ESTEE LAUDER COMPANIES INC
Form 10-Q
May 05, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549-1004

FORM 10-Q

(Mark One)-

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2015

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

212-572-4200

(Registrant s telephone number, including area code)

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

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

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

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

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

At April 28, 2015, 230,852,244 shares of the registrant s Class A Common Stock, $.01 par value, and 147,546,137 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Consolidated Statements of Earnings Three and Nine Months Ended March 31, 2015 and 2014	2
Consolidated Statements of Comprehensive Income (Loss) Three and Nine Months Ended March 31, 2015 and 2014	3
Consolidated Balance Sheets March 31, 2015 and June 30, 2014 (Audited)	4
Consolidated Statements of Cash Flows Nine Months Ended March 31, 2015 and 2014	5
Notes to Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures About Market Risk	46
Item 4. Controls and Procedures	47
Part II. Other Information	
Item 1. Legal Proceedings	47
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 6. Exhibits	49
Signatures	50

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	**2014**	**2015**	**2014**
	(In millions, except per share data)			
Net Sales	$ 2,580.5	$ 2,549.8	$ 8,256.0	$ 8,243.5
Cost of Sales	502.9	498.7	1,612.6	1,624.4
Gross Profit	2,077.6	2,051.1	6,643.4	6,619.1
Operating expenses				
Selling, general and administrative	1,680.4	1,709.5	5,265.4	5,173.9
Restructuring and other charges				(2.2)
Total operating expenses	1,680.4	1,709.5	5,265.4	5,171.7
Operating Income	397.2	341.6	1,378.0	1,447.4
Interest expense	15.2	15.0	45.0	44.2
Interest income and investment income, net	3.1	2.7	8.5	6.0
Earnings before Income Taxes	385.1	329.3	1,341.5	1,409.2
Provision for income taxes	112.4	115.6	401.9	458.5
Net Earnings	272.7	213.7	939.6	950.7
Net earnings attributable to noncontrolling interests	(0.6)	(0.5)	(3.7)	(4.3)
Net Earnings Attributable to The Estée Lauder Companies Inc.	$ 272.1	$ 213.2	$ 935.9	$ 946.4
Net earnings attributable to The Estée Lauder Companies Inc. per common share				
Basic	$ 0.72	$ 0.55	$ 2.46	$ 2.44
Diluted	0.71	0.54	2.42	2.40
Weighted-average common shares outstanding				
Basic	378.5	385.8	380.1	387.3

Diluted	384.7	392.1	386.3	394.1
Cash dividends declared per common share	$ .24	$ .20	$ .68	$ .58

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
	(In millions)			
Net earnings	$ 272.7	$ 213.7	$ 939.6	$ 950.7
Other comprehensive income (loss):				
Net unrealized investment gain (loss)	2.1	0.2	(0.7)	0.6
Net derivative instrument gain (loss)	25.0	1.4	80.3	(14.2)
Amounts included in net periodic benefit cost	10.1	5.5	23.0	16.3
Translation adjustments	(139.5)	(8.2)	(374.1)	44.3
Benefit (provision) for deferred income taxes on components of other comprehensive income	(13.4)	(2.0)	(39.7)	1.8
Total other comprehensive income (loss)	(115.7)	(3.1)	(311.2)	48.8
Comprehensive income (loss)	157.0	210.6	628.4	999.5
Comprehensive (income) loss attributable to noncontrolling interests:				
Net earnings	(0.6)	(0.5)	(3.7)	(4.3)
Translation adjustments	2.1	(0.1)	2.6	(0.8)
	1.5	(0.6)	(1.1)	(5.1)
Comprehensive income attributable to The Estée Lauder Companies Inc.	$ 158.5	$ 210.0	$ 627.3	$ 994.4

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	March 31 2015 (Unaudited)	June 30 2014
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,288.3	$ 1,629.1
Short-term investments	136.7	
Accounts receivable, net	1,350.2	1,379.3
Inventory and promotional merchandise, net	1,073.1	1,294.0
Prepaid expenses and other current assets	580.9	522.8
Total current assets	4,429.2	4,825.2
Property, Plant and Equipment, net	1,398.2	1,502.6
Other Assets		
Long-term investments	393.7	13.6
Goodwill	1,147.0	893.2
Other intangible assets, net	330.4	157.3
Other assets	396.6	476.9
Total other assets	2,267.7	1,541.0
Total assets	$ 8,095.1	$ 7,868.8
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 135.3	$ 18.4
Accounts payable	497.7	524.5
Other accrued liabilities	1,464.4	1,513.8
Total current liabilities	2,097.4	2,056.7
Noncurrent Liabilities		
Long-term debt	1,317.5	1,324.7
Other noncurrent liabilities	815.3	618.0
Total noncurrent liabilities	2,132.8	1,942.7
Contingencies (Note 8)		
Equity		
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at March 31, 2015 and June 30, 2014; shares issued: 417,509,769 at March 31, 2015 and 412,590,913 at June 30, 2014; Class B shares authorized: 304,000,000 at March 31, 2015 and June 30, 2014; shares issued and outstanding: 147,546,137 at March 31, 2015 and 148,728,082 at June 30, 2014	5.7	5.6
Paid-in capital	2,816.7	2,562.7
Retained earnings	6,942.1	6,265.8
Accumulated other comprehensive loss	(408.9)	(100.3)
	9,355.6	8,733.8
	(5,500.5)	(4,878.9)

Less: Treasury stock, at cost; 186,680,701 Class A shares at March 31, 2015 and 178,434,483 Class A shares at June 30, 2014				
Total stockholders equity The Estée Lauder Companies Inc.		3,855.1		3,854.9
Noncontrolling interests		9.8		14.5
Total equity		3,864.9		3,869.4
Total liabilities and equity	$	8,095.1	$	7,868.8

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31	
	2015	**2014**
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	$ 939.6	$ 950.7
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	298.6	280.0
Deferred income taxes	(56.2)	(33.7)
Non-cash stock-based compensation	133.9	124.8
Excess tax benefits from stock-based compensation arrangements	(40.7)	(31.9)
Loss on disposal of property, plant and equipment	8.1	7.6
Non-cash charges associated with restructuring charges		0.1
Pension and post-retirement benefit expense	48.3	52.6
Pension and post-retirement benefit contributions	(18.5)	(22.7)
Loss on Venezuela remeasurement	5.3	38.3
Change in fair value of contingent consideration	4.1	
Other non-cash items	(4.4)	(0.2)
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(94.2)	(226.7)
Decrease (increase) in inventory and promotional merchandise, net	104.9	(87.4)
Increase in other assets, net	(14.4)	(65.1)
Increase in accounts payable	14.8	26.4
Increase in other accrued and noncurrent liabilities	55.8	156.6
Net cash flows provided by operating activities	1,385.0	1,169.4
Cash Flows from Investing Activities		
Capital expenditures	(279.8)	(342.8)
Acquisition of businesses and other intangible assets, net of cash acquired	(242.0)	(9.2)
Proceeds from disposition of investments	181.3	8.4
Purchases of investments	(691.7)	(0.6)
Net cash flows used for investing activities	(1,032.2)	(344.2)
Cash Flows from Financing Activities		
Proceeds from current debt, net	118.7	5.3
Debt issuance costs	(1.1)	
Repayments and redemptions of long-term debt	(6.0)	(9.1)
Net proceeds from stock-based compensation transactions	83.5	55.4
Excess tax benefits from stock-based compensation arrangements	40.7	31.9
Payments to acquire treasury stock	(626.1)	(600.3)
Dividends paid to stockholders	(259.8)	(225.2)
Payments to noncontrolling interest holders for dividends	(4.3)	(2.7)
Net cash flows used for financing activities	(654.4)	(744.7)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(39.2)	(46.0)
Net Increase (Decrease) in Cash and Cash Equivalents	(340.8)	34.5

Cash and Cash Equivalents at Beginning of Period		1,629.1		1,495.7
Cash and Cash Equivalents at End of Period	$	1,288.3	$	1,530.2

See notes to consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Management Estimates

The preparation of financial statements and related disclosures in conformity with 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. Descriptions of these policies are discussed in the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014. 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 period-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 $(144.4) million and $(7.6) million, net of tax, during the three months ended March 31, 2015 and 2014, respectively, and $(392.5) million and $50.4 million, net of tax, during the nine months ended March 31, 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 49.81 as of March 31, 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 statements of earnings for the three and nine months ended March 31, 2014.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 12, 2015, the Venezuelan government introduced a new open market foreign exchange system (SIMADI), which effectively replaced the SICAD II mechanism. As the SIMADI is the only mechanism legally available at this time for the Company s highest priority transactions, which are the import of goods, the Company changed the exchange rate used to remeasure the monetary assets and liabilities of its Venezuelan subsidiary to the SIMADI rate, which was 191.97 as of March 31, 2015. Accordingly, a remeasurement charge of $5.3 million, on a before and after tax basis, was reflected in Selling, general and administrative expenses in the Company s consolidated statements of earnings for the three and nine months ended March 31, 2015. The net monetary assets of the Company s Venezuelan subsidiary were not material at March 31, 2015.

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

The accompanying consolidated statements of earnings include net exchange gains (losses) on foreign currency transactions, including the effects of Venezuelan remeasurement charges, of $7.2 million and $(41.7) million during the three months ended March 31, 2015 and 2014, respectively, and $(9.2) million and $(48.1) million during the nine months ended March 31, 2015 and 2014, respectively.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $20.7 million and $23.9 million as of March 31, 2015 and June 30, 2014, respectively.

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 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 $268.6 million, or 10%, and $284.0 million, or 11%, of the Company s consolidated net sales for the three months ended March 31, 2015 and 2014, respectively, and $827.4 million, or 10%,

and $907.0 million, or 11%, of the Company s consolidated net sales for the nine months ended March 31, 2015 and 2014, respectively. This customer accounted for $199.7 million, or 15%, and $158.5 million, or 11%, of the Company s accounts receivable at March 31, 2015 and June 30, 2014, respectively.

Inventory and Promotional Merchandise

Inventory and promotional merchandise, net consists of:

(In millions)	March 31 2015	June 30 2014
Raw materials	$ 254.5	$ 317.5
Work in process	133.3	192.4
Finished goods	551.2	599.5
Promotional merchandise	134.1	184.6
	$ 1,073.1	$ 1,294.0

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment

(In millions)	March 31 2015	June 30 2014
Assets (Useful Life)		
Land	$ 14.9	$ 15.4
Buildings and improvements (10 to 40 years)	195.5	205.0
Machinery and equipment (3 to 10 years)	642.1	673.9
Computer hardware and software (4 to 10 years)	985.0	994.8
Furniture and fixtures (5 to 10 years)	68.0	75.1
Leasehold improvements	1,534.5	1,565.7
	3,440.0	3,529.9
Less accumulated depreciation and amortization	2,041.8	2,027.3
	$ 1,398.2	$ 1,502.6

The cost of assets related to projects in progress of $156.8 million and $229.9 million as of March 31, 2015 and June 30, 2014, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was $97.2 million and $94.0 million during the three months ended March 31, 2015 and 2014, respectively, and $292.3 million and $275.1 million during the nine months ended March 31, 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.

Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In millions)	March 31 2015	June 30 2014
Advertising, merchandising and sampling	$ 305.7	$ 301.7
Employee compensation	384.6	468.2
Payroll and other taxes	155.0	161.2
Accrued income taxes	147.9	113.6
Other	471.2	469.1
	$ 1,464.4	$ 1,513.8

Income Taxes

The effective rate for income taxes was 29.2% and 35.1% for the three months ended March 31, 2015 and 2014, respectively. The decrease in the effective income tax rate was primarily attributable to a reduction in the effective tax rate on the Company s foreign operations, partially offset by an increase in income tax reserve adjustments. Contributing to a higher effective tax rate in the prior-year period was the impact of the Venezuelan remeasurement charge for which no tax benefit was provided.

The effective rate for income taxes was 30.0% and 32.5% for the nine months ended March 31, 2015 and 2014, respectively. The decrease in the effective income tax rate was primarily attributable to a reduction in the effective tax rate on the Company s foreign operations, partially offset by an increase in income tax reserve adjustments. Contributing to a higher effective tax rate in the prior-year period was the impact of the Venezuelan remeasurement charge for which no tax benefit was provided.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2015 and June 30, 2014, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled $75.1 million and $58.1 million, respectively. The total amount of unrecognized tax benefits at March 31, 2015 that, if recognized, would affect the effective tax rate was $51.6 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three and nine months ended March 31, 2015 in the accompanying consolidated statements of earnings was $0.9 million and $5.7 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at March 31, 2015 and June 30, 2014 was $16.7 million and $12.5 million, respectively. On the basis of the information available as of March 31, 2015, the Company does not expect any significant changes to the total amount of unrecognized tax benefits within the next 12 months.

During the nine months ended March 31, 2015, the Company formally concluded the compliance process with respect to fiscal 2013 under the U.S. Internal Revenue Service Compliance Assurance Program. The conclusion of this process did not impact the Company s consolidated financial statements.

As of March 31, 2015 and June 30, 2014, the Company had current net deferred tax assets of $262.3 million and $295.1 million, respectively, substantially all of which are included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. In addition, the Company had noncurrent net deferred tax assets of $76.4 million and $85.5 million as of March 31, 2015 and June 30, 2014, respectively, substantially all of which are included in Other assets in the accompanying consolidated balance sheets.

Recently Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward. If either (i) an NOL carryforward, a similar tax loss, or tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or (ii) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice), an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. This guidance became effective for unrecognized tax benefits that existed as of the Company s fiscal 2015 first quarter. The adoption of this guidance did not have a significant impact on the Company s consolidated financial statements.

In March 2013, the FASB issued authoritative guidance to resolve the diversity in practice concerning the release of the cumulative translation adjustment (CTA) into net income (i) when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity, and (ii) in connection with a step acquisition of a foreign entity. This amended guidance requires that CTA be released in net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, and that a pro rata portion of the CTA be released into net income upon a partial sale of an equity method investment in a foreign entity only. In addition, the amended guidance clarifies the definition of a sale of an investment in a foreign entity to include both, events that result in the loss of a controlling financial interest in a foreign entity and

events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately prior to the date of acquisition. The CTA should be released into net income upon the occurrence of such events. This guidance became effective prospectively for the Company s fiscal 2015 first quarter. The adoption of this guidance did not have an impact on the Company s consolidated financial statements.

Recently Issued Accounting Standards

In April 2015, the FASB issued authoritative 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. This guidance becomes effective for the Company s fiscal 2017 first quarter. Early adoption is only permitted for financial statements that have not been previously issued. Upon adoption, a reporting entity is required to apply the new guidance on a retrospective basis and required to comply with the applicable disclosures for a change in an accounting principle. The Company will apply this new guidance retrospectively when it becomes effective, and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 2015, the FASB issued authoritative guidance to clarify the accounting treatment for fees paid by a customer in cloud computing arrangements. Under the revised guidance, if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The revised guidance will not change a customer s accounting for service contracts. The guidance becomes effective for the Company s fiscal 2017 first quarter, with early adoption permitted. Upon adoption, a reporting entity can elect to apply the new guidance prospectively after the effective date, or retrospectively. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements.

In June 2014, the FASB amended its authoritative guidance on accounting for certain share-based payment awards. The amended guidance requires that if share-based compensation awards have terms of a performance target that affect vesting and that could be achieved after the requisite service period, such performance target should be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. This guidance becomes effective for the Company s fiscal 2017 first quarter, with early adoption permitted. The guidance will permit an entity to apply the amendments in the update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the consolidated financial statements and to all new or modified awards thereafter. The Company will apply this new guidance when it becomes effective, and is currently evaluating the impact of adoption on its consolidated financial statements.

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. This guidance becomes effective for the Company s fiscal 2018 first quarter, and early adoption is not permitted. In April 2015, the FASB proposed a deferral of the effective date of the new revenue standard by one year. The proposal will be subject to the FASB s due process requirements, which include a period for public comments. If the proposed deferral is passed, the new standard would not be effective for the Company until fiscal 2019. The guidance permits an entity to apply the standard retrospectively to all prior periods presented, with certain practical expedients, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company will apply this new guidance when it becomes effective and has not yet selected a transition method. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In April 2014, the FASB issued authoritative guidance which changes the criteria for a disposal to qualify as a discontinued operation. This revised standard defines a discontinued operation as (i) a component of an entity or group of components that has been disposed of or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity s operations and financial results or (ii) an acquired business or nonprofit activity that is classified as held for sale on the date of acquisition. The standard also requires expanded disclosures related to discontinued operations and added disclosure requirements for individually material disposal transactions that do not meet the discontinued operations criteria. This guidance becomes effective prospectively for the Company s fiscal 2016 first quarter, with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available to be issued. The Company will apply this new guidance when it becomes effective, and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 INVESTMENTS

During the fiscal 2015 second quarter, the Company modified its cash investment strategy to invest a portion of its cash and cash equivalents in short- and long-term 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 6 Fair Value Measurements for further information about how the fair value 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 March 31, 2015 and June 30, 2014 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.

Gains and losses recorded in AOCI related to the Company s available-for-sale investments as of March 31, 2015 were as follows:

(In millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 292.7	$ 0.2	$ (0.1)	$ 292.8
Foreign government and agency securities	20.5			20.5
Corporate notes and bonds	166.7	0.2	(0.1)	166.8
Time deposits	12.9			12.9
Other securities	30.2	1.2		31.4
Total	$ 523.0	$ 1.6	$ (0.2)	$ 524.4

Gross unrealized investment gains recorded in AOCI related to the Company s available-for-sale investments as of June 30, 2014 were $2.1 million.

The following table presents the Company s available-for-sale securities by contractual maturity as of March 31, 2015:

(In millions)	Cost	Fair Value
Due within one year	$ 136.7	$ 136.7
Due after one through five years	386.3	387.7
	$ 523.0	$ 524.4

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 2015:

(In millions)	In a Loss Position for Less Than 12 Months		In a Loss Position for More Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities	$ 291.2	$ (0.2)	$	$

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

(In millions)	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Gross realized gains	$ 0.1	$	$ 1.6	$
Gross realized losses	(0.1)		(0.1)	
Total	$	$	$ 1.5	$

The Company utilizes the first-in, first-out method to determine the cost of the security sold.

NOTE 3 ACQUISITION OF BUSINESSES

The Company acquired Le Labo, a fragrance brand, in November 2014, RODIN olio lusso, a skin care brand, in October 2014 and in January 2015, Editions de Parfums Frédéric Malle, a fragrance brand, and GLAMGLOW, a skin care brand. The results of operations of these businesses are included in the accompanying consolidated financial statements commencing with the date they were acquired. The purchase price related to each of these acquisitions includes cash paid at closing plus additional amounts to be paid in the future, a portion of which is contingent on the achievement of certain future operating results. The amounts paid at closing were funded by cash on hand and through the issuance of commercial paper. The additional amounts are expected to be paid from fiscal 2018 through fiscal 2020 with the exception of working capital adjustments, which are anticipated to be settled during fiscal 2015. The aggregate acquisition-date fair value of these transactions was approximately $445 million. The purchase prices recorded are provisional pending final working capital adjustments and completion of the final valuations.

These fiscal 2015 acquisitions were not material, individually or in the aggregate, to the Company s consolidated financial statements. Pro forma results of operations of the prior-year period have not been presented, as the impact on the Company s consolidated financial results would not have been material.

NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS

During the nine months ended March 31, 2015, the Company acquired Le Labo, RODIN olio lusso, Editions de Parfums Frédéric Malle and GLAMGLOW, which included the addition of goodwill of $254.2 million, amortizable intangible assets of $27.5 million (with a weighted-average amortization period of approximately 9 years) and non-amortizable intangible assets of $157.2 million related to the Company s fragrance and skin care product categories. Approximately $159 million of goodwill recorded in connection with certain of these acquisitions is expected to be deductible for tax purposes. During the nine months ended March 31, 2015, the Company recognized $7.2 million of goodwill associated with the continuing earn-out obligations related to the acquisition of the Bobbi Brown brand.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents goodwill by product category and the related change in the carrying amount:

(In millions)	Skin Care	Makeup	Fragrance	Hair Care	Total
Balance as of June 30, 2014					
Goodwill	$ 68.9	$ 440.7	$ 54.8	$ 402.3	$ 966.7
Accumulated impairments	(33.6)			(39.9)	(73.5)
	35.3	440.7	54.8	362.4	893.2
Goodwill acquired during the period	121.2	7.2	133.0		261.4
Translation adjustments	(0.6)	(1.0)	(2.0)	(4.0)	(7.6)
	120.6	6.2	131.0	(4.0)	253.8
Balance as of March 31, 2015					
Goodwill	184.3	446.9	185.8	393.4	1,210.4
Accumulated impairments	(28.4)			(35.0)	(63.4)
	$ 155.9	$ 446.9	$ 185.8	$ 358.4	$ 1,147.0

Other intangible assets consist of the following:

	March 31, 2015			June 30, 2014		
(In millions)	Gross Carrying Value	Accumulated Amortization	Total Net Book Value	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Amortizable intangible assets:						
Customer lists and other	$ 293.7	$ 225.0	$ 68.7	$ 268.3	$ 216.7	$ 51.6
License agreements	43.0	43.0		43.0	43.0	
	$ 336.7	$ 268.0	68.7	$ 311.3	$ 259.7	51.6
Non-amortizable intangible assets:						
Trademarks and other			261.7			105.7
Total intangible assets			$ 330.4			$ 157.3

The aggregate amortization expense related to amortizable intangible assets was $3.6 million and $3.0 million for the three months ended March 31, 2015 and 2014, respectively, and was $9.7 million and $9.3 million for the nine months ended March 31, 2015 and 2014, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2015 and for each of fiscal 2016 to 2019 is $3.9 million, $15.2 million, $13.2 million, $11.7 million and $10.7 million, respectively.

NOTE 5 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 and interest rate derivatives to manage the effects of interest rate movements on the Company s aggregate liability portfolio. 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.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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		
		Fair Value (1)			Fair Value (1)	
(In millions)	Balance Sheet Location	March 31 2015	June 30 2014	Balance Sheet Location	March 31 2015	June 30 2014
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 67.4	$ 3.4	Other accrued liabilities	$ 2.1	$ 18.2
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	3.6	0.8	Other accrued liabilities	13.3	0.9
Total Derivatives		$ 71.0	$ 4.2		$ 15.4	$ 19.1

(1) See Note 6 Fair Value Measurements for further information about how the fair value of derivative assets and liabilities are determined.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31 2015	2014	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) Three Months Ended March 31 2015	2014
Derivatives in Cash-Flow Hedging Relationships:					
Foreign currency forward contracts	$ 39.1	$ 3.2	Cost of sales	$ 3.6	$ 1.1
			Selling, general and administrative	10.5	0.6
Total derivatives	$ 39.1	$ 3.2		$ 14.1	$ 1.7

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $(0.2) million and $0.3 million for the three months ended March 31, 2015 and 2014, respectively. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended March 31, 2015 and 2014.

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine Months Ended March 31 2015	2014	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) Nine Months Ended March 31 2015	2014
Derivatives in Cash-Flow Hedging Relationships:					
Foreign currency forward contracts	$ 103.2	$ (7.1)	Cost of sales	$ 5.4	$ 3.6
			Selling, general and administrative	17.3	3.3
Total derivatives	$ 103.2	$ (7.1)		$ 22.7	$ 6.9

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $(1.0) million and $0.9 million for the nine months ended March 31, 2015 and 2014, respectively. The amount of gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships was $0.6 million and $0.5 million for the nine months ended March 31, 2015 and 2014,

respectively.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

		Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
	Location of Gain or (Loss) Recognized in Earnings on	Three Months Ended March 31		Nine Months Ended March 31	
(In millions)	Derivatives	2015	2014	2015	2014
Foreign currency forward contracts	Selling, general and administrative	$ (9.8)	$ (2.3)	$ (9.7)	$ (0.9)

Foreign Currency 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 foreign currency cash-flow hedges and have varying maturities through the end of March 2017. 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 ineffective portion of both foreign currency forward and option contracts 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 March 31, 2015, the Company s foreign currency cash-flow hedges were highly effective in all material respects. The estimated net gain as of March 31, 2015 that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is $32.6 million. The accumulated gain (loss) on derivative instruments in AOCI was $68.0 million and $(12.5) million as of March 31, 2015 and June 30, 2014, respectively.

At March 31, 2015, the Company had foreign currency forward contracts in the amount of $2,162.1 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound ($442.1 million), Euro ($333.4 million), Swiss franc ($307.7 million), Canadian dollar ($162.2 million), Hong Kong dollar ($148.8 million), Australian dollar ($140.8 million) and Japanese yen ($101.1 million).

Fair-Value Hedges

The Company may enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on its funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures.

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 $71.0 million at March 31, 2015. To manage this risk, the Company has established strict counterparty credit guidelines that are continually monitored. Accordingly, management believes risk of loss under these hedging contracts is remote.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Certain of the Company s derivative financial instruments, with two counterparties, contain credit-risk-related contingent features. At March 31, 2015, the Company was in a net asset position for certain derivative contracts that contain such features. The fair value of those contracts as of March 31, 2015 was $19.2 million. As of March 31, 2015, the Company was in compliance with such credit-risk-related contingent features.

NOTE 6 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 March 31, 2015:

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$	$ 71.0	$	$ 71.0
Available-for-sale securities:				

U.S. government and agency securities			292.8		292.8
Foreign government and agency securities			20.5		20.5
Corporate notes and bonds			166.8		166.8
Time deposits			12.9		12.9
Other securities		6.7	24.7		31.4
Total	$	6.7	$ 588.7	$	$ 595.4
Liabilities:					
Foreign currency forward contracts	$		$ 15.4	$	$ 15.4
Contingent consideration				160.7	160.7
Total	$		$ 15.4	$ 160.7	$ 176.1

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$	$ 4.2	$	$ 4.2
Available-for-sale securities	7.6			7.6
Total	$ 7.6	$ 4.2	$	$ 11.8
Liabilities:				
Foreign currency forward contracts	$	$ 19.1	$	$ 19.1

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

	March 31 2015		June 30 2014	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivatives				
Cash and cash equivalents	$ 1,288.3	$ 1,288.3	$ 1,629.1	$ 1,629.1
Available-for-sale securities	524.4	524.4	7.6	7.6
Note receivable			8.4	8.5
Current and long-term debt	1,452.8	1,617.3	1,343.1	1,428.3
Additional purchase price payable	36.9	36.9		
Contingent consideration	160.7	160.7		
Derivatives				
Foreign currency forward contracts, net asset (liability)	55.6	55.6	(14.9)	(14.9)

The following methods and assumptions were used to estimate the fair value of the Company s other classes of 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 classified within Level 1 of the valuation hierarchy are generally comprised of mutual funds and are valued using quoted market prices on an active exchange. Available-for-sale securities classified within Level 2 of the valuation hierarchy 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.

Note receivable During the second quarter of fiscal 2013, the Company amended the agreement related to the August 2007 sale of Rodan + Fields (a brand then owned by the Company) to receive a fixed amount in lieu of future contingent consideration and other rights. The fair value of the receivable under the amended agreement was determined by discounting the future cash flows using an implied market rate of 6.1%. This implied market rate reflected the Company s estimate of interest rates prevailing in the market for notes with comparable remaining maturities, the creditworthiness of the counterparty, and an assessment of the ultimate collectability of the instrument. The implied market rate was deemed to be an unobservable input and as such the Company s note receivable was classified within Level 3 of the valuation hierarchy as of June 30, 2014. The remaining $8.4 million principal amount was received in August 2014.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 The fair value of the Company s contingent consideration obligations is measured using Level 3 inputs which include a probability weighted-average cost of capital to discount estimated future cash flows based upon the likelihood of achieving certain future operating results. The fair value of the contingent consideration related to the acquisition earn-outs was determined by discounting the future cash flows using discount rates ranging from 9% to 14%. These rates reflect the relative risk and probability of achieving future operating results with the potential earn-outs on the individual acquisitions. These 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. An increase or decrease in the risk premium of 100 basis points would result in a value that is approximately $6 million higher or lower than the current liability recorded.

Changes in the fair value of the contingent consideration obligations for the nine months ended March 31, 2015 were as follows:

(In millions)		**Fair Value**
Contingent consideration at June 30, 2014	$	
Acquisitions		156.6
Change in fair value		4.1
Contingent consideration at March 31, 2015	$	160.7

NOTE 7 PENSION 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. The Company also maintains post-retirement benefit plans which provide certain medical and dental benefits to eligible employees. Descriptions of these plans are discussed in the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of net periodic benefit cost for the three months ended March 31, 2015 and 2014 consisted of the following:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	2015	2014	2015	2014	2015	2014
Service cost	$ 8.0	$ 7.9	$ 5.7	$ 6.2	$ 0.8	$ 0.8
Interest cost	7.6	7.8	4.1	4.8	1.9	2.0
Expected return on plan assets	(12.5)	(11.7)	(5.3)	(5.2)	(0.6)	(0.5)
Amortization of:						
Prior service cost	0.1	0.1	0.5	0.7	0.2	0.3
Actuarial loss	2.4	1.8	2.4	2.4	0.4	0.2
Settlements and curtailments			(1.1)			
Net periodic benefit cost	$ 5.6	$ 5.9	$ 6.3	$ 8.9	$ 2.7	$ 2.8

The components of net periodic benefit cost for the nine months ended March 31, 2015 and 2014 consisted of the following:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	2015	2014	2015	2014	2015	2014
Service cost	$ 23.8	$ 23.7	$ 18.2	$ 18.5	$ 2.5	$ 2.5
Interest cost	22.8	23.4	13.1	14.2	5.7	6.0
Expected return on plan assets	(37.5)	(35.1)	(16.3)	(15.4)	(1.8)	(1.5)
Amortization of:						
Prior service cost	0.4	0.5	1.6	2.1	0.6	0.7
Actuarial loss	7.3	5.5	7.8	6.9	1.2	0.6
Settlements and curtailments			(1.1)			
Net periodic benefit cost	$ 16.8	$ 18.0	$ 23.3	$ 26.3	$ 8.2	$ 8.3

During the nine months ended March 31, 2015, the Company made contributions to its international pension plans totaling approximately $10 million.

The Company disclosed in its consolidated financial statements for the fiscal year ended June 30, 2014 that it did not expect to make cash contributions to its domestic trust based, noncontributory qualified defined benefit pension plan (U.S. Qualified Plan) during the fiscal year ending June 30, 2015. As part of its ongoing review of funded levels, the Company made a discretionary contribution of $25.0 million to the U.S. Qualified Plan in April 2015.

The amounts recognized in the consolidated balance sheets related to the Company s pension and post-retirement benefit plans consist of the following:

(In millions)	March 31 2015	June 30 2014
Other assets	$ 127.2	$ 135.2
Other accrued liabilities	(26.9)	(26.9)
Other noncurrent liabilities	(358.8)	(380.5)
Funded status	(258.5)	(272.2)
Accumulated other comprehensive loss	294.2	338.2
Net amount recognized	$ 35.7	$ 66.0

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 CONTINGENCIES

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 9 STOCK-BASED COMPENSATION

The Company has various stock-based compensation programs (the Plans) under which awards, including stock options, performance share units (PSU), restricted stock units (RSU), market share units (MSU), performance share units based on total stockholder return, and share units, may be granted. As of March 31, 2015, approximately 11,067,200 shares of the Company s Class A Common Stock were reserved and available to be granted pursuant to these Plans.

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

	Three Months Ended March 31		Nine Months Ended March 31	
(In millions)	**2015**	**2014**	**2015**	**2014**
Compensation expense	$ 33.0	$ 29.9	$ 133.9	$ 124.8
Income tax benefit	10.9	9.9	43.9	41.0

As of March 31, 2015, the total unrecognized compensation cost related to unvested stock-based awards was $138.9 million and the related weighted-average period over which it is expected to be recognized is approximately 2 years.

Stock Options

The following is a summary of the Company s stock option programs as of March 31, 2015 and changes during the nine months then ended:

(Shares in thousands)	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value (1) (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2014	14,127.8	$ 41.51		
Granted at fair value	2,172.0	76.12		
Exercised	(2,219.8)	37.62		
Expired	(21.6)	36.97		
Forfeited	(89.4)	65.02		
Outstanding at March 31, 2015	13,969.0	47.36	$ 500.1	6.4
Vested and expected to vest at March 31, 2015	13,845.4	47.15	$ 498.6	6.4
Exercisable at March 31, 2015	9,653.0	37.37	$ 442.0	5.5

(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.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

(In millions, except per share data)	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Per-share weighted-average grant date fair value of stock options granted	$ 19.58	$ 23.58	$ 22.46	$ 23.13
Intrinsic value of stock options exercised	$ 57.0	$ 21.7	$ 88.9	$ 69.8

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:

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Weighted-average expected stock-price volatility	27%	32%	28%	33%
Weighted-average expected option life	7 years	7 years	7 years	7 years
Average risk-free interest rate	1.6%	2.2%	2.2%	2.5%
Average dividend yield	1.1%	1.1%	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 of 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.

Performance Share Units

During the nine months ended March 31, 2015, the Company granted approximately 261,700 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, 2017, all subject to the continued employment or retirement of the grantees. PSUs granted in fiscal 2015 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. In September 2014, approximately 377,300 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 the PSU

issuance, in settlement of approximately 259,700 PSUs that vested as of June 30, 2014.

The following is a summary of the status of the Company s PSUs as of March 31, 2015 and activity during the nine months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2014	538.6	$ 63.53
Granted	261.7	76.23
Vested		
Forfeited		
Nonvested at March 31, 2015	800.3	67.68

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Units

The Company granted approximately 1,431,000 RSUs during the nine months ended March 31, 2015 which, at the time of grant, were scheduled to vest as follows: 501,700 in fiscal 2016, 517,600 in fiscal 2017 and 411,700 in fiscal 2018. All RSUs are subject to the continued employment or retirement of the grantees. The RSUs granted in fiscal 2015 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 March 31, 2015 and activity during the nine months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2014	2,222.1	$ 62.21
Granted	1,431.0	76.14
Dividend equivalents	7.4	76.06
Vested	(948.1)	60.76
Forfeited	(63.7)	67.62
Nonvested at March 31, 2015	2,648.7	70.17

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, which end June 30, 2015, 2016 and 2017. Such 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 if the Company s TSR falls below a minimum threshold, and up to an aggregate of 260,416 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 PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU.

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.

Market Share Unit

The Company had one outstanding market share unit, which vested on June 30, 2014. The market share unit had a grant date fair value of $10.6 million that was estimated using a lattice model with a Monte Carlo simulation and the following assumptions: contractual life of 41 months, a weighted-average expected volatility of 29%, a weighted-average risk-free interest rate of 1.6% and a weighted-average dividend yield of 1.0%. The Company used an expected stock-price volatility assumption that is a combination of both current and historical implied volatilities from options on the underlying stock. The implied volatilities were obtained from publicly available data sources. The expected life was equal to the contractual term of the grant. The average risk-free interest rate was based on the U.S. Treasury strip rates over the contractual term of the grant and the average dividend yield was based on historical experience. In accordance with the terms of the grant, 320,000 shares of the Company s Class A Common Stock were issued, and related dividends were paid. The number of shares equaled the maximum payout under the award, because the average closing stock price per share of the Company s Class A Common Stock on the New York Stock Exchange during the last 20 trading days ending on June 30, 2014 exceeded $75.00 per share.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Share Units

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The following is a summary of the status of the Company s share units as of March 31, 2015 and activity during the nine months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at June 30, 2014	98.8	$ 37.67
Granted	10.2	71.33
Dividend equivalents	1.0	75.88
Converted		
Outstanding at March 31, 2015	110.0	41.12

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 and $(1.6) million as compensation expense (income) to reflect additional deferrals and the change in the market value for the three months ended March 31, 2015 and 2014, respectively. The Company recorded $2.5 million and $0.7 million as compensation expense to reflect additional deferrals and the change in the market value for the nine months ended March 31, 2015 and 2014, respectively.

NOTE 10 NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE

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

A reconciliation between the numerator and denominator of the basic and diluted EPS computations is as follows:

(In millions, except per share data)	Three Months Ended March 31 2015	Three Months Ended March 31 2014	Nine Months Ended March 31 2015	Nine Months Ended March 31 2014
Numerator:				
Net earnings attributable to The Estée Lauder Companies Inc.	$ 272.1	$ 213.2	$ 935.9	$ 946.4
Denominator:				
Weighted-average common shares outstanding Basic	378.5	385.8	380.1	387.3
Effect of dilutive stock options	4.6	4.8	4.6	5.0
Effect of RSUs	1.6	1.2	1.6	1.4
Effect of PSUs based on TSR				0.1
Effect of MSU		0.3		0.3
Weighted-average common shares outstanding Diluted	384.7	392.1	386.3	394.1
Net earnings attributable to The Estée Lauder Companies Inc. per common share:				
Basic	$ 0.72	$ 0.55	$ 2.46	$ 2.44
Diluted	0.71	0.54	2.42	2.40

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2015 and 2014, outstanding options to purchase 2.1 million and 1.8 million shares, respectively, of Class A Common Stock were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. As of March 31, 2015 and 2014, 0.8 million 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 9 Stock-Based Compensation.

NOTE 11 EQUITY

	Total Stockholders Equity			The Estée Lauder Companies Inc.				
(In millions)	**Common Stock**	**Paid-in Capital**	**Retained Earnings**	**AOCI**	**Treasury Stock**	**Total**	**Non-controlling Interests**	**Total Equity**
Balance at June 30, 2014	$ 5.6	$ 2,562.7	$ 6,265.8	$ (100.3)	$ (4,878.9)	$ 3,854.9	$ 14.5	$ 3,869.4
Net earnings			935.9			935.9	3.7	939.6
Common stock dividends			(259.6)			(259.6)	(5.8)	(265.4)
Other comprehensive income (loss)				(308.6)		(308.6)	(2.6)	(311.2)
Acquisition of treasury stock					(572.7)	(572.7)		(572.7)
Stock-based compensation	0.1	254.0			(48.9)	205.2		205.2
Balance at March 31, 2015	$ 5.7	$ 2,816.7	$ 6,942.1	$ (408.9)	$ (5,500.5)	$ 3,855.1	$ 9.8	$ 3,864.9

The following is a summary of quarterly cash dividends declared per share on the Company s Class A and Class B Common Stock during the nine months ended March 31, 2015:

Date Declared	**Record Date**	**Payable Date**	**Amount per Share**
August 14, 2014	August 29, 2014	September 15, 2014	$ .20
November 3, 2014	November 28, 2014	December 15, 2014	$ .24
February 4, 2015	February 27, 2015	March 16, 2015	$ .24

On May 4, 2015, a quarterly dividend was declared in the amount of $.24 per share on the Company s Class A and Class B Common Stock. The dividend is payable in cash on June 15, 2015 to stockholders of record at the close of business on May 29, 2015.

Common Stock

During the nine months ended March 31, 2015, the Company purchased approximately 8.4 million shares of its Class A Common Stock for $626.1 million.

During the nine months ended March 31, 2015, approximately 1.2 million shares of the Company s Class B Common Stock were converted into the same amount of shares of the Company s Class A Common Stock.

Accumulated Other Comprehensive Income (Loss)

The following table represents changes in AOCI, net of tax, by component for the nine months ended March 31, 2015:

(In millions)	Net Unrealized Investment Gain (Loss)	Net Derivative Instrument Gain (Loss)	Amounts Included in Net Periodic Benefit Cost	Translation Adjustments	Total
Balance at June 30, 2014	$ 1.4	$ (0.9)	$ (233.0)	$ 132.2	$ (100.3)
OCI before reclassifications	0.6	66.6	20.0(1)	(392.5)	(305.3)
Amounts reclassified from AOCI	(1.0)	(14.8)	12.5		(3.3)
Net current-period OCI	(0.4)	51.8	32.5	(392.5)	(308.6)
Balance at March 31, 2015	$ 1.0	$ 50.9	$ (200.5)	$ (260.3)	$ (408.9)

(1) Includes foreign currency translation gains of $21.0 million.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table represents the effects of reclassification adjustments from AOCI into net earnings for the three and nine months ended March 31, 2015 and 2014:

	Amount Reclassified from AOCI				
	Three Months Ended March 31		Nine Months Ended March 31		Affected Line Item in Consolidated
(In millions)	2015	2014	2015	2014	Statement of Earnings
Gain (Loss) on Available-For-Sale Securities					
Available-for-sale securities	$	$	$ 1.5	$	Interest income and investment income, net
Benefit (provision) for deferred taxes	(0.1)		(0.5)		Provision for income taxes
	$ (0.1)	$	$ 1.0	$	Net earnings
Gain (Loss) on Cash-Flow Hedges					
Foreign currency forward contracts	$ 3.6	$ 1.1	$ 5.4	$ 3.6	Cost of sales
Foreign currency forward contracts	10.5	0.6	17.3	3.3	Selling, general and administrative
	14.1	1.7	22.7	6.9	Earnings before income taxes
Benefit (provision) for deferred taxes	(4.9)	(0.5)	(8.0)	(2.3)	Provision for income taxes
	$ 9.2	$ 1.2	$ 14.7	$ 4.6	Net earnings
Gain (Loss) on Fair-Value Hedges					
Settled interest rate-related derivatives	$	$ 0.1	$ 0.2	$ 0.2	Interest expense
Benefit (provision) for deferred taxes			(0.1)	(0.1)	Provision for income taxes
	$	$ 0.1	$ 0.1	$ 0.1	Net earnings
Amounts Included in Net Periodic Benefit Cost					
Amortization of prior service cost	$ (0.8)	$ (1.1)	$ (2.6)	$ (3.3)(1)	
Amortization of actuarial loss	(5.2)	(4.4)	(16.3)	(13.0)(1)	
Settlements and curtailments	1.1		1.1	(1)	
	(4.9)	(5.5)	(17.8)	(16.3)	Earnings before income taxes
Benefit (provision) for deferred taxes	1.5	1.6	5.3	4.7	Provision for income taxes

	$ (3.4)	$ (3.9)	$ (12.5)	$ (11.6)	Net earnings
Total reclassification adjustments, net	$ 5.7	$ (2.6)	$ 3.3	$ (6.9)	Net earnings

(1) See Note 7 Pension and Post-Retirement Benefit Plans for additional information.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 STATEMENT OF CASH FLOWS

Supplemental cash flow information for the nine months ended March 31, 2015 and 2014 is as follows:

(In millions)	2015	2014
Cash:		
Cash paid during the period for interest	$ 41.3	$ 41.1
Cash paid during the period for income taxes	$ 317.6	$ 357.6
Non-cash investing and financing activities:		
Incremental tax benefit from the exercise of stock options	$ (8.6)	$ (5.1)
Capital lease obligations incurred	$ 7.6	$ 12.0
Accrued dividend distribution to noncontrolling interest	$ 1.4	$ 2.4

NOTE 13 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. Although the Company operates in one business segment, beauty products, management also evaluates performance on a product category basis. Product category performance is measured based upon net sales and earnings before income taxes, interest expense, interest income and investment income, net and total adjustments associated with restructuring activities. Total adjustments associated with restructuring activities are not allocated to the product categories because they result from activities that are deemed part of a company-wide program to redesign the Company s organizational structure.

The accounting policies for the Company s reportable segments are substantially the same as those for the consolidated financial statements, as described in the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014. 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. There has been no significant variance in the total or long-lived asset values associated with the Company s segment data since June 30, 2014.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions)	Three Months Ended March 31 2015	2014	Nine Months Ended March 31 2015	2014
PRODUCT CATEGORY DATA				
Net Sales:				
Skin Care	$ 1,101.0	$ 1,132.1	$ 3,466.8	$ 3,564.4
Makeup	1,082.5	1,015.7	3,280.0	3,145.8
Fragrance	263.2	270.5	1,080.3	1,115.7
Hair Care	125.6	120.8	390.8	380.7
Other	8.2	10.7	38.1	36.8
	2,580.5	2,549.8	8,256.0	8,243.4
Adjustments associated with restructuring activities				0.1
Net Sales	$ 2,580.5	$ 2,549.8	$ 8,256.0	$ 8,243.5
Operating Income (Loss) before total adjustments associated with restructuring activities:				
Skin Care	$ 215.7	$ 179.0	$ 709.2	$ 758.6
Makeup	159.3	149.9	538.6	564.5
Fragrance	17.5	(1.9)	104.0	95.5
Hair Care	7.1	13.2	32.1	29.3
Other	(2.4)	1.6	(5.9)	(2.6)
	397.2	341.8	1,378.0	1,445.3
Reconciliation:				
Total adjustments associated with restructuring activities		(0.2)		2.1
Interest expense	(15.2)	(15.0)	(45.0)	(44.2)
Interest income and investment income, net	3.1	2.7	8.5	6.0
Earnings before income taxes	$ 385.1	$ 329.3	$ 1,341.5	$ 1,409.2
GEOGRAPHIC DATA				
Net Sales:				
The Americas	$ 1,109.9	$ 1,072.0	$ 3,426.1	$ 3,469.0
Europe, the Middle East & Africa	950.3	959.4	3,104.0	3,031.6
Asia/Pacific	520.3	518.4	1,725.9	1,742.8
	2,580.5	2,549.8	8,256.0	8,243.4
Adjustments associated with restructuring activities				0.1
Net Sales	$ 2,580.5	$ 2,549.8	$ 8,256.0	$ 8,243.5
Operating Income (Loss):				
The Americas	$ 109.6	$ 111.5	$ 287.8	$ 419.7
Europe, the Middle East & Africa	204.3	160.2	729.4	673.4
Asia/Pacific	83.3	70.1	360.8	352.2
	397.2	341.8	1,378.0	1,445.3
Total adjustments associated with restructuring activities		(0.2)		2.1

Operating Income	$ 397.2	$ 341.6	$ 1,378.0	$ 1,447.4

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

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 the three and nine months ended March 31, 2015 and 2014, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements *Summary of Significant Accounting Policies* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the other category.

	Three Months Ended March 31		Nine Months Ended March 31	
(In millions)	**2015**	**2014**	**2015**	**2014**
NET SALES				
By Region:				
The Americas	$ 1,109.9	$ 1,072.0	$ 3,426.1	$ 3,469.0
Europe, the Middle East & Africa	950.3	959.4	3,104.0	3,031.6
Asia/Pacific	520.3	518.4	1,725.9	1,742.8
	2,580.5	2,549.8	8,256.0	8,243.4
Adjustments associated with restructuring activities				0.1
Net Sales	$ 2,580.5	$ 2,549.8	$ 8,256.0	$ 8,243.5
By Product Category:				
Skin Care	$ 1,101.0	$ 1,132.1	$ 3,466.8	$ 3,564.4
Makeup	1,082.5	1,015.7	3,280.0	3,145.8
Fragrance	263.2	270.5	1,080.3	1,115.7
Hair Care	125.6	120.8	390.8	380.7
Other	8.2	10.7	38.1	36.8
	2,580.5	2,549.8	8,256.0	8,243.4
Adjustments associated with restructuring activities				0.1
Net Sales	$ 2,580.5	$ 2,549.8	$ 8,256.0	$ 8,243.5
OPERATING INCOME (LOSS)				
By Region:				
The Americas	$ 109.6	$ 111.5	$ 287.8	$ 419.7
Europe, the Middle East & Africa	204.3	160.2	729.4	673.4
Asia/Pacific	83.3	70.1	360.8	352.2
	397.2	341.8	1,378.0	1,445.3
Total adjustments associated with restructuring activities		(0.2)		2.1
Operating Income	$ 397.2	$ 341.6	$ 1,378.0	$ 1,447.4
By Product Category:				
Skin Care	$ 215.7	$ 179.0	$ 709.2	$ 758.6
Makeup	159.3	149.9	538.6	564.5
Fragrance	17.5	(1.9)	104.0	95.5

Hair Care	7.1	13.2	32.1	29.3
Other	(2.4)	1.6	(5.9)	(2.6)
	397.2	341.8	1,378.0	1,445.3
Total adjustments associated with restructuring activities		(0.2)		2.1
Operating Income	$ 397.2	$ 341.6	$ 1,378.0	$ 1,447.4

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	19.5	19.6	19.5	19.7
Gross profit	80.5	80.4	80.5	80.3
Operating expenses:				
Selling, general and administrative	65.1	67.0	63.8	62.7
Restructuring and other charges				
Total operating expenses	65.1	67.0	63.8	62.7
Operating income	15.4	13.4	16.7	17.6
Interest expense	0.6	0.6	0.5	0.5
Interest income and investment income, net	0.1	0.1	0.1	
Earnings before income taxes	14.9	12.9	16.3	17.1
Provision for income taxes	4.3	4.5	4.9	5.6
Net earnings	10.6	8.4	11.4	11.5
Net earnings attributable to noncontrolling interests			(0.1)	
Net earnings attributable to The Estée Lauder Companies Inc.	10.6%	8.4%	11.3%	11.5%

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.

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 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 that the best way to continue to increase stockholder value is to provide our customers and consumers with the products and services that they have come to expect from us in the most efficient and profitable manner while recognizing consumers changing shopping habits. To be the global leader in prestige beauty, we are guided by our long-term strategy through fiscal 2017, which has numerous initiatives across geographic regions, channels of distribution, product categories, brands and functions that are designed to grow our sales, leverage our strengths and make us more productive.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

We have a strong, diverse and highly valuable brand portfolio with global reach and potential. We are building upon and leveraging our history of outstanding creativity, innovation and entrepreneurship. We have expanded our distinctive High-Touch service model and look for ways to further evolve it within our channels of distribution and geographic regions to deliver superior retailing experiences across our brands. Globally, we are renewing and strengthening our presence within department stores by evolving the consumer experience through engaging services and promotional activities. We are also furthering our efforts to grow our business in the freestanding retail store, specialty multi-brand retailer and prestige salon channels. The travel retail channel remains an important source of sales growth and profitability. Our business in this channel has benefited from our programs that target consumers in distinct travel corridors, enhance consumers experiences and convert travelers into purchasers. We are increasing brand awareness and sales by expanding our digital presence encompassing e-commerce and m-commerce, as well as digital and social media. We have opportunities remaining to expand the portfolio online around the world and we are in the early stages of developing our omnichannel concept to better serve consumers as they shop across channels.

We are strategically positioning ourselves to capitalize on opportunities in fast growing areas in prestige beauty. Skin care, our most profitable product category, remains a strategic priority for us, demonstrated by the recent launches of Re-Nutriv Ultimate Diamond products from Estée Lauder, the Clinique Sonic System Purifying Cleansing Brush and Clinique Smart custom-repair serum, as well as La Mer s entrance into the skin care mask sub-category and our recent acquisitions of RODIN olio lusso and GLAMGLOW. Our focus on luxury consumers across all product categories has resulted in increased net sales of our luxury brands through both new product launches and expanded distribution. We also continue to build our makeup leadership through the introduction of new product offerings, including new collections from our makeup artist brands, Pure Color Envy sculpting lipstick and sculpting eye shadow palette from Estée Lauder, and Beyond Perfecting foundation and concealer and Chubby Stick sculpting products from Clinique. Our fragrance category has benefited from new launches, expanded distribution from our luxury fragrance brands and our recent acquisitions of Le Labo and Editions de Parfums Frédéric Malle. In addition, we are expanding our hair care brands both in salons and in other retail channels. To complement the strategies in our existing business, we are continuously looking to acquire and incubate smaller brands that have growth potential, which may provide unique opportunities for profitable growth in the future.

Our global footprint provides us many avenues of growth, enabling us to quickly utilize our strengths to capture opportunities around the world by leveraging our regional organization and to align the talents and expertise of our people in an effort to assure that we are locally relevant with our products, services, channels, marketing and visual merchandising. We are strengthening our geographic presence by seeking share growth in large, image-building cities within core markets such as the United States, the United Kingdom, France, Italy and Japan. In addition, we continue to expand our presence and accelerate share growth in emerging markets such as China, the Middle East, Eastern Europe, Brazil and South Africa and focus on consumers who purchase in the travel retail channel, in stores at their travel destinations or when they return to their home market. We are expanding our digital presence in international markets, which has resulted in net sales growth in the online channel. We are applying what we have learned from our digital strategy in North America to other areas such as in China, where digital sales are reshaping the retail landscape. In North America, we are expanding our presence within other channels, such as specialty multi-brand retailers and freestanding retail stores. Internationally, we are growing in European perfumeries and pharmacies, and in department stores, particularly in Asia and the United Kingdom.

While our business is performing well overall, we continue to see competitive pressures and economic challenges in certain countries around the world. We remain cautious of a slower retail growth in Hong Kong and China, a decline in the spending by Russian and Brazilian travelers, and unfavorable foreign exchange due to the strength of the U.S. dollar in relation to most currencies. Additionally, the ongoing political protests in Hong Kong are negatively impacting our business, and we are monitoring the effects of economic instability in Russia.

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

Investment in our global information systems is ongoing. 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.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

We rolled out the last major wave of our Strategic Modernization Initiative (SMI) in July 2014 in certain of our remaining locations. As a result, 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 impact on net sales and operating results by product category and geographic region is as follows:

	Nine Months Ended March 31, 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

These actions created a difficult comparison between the nine months ended March 31, 2015 and the nine months ended March 31, 2014 of approximately $178 million in net sales and approximately $127 million in operating results and adversely impacted our operating margin comparisons. We believe 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. The shift in sales orders will similarly affect the comparison of results between the fiscal 2015 and fiscal 2014 fourth quarter and full year.

With our July 2014 rollout of SMI, most of our locations are SAP-enabled. We plan to continue the implementation of SAP at our remaining locations throughout the next few fiscal years.

Third Quarter Fiscal 2015 as Compared with Third Quarter Fiscal 2014

NET SALES

Net sales increased 1%, or $30.7 million, to $2,580.5 million. This includes the negative impact of foreign currency translation of approximately $184 million. Higher net sales in makeup and hair care were partially offset by a decline in net sales in skin care and fragrance. Geographically, higher net sales in the Americas and Asia/Pacific were partially offset by lower net sales in Europe, the Middle East & Africa.

Our makeup artist and luxury brands continued to benefit from expanded distribution and new product launches. In addition, we are experiencing solid growth in certain channels such as specialty-multi, online and freestanding stores, and from expansion in emerging markets. However, net sales from certain of our heritage brands have been challenged in all of our product categories and reflect a difficult comparison to the prior-year period, which featured significant launch activity related to the reformulation of certain iconic skin care products and several significant fragrance launches. Excluding the impact of foreign currency translation, net sales increased 8%.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Product Categories

Skin Care

Net sales of skin care products decreased 3%, or $31.1 million, to $1,101.0 million. The decrease was entirely driven by the negative impact of foreign currency translation of approximately $78 million. The decrease, inclusive of foreign currency translation, reflected approximately $95 million of lower sales of certain existing Advanced Night Repair and Re-Nutriv products from Estée Lauder, and certain products in Clinique s 3-Step Skin Care System and in the Repairwear line of products from Clinique, certain of which were recent launches in the prior-year period. These decreases were partially offset by incremental sales from the recent launches of Advanced Night Repair Eye Synchronized Complex II and Re-Nutriv Ultimate Diamond products from Estée Lauder, and Clinique Smart custom-repair serum of approximately $69 million, combined. Excluding the impact of foreign currency translation, skin care net sales increased 4%.

Makeup

Makeup net sales increased 7%, or $66.8 million, to $1,082.5 million, primarily reflecting higher net sales from our makeup artist brands and the recent launch of Beyond Perfecting foundation and concealer from Clinique of approximately $95 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. Partially offsetting these increases were lower sales of certain other Clinique makeup products, as well as certain Pure Color products from Estée Lauder of approximately $26 million, combined. Excluding the impact of foreign currency translation, makeup net sales increased 14%.

Fragrance

Net sales of fragrance products decreased 3%, or $7.3 million, to $263.2 million. The decrease was entirely driven by the negative impact of foreign currency translation of approximately $25 million. The decrease, inclusive of foreign currency translation, primarily reflected lower sales of certain designer fragrances, as well as certain fragrances from Estée Lauder and Clinique of approximately $28 million, combined. These decreases were partially offset by higher sales of Jo Malone London and Tom Ford fragrances of approximately $23 million, combined. Excluding the impact of foreign currency translation, fragrance net sales increased 7%.

Hair Care

Hair care net sales increased 4%, or $4.8 million, to $125.6 million, reflecting expanded global distribution of Aveda products primarily in salons and freestanding stores, and Bumble and bumble products in specialty multi-brand retailers and salons. The category also benefited from the recent launches 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 $5 million to the increase, combined. Partially offsetting these increases were lower sales of the Dry Remedy and Invati lines of products from Aveda of approximately $4 million, combined. Excluding the impact of foreign currency translation, hair care net sales increased 10%.

Geographic Regions

Net sales in the Americas increased 4%, or $37.9 million, to $1,109.9 million. Net sales in the United States increased approximately $40 million, primarily reflecting increases from our makeup artist brands, luxury brands, hair care brands and Smashbox, partially offset by decreases from our heritage brands. Net sales in Latin America increased approximately $1 million, primarily due to higher net sales in Brazil and Chile, which were partially offset by lower net sales in Venezuela. These increases were partially offset by lower sales in Canada of approximately $4 million due to the impact of foreign currency translation. Excluding the impact of foreign currency translation, net sales in the Americas increased 8%.

In Europe, the Middle East & Africa, net sales decreased 1%, or $9.1 million, to $950.3 million, driven by approximately $108 million of unfavorable foreign currency translation due to the strength of the U.S. dollar in relation to most currencies in the region. This led to lower sales in Germany, Italy, Iberia, Nordic, Russia and Benelux of approximately $33 million, combined. Partially offsetting these foreign currency driven decreases were higher sales in the Middle East and the United Kingdom of approximately $24 million, combined. Higher sales in the Middle East were primarily driven by our makeup artist brands and certain of our heritage brands as a result of new product introductions and expanded distribution. The higher sales in the United Kingdom were primarily driven by our makeup artist and luxury brands. Excluding the impact of foreign currency translation, Europe, the Middle East & Africa net sales increased 10%.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Net sales in Asia/Pacific increased less than 1%, or $1.9 million, to $520.3 million, primarily reflecting higher sales in China, Taiwan and Thailand of approximately $23 million, combined. The higher net sales in China were primarily due to increased sales from certain of our heritage brands as a result of expanded distribution, new product introductions and Chinese New Year promotions. The increase in Taiwan was due to higher sales from certain of our heritage and luxury brands. The increased sales in Thailand were a result of expanded distribution. These increases were partially offset by lower net sales in Japan, Hong Kong and Singapore of approximately $22 million, combined. The lower sales in Japan were driven by an unfavorable comparison to the prior-year period when there was an increase in sales in anticipation of an impending value-added tax increase in the country. The decline in Hong Kong net sales reflected a decrease in Chinese traveling consumers as a result of ongoing political protests. As a result, we continue to be cautious of slower retail growth in the country in the near term. The decline in Singapore was primarily due to lower sales from our heritage brands. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 5%.

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

COST OF SALES

Cost of sales as a percentage of total net sales decreased to 19.5% as compared with 19.6% in the prior-year period. This improvement reflected favorable changes in foreign exchange transactions of approximately 20 basis points, partially offset by an increase in obsolescence charges of approximately 10 basis points.

Since certain promotional activities are a component of sales or cost of sales and the timing and level of promotions vary with our promotional calendar, we have experienced, and expect to continue to experience, fluctuations in the cost of sales percentage. In addition, future cost of sales mix may be impacted by the inclusion of potential new brands or channels of distribution which have margin and product cost structures different from those of our current mix of business.

OPERATING EXPENSES

Operating expenses as a percentage of net sales decreased to 65.1% as compared with 67.0% in the prior-year period. This decrease reflected lower charges related to the remeasurement of net monetary assets in Venezuela of approximately 130 basis points, lower selling and shipping costs of approximately 80 basis points and favorable changes in foreign exchange transactions of approximately 60 basis points. Also contributing to this decrease was lower spending on advertising, merchandising and sampling as a percentage of net sales of approximately 40 basis points, due in part to the lower impact of launch activity as compared with the prior-year period and the reallocation of spending among media formats. Partially offsetting this decrease were higher general and administrative expenses of approximately 50 basis points as a result of higher support spending behind capability-building initiatives, such as information technology, as well as for acquisition-related fees. Also offsetting this decrease were higher store operation costs driven by freestanding retail store expansion of approximately 40 basis points and higher costs associated with stock-based compensation of approximately 10 basis points.

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

Operating income increased 16%, or $55.6 million, to $397.2 million including the negative impact of foreign currency translation of approximately $55 million. Operating margin increased to 15.4% of net sales as compared with 13.4% in the prior-year period, reflecting a decrease in our operating expense margin, as well as our higher gross margin. The increased operating margin reflected improved results from all of our product categories with the exception of hair care. While certain operating expenses have increased as a percentage of net sales during the current period, we have been able to implement certain cost containment measures to mitigate the impact.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Product Categories

Skin care operating income increased 21%, or $36.7 million, to $215.7 million, primarily reflecting a decrease in advertising, merchandising and sampling spending due to a favorable comparison with the prior-year period, which featured significant launch activity related to the reformulation of certain iconic products, partially offset by lower sales from certain of our heritage brands. Makeup operating income increased 6%, or $9.4 million, to $159.3 million, primarily reflecting improved results from our makeup artist brands, partially offset by lower results from certain of our heritage brands. Fragrance operating income increased over 100%, or $19.4 million, to $17.5 million, reflecting a decrease in advertising, merchandising and sampling spending from certain designer fragrances due to a favorable comparison with the prior-year period, which featured significant launch activity. Also contributing to these higher results were increased net sales from our luxury fragrance brands as a result of new product launches and expanded distribution. Hair care operating results decreased 46%, or $6.1 million, to $7.1 million, primarily reflecting a higher level of investment spending to support the Smooth Infusion line of products from Aveda, as well as increased store operation costs driven by freestanding store expansion.

Geographic Regions

Operating income in the Americas decreased 2%, or $1.9 million, to $109.6 million, primarily reflecting higher general and administrative costs, which includes acquisition-related fees, as well as the impact of the decrease in net sales from our heritage brands. This decrease was partially offset by higher results from our makeup artist brands and certain of our hair care and luxury brands, lower charges related to the remeasurement of net monetary assets in Venezuela, as well as lower advertising, merchandising and sampling spending by certain of our heritage brands.

In Europe, the Middle East & Africa, operating income increased 28%, or $44.1 million, to $204.3 million. Higher results in our travel retail business, the Middle East, France and Iberia totaled approximately $34 million, combined, partially offset by lower operating results in Nordic and South Africa of approximately $4 million, combined. Higher results in our travel retail business primarily reflected increased sales from certain of our luxury and makeup artist brands, as well as a reduction in selling expenses. The improved operating results in France reflected higher sales from certain of our makeup artist brands. Higher results in Iberia were primarily due to improved results from certain of our makeup artist and heritage brands.

In Asia/Pacific, operating income increased 19%, or $13.2 million, to $83.3 million. Higher results in China, Taiwan, and Korea totaled approximately $15 million, combined. The higher results in Korea were primarily due to decreased spending on advertising, merchandising and sampling. These higher results were partially offset by lower operating results in Singapore and Japan of approximately $5 million, combined.

INTEREST EXPENSE

Interest expense increased to $15.2 million as compared with $15.0 million in the prior-year period, primarily due to interest expense on commercial paper.

INTEREST INCOME AND INVESTMENT INCOME, NET

Interest and investment income, net increased to $3.1 million as compared with $2.7 million in the prior-year period, primarily due to higher investment income as a result of an increase in short-term and long-term investment balances and higher interest rates.

PROVISION FOR INCOME TAXES

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.

The effective rate for income taxes was 29.2% and 35.1% for the three months ended March 31, 2015 and 2014, respectively. The decrease in the effective income tax rate was primarily attributable to a reduction in the effective tax rate on the Company s foreign operations, partially offset by an increase in income tax reserve adjustments. Contributing to a higher effective tax rate in the prior-year period was the impact of the Venezuelan remeasurement charge for which no tax benefit was provided.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period increased 28%, or $58.9 million, to $272.1 million and diluted net earnings per common share increased 30% from $.54 to $.71.

Nine Months Fiscal 2015 as Compared with Nine Months Fiscal 2014

NET SALES

Net sales increased less than 1%, or $12.5 million, to $8,256.0 million. This includes the negative impact of foreign currency translation of approximately $326 million. Higher net sales in our makeup and hair care product categories were partially offset by declines in our skin care and fragrance product categories. Geographically, higher net sales in Europe, the Middle East & Africa were partially offset by lower net sales in the Americas and Asia/Pacific. Our makeup artist and luxury brands continued to benefit from expanded distribution and new product launches. In addition, we are experiencing solid growth in certain channels such as specialty-multi, online and freestanding stores, as well as expansion in emerging markets. However, net sales from certain of our heritage brands have been challenged in all of our product categories and reflect a difficult comparison to the prior-year period, which featured significant launch activity related to the reformulation of certain iconic skin care products and several significant fragrance launches. Excluding the impact of foreign currency translation, net sales increased 4%, with growth in each of our product categories and geographic regions.

In advance of our July 2014 implementation of SMI at certain of our locations and to provide adequate safety stock to mitigate any potential short-term business interruption associated with the rollout, certain of our retailers accelerated their orders during the fiscal 2014 fourth quarter. Those additional orders, which totaled approximately $178 million, would have occurred in our fiscal 2015 first quarter and created a difficult comparison to the prior-year period. Adjusting for the impact of the accelerated orders, reported net sales would have increased 2%, with growth in our makeup and hair care product categories, and in each of our geographic regions.

Product Categories

The overall change in net sales in each product category was negatively impacted as a result of the accelerated orders into the fiscal 2014 fourth quarter from certain of our retailers due to our implementation of SMI as follows: skin care, approximately $91 million; makeup, approximately $65 million; fragrance, approximately $21 million; and hair care, approximately $1 million.

Skin Care

Net sales of skin care products decreased 3%, or $97.6 million, to $3,466.8 million. This decrease was entirely driven by the negative impact of foreign currency translation of approximately $136 million. Skin care net sales from certain of our heritage brands reflected a difficult comparison with the prior-year period, which featured significant launch activity related to the reformulation of certain iconic products, and were also particularly impacted by the accelerated orders. The decrease reflects lower sales of certain existing Advanced Night Repair products from Estée Lauder, and Dramatically Different Moisturizing Lotion+ and Even Better Clinical Dark Spot Corrector from Clinique of approximately $316 million, combined. These decreases were partially offset by the recent launches of Advanced Night Repair Eye Synchronized Complex II and Re-Nutriv Ultimate Diamond products from Estée Lauder, and Clinique Smart custom-repair serum, resulting in approximately $248 million of incremental sales, combined. Excluding the impact of foreign currency translation, skin care net sales increased 1%. Adjusting for the impact of the accelerated orders, reported net sales in skin care would have decreased less than 1%.

Makeup

Makeup net sales increased 4%, or $134.2 million, to $3,280.0 million, primarily reflecting higher net sales from our makeup artist brands and the recent launch of Perfectionist Youth Infusing Makeup from Estée Lauder of approximately $232 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. Partially offsetting these increases were lower sales of All About Shadow from Clinique, which was a new launch in the prior-year period, and certain other existing Clinique products, as well as certain Pure Color products from Estée Lauder of approximately $126 million, combined. Excluding the impact of foreign currency translation, makeup net sales increased 8%. Adjusting for the impact of the accelerated orders, reported net sales in makeup would have increased 6%.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Fragrance

Net sales of fragrance products decreased 3%, or $35.4 million, to $1,080.3 million. This decrease was entirely driven by the negative impact of foreign currency translation of approximately $46 million. The decrease, inclusive of foreign currency translation, primarily reflected lower sales of certain Estée Lauder fragrances, including Estée Lauder Modern Muse, which was a new launch in the prior-year period, as well as certain Coach and Tommy Hilfiger fragrances and DKNY Be Delicious for Women of approximately $102 million, combined. Partially offsetting these lower net sales were the recent launches of DKNY MYNY, Estée Lauder Modern Muse Chic, Jo Malone London Wood, Sage & Sea Salt and Tom Ford Velvet Orchid which contributed approximately $73 million of incremental sales to the category, combined. Excluding the impact of foreign currency translation, fragrance net sales increased 1%. Adjusting for the impact of the accelerated orders, reported net sales in fragrance would have decreased 1%.

Hair Care

Hair care net sales increased 3%, or $10.1 million, to $390.8 million, reflecting expanded global distribution of Aveda products in department stores, freestanding retail stores and in the travel retail channel, and Bumble and bumble products in specialty multi-brand retailers. The category also benefited from the recent launch 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 $10 million to the increase, combined. Partially offsetting these increases were lower sales of the Invati line of products and Dry Remedy shampoo from Aveda of approximately $4 million, combined. Excluding the impact of foreign currency translation, hair care net sales increased 6%. The impact of the accelerated orders on reported net sales was de minimis.

Geographic Regions

The overall change in net sales 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: Americas, approximately $84 million; Europe, the Middle East & Africa, approximately $68 million; and Asia/Pacific, approximately $26 million.

Net sales in the Americas decreased 1%, or $42.9 million, to $3,426.1 million. Net sales in the United States and Canada decreased approximately $34 million, combined, primarily due to lower net sales from our heritage brands, driven by the impact of the accelerated orders and a difficult comparison with the prior-year period, 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 $9 million, primarily reflecting lower net sales in Venezuela, partially offset by higher net sales in Brazil. Excluding the impact of foreign currency translation, net sales in the Americas increased 2%. Adjusting for the impact of the accelerated orders, reported net sales in the Americas would have increased 1%.

In Europe, the Middle East & Africa, net sales increased 2%, or $72.4 million, to $3,104.0 million, reflecting higher sales in most countries in the region, led by the United Kingdom and the Middle East of approximately $118 million, combined. The higher sales in the United Kingdom were primarily driven by our makeup artist and luxury brands. Higher sales in the Middle East were primarily driven by certain of our heritage and makeup artist brands as a result of new product introductions and expanded distribution. These increases were partially offset by lower net sales in our travel retail business and Germany of approximately $51 million, combined. The lower sales in our travel retail business were primarily due to the impact of the accelerated orders. The decrease in sales in Germany was primarily driven by the weakening of the Euro against the U.S. dollar. Excluding the impact of foreign currency translation, Europe, the Middle East & Africa net sales increased 8%. Adjusting for the impact of the accelerated orders, reported net sales in Europe, the Middle East & Africa would have increased 5%.

Net sales in Asia/Pacific decreased 1%, or $16.9 million, to $1,725.9 million, primarily reflecting lower sales in Japan, due to the accelerated orders, and Singapore of approximately $56 million, combined. The lower net sales in Singapore were primarily due to certain of our heritage brands. These decreases were partially offset by higher net sales in China, Australia and Korea of approximately $38 million, combined. The higher net sales in China were primarily due to increased sales from certain of our heritage and makeup artist brands as a result of expanded distribution, new product introductions and Chinese New Year promotions. The increased sales in Australia and Korea reflected higher net sales from certain of our makeup artist and luxury brands. In Hong Kong, we are cautious of slower retail growth in the near term and our business is being negatively impacted by the ongoing political protests. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 2%. Adjusting for the impact of the accelerated orders, reported net sales in Asia/Pacific would have increased 1%.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

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

COST OF SALES

Cost of sales as a percentage of total net sales decreased to 19.5% as compared with 19.7% in the prior-year period. This improvement reflected favorable changes in foreign exchange transactions of approximately 20 basis points and the favorable impact of manufacturing variances of approximately 10 basis points, partially offset by an increase in obsolescence charges of approximately 10 basis points.

Since certain promotional activities are a component of sales or cost of sales and the timing and level of promotions vary with our promotional calendar, we have experienced, and expect to continue to experience, fluctuations in the cost of sales percentage. In addition, future cost of sales mix may be impacted by the inclusion of potential new brands or channels of distribution which have margin and product cost structures different from those of our current mix of business.

OPERATING EXPENSES

Operating expenses as a percentage of net sales increased to 63.8% as compared with 62.7% in the prior-year period. As a percentage of net sales, this increase primarily reflected an increase in general and administrative expenses of approximately 100 basis points as a result of higher support spending behind capability-building initiatives, such as information technology, as well as for acquisition-related fees. This increase also reflected higher store operation costs driven by freestanding retail store expansion of approximately 50 basis points, and higher selling and shipping costs of approximately 20 basis points. Also contributing to this increase were higher costs associated with stock-based compensation of approximately 10 basis points. Partially offsetting these increases were lower charges related to the remeasurement of net monetary assets in Venezuela of approximately 40 basis points, a decrease in spending on advertising, merchandising and sampling of approximately 30 basis points and favorable changes in foreign exchange transactions of approximately 10 basis points. Adjusting for the impact of the accelerated orders into the fiscal 2014 fourth quarter, operating expenses as a percentage of net sales would have decreased approximately 10 basis points, primarily reflecting lower spending on advertising, merchandising and sampling and lower charges related to the remeasurement of net monetary assets in Venezuela, offset by an increase in general and administrative expenses, and higher store operation costs.

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

Operating income decreased 5%, or $69.4 million, to $1,378.0 million, driven by the negative impact of foreign currency translation of approximately $93 million. Operating margin decreased to16.7% of net sales as compared with 17.6% in the prior-year period, reflecting an increase in our operating expense margin, partially offset by our higher gross margin. Our skin care and makeup 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, luxury and hair care brands. While certain operating expenses have increased as a percentage of net sales during the current period, we have been able to implement cost containment measures to mitigate the impact. The overall operating results were impacted by approximately $127 million related to the accelerated orders into the fiscal 2014 fourth quarter from certain of our retailers, which created a difficult comparison to the prior-year period. Adjusting for the impact of the accelerated orders, operating income would have increased 4% and operating margin would have increased 30 basis points.

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: skin care, approximately $72 million; makeup, approximately $41 million; fragrance, approximately $14 million; and the impact on hair care was de minimis.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Skin care operating income decreased 7%, or $49.4 million, to $709.2 million, primarily reflecting the impact of the accelerated orders, partially offset by a decrease in advertising, merchandising and sampling spending from certain of our heritage brands due to a difficult comparison with the prior-year period, which featured significant launch activity related to the reformulation of certain iconic products. Makeup operating income decreased 5%, or $25.9 million, to $538.6 million, primarily reflecting lower results from our heritage brands due to lower net sales that were impacted by the accelerated orders, as well as increased advertising, merchandising and sampling spending behind recent product launches, partially offset by improved results from our makeup artist brands. Fragrance operating income increased 9%, or $8.5 million, to $104.0 million, reflecting increased net sales from our luxury fragrance brands as a result of new product launches and expanded distribution. This operating income improvement also reflected a decrease in advertising, merchandising and sampling spending from certain designer fragrances due to a favorable comparison with the prior-year period, which featured significant launch activity. Hair care operating results increased 10%, or $2.8 million, to $32.1 million, 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 the prior-year period to support the Invati line of products. Adjusting for the impact of the accelerated orders, skin care, makeup, fragrance and hair care operating results would have increased 3%, 3%, 23% and 10%, respectively.

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: Americas, approximately $53 million; Europe, the Middle East & Africa, approximately $53 million; and Asia/Pacific, approximately $21 million.

Operating income in the Americas decreased 31%, or $131.9 million, to $287.8 million, primarily reflecting the decrease in net sales from our heritage brands in the United States and Canada driven by the impact of the accelerated orders and a difficult comparison with the prior-year period, which featured significant launch activity related to the reformulation of certain iconic products, as well as higher general and administrative expenses, which include acquisition-related fees. This decrease was partially offset by lower advertising, merchandising and sampling spending by our heritage brands due to a favorable comparison with the prior-year period, which featured significant launch activity, and higher results in Latin America primarily driven by lower charges related to the remeasurement of net monetary assets in Venezuela. Adjusting for the impact of the accelerated orders, operating income in the Americas would have decreased 19%.

In Europe, the Middle East & Africa, operating income increased 8%, or $56.0 million, to $729.4 million. Higher operating results in the United Kingdom, the Middle East, France, Iberia and Russia of approximately $81 million, combined, were partially offset by lower results in our travel retail business, primarily due to the accelerated orders, and, to a lesser extent, the Balkans of approximately $40 million, combined. The higher results in France and Russia were primarily due to an increase in net sales. Improved results in Iberia were primarily driven by a decrease in advertising, merchandising and sampling spending. Adjusting for the impact of the accelerated orders, operating income in Europe, the Middle East & Africa would have increased 16%.

In Asia/Pacific, operating income increased 2%, or $8.6 million, to $360.8 million. Higher results in China, Korea, Australia, Taiwan and Thailand totaled approximately $24 million, combined. The higher results in Taiwan and Thailand were primarily due to an increase in net sales. These higher results were partially offset by lower results in Japan, due to the accelerated orders, and Hong Kong of approximately $17 million, combined. The lower results in Hong Kong were primarily due to lower net sales. Adjusting for the impact of the accelerated orders, operating income in Asia/Pacific would have increased 8%.

INTEREST EXPENSE

Interest expense increased to $45.0 million as compared with $44.2 million in the prior-year period, primarily due to interest expense on commercial paper.

INTEREST INCOME AND INVESTMENT INCOME, NET

Interest and investment income, net increased to $8.5 million as compared with $6.0 million in the prior-year period, primarily due to higher investment income as a result of an increase in short-term and long-term investment balances and higher interest rates.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

PROVISION FOR INCOME TAXES

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.

The effective rate for income taxes was 30.0% and 32.5% for the nine months ended March 31, 2015 and 2014, respectively. The decrease in the effective income tax rate was primarily attributable to a reduction in the effective tax rate on the Company s foreign operations, partially offset by an increase in income tax reserve adjustments. Contributing to a higher effective tax rate in the prior-year period was the impact of the Venezuelan remeasurement charge for which no tax benefit was provided.

NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period decreased 1%, or $10.5 million, to $935.9 million and diluted net earnings per common share increased 1% from $2.40 to $2.42.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

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 and the Venezuela remeasurement charges. The tables provide reconciliations between these non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

($ in millions)	Nine Months Ended March 31 2015	2014	Variance	% Change	% Change in Constant Currency
Net Sales, as reported	$ 8,256.0	$ 8,243.5	$ 12.5	0%	4%
Accelerated orders associated with SMI rollout	178.3		178.3		
Net Sales, as adjusted	$ 8,434.3	$ 8,243.5	$ 190.8	2%	6%

($ in millions)	Nine Months Ended March 31 2015	2014	Variance	% Change
Operating Income, as reported	$ 1,378.0	$ 1,447.4	$ (69.4)	(5)%
Accelerated orders associated with SMI rollout	127.2		127.2	
Venezuela remeasurement charge	5.3	38.3	(33.0)	
Operating Income, as adjusted	$ 1,510.5	$ 1,485.7	$ 24.8	2%

	Nine Months Ended March 31 2015	2014	Variance	% Change
Diluted net earnings per common share, as reported	$ 2.42	$ 2.40	$ 0.02	1%
Accelerated orders associated with SMI rollout	0.21		0.21	
Venezuela remeasurement charge	0.01	0.10	(0.08)	
Diluted net earnings per common share, as adjusted(1)	$ 2.65	$ 2.50	$ 0.15	6%

(1) Not adjusted for differences caused by rounding

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

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 March 31, 2015, we had cash and cash equivalents of $1,288.3 million compared with $1,629.1 million at June 30, 2014. 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 perform ongoing evaluations of these institutions to limit our concentration risk exposure.

The decline in cash balances reflects the change in our cash investment strategy, that we implemented in the fiscal 2015 second quarter, to invest a portion of our cash and cash equivalents in short- and long-term investments. 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 $524.4 million at March 31, 2015.

During fiscal 2015, we acquired Le Labo, a fragrance brand, RODIN olio lusso, a skin care brand, Editions de Parfums Frédéric Malle, a fragrance brand, and GLAMGLOW, a skin care brand. The purchase price related to each of these acquisitions includes cash paid at closing plus additional amounts to be paid in the future, a portion of which is contingent on the achievement of certain future operating results. The amounts paid at closing, amounting to $237.2 million, were funded by cash on hand and through the issuance of commercial paper. We expect to pay the additional amounts during fiscal 2018 through fiscal 2020, except for working capital adjustments that we expect to settle during fiscal 2015. The aggregate acquisition-date fair value of these transactions was approximately $445 million.

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, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents balance at March 31, 2015 includes cash 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 April 28, 2015, 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.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Debt

At March 31, 2015, our outstanding borrowings were as follows:

($ in millions)	Long-term Debt	Current Debt	Total Debt
3.70% Senior Notes, due August 15, 2042 (2042 Senior Notes(1)), (6)	$ 249.0	$	$ 249.0
6.00% Senior Notes, due May 15, 2037 (2037 Senior Notes) (2), (6)	296.6		296.6
5.75% Senior Notes, due October 15, 2033 (2033 Senior Notes(3))	197.9		197.9
2.35% Senior Notes, due August 15, 2022 (2022 Senior Notes) (4), (6)	249.8		249.8
5.55% Senior Notes, due May 15, 2017 (2017 Senior Notes(5)), (6)	315.7		315.7
Commercial paper that matured through April 2015 (0.15% average interest rate)		115.0	115.0
Other borrowings	8.5	20.3	28.8
	$ 1,317.5	$ 135.3	$ 1,452.8

(1) Consists of $250.0 million principal and unamortized debt discount of $1.0 million.

(2) Consists of $300.0 million principal and unamortized debt discount of $3.4 million.

(3) Consists of $200.0 million principal and unamortized debt discount of $2.1 million.

(4) Consists of $250.0 million principal and unamortized debt discount of $0.2 million.

(5) Consists of $300.0 million principal, unamortized debt discount of $0.1 million and a $15.8 million adjustment to reflect the termination value of interest rate swaps.

(6) The Senior Notes contain certain customary incurrence based covenants, including limitations on indebtedness secured by liens.

We have a $1.0 billion commercial paper program under which we may issue commercial paper in the United States. As of March 31, 2015, we had $115.0 million of commercial paper outstanding, which we may refinance on a periodic basis as it matures at then-prevailing market interest rates. At April 28, 2015, we had $200.0 million of commercial paper outstanding.

We have a $1.0 billion senior unsecured revolving credit facility that expires on July 15, 2019, unless extended for up to two additional years in accordance with the terms set forth in the agreement (the Facility). At March 31, 2015, no borrowings were outstanding under the Facility. The Facility may be used for general corporate purposes. 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. We incurred costs of approximately $1.0 million to establish the Facility, which

costs are being amortized over the term of the Facility. The Facility has an annual fee of $0.6 million, payable quarterly, based on our 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.

Total debt as a percent of total capitalization (excluding noncontrolling interests) was 27% at March 31, 2015 and 26% at June 30, 2014.

Cash Flows

Net cash provided by operating activities was $1,385.0 million during the nine months ended March 31, 2015 as compared with $1,169.4 million in the prior-year period. The improvement in cash flows provided by operating activities primarily reflected a favorable change in inventory, reflecting our initiative to better align supply levels with forecasted demand, and other supply chain improvements, as well as a favorable change in accounts receivable reflecting the timing of shipments and improved collections, as well as the accelerated orders in fiscal 2014 in connection with our July 2014 SMI implementation. The improvement was partially offset by an unfavorable change in other liabilities due to higher payments related to employee compensation, and a change in accrued income taxes due to the timing and level of payments.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Net cash used for investing activities was $1,032.2 million during the nine months ended March 31, 2015 as compared with $344.2 million in the prior-year period. The increase 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 Le Labo, RODIN olio lusso, Editions de Parfums Frédéric Malle and GLAMGLOW. Partially offsetting cash used for investing activities were proceeds from the disposition of investments and lower capital expenditure activity, primarily related to counters.

Net cash used for financing activities was $654.4 million during the nine months ended March 31, 2015 as compared with $744.7 million in the prior-year period. The change primarily reflected the issuance of commercial paper in connection with the recent acquisitions, partially offset by higher dividend payments and an increase in treasury stock purchases.

Dividends

For a summary of quarterly cash dividends declared per share on our Class A and Class B Common Stock during the nine months ended March 31, 2015, see Notes to Consolidated Financial Statements, Note 11 *Equity*.

Pension and Post-retirement Plan Funding

We disclosed in our consolidated financial statements for the fiscal year ended June 30, 2014 that we did not expect to make cash contributions to our domestic trust based, noncontributory qualified defined benefit pension plan (U.S. Qualified Plan) during the fiscal year ending June 30, 2015. As part of our ongoing review of funded levels, we made a discretionary contribution of $25.0 million to the U.S. Qualified Plan in April 2015.

Commitments, Contractual Obligations and Contingencies

There have been no significant changes to our commitments and contractual obligations as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014. For a discussion of contingencies, see Notes to Consolidated Financial Statements, Note 8 *Contingencies*.

Derivative Financial Instruments and Hedging Activities

There have been no significant changes to our derivative financial instruments and hedging activities as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Foreign Exchange Risk Management

For a discussion of foreign exchange risk management, see Notes to Consolidated Financial Statements, Note 5 *Derivative Financial Instruments (Foreign Currency Cash-Flow Hedges).*

Credit Risk

For a discussion of credit risk, see Notes to Consolidated Financial Statements, Note 5 *Derivative Financial Instruments (Credit Risk).*

Market Risk

Using the value-at-risk model, as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, the high, low and average measured value-at-risk for the twelve months ended March 31, 2015 related to our foreign exchange contracts are as follows:

(In millions)	**High**	**Low**	**Average**
Foreign exchange contracts	$ 28.6	$ 7.4	$ 17.4

The change in the value-at-risk measures from June 30, 2014 related to our foreign exchange contracts reflected an increase in foreign exchange volatilities and a different portfolio mix. We believe that any resulting 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.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

CRITICAL ACCOUNTING POLICIES

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. 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. Since June 30, 2014, there have been no significant changes to the assumptions and estimates related to our critical accounting policies.

RECENTLY ISSUED ACCOUNTING STANDARDS

For a discussion regarding the impact of accounting standards that were recently issued but not yet effective, on the Company s consolidated financial statements, see Notes to Consolidated Financial Statements, Note 1 *Summary of Significant Accounting Policies*.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

We and our representatives from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission, in our press releases and in our reports to stockholders. The words and phrases will likely result, expect, believe, planned, may, should, could, anticipate, estimate, project, intend, forecast or similar expressions a forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, 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, without limitation:

(1) increased competitive activity from companies in the skin care, makeup, fragrance and hair care businesses, some of which have greater resources than we do;

(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;

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

(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 SAP as part of our Strategic Modernization Initiative, other information technology initiatives, or by restructurings;

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

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

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

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

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

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

(18) additional factors as described in our filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

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

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

The information required by this item is set forth in Item 2 of this Quarterly Report on Form 10-Q under the caption Liquidity and Capital Resources - Market Risk and is incorporated herein by reference.

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Item 4. ***Controls and Procedures.***

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2015 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the third quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings.***

For a discussion of legal proceedings, see Notes to Consolidated Financial Statements, Note 8 *Contingencies*.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

Sales of Unregistered Securities

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

During the nine months ended March 31, 2015, the stockholders set forth in the table below converted shares of Class B Common Stock into Class A Common Stock on the dates set forth below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares Converted/ Received
Ronald S. Lauder	September 3, 2014	31,945
The 4202 Corporation	September 3, 2014	260,000
The 4202 Corporation	September 5, 2014	240,000
Ronald S. Lauder	December 2, 2014	250,000
Ronald S. Lauder	February 26, 2015	200,000
The 4202 Corporation	February 27, 2015	200,000

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 216.0 million shares of our Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of March 31, 2015, the cumulative total of acquired shares pursuant to the authorization was 183.6 million, reducing the remaining authorized share repurchase balance to 32.4 million. During the nine months ended March 31, 2015, we purchased approximately 7.7 million shares pursuant to the authorization for $572.7 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program(1)
July 2014	984,800	$ 75.07	984,800	39,066,359
August 2014	1,339,650(2)	75.33	1,162,900	37,903,459
September 2014	419,415(2)	76.76	240,210	37,663,249
October 2014	1,982,094(2)	73.58	1,638,741	36,024,508
November 2014	728,243	72.38	728,243	35,296,265
December 2014	983,026	74.26	983,026	34,313,239
January 2015	872,281(2)	74.26	870,000	33,443,239
February 2015	454,599	71.93	454,599	32,988,640
March 2015	610,616(2)	81.87	609,644	32,378,996
	8,374,724	74.76	7,672,163	

(1) The initial program covering the repurchase of 16.0 million shares was announced in September 1998 and increased by 40.0 million shares each in November 2012, November 2007, February 2007 and May 2005 and 20.0 million shares in both May 2004 and October 2002.

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

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

Item 6. ***Exhibits.***

Exhibit Number	Description
31.1	Certification pursuant to Rule 13a-14(a) (CEO).
31.2	Certification pursuant to Rule 13a-14(a) (CFO).
32.1	Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO). (furnished)
32.2	Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ESTÉE LAUDER COMPANIES INC.

Date: May 5, 2015

By: /s/TRACEY T. TRAVIS
Tracey T. Travis
Executive Vice President
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

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