Company") as of June 30, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended June 30, 2016. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed on the index on page 50. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Estée Lauder Companies Inc. and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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

KPMG LLP

New York, New York
August 24, 2016

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 2016	Market Price of Common Stock			Cash
Quarter Ended	High	Low	Close	Dividends
September 30	$91.68	$73.67	$80.68	$.24
December 31	89.93	79.49	88.06	.30
March 31	94.93	81.02	94.31	.30
June 30	97.48	87.08	91.02	.30

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

Annual Meeting
The Company's Annual Meeting of Stockholders will be held on Friday, November 11, 2016, 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:

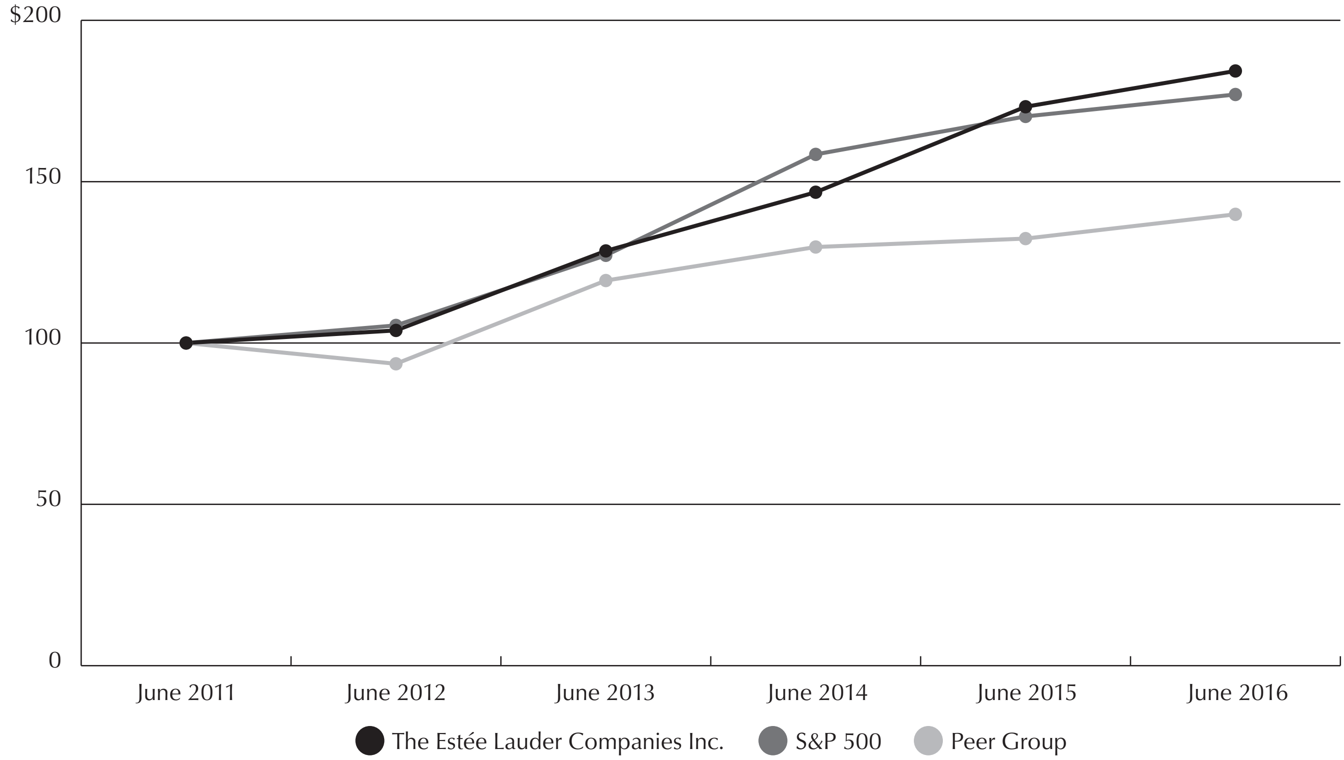
- Change the name, address, or ownership of stock;
- Replace lost certificates or dividend checks;
- Obtain information about dividend reinvestment, direct stock purchase or direct deposit of dividends.

Computershare, Inc.
P.O. Box 30170
College Station, TX 77842-3170
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 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, 2011. The publicly traded companies included in the 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.

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, Always On, Aveda, Be Who You Are, Bobbi Brown, Bumble and bumble, By Kilian, Clinique, Do The Right Thing, Double Wear, Dr. Jart+, Estée Lauder, Fragrance Combining, Editions de Parfums Frédéric Malle, Genaissance de La Mer The Serum Essence, GLAMGLOW, Hydroblur, Instant Confidence, Jo Malone London, La Mer, Late Night Eraser, Le Labo, M·A·C, M·A·C AIDS Fund, Modern Twist, Maskimizer, Origins, Original Skin, Pep-Start, Plumprageous, Pretty Powerful, Rare Teas Collection, Smashbox, The Estée Edit, The Wink and Viva Glam.

AERIN is a licensed trademark from AERIN LLC; Michael Kors is a licensed trademark from Michael Kors (Switzerland) International Gmbh; Tom Ford and Tom Ford Soleil are licensed trademarks from 001 Corporation; Tommy Hilfiger and The Girl are licensed trademarks of Tommy Hilfiger Licensing LLC.

THE ESTĒE LAUDER COMPANIES INC. 2016 ANNUAL REPORT ENVIRONMENTAL FIGURES

The Estée Lauder Companies Inc. 2016 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 5,583 lbs of paper made with 100% PCRF and 8,992 lbs of paper made with 20% PCRF to produce this report:

28,892 lbs wood	A total of 88 trees, which supply enough oxygen for 44 people annually.
19 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.)
40,645 gal water	Enough water to take 2,430 eight-minute showers.
8,259 gal waste water	PCRF content eliminates wastewater produced by processing equivalent virgin fiber. (Swimming pools—1 Olympic-sized swimming pool holds 660,430 gallons.)
543 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.)
2,450 lbs solid waste	Solid waste trash thrown away by 546 people in a single day.
7.5 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.)
28 min BTUs energy	Enough energy to power an average American household for 114 days.
9,037 lbs emissions	Carbon sequestered by 71 tree seedlings grown for 5 years.

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

6,195 lbs	Combined amount of CO2, SO2, and NOx not emitted.
7,594 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:

3,207 hours	Number of kilowatt-hours of electricity offset by purchase of renewable energy.
821 hours	Total continuous electricity used by a single-family home.
3,833 lbs	Amount of waste recycled instead of disposed in landfills.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C020268

Sandy Alexander Inc., an ISO 14001:2004 certified printer with FSC® Chain-of-Custody Certification, printed this report with the use of 100% certified renewable wind power sources, which benefit the environment by preventing emissions of greenhouse gases.

Reduction of emissions from printing using wind-generated electricity:
3,154 lbs of CO2 not emitted.

This amount of wind-generated electricity is equivalent to:
2,736 miles not driven in an automobile or 215 trees being planted.

Sandy Alexander
100% wind energy

THE ESTĒE LAUDER COMPANIES INC.
767 Fifth Avenue, New York, New York 10153