

ESTEE LAUDER COMPANIES INC  
Form DEF 14A  
September 27, 2018

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**THE ESTÉE LAUDER COMPANIES INC.**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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The Estée Lauder Companies Inc.  
767 Fifth Avenue  
New York, New York 10153

William P. Lauder  
Executive Chairman

September 27, 2018

Dear Fellow Stockholder:

You are cordially invited to attend the 2018 Annual Meeting of Stockholders. It will be held in New York City on Tuesday, November 13, 2018, at 10:00 a.m., local time, at the JW Marriott Essex House New York, where we will ask you to vote on the items set forth in the Notice of Annual Meeting of Stockholders below.

Please vote your shares using the Internet or telephone, or by requesting a printed copy of the proxy materials and completing and returning by mail the proxy card you receive in response to your request. Instructions on each of these voting methods are outlined in this Proxy Statement. Please vote as soon as possible.

Thank you for your continued support.

**YOUR VOTE IS IMPORTANT. PLEASE PROMPTLY SUBMIT YOUR PROXY  
BY INTERNET, TELEPHONE, OR MAIL.**

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

## Notice of Annual Meeting of Stockholders Tuesday, November 13, 2018

**10:00 a.m., local time**

**JW Marriott Essex House New York**

**Grand Salon**

**160 Central Park South**

**New York, New York 10019**

### ITEMS OF BUSINESS:

1. To elect the five Class I Director Nominees as Directors to serve until the 2021 Annual Meeting of Stockholders;
2. To ratify the Audit Committee's appointment of KPMG LLP as independent auditors for the 2019 fiscal year; and
3. To provide an advisory vote to approve executive compensation.

We also will transact such other business as may properly come before the meeting and any adjournments or postponements of the meeting.

By Order of the Board of Directors

SPENCER G. SMUL  
*Senior Vice President,  
Deputy General Counsel and Secretary*

New York, New York  
September 27, 2018

**THE BOARD OF DIRECTORS URGES YOU TO VOTE BY INTERNET OR BY TELEPHONE OR BY REQUESTING A PRINTED COPY OF THE PROXY MATERIALS AND COMPLETING AND RETURNING BY MAIL THE PROXY CARD YOU RECEIVE IN RESPONSE TO YOUR REQUEST.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2018 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON NOVEMBER 13, 2018: The Company's Proxy Statement for the 2018 Annual Meeting of Stockholders and the Annual Report to Stockholders for the fiscal year ended June 30, 2018 are available at [www.envisionreports.com/EL](http://www.envisionreports.com/EL).**

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## Proxy Statement Summary

This summary highlights information contained elsewhere in this Proxy Statement. This summary does not contain all the information that you should consider, and you should read the entire Proxy Statement before voting. The approximate date on which this Proxy Statement and form of proxy are first being provided to stockholders, or being made available through the Internet for those stockholders receiving their proxy materials electronically, is September 27, 2018.

### 2018 Annual Meeting of Stockholders

**Date and Time:** Tuesday, November 13, 2018  
at 10:00 a.m.

**Place:** JW Marriott Essex House  
New York  
Grand Salon  
160 Central Park South  
New York, New York 10019

**Record Date:** September 14, 2018

### Voting Matters

#### ITEMS OF BUSINESS

**BOARD  
RECOMMENDATION**      **PROXY  
STATEMENT  
DISCLOSURE**

- 1** Election of Class I Directors
- 2** Ratification of Appointment of KPMG LLP as Independent Auditors
- 3** Advisory Vote to Approve Executive Compensation

#### *Director Nominees*

The following table provides information about the Class I Director Nominees standing for election to serve until the 2021 Annual Meeting of Stockholders. Information about all the Directors can be found in this Proxy Statement beginning on page 8.

|                         |   |  |
|-------------------------|---|--|
| Rose Marie Bravo        | Retail and Marketing Consultant                                   | Compensation Committee; and Stock Plan Subcommittee                  |
| Paul J. Fribourg        | Chairman and Chief Executive Officer of Continental Grain Company | Audit Committee; Compensation Committee; and Stock Plan Subcommittee |
| Irvine O. Hockaday, Jr. | Former President and Chief Executive of Hallmark Cards, Inc.      | Nominating and Board Affairs Committee                               |
| Jennifer Hyman          | Co-Founder and Chief Executive Officer of Rent the Runway, Inc.   | Audit Committee  |
| Barry S. Sternlicht     | Chairman and Chief Executive Officer of Starwood Capital Group    | Nominating and Board Affairs Committee                               |



Table of Contents*Performance Highlights*

As explained in the "Compensation Discussion and Analysis," we drive our annual and long-term performance through our executive compensation programs. Annual incentive pay is tied to business objectives that are specific to each individual's responsibilities and encourage collaboration across the organization. Long-term equity incentives are tied to both the Company's share price and financial goals over a period of three or more years. This combination of compensation elements is intended to support and promote strong, balanced, and sustainable corporate performance.

Fiscal 2018 was an outstanding year for our Company. We achieved record net sales and one of our best performances in the last decade. These results reflect, in part, the Company's strategy to drive growth by targeting its investments to shifts in consumer and market dynamics across product categories, geographic regions, brands, and distribution channels. This strategy positioned the Company well for the resurgence in global prestige skin care growth as well as the strong increase in demand among Chinese consumers. We generated higher sales in every region and product category and gained global share. By investing in our hero franchises, fast-growing channels, and digital and social media, we delivered double-digit sales and adjusted earnings per share growth as compared to the prior year.

|   |                 |        |       |        |
|---|-----------------|--------|-------|--------|
| Net Sales   | \$ 13.7 billion | 16%    | 8.3%  | 6.1%   |
| <i>Net Sales as adjusted<sup>(1)</sup></i>                        | \$ 13.7 billion | 16%    | 7.7%  | 6.1%   |
| <i>Net Sales as adjusted in constant currency<sup>(1)</sup></i>   | \$ 13.4 billion | 13%    | N/A   | N/A    |
| Operating Margin  | 15.0%           | +70bp  | +10bp |        |
| <i>Operating Margin as adjusted<sup>(1)</sup></i>                 | 16.6%           | +70bp  | +70bp | +140bp |
| Diluted EPS   | \$ 2.95         | (12)%  | 1.5%  | 2.7%   |
| <i>Diluted EPS as adjusted<sup>(1)</sup></i>                      | \$ 4.51         | 30%    | 13.7% | 11.3%  |
| <i>Diluted EPS as adjusted in constant currency<sup>(1)</sup></i> | \$ 4.31         | 24%    | N/A   | N/A    |
| <i>Return on Invested Capital as adjusted<sup>(2)</sup></i>       | 21.1%           | +220bp | 50bp  | 310bp  |
| Cash Flow from Operations   | \$ 2.6 billion  | 43%    | 9.8%  | 16.0%  |
| Total Stockholder Return ("TSR")                                  | 50.4%           |        | 19.7% | 18.2%  |
| <i>TSR S&amp;P 500 Composite</i>                                  | 14.3%           |        | 11.9% | 13.4%  |

(1)

Fiscal 2018, 2017, and 2013 have been adjusted to exclude returns and charges associated with restructuring and other activities. Fiscal 2018, 2017, and 2015 have also been adjusted to exclude the impact of changes in the fair value of contingent consideration. Fiscal 2018 Diluted EPS as adjusted also excludes the impact of the provisional adjustments resulting from the enactment of the Tax Cuts and Jobs Act ("TCJA"). Fiscal 2017 has also been adjusted to exclude goodwill and other intangible asset impairments and the China deferred tax asset valuation allowance reversal. Fiscal 2015 has been adjusted for a charge to remeasure net monetary assets in Venezuela and for the impact of the accelerated orders associated with the Company's July 2014 implementation of its Strategic Modernization Initiative ("SMI"). Fiscal 2013 has also been adjusted to exclude interest expense on debt extinguishment. Fiscal 2018 Net Sales as adjusted in constant currency excludes the \$325 million favorable impact of foreign currency translation. Fiscal 2018 Diluted EPS as adjusted in constant currency excludes the \$.20 impact of



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foreign currency translation. See Appendix A for reconciliation and other information about these non-GAAP financial measures.

(2)

Excludes returns and charges associated with restructuring and other activities and the impact of changes in the fair value of contingent consideration in each period, where applicable. Fiscal 2017 also excludes goodwill and other intangible asset impairments. See Appendix A for information about this non-GAAP financial measure.

In fiscal 2018, we increased the common stock dividend 12%, repurchased 6 million shares of our Class A Common Stock for \$759 million, and used \$629 million of cash flow from operations for capital expenditures. Over the five-year period ended June 30, 2018, the total market value of the Company increased by over 100% or approximately \$26 billion.

*Executive Compensation Highlights*

The following summarizes key executive compensation matters in connection with strong and sustained individual and company performance:

The Compensation Committee authorized increases in annual compensation for fiscal 2018 for the President and Chief Executive Officer and certain other Named Executive Officers ("NEOs"). On average, fiscal 2018 annual target compensation for the NEOs increased less than 3% from the prior fiscal year.

The annual stock-based compensation awarded to our NEOs in fiscal 2018 was based on target grant levels and an assessment of each officer's performance and expected future contributions. The annual equity mix is weighted equally among performance share units ("PSUs"), stock options, and restricted stock units ("RSUs").

The base salary for Fabrizio Freda, our President and Chief Executive Officer, remained at \$1.9 million, his bonus opportunity was increased to \$4.9 million, and his equity target was increased to \$8.88 million, resulting in target total annual compensation of \$15.68 million for fiscal 2018, an increase of 4% from the prior fiscal year. In addition, the Stock Plan Subcommittee granted Mr. Freda an additional PSU in February 2018 valued at \$27.4 million. By design, this PSU will not be delivered fully to him until after the end of fiscal 2024, which reflects the Company's desire to further align his interests with those of our stockholders over that extended period of time.

In August 2018, the Stock Plan Subcommittee approved the payout for the first tranche of the PSU that was granted to Mr. Freda in September 2015. For the first tranche Performance Period ended June 30, 2018, positive Cumulative Operating Income has been achieved, and 129,282 shares will be delivered on June 30, 2021 to Mr. Freda, subject to the terms and conditions of the September 2015 PSU.

Based on the Company's performance over the three-year period ended June 30, 2018, the PSUs granted to our executive officers in September 2015 resulted in an aggregate payout of 150% of target.

Our NEOs achieved fiscal 2018 payout percentages under the Executive Annual Incentive Plan ranging from 106% to 143% out of a possible maximum of 150% of target bonus opportunities.



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

**PROXY STATEMENT**  
**FOR ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD NOVEMBER 13, 2018**

September 27, 2018

**Annual Meeting and Voting**

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of The Estée Lauder Companies Inc. (the "Company," "we," or "us"), a Delaware corporation, to be voted at the Annual Meeting of Stockholders to be held in the Grand Salon at the JW Marriott Essex House New York, 160 Central Park South, New York, New York, 10019 on Tuesday, November 13, 2018, at 10:00 a.m., local time, and at any adjournment or postponement of the meeting.

**Admission to the meeting will require a ticket.**

If you are a stockholder of record and plan to attend, please check the appropriate box on the proxy card, or so indicate when you vote by telephone or Internet, and an admission ticket will be mailed to you. If you want to attend the meeting, bring photo identification as well as your admission ticket. If you are a stockholder whose shares are held through an intermediary, such as a bank or broker, and you plan to attend, please request an admission ticket by writing to the Investor Relations Department at The Estée Lauder Companies Inc., 767 Fifth Avenue, New York, New York 10153. Evidence of your ownership of shares of our Common Stock on September 14, 2018 (the "Record Date"), which you can obtain from your bank, broker, or other intermediary, must accompany your letter.

**Who may vote?**

Only stockholders of record of shares of Class A Common Stock or Class B Common Stock at the close of business on the Record Date are entitled to vote at the Annual Meeting and at any adjournment or postponement of the meeting. Each owner of record of Class A Common Stock on the Record Date is entitled to one vote for each share of Class A Common Stock. Each owner of record of Class B Common Stock on the Record Date is entitled to ten votes for each share of Class B Common Stock. As of August 31, 2018, there were 223,485,801 shares of Class A Common Stock and 142,953,234 shares of Class B Common Stock issued and outstanding.

**Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the proxy materials?**

In accordance with rules of the Securities and Exchange Commission (the "SEC"), we have elected to furnish to our stockholders this Proxy Statement and our Fiscal 2018 Annual Report to Stockholders by providing access to these documents on the Internet rather than mailing printed copies. Accordingly, a Notice of Internet Availability of Proxy Materials (the "Notice") is being mailed to our stockholders of record and beneficial owners (other than those who previously requested printed copies or electronic delivery of our proxy materials), which will direct stockholders to a website where they can access our proxy materials and view instructions on how to vote online or by telephone. If you would prefer to receive a paper copy of our proxy materials, please follow the instructions included in the Notice.





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**How do I cast my vote if I am a stockholder of record?**

If you are a stockholder of record (which means your shares are registered directly in your name with the Company's transfer agent, Computershare, Inc., or you have a physical stock certificate), you can vote your shares in one of two ways: either by proxy or in person at the Annual Meeting. If you choose to vote by proxy, you may do so by using the Internet or the telephone, or by requesting a printed copy of our proxy materials and completing and returning by mail the proxy card you receive in response to your request.

Whichever method you use, each valid proxy received in time will be voted at the Annual Meeting in accordance with your instructions. To ensure that your proxy is voted, it should be received before November 13, 2018. If you submit a proxy without giving instructions, your shares will be voted as recommended by the Board of Directors.

**How do I cast my vote if my shares are held in "street name"?**

If you are a beneficial owner of shares held in a stock brokerage account or by a bank or other nominee (i.e. in "street name"), you are invited to attend the Annual Meeting. However, since you are not a stockholder of record, you may not vote these shares in person at the Annual Meeting unless you bring with you a legal proxy from the stockholder of record. A legal proxy may be obtained from your broker, bank, or nominee.

If you do not wish to vote in person or you will not be attending the Annual Meeting, you may vote over the Internet or otherwise by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you will receive voting instructions from your broker, bank, or nominee describing the available processes for voting your shares.

If your shares are held for you by a broker, your broker must vote those shares in accordance with your instructions. If you do not give voting instructions to your broker, your broker may vote your shares for you on any discretionary items of business to be voted upon at the Annual Meeting, i.e. the ratification of the appointment of KPMG LLP (Item 2).

**Important Consideration for "street name" holders:** You must instruct your broker if you want your shares to be counted in the election of directors at the Annual Meeting (Item 1) and the advisory vote to approve executive compensation (Item 3). New York Stock Exchange ("NYSE") rules prevent your broker from voting your shares on these matters without your instructions. Please follow the instructions provided by your broker so that your vote can be counted.

**May I change my vote?**

All proxies delivered pursuant to this solicitation are revocable at any time before they are exercised, at the option of the persons submitting them, by giving written notice to the Secretary of the Company at the mailing address set forth below, by submitting a later-dated proxy (either by mail, telephone, or Internet) or by voting in person at the Annual Meeting. The mailing address of our principal executive offices is 767 Fifth Avenue, New York, New York 10153.

**What constitutes a quorum?**

The holders of a majority of the votes entitled to be cast by the stockholders entitled to vote generally, present in person or by proxy, shall constitute a quorum for the transaction of business at the Annual Meeting. Abstentions, broker non-votes, and votes withheld are included in the count to determine a quorum.

**What if a quorum is not represented at the Annual Meeting?**

In the event that a quorum does not exist, the Executive Chairman or the holders of a majority of the votes entitled to be cast by the stockholders who are present in person or by proxy may



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adjourn the meeting whether or not a quorum is present. At a subsequent meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally called.

**How many votes are required to approve a proposal?**

The following table notes for each proposal: (i) the vote required of Class A Common Stock and Class B Common Stock (voting together) for approval; (ii) whether abstentions count as votes cast; and (iii) whether broker discretionary voting is allowed.

|   |                          |                |     |
|---|--------------------------|----------------|-----|
| Item 1:<br>Election of Class I<br>Directors                   | Plurality of Votes Cast* | Not Applicable | No  |
| Item 2:<br>Ratify approval of<br>KPMG LLP's appointment       | Majority of Votes Cast   | No             | Yes |
| Item 3:<br>Advisory vote to approve<br>Executive Compensation | Majority of Votes Cast** | No             | No  |

\*  
In the election of directors (Item 1), shares present at the Annual Meeting that are not voted for a particular nominee, broker non-votes, and shares present by proxy where the stockholder withholds authority to vote for the nominee will not be counted toward the nominee's achievement of a plurality.

\*\*  
The advisory vote to approve executive compensation (Item 3) is not binding on the Company. However, the Compensation Committee and the Stock Plan Subcommittee, which are responsible for designing and administering the Company's executive compensation program, value the opinions expressed by stockholders. See "Compensation Discussion and Analysis Advisory Vote on Executive Compensation."

Abstentions and broker non-votes do not count as votes cast, and therefore have no effect on vote outcomes.

**How will my shares be voted?**

All proxies properly submitted pursuant to this solicitation and not revoked will be voted at the Annual Meeting in accordance with the directions given. In the election of directors (Item 1), stockholders may vote in favor of, or withhold their votes from, each nominee. For the ratification of the appointment of KPMG LLP (Item 2) and the advisory vote to approve executive compensation (Item 3), stockholders may vote in favor of the proposal, may vote against the proposal, or may abstain from voting. Stockholders should specify their choices on the proxy card or pursuant to the instructions thereon for telephone or Internet voting. If no specific choices are indicated, the shares represented by a properly submitted proxy will be voted:

1. FOR the election of each nominee as director;
2. FOR the ratification of the appointment of KPMG LLP as independent auditors; and
3. FOR the advisory resolution to approve executive compensation.

If you have returned your signed and completed proxy card, and other matters are properly presented at the Annual Meeting for consideration, the proxy holders appointed by the Board of



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Directors (the persons named in your proxy card if you are a stockholder of record) will have the discretion to vote on those matters for you.

**Who will count the vote?**

Representatives of Computershare, Inc. will tabulate the votes and act as inspectors of election.

**May I see a list of stockholders entitled to vote as of the Record Date?**

A list of registered stockholders as of the close of business on the Record Date will be available for examination by any stockholder for any purpose germane to the Annual Meeting. This list will be available during such meeting and during normal business hours from October 30, 2018 through November 12, 2018, at the office of Spencer G. Smul, Senior Vice President, Deputy General Counsel and Secretary of the Company, at 767 Fifth Avenue, New York, New York 10153.

**Can I access the Notice of Annual Meeting, Proxy Statement, Annual Report to Stockholders, and Form 10-K on the Internet?**

Our Proxy Statement (including Notice of Annual Meeting) and Fiscal 2018 Annual Report to Stockholders are available at [www.envisionreports.com/EL](http://www.envisionreports.com/EL).

These materials are also available in the "Investors" section of our website at [www.elcompanies.com](http://www.elcompanies.com). Instead of receiving future copies of our Proxy Statement (including Notice of Annual Meeting) and Annual Report by mail, stockholders can access these materials online. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to you; an electronic link to the proxy voting site will be provided to you. Stockholders of record can enroll at [www.computershare.com/investor](http://www.computershare.com/investor) for online access to future proxy materials.

If you hold your shares in a bank or brokerage account, you also may have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your bank or broker regarding the availability of this service.

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## Election of Directors (Item 1)

### Board of Directors

Currently, the Board of Directors ("the Board") is comprised of seventeen directors. The directors are divided into three classes, each serving for a period of three years. Class I and Class II are each comprised of six directors, and Class III is comprised of five directors. As previously disclosed, Mellody Hobson, who is a Class I director, notified the Company that she will serve the remainder of her term, which expires at the 2018 Annual Meeting of Stockholders, and she will not stand for re-election. Ms. Hobson has been on the Board since 2005, and the Company is grateful for her valuable contributions. Following her departure as of November 13, 2018 (the date of our Annual Meeting), the Board will be comprised of sixteen directors, and Class I will be comprised of five directors.

The stockholders elect one class of the members of the Board of Directors annually. The directors whose terms will expire at the 2018 Annual Meeting of Stockholders are Rose Marie Bravo, Paul J. Fribourg, Mellody Hobson, Irvine O. Hockaday, Jr., Jennifer Hyman, and Barry S. Sternlicht. With the exception of Ms. Hobson, each of these directors has been nominated to stand for re-election as a Class I director at the 2018 Annual Meeting, to hold office until the 2021 Annual Meeting and until his or her successor is elected and qualified. In the unanticipated event that one or more of the nominees is unable or declines to serve for any reason, the Board may reduce the number of directors or take action to fill any vacancy.

Lauder Family Members, including related entities, who control the Company have agreed to vote their shares in favor of four individuals as directors: Jane Lauder, Leonard A. Lauder, Ronald S. Lauder and William P. Lauder. The term "Lauder Family Members" is defined below (see "Certain Relationships and Related Transactions – Lauder Family Relationships and Compensation").

**Director Qualifications.** Our Board is comprised of individuals with diverse and complementary business experience, leadership experience, and financial experience. Many of our directors have leadership experience at major domestic and multinational companies, as well as experience on the boards of other companies and organizations, which provides an understanding of different business processes, challenges, and strategies. Other directors have government, legal, public policy, or media experience that provides insight into issues faced by public companies. The members of the Board are inquisitive and collaborative, challenging yet supportive, and demonstrate maturity and sound judgment in performing their duties. The Board believes that the above-mentioned attributes, along with the leadership skills and other experience of its Board members, some of which are described in the biographies below, provide the appropriate perspectives and judgment to guide the Company's long-term strategy, monitor progress, and oversee management.

The Company does not have a specific policy on diversity of the Board. Instead, the Board evaluates nominees in the context of the Board as a whole, with the objective of recommending a group that can best support the success of the business and, based on the group's diversity of experience, represent stockholder interests through the exercise of sound judgment. Such diversity of experience may be enhanced by a mix of different professional and personal backgrounds and experiences. The Company is proud to have a diverse board, including with respect to gender and race.

**The Board recommends a vote FOR each nominee as a director to hold office until the 2021 Annual Meeting. Proxies received by the Board will be so voted unless a contrary choice is specified in the proxy.**







International Inc.

Audit Committee

Affiliation with leading  
business and public policy  
associations (Council on  
Foreign Relations)

Compensation  
Committee and Stock  
Plan Subcommittee

Financial experience

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**BACKGROUND**

Mr. Hockaday is the former President and Chief Executive Officer of Hallmark Cards, Inc. He retired in December 2001. Prior to joining Hallmark in 1983, he was President and Chief Executive Officer of Kansas City Southern Industries, Inc. Mr. Hockaday was a member of the Hallmark Board of Directors from 1978 until January 2002. He is currently a member of the Board of Directors of Aratana Therapeutics, Inc. Additionally, within the past five years, Mr. Hockaday served as a director of Crown Media Holdings, Inc. and Ford Motor Company.

**QUALIFICATIONS**

Global business experience and consumer brand industry experience as former CEO of Hallmark Cards, Inc.

**Director since 2001**

Age 82

**Presiding Director**

**Committee:**

Nominating and Board Affairs Committee (Chair)

Board experience at Aratana Therapeutics, Inc., Crown Media Holdings, Inc., Ford Motor Company, and Sprint Nextel

Financial experience

Legal experience

**BACKGROUND**

Ms. Hyman is Co-founder and Chief Executive Officer of Rent the Runway, Inc., which rents designer apparel and accessories to women both on-demand and through its subscription service. Prior to co-founding Rent the Runway in November 2009, she was Director of Business Management at IMG, a global talent management company, from 2006 to 2007. Ms. Hyman was Senior Manager, Sales, at the WeddingChannel.com from 2005 to 2006. From 2002 to 2005, she was Senior Manager, Leisure Program Development at Starwood Hotels & Resorts Worldwide, Inc.

**QUALIFICATIONS**

Management and entrepreneurial experience as Co-founder and Chief Executive Officer of Rent the Runway, Inc.

**Director since 2018**

Age 38

**Committee:**

Audit Committee

Deep knowledge about millennials and other consumers

Omnichannel and social-digital experience

Board experience at Rent the Runway, Inc.

Financial experience

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**BACKGROUND**

Mr. Sternlicht is Chairman and Chief Executive Officer of Starwood Capital Group, a privately-held global investment firm with a primary focus on global real estate, which he formed in 1991. He also serves as Chairman and CEO of Starwood Property Trust, Inc., a commercial mortgage REIT. Mr. Sternlicht is on the boards of directors of Invitation Homes, Inc., Starwood Real Estate Income Trust, and A.S. Roma. He is also Chairman of the Board of Baccarat S.A. Additionally, within the past five years, Mr. Sternlicht served as a director of Restoration Hardware Holdings, Inc., Riviera Holdings Corporation, and TRI Pointe Group, Inc. From 1995 through early 2005, Mr. Sternlicht was Chairman and CEO of Starwood Hotels & Resorts Worldwide, Inc., a company he founded in 1995. He currently serves as a member of the board of The Robin Hood Foundation, and he is on the board of the Dreamland Film & Performing Arts Center and the Executive Advisory Board of Americans for the Arts.

**Director since 2004**  
Age 57

**Committee:**

Nominating and  
Board Affairs  
Committee

**QUALIFICATIONS**

Global business, investment, real estate, financial, private equity, entrepreneurial, and consumer brand and luxury industry expertise at Starwood Capital Group, as Chairman of Starwood Property Trust, Inc., and as founder and former Chief Executive of Starwood Hotels & Resorts Worldwide, Inc.

Board experience at A.S. Roma, Baccarat S.A., Invitation Homes, Inc., Restoration Hardware Holdings, Inc., Starwood Property Trust, Inc., and TRI Pointe Group, Inc.

Financial experience

Incumbent Directors Term Expiring 2019 (Class II)

**BACKGROUND**

Mr. Lauder has served as Chairman of Clinique Laboratories, LLC since returning from government service in 1987 and was Chairman of Estee Lauder International, Inc. from 1987 through 2002. Mr. Lauder joined the Company in 1964 and has served in various capacities. Mr. Lauder was a member of the Board of Directors of the Company from 1968 to 1986 and again from 1988 to July 2009. From 1983 to 1986, he served as Deputy Assistant Secretary of Defense for European and NATO Affairs. From 1986 to 1987, he was U.S. Ambassador to Austria. Mr. Lauder is an Honorary Chairman of the Board of Trustees of the Museum of Modern Art and President of the Neue Galerie. Within the past five years, Mr. Lauder served as a director of Central European Media Enterprises Ltd. He is also Chairman of the Board of Governors of the Joseph H. Lauder Institute of Management and International Studies at The Wharton School at the University of Pennsylvania and the co-founder and Co-Chairman of the Alzheimer's Drug Discovery Foundation.

**Director since 2016**  
Age 74

**QUALIFICATIONS**

Global business, marketing, and consumer and luxury brand industry experience through leadership roles at The Estée Lauder Companies Inc.

Affiliation with leading business, civic, and government associations

Board experience at Central  
European Media  
Enterprises Ltd.

Significant stockholder and  
party to Stockholders'  
Agreement

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**BACKGROUND**

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

**QUALIFICATIONS**

**Director since 1996**  
Age 58

**Committee:**

Nominating and  
Board Affairs  
Committee

Global business, marketing, Internet, retail, and consumer and luxury brand industry experience through leadership roles at The Estée Lauder Companies Inc.

Experience leading successful creative organizations with innovation programs based on research and development

Board experience at GLG Partners, Inc., Jarden Corporation, and True Temper Sports, Inc.

Trustee of the University of Pennsylvania and lecturer at The Wharton School

Financial experience

Significant stockholder and party to Stockholders' Agreement

**BACKGROUND**

Mr. Parsons has been a senior advisor to Providence Equity Partners LLC, a global private equity and investment firm, since 2009. From 1996 until 2012, he was a director of Citigroup Inc. and served as its Chairman from February 2009 to April 2012. From May 2003 until his retirement in December 2008, Mr. Parsons served as Chairman of the Board of Time Warner Inc. From May 2002 until December 2007, he served as Chief Executive Officer of Time Warner Inc. From January 2001 until May 2002, Mr. Parsons was Co-Chief Operating Officer of AOL Time Warner. From 1995 until the merger with America On-Line Inc., he was President of Time Warner Inc. From 1990 through 1994, he was Chairman and Chief Executive Officer of Dime Bancorp, Inc. Mr. Parsons is currently on the boards of directors of CBS Corporation, Lazard Ltd., and The Madison Square Garden Company. Among his numerous community activities, he is Chairman of the Apollo Theatre Foundation and the Jazz Foundation of America.

**Director since 1999**  
Age 70

**Committees:**

Compensation  
Committee

Nominating and  
Board Affairs  
Committee

**QUALIFICATIONS**

Global business, marketing, media, Internet, banking, and other business and consumer brand experience through leadership roles at Time Warner Inc. and Dime Bancorp, Inc.

Board experience at CBS Corporation, Citigroup Inc., Lazard Ltd., The Madison Square Garden Company, and Time Warner Inc.

Private equity experience at Providence Equity Partners LLC

Legal and government experience

Financial experience

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**BACKGROUND**

Lady de Rothschild is the Chair of E.L. Rothschild LLC, a private investment company with investments in media, information technology, agriculture, financial services, and real estate worldwide, and she was the Chief Executive of E.L. Rothschild LLC from 2002 to 2016. Holdings of E.L. Rothschild LLC include The Economist Group (UK). Lady de Rothschild has been a director of The Economist Newspaper Limited since October 2002. From 2004 to 2007, she was also Co-Chair of FieldFresh Pvt. Ltd., a 50-50 joint venture with Bharti Enterprises, established to develop the agricultural sector in India. From 1989 to 2002, she was President and Chief Executive Officer of FirstMark Holdings, Inc., which owned various telecommunications companies worldwide. She serves on the Board and Executive Committee of The Peterson Institute for International Economics. Lady de Rothschild is a trustee of the Eranda Foundation and a board member of the International Advisory Board of Columbia University School of Law and the Alzheimer Drug Discovery Foundation. She is a member of the Council on Foreign Relations (USA), Chatham House (UK), the International Advisory Council of Asia House (UK), the International Institute of Strategic Studies (UK), and the Foreign Policy Association (USA).

**Director since 2000**  
Age 64

**Committee:**

Nominating and  
Board Affairs  
Committee

**QUALIFICATIONS**

Global business and investment experience as former Chief Executive of E.L. Rothschild LLC and CEO of FirstMark Holdings, Inc.

Board and media experience as director of The Economist Newspaper Limited

Affiliation with leading business and public policy associations (Council on Foreign Relations)

Experience working abroad

Legal and government expertise

Financial experience

**BACKGROUND**

Ms. Tejada is Chief Executive Officer of PagerDuty, Inc., a digital operations management platform for businesses. Prior to joining PagerDuty in July 2016, she was President and Chief Executive Officer of Keynote Systems, a software company specializing in digital performance analytics and web and mobile testing, from 2013 to 2015. Ms. Tejada was Executive Vice President and Chief Strategy Officer of Mincom, an enterprise software company, from 2008 to 2011. She has also previously held senior positions at Merivale Group, Procter & Gamble, and i2 Technologies. She currently serves as a member of the board of Puppet Labs, Inc., a private IT automation company.

**Director since 2018**

**QUALIFICATIONS**

Management experience at PagerDuty, Inc., Keynote Systems, and Mincom.



Age 47

Digital, mobile, cyber and software experience

**Committee:**

Consumer goods experience

Audit Committee

Experience working abroad

Board experience at PagerDuty, Inc., Keynote Systems, and Puppet Labs, Inc.

Financial experience

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**BACKGROUND**

Mr. Zannino is a Managing Director at the private equity firm CCMP Capital Advisors, LLC, a position he has held since July 2009. He is a partner on the firm's Investment Committee and co-heads the consumer retail practice. Prior to joining CCMP Capital, Mr. Zannino was an independent retail and media advisor from February 2008 to June 2009. He was Chief Executive Officer and a member of the Board of Directors of Dow Jones & Company, Inc. from February 2006 until January 2008, shortly after its acquisition by News Corp. Mr. Zannino joined Dow Jones as Executive Vice President and Chief Financial Officer in February 2001 and was promoted to Chief Operating Officer in July 2002. From 1998 to 2001, he was Executive Vice President of Liz Claiborne, Inc., where he oversaw the finance, administration, retail, fragrance, and licensing divisions. From 1993 to 1998, Mr. Zannino was with Saks Fifth Avenue, serving as Vice President and Treasurer, Senior Vice President, Finance and Merchandise Planning, and then Executive Vice President and Chief Financial Officer. He is on the boards of directors of IAC/InterActiveCorp and Ollie's Bargain Outlet Holdings, Inc. Additionally, within the past five years, Mr. Zannino served as a director of Francesca's Holdings Corporation. He currently serves as Vice Chairman of the Board of Trustees of Pace University.

**Director since 2010**  
Age 59

**Committee:**

Audit Committee  
(Chair)

**QUALIFICATIONS**

Management, media, finance, retail, and consumer brand industry experience in various positions at Dow Jones & Company, Inc., Liz Claiborne, Inc., and Saks Fifth Avenue

Consumer, retail, media, and private equity experience at CCMP Capital Advisors, LLC

Board experience at Dow Jones & Company, Inc., Francesca's Holdings Corporation, IAC/InterActiveCorp, and Ollie's Bargain Outlet Holdings, Inc.

Trustee of Pace University

Financial experience

Incumbent Directors Term Expiring 2020 (Class III)

**BACKGROUND**

Ambassador Barshefsky is Senior International Partner at the law firm of WilmerHale in Washington, D.C. Prior to joining the law firm in 2001, she was the United States Trade Representative from 1997 to 2001, and Deputy United States Trade Representative and Acting United States Trade Representative from 1993 to 1996. Ambassador Barshefsky is a member of the Board of Directors of American Express Company. Additionally, within the past five years, she served as a director of Intel Corporation and Starwood Hotels & Resorts Worldwide, Inc. Ambassador Barshefsky is a member of the Council on Foreign Relations and a trustee of the Howard Hughes Medical Institute.

**Director since 2001**

**QUALIFICATIONS**

International, government, and public policy experience as United States Trade Representative

Age 68

**Committees:**

Compensation  
Committee (Chair)  
and Stock Plan  
Subcommittee

Legal experience, including  
current role as Senior  
International Partner at  
WilmerHale

Board experience at  
American Express Company,  
Intel Corporation, and  
Starwood Hotels & Resorts  
Worldwide, Inc.

Trustee of the Howard  
Hughes Medical Institute

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**BACKGROUND**

Ms. Christianson is a Managing Director and Co-Chief Executive Officer of Asia Pacific and Chief Executive Officer of China at Morgan Stanley based in Beijing. In addition to her regional role, Ms. Christianson is responsible for all aspects of Morgan Stanley's operations in China and is a member of Morgan Stanley's Management Committee. Prior to rejoining Morgan Stanley in 2006, she was the Chairman of China for Citigroup Global Markets (Asia Ltd.) and previously served as Chairman of China and Country Manager for Credit Suisse First Boston. Ms. Christianson held an earlier position at Morgan Stanley beginning in 1998 as Executive Director and Beijing Representative. She is a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong and the Financial Services Development Council of Hong Kong.

**Director since 2011**  
Age 62

**Committee:**

Nominating and  
Board Affairs  
Committee

**QUALIFICATIONS**

Global management and investment banking experience as Managing Director and Co-Chief Executive Officer of Asia Pacific and Chief Executive Officer of China at Morgan Stanley based in Beijing

Experience working abroad, particularly in China

Financial experience

Government experience (in Hong Kong)

**BACKGROUND**

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

**Director since 2009**  
Age 61

**QUALIFICATIONS**

Global management, marketing, and other business, consumer and luxury brand industry experience as President and Chief Executive Officer of The Estée Lauder Companies Inc.

Similar experience, including developing and leading global organizations, in leadership positions at P&G and Gucci SpA

Experience leading successful, creative organizations with innovation programs based on research and development

Board experience at BlackRock, Inc.

Experience living and working in several countries

Financial experience

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**BACKGROUND**

Ms. Lauder has served as Global Brand President, Clinique, since April 2014. Immediately prior to that, she was Global President, General Manager of the Origins, Ojon, and Darphin brands. From July 2008 until July 2010, she was Senior Vice President/General Manager of the Origins brand. Ms. Lauder began her career with the Company in 1996 at Clinique and served in various positions throughout the Company until July 2006, when she became Senior Vice President, Global Marketing for Clinique.

**QUALIFICATIONS**

Management, marketing and other industry experience through leadership roles at The Estée Lauder Companies Inc.

**Director since 2009**  
Age 45

Significant stockholder and party to Stockholders' Agreement (solely as trustee of one or more trusts)

**BACKGROUND**

Mr. Lauder is Chairman Emeritus of the Company. He was Chairman of the Board of Directors from 1995 through June 2009 and served as the Company's Chief Executive Officer from 1982 through 1999 and President from 1972 until 1995. Mr. Lauder has held various positions since formally joining the Company in 1958 after serving as an officer in the United States Navy. He is Chairman Emeritus of the Board of Trustees of the Whitney Museum of American Art, a Charter Trustee of the University of Pennsylvania, a Trustee of The Aspen Institute, and the co-founder and Co-Chairman of the Alzheimer's Drug Discovery Foundation. Mr. Lauder is Honorary Chairman of the Breast Cancer Research Foundation. He served as a member of the White House Advisory Committee on Trade Policy and Negotiations under President Reagan.

**QUALIFICATIONS**

Global business, marketing, and consumer and luxury brand industry experience through leadership roles at The Estée Lauder Companies Inc.

**Director since 1958**  
Age 85

Experience leading successful creative organizations with innovation programs based on research and development

Affiliation with leading business, civic, and public policy associations

Charter Trustee of the University of Pennsylvania

Significant stockholder and  
party to Stockholders'  
Agreement

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**Stockholders' Agreement and Lauder Family Control.** All Lauder Family Members who are party to a stockholders' agreement with the Company (the "Stockholders' Agreement") have agreed to vote shares beneficially owned by them for Leonard A. Lauder (or for one of his sons), Ronald S. Lauder (or for one of his daughters), and one person, if any, designated by each as a director of the Company. Aerin Lauder and Jane Lauder are parties to the Stockholders' Agreement solely as trustees of certain trusts. The term "Lauder Family Members" is defined below (see "Certain Relationships and Related Transactions – Lauder Family Relationships and Compensation"). Shares subject to the Stockholders' Agreement represent approximately 85% of the voting power of the Company as of the Record Date. The right of each of Leonard A. Lauder (or his sons) and Ronald S. Lauder (or his daughters) to designate a nominee exists only when he (including his descendants) beneficially owns (other than by reason of the Stockholders' Agreement) shares of Common Stock with at least 10% of the total voting power of the Company. Currently, William P. Lauder is the nominee of Leonard A. Lauder, and Jane Lauder is the nominee of Ronald S. Lauder. The right of each of Leonard A. Lauder (or one of his sons) and Ronald S. Lauder (or one of his daughters) to be nominated will exist so long as he (including his descendants) beneficially owns shares of Common Stock with at least 5% of the total voting power of the Company. In the event that Leonard A. Lauder ceases to be a member of the Board of Directors by reason of his death or disability, then his sons, William P. Lauder and Gary M. Lauder, will succeed to his rights to be nominated as a director and to designate one nominee. If either son is unable to serve by reason of his death or disability, the other son will have the right to designate a nominee. Similarly, Aerin Lauder and Jane Lauder, Ronald S. Lauder's daughters, will succeed to their father's rights upon his death or disability. If either daughter is unable to serve by reason of her death or disability, the other daughter will have the right to designate a nominee. In the event none of Leonard A. Lauder and his sons and Ronald S. Lauder and his daughters are able to serve as directors by reason of death or disability, then the rights under the Stockholders' Agreement to be a nominee and to designate a nominee will cease. The Stockholders' Agreement will terminate upon the occurrence of certain specified events, including the transfer of shares of Common Stock by a party to the Stockholders' Agreement that causes all parties thereto immediately after such transaction to own beneficially in the aggregate shares having less than 10% of the total voting power of the Company.

The Lauder family has direct and indirect holdings of approximately 87% of the voting power of the Company as of the Record Date. The Company is a "controlled company" under the rules of the New York Stock Exchange (the "NYSE") because the Lauder family and their related entities hold more than 50% of the voting power of the outstanding voting stock. As such, the Company may avail itself of exemptions relating to the Board and certain Board committees. Despite the availability of such exemptions, the Board of Directors has determined that it will have a majority of independent directors and that both the Nominating and Board Affairs Committee and the Compensation Committee will have otherwise required provisions in their charters. As permitted by the NYSE rules for "controlled companies," our Board does not require that the Nominating and Board Affairs Committee and the Compensation Committee be comprised solely of independent directors.

**Board Committees.** The Board of Directors has established the following standing committees – the Audit Committee, the Compensation Committee (which includes the Stock Plan Subcommittee), and the Nominating and Board Affairs Committee. Each director on these committees is an independent director except for William P. Lauder and Richard D. Parsons. Each committee reports regularly to the Board and has the authority to engage its own advisors. From time to time, the Board considers the composition of our Board committees. In April 2018, Ms. Hyman and Ms. Tejada joined the Audit Committee when they were elected to the Board. In early fiscal 2019, Mr. Hockaday left the Audit Committee, and Mr. Zannino became Chair of the Audit Committee; Ambassador Barshefsky joined the Compensation Committee and the Stock Plan Subcommittee and became Chair of the Compensation Committee, and Mr. Zannino left the Compensation Committee and the Stock Plan Subcommittee; and Mr. Hockaday joined the Nominating and Board Affairs Committee as Chair, and Ms. Barshefsky left the Nominating and Board Affairs Committee.





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The members of the committees as of the Record Date are set forth in the following table:

|   |               |
|---|---------------|
| <b>Charlene<br/>Barshefsky<br/>Rose Marie<br/>Bravo<br/>Wei Sun<br/>Christianson<br/>Paul J. Fribourg<br/>Melody Hobson<br/>Jennifer Hyman<br/>Irvine O.<br/>Hockaday, Jr.*<br/>William P.<br/>Lauder<br/>Richard D.<br/>Parsons<br/>Lynn Forester de<br/>Rothschild<br/>Barry S.<br/>Sternlicht<br/>Jennifer Tejada<br/>Richard F.<br/>Zannino</b> |               |
| <b>Chair</b>  | <b>Member</b> |

Also member of Stock Plan Subcommittee

\*

Presiding Director

Copies of the charters adopted by the Board of Directors for each committee may be found in the "Investors" section of the Company's website, [www.elcompanies.com](http://www.elcompanies.com), under "Corporate Governance."

The Audit Committee, among other things, appoints the independent auditors; reviews the independence of such auditors; approves the scope of the annual audit activities of the independent auditors and the Company's Internal Control Department; reviews audit results; reviews and discusses the Company's financial statements with management and the independent auditors; reviews and discusses with the Board the Company's risk assessment and management processes; and is responsible for our related person transactions policy. The committee also meets separately, at least quarterly, with the Chief Financial Officer, the Chief Internal Control Officer, and representatives of the independent auditors. The Board of Directors has determined that each of Mr. Fribourg, Ms. Hobson, and Mr. Zannino qualifies as an "Audit Committee Financial Expert" in accordance with SEC rules. As previously noted, Ms. Hobson is not standing for re-election at the 2018 Annual Meeting; therefore, as of November 13, 2018, she will no longer be on the Audit Committee.

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The Compensation Committee establishes and approves compensation plans and arrangements with respect to the Company's executive officers and administers the Company's Executive Annual Incentive Plan. The Stock Plan Subcommittee has authority over all decisions regarding awards to executive officers under the Company's share incentive plans and authority to administer the Company's share incentive plans under which executive officers and other employees may receive equity grants. The Company also has an Employee Equity Award Committee, the sole member of which is Mr. Freda; the purpose of this committee is to make limited grants of equity awards under the share incentive plan to employees who are not executive officers, and the committee made such grants in fiscal 2018.

**Compensation Committee Interlocks and Insider Participation.** During fiscal 2018, Ms. Bravo, Mr. Fribourg, Mr. Parsons, and Mr. Zannino served on the Compensation Committee. None of these directors is a former or current officer or employee of the Company or any of its subsidiaries. During fiscal 2018, none of our executive officers served as a member of the compensation committee (or other committee performing similar functions) or as a director of any other entity of which an executive officer served on our Board or Compensation Committee. None of the directors who served on our Compensation Committee during fiscal 2018 has any relationship requiring disclosure under this caption under SEC rules.

The Nominating and Board Affairs Committee, among other things, recommends nominees for election as members of the Board; considers and makes recommendations regarding Board practices and procedures; considers corporate governance issues that arise from time to time and develops appropriate recommendations for the Board regarding such matters; and reviews the compensation for service as a Board member.

**Board and Board Committee Meetings; Annual Meeting Attendance; and Executive Sessions.** Directors are expected to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. In furtherance of the Board's role, directors are expected to attend all scheduled Board and Board committee meetings and all meetings of stockholders. In fiscal 2018, the Board of Directors met five times, the Compensation Committee met five times, the Stock Plan Subcommittee met six times, the Audit Committee met eight times, and the Nominating and Board Affairs Committee met three times. The total combined attendance for all Board and committee meetings was over 95%. No director attended less than 75% of Board and committee meetings. The non-employee directors met five times in executive session in fiscal 2018, including at least one meeting at which only independent directors were present. Directors are expected to attend the Annual Meeting of Stockholders, and all of the directors who were on the Board attended the Annual Meeting of Stockholders in November 2017, except one director who was unable to attend.

**Board Leadership Structure.** Our Board is currently led by our Executive Chairman, who is a member of the Lauder family. Our President and Chief Executive Officer is a member of our Board of Directors. We have an independent director who serves as our Presiding Director. A majority of our directors are independent. At present, there are 17 directors on our Board; 12 directors are non-employee directors, 11 directors are independent, and 4 directors are members of the Lauder family. As previously noted, Mellody Hobson is not standing for re-election at the 2018 Annual



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Meeting; therefore, as of November 13, 2018, the Board will be comprised of sixteen directors. The Presiding Director presides at all meetings or executive sessions of non-employee or independent directors. The Board of Directors considers this structure appropriate in view of the Lauder family's significant investment in the Company. The structure also comports with the Stockholders' Agreement among various members of the Lauder family and the Company. See "Additional Information Regarding the Board of Directors – Stockholders' Agreement and Lauder Family Control."

In addition to his responsibilities as Chairman of the Board, Mr. W. Lauder, as Executive Chairman, works with the President and Chief Executive Officer to set overall vision, strategy, financial objectives, and investment priorities for the business. Mr. W. Lauder also continues to provide high-level leadership in areas that are important to the Company, including marketing, trade relations, global communications, and regulatory affairs.

As provided in our Corporate Governance Guidelines, we have an independent director who serves as our Presiding Director. The Presiding Director serves a one-year term beginning with the meeting of the Board immediately following the Annual Meeting of Stockholders and is selected from among the independent members of the Board. Mr. Hockaday served as the Presiding Director for all executive sessions of the Board of Directors in fiscal 2018, and he has been appointed by the Board to serve for an additional one-year term beginning after the 2018 Annual Meeting.

**Board Role in Risk Oversight.** Our Board of Directors regularly receives reports from our President and Chief Executive Officer and other members of senior management regarding areas of significant risk to us, including strategic, operational, financial, legal and regulatory, cybersecurity, and reputational risks. However, senior management is responsible for assessing and managing the Company's various risk exposures on a day-to-day basis. In this regard, various management functions within the Company, such as Legal, Finance, Treasury, Internal Control, Information Technology, Global Supply Chain, Research & Development, and Environmental Affairs and Safety, focus on particular risks. Management has a systemic and integrated approach to overall risk management that includes the identification of risks and mitigation plans in the strategic planning process. The Board's role is one of oversight, assessing major risks facing the Company and reviewing options for their mitigation with management. In addition, the Audit Committee reviews and discusses with management our enterprise risk management processes.

**Risk in Compensation Programs.** The Company has a framework for evaluating incentive plan design features that may encourage or help mitigate risk, such as a mix of compensation elements, metrics, leverage, caps, and time horizons, in order to determine whether the risks arising from our compensation programs (in addition to those applicable only to executive officers) are reasonably likely to have a material adverse effect on the Company. Using this framework in fiscal 2018, we concluded that our compensation programs are not reasonably likely to have a material adverse effect on the Company. The results were reviewed with senior management and the Compensation Committee.

**Board Membership Criteria.** The Nominating and Board Affairs Committee works with the Board on an annual basis to determine the appropriate characteristics, skills, and experience for the Board as a whole and its individual members. All directors should possess the highest personal and professional ethics as well as an inquisitive and objective perspective, practical wisdom, and mature judgment. In evaluating the suitability of individual Board members, the Board takes into account many factors, including general understanding of marketing, finance, and other disciplines relevant to the success of a large publicly traded company in today's business environment; understanding of the Company's business on a technical level; and educational and professional background. The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best support the success of the business and, based on its diversity of experience, represent stockholder interests through the exercise of sound judgment. In determining whether to recommend a director for re-election, the Nominating and Board Affairs



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Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

Upon determining the need for a new director candidate, the Nominating and Board Affairs Committee will identify one or more director candidates and evaluate each candidate under the criteria described above based on the information it receives with a recommendation or that it otherwise possesses, which information may be supplemented by additional inquiries. Application of these criteria involves the exercise of judgment and cannot be measured in any mathematical or routine way. Based on its assessment of each candidate's independence, skills, and qualifications and the criteria described above, the Committee will make recommendations regarding potential director candidates to the Board. The Committee may engage third parties to assist in the search for director candidates or to assist in gathering information regarding a candidate's background and experience. The Committee will evaluate stockholder-recommended candidates in the same manner as other candidates. Candidates may also be designated pursuant to the Stockholders' Agreement. See "Additional Information Regarding the Board of Directors - Stockholders' Agreement and Lauder Family Control." Jennifer Hyman and Jennifer Tejada were recommended for consideration as director candidates by an independent non-management director, and in accordance with the process described above, both candidates were evaluated by the Nominating and Board Affairs Committee. In April 2018, at the recommendation of the Nominating and Board Affairs Committee, the Board elected Ms. Hyman as a Class I director (to stand for re-election at the 2018 Annual Meeting) and Ms. Tejada as a Class II director (to stand for re-election at the 2019 Annual Meeting).

**Board Independence Standards for Directors.** To be considered "independent" for purposes of membership on the Company's Board of Directors, the Board must determine that a director has no material relationship with the Company, including any of its subsidiaries, other than as a director. For each director, the Board broadly considers all relevant facts and circumstances. In making its determination, the Board considers the following categories of relationships to be material, thus precluding a determination that a director is "independent:"

- (i) the director is an employee of the Company, or an immediate family member of the director is an executive officer of the Company, or was so employed during the last three years.
- (ii) the director receives, or an immediate family member of the director receives, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- (iii) (A) the director is a current partner or employee of a firm that is the Company's internal or external auditor, (B) the director has an immediate family member who is a current partner of such a firm, (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit, or (D) the director or an immediate family member of the director was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time.
- (iv) the director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
- (v) the director is a current employee, or an immediate family member of the director is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.





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Additionally, the following relationships will not be considered to be "material" relationships that would impair a director's independence:

- (i) any of the relationships described in (i)-(v) above, if such relationships occurred more than three years ago, or
- (ii) if a director is a current employee, or an immediate family member of a director is a current executive officer of another company that does business with the Company and such other company, during the current or last fiscal year, made payments to or received payments from, the Company of less than \$1 million or 2% of such other company's consolidated gross revenues, whichever is greater.

Contributions to tax exempt organizations shall not be considered payments for purposes of these independence standards. An "immediate family member" includes a director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers-and sisters-in-law, and anyone (other than domestic employees) who shares such person's home.

The Board reviews at least annually whether directors meet these Director Independence Standards. The following directors, including all of the directors nominated for election, have been determined by the Board to be "independent" pursuant to NYSE rules and the Company's Independent Director Standards described above: Charlene Barshefsky, Rose Marie Bravo, Wei Sun Christianson, Paul J. Fribourg, Melody Hobson, Irvine O. Hockaday, Jr., Jennifer Hyman, Lynn Forester de Rothschild, Barry S. Sternlicht, Jennifer Tejada and Richard F. Zannino.

In addition to the foregoing, in order to be considered "independent" under NYSE rules for purposes of serving on the Company's Audit Committee or Compensation Committee, a director also may not accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the Company, other than as a director, and may not be an "affiliated person" of the Company. Audit Committee members may receive directors' fees and fixed payments for prior service with the Company. The Board has determined that each member of the Audit Committee and each independent member of the Compensation Committee meets these additional independence requirements.

**Communications with the Board.** A stockholder or any other interested party who wishes to communicate with the Board, any Committee thereof, the non-management directors as a group, or any individual director, including the Presiding Director for the executive sessions of the Board, may do so by addressing the correspondence to that individual or group, c/o Sara E. Moss, Executive Vice President and General Counsel, The Estée Lauder Companies Inc., 767 Fifth Avenue, New York, New York 10153. The General Counsel or a designee will review all such correspondence to determine if the substance of the correspondence relates to the duties and responsibilities of the Board or individual Board member before forwarding the correspondence to the intended recipient. Spam, junk mail, solicitations, and hostile, threatening, illegal, or similarly unsuitable material will not be forwarded to the intended recipient and, if circumstances warrant, may be forwarded to the Company's security staff. Any communication that is not forwarded may be made available to the intended recipient at his or her request.

**Director Nominees Recommended by Stockholders.** The Nominating and Board Affairs Committee will consider stockholder recommendations of nominees in the same manner as and pursuant to the same criteria by which it considers all other nominees, except for nominations received pursuant to the Stockholders' Agreement. Stockholders who wish to suggest qualified candidates should send their written recommendation to the Nominating and Board Affairs Committee, c/o Sara E. Moss, Executive Vice President and General Counsel, The Estée Lauder Companies Inc., 767 Fifth Avenue, New York, New York 10153. The following information must accompany any such recommendation by a stockholder: (i) the name and address of the stockholder making the recommendation; (ii) the name, address, telephone number, and social security number of the proposed nominee; (iii) the class or series and number of shares of the Company that are beneficially owned by the stockholder making the recommendation; (iv) a description of all



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arrangements or understandings between the stockholder and the candidate, and an executed written consent of the proposed nominee to serve as a director of the Company if so elected; (v) a copy of the proposed nominee's resume and references; and (vi) an analysis of the candidate's qualifications to serve on the Board of Directors and on each of the Board's committees in light of the criteria for Board membership established by the Board. See "Board Membership Criteria." For stockholders intending to nominate an individual for election as a director directly, there are specific procedures set forth in our bylaws. See "Stockholder Proposals and Director Nominations for the 2019 Annual Meeting" below.

**Corporate Governance Guidelines and Code of Conduct**

The Board of Directors has developed corporate governance practices to help it fulfill its responsibilities to stockholders in providing general direction and oversight of management of the Company. These practices are set forth in the Company's Corporate Governance Guidelines. The Company also has a Code of Conduct (the "Code") applicable to all employees, officers, and directors of the Company including the Chief Executive Officer and the Chief Financial Officer. These documents, as well as any waiver of a provision of the Code granted to any senior officer or director or any material amendment to the Code, may be found in the "Investors" section of the Company's website: [www.elcompanies.com](http://www.elcompanies.com) under "Corporate Governance."

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and any persons who own more than 10% of the Class A Common Stock, to file forms reporting their initial beneficial ownership of Common Stock and subsequent changes in that ownership with the SEC and the NYSE. Officers, directors, and greater-than-10% beneficial owners also are required to furnish the Company with copies of all forms they file under Section 16(a). Based solely upon a review of the copies of the forms furnished to the Company, or a written representation from a reporting person that no Form 5 was required, the Company believes that during fiscal 2018, all Section 16(a) reports were filed on a timely basis, except for one late filing on behalf of John Demsey, an executive officer, for one transaction.

**Related Person Transactions Policy and Procedures**

We have a written policy (the "Related Person Transactions Policy") that sets forth procedures for the review, approval, and ratification of transactions involving "Related Persons." Such persons consist of any director, director nominee, executive officer, any beneficial owner of more than 5% of the Company's Common Stock, any immediate family member of such persons, and any other person deemed to be a Related Person under the rules of the SEC. Under the Related Person Transactions Policy, a "Transaction" includes any financial transaction, arrangement, or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements, or relationships where the Company and a Related Person are participants. The Audit Committee is responsible for administering this policy.

When a potential Related Person Transaction is identified, our policy requires that it be promptly reported to either the General Counsel or the Secretary to review. If it is determined that such Transaction is not within the scope of the Related Person Transactions Policy, then no further action is necessary. Otherwise, the Transaction shall be presented to the Audit Committee to make an assessment and determination. The information presented to the Audit Committee in connection with its assessment may include the following: (i) the Related Person's relationship to the Company; (ii) a description of the Transaction, including the material terms, the approximate aggregate value, and the identities of other parties; (iii) the benefits of the Transaction to the Company and the Related Person; (iv) the availability of other sources of comparable products or services; and (v) any other relevant information. If the Audit Committee determines that the Related Person has a direct or indirect material interest in any Transaction, the Transaction shall be disclosed in the Company's proxy statement. If the Related Person at issue is a director of the



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Company, or an immediate family member of a director, then such director shall not participate in the assessment or determination of the Transaction being reviewed.

**Certain Relationships and Related Transactions**

***Lauder Family Relationships and Compensation.*** Leonard A. Lauder is Chairman Emeritus, and his brother Ronald S. Lauder is Chairman of Clinique Laboratories, LLC. Leonard A. Lauder and Ronald S. Lauder are also directors of the Company. Leonard A. Lauder has two sons, William P. Lauder and Gary M. Lauder. William P. Lauder is Executive Chairman and in such role is Chairman of the Board of Directors. Gary M. Lauder is not an employee of the Company. Ronald S. Lauder and his wife, Jo Carole Lauder, have two daughters, Aerin Lauder and Jane Lauder. Aerin Lauder is not an employee of the Company. She is the Style and Image Director for the Estée Lauder brand (see "Agreements with Aerin Lauder" below for additional information). Jane Lauder is Global Brand President, Clinique and is a director of the Company.

For fiscal 2018, the following Lauder Family Members received the following amounts from the Company as compensation: Leonard A. Lauder received an aggregate of \$1,800,000 for his services (comprised of base salary); Ronald S. Lauder received \$650,000 in salary and a bonus of \$491,400; and Jane Lauder received \$780,000 in salary, a bonus of \$878,000, performance share units with a target payout of 3,935 shares of Class A Common Stock, stock options for 15,644 shares of Class A Common Stock, and restricted stock units for 3,935 shares of Class A Common Stock. Each of these Lauder Family Members is entitled to participate in standard benefit plans, such as the Company's pension and medical plans. For information regarding fiscal 2018 compensation for William P. Lauder, see "Executive Compensation."

For fiscal 2019, Leonard A. Lauder has a base salary of \$1,800,000, and Ronald S. Lauder has a base salary of \$650,000 and bonus opportunities with a target payout of \$350,000. For fiscal 2019, Jane Lauder has a base salary of \$810,000, a target incentive bonus opportunity of \$670,000, and a target equity opportunity of \$1,075,000. In September 2018, Jane Lauder was granted equity-based compensation with an aggregate value of approximately \$1.25 million, comprised of performance share units with a target payout of 3,009 shares of Class A Common Stock, stock options for 10,052 shares of Class A Common Stock, and restricted stock units for 3,009 shares of Class A Common Stock, in each case for fiscal 2019. The grants were consistent with those made to employees at her level. For information regarding fiscal 2019 compensation for William P. Lauder, see "Compensation Discussion and Analysis."

Leonard A. Lauder's current employment agreement (the "LAL Agreement") provides for his employment as Chairman Emeritus until such time as he resigns, retires, or is terminated. Mr. L. Lauder is entitled to participate in standard benefit plans, such as the Company's pension and medical plans. He is also entitled to participate in the Amended and Restated Fiscal 2002 Share Incentive Plan, but no grants have been made to him under the plan to date. If Mr. L. Lauder retires, the Company will continue to provide him with the office he currently occupies (or a comparable office if the Company relocates) and a full-time executive assistant. The Company may terminate Mr. L. Lauder's employment at any time if he becomes "permanently disabled," in which event he will be entitled to (i) receive his base salary for a period of two years after termination, (ii) receive bonus compensation during such salary continuation period at an annual rate equal to the average of the actual bonuses paid to him prior to such termination under the LAL Agreement (the "Leonard Lauder Bonus Compensation"), and (iii) participate in the Company's benefit plans for two years. In the event of Mr. L. Lauder's death during the term of his employment, for a period of one year from the date of Mr. L. Lauder's death, his beneficiary or legal representative will be entitled to receive Mr. L. Lauder's base salary and the Leonard Lauder Bonus Compensation. Mr. L. Lauder may terminate his employment at any time upon six months' written notice to the Company, in which event he will be entitled to receive his base salary and the Leonard Lauder Bonus Compensation for the six-month period following termination. In addition, the Company may terminate Mr. L. Lauder's employment for any reason upon 60 days' written notice. In the event of termination of his employment by the Company (other than for cause, disability, or death) or a termination by



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Mr. L. Lauder for good reason after a change of control, (a) Mr. L. Lauder, for a period of three years from the date of termination, will be entitled to (i) receive his base salary in effect at the time of termination, (ii) receive the Leonard Lauder Bonus Compensation, (iii) participate in the Company's benefit plans and (b) in the case of termination by the Company (other than for cause, disability, or death), Mr. L. Lauder will not be subject to the non-competition covenant contained in the LAL Agreement. Upon termination for any reason, any options previously granted to Mr. L. Lauder will remain exercisable for the remainder of their respective terms, subject to certain non-competition and good conduct provisions.

As used in this Proxy Statement, the term "Lauder Family Members" includes only the following persons: (i) the estate of Mrs. Estée Lauder; (ii) each descendant of Mrs. Lauder (a "Lauder Descendant") and their respective estates, guardians, conservators, or committees; (iii) each "Family Controlled Entity" (as defined below); and (iv) the trustees, in their respective capacities as such, of each "Family Controlled Trust" (as defined below). The term "Family Controlled Entity" means: (i) any not-for-profit corporation if at least 80% of its board of directors is composed of Lauder Descendants; (ii) any other corporation if at least 80% of the value of its outstanding equity is owned by Lauder Family Members; (iii) any partnership if at least 80% of the value of its partnership interests are owned by Lauder Family Members; and (iv) any limited liability or similar company if at least 80% of the value of the company is owned by Lauder Family Members. The term "Family Controlled Trust" includes certain trusts existing on November 16, 1995 and trusts the primary beneficiaries of which are Lauder Descendants, spouses of Lauder Descendants, and/or charitable organizations, provided that if the trust is a wholly charitable trust, at least 80% of the trustees of such trust consist of Lauder Descendants.

**Registration Rights Agreement.** Leonard A. Lauder, Ronald S. Lauder, The Estée Lauder 1994 Trust, William P. Lauder, Gary M. Lauder, Aerin Lauder, Jane Lauder, certain Family Controlled Entities and other Family Controlled Trusts, Morgan Guaranty Trust Company of New York ("Morgan Guaranty"), and the Company are parties to a Registration Rights Agreement (the "Registration Rights Agreement"), pursuant to which each of Leonard A. Lauder, Ronald S. Lauder, and Morgan Guaranty has three demand registration rights and The Estée Lauder 1994 Trust has six demand registration rights in respect of shares of Class A Common Stock (including Class A Common Stock issued upon conversion of Class B Common Stock) held by them. Three of the demand rights granted to The Estée Lauder 1994 Trust may be used only by a pledgee of The Estée Lauder 1994 Trust's shares of Common Stock. All the parties to the Registration Rights Agreement (other than the Company) also have an unlimited number of piggyback registration rights in respect of their shares. The rights of Morgan Guaranty and any other pledgee of The Estée Lauder 1994 Trust under the Registration Rights Agreement will be exercisable only in the event of a default under certain loan arrangements. Leonard A. Lauder and Ronald S. Lauder may assign their demand registration rights to Lauder Family Members. The Company is not required to effect more than one registration of Class A Common Stock in any consecutive twelve-month period. The piggyback registration rights allow the holders to include their shares of Class A Common Stock in any registration statement filed by the Company, subject to certain limitations.

The Company is required to pay all expenses (other than underwriting discounts and commissions of the selling stockholders, taxes payable by the selling stockholders, and the fees and expenses of the selling stockholders' counsel) in connection with any demand registrations, as well as any registrations pursuant to the exercise of piggyback rights. The Company has agreed to indemnify the selling stockholders against certain liabilities, including liabilities arising under the Securities Act of 1933.



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**Stockholders' Agreement.** All Lauder Family Members who are party to the Stockholders' Agreement have agreed to vote shares beneficially owned by them for Leonard A. Lauder (or for one of his sons), Ronald S. Lauder (or for one of his daughters), and one person, if any, designated by each as a director of the Company. Aerin Lauder and Jane Lauder are parties to the Stockholders' Agreement solely as trustees of certain trusts. Shares subject to the Stockholders' Agreement represent a substantial majority of the voting power of the Company as of the Record Date. See "Additional Information Regarding the Board of Directors Stockholders' Agreement and Lauder Family Control."

Parties to the Stockholders' Agreement may, without restriction under the agreement, sell their shares in a widely distributed underwritten public offering, in sales made in compliance with Rule 144 under the Securities Act of 1933 or to other Lauder Family Members. In addition, each party to the Stockholders' Agreement may freely donate shares in an amount not to exceed 1% of the outstanding shares of Common Stock in any 90-day period. In the case of other private sales, each stockholder who is a party to the Stockholders' Agreement (the "Offering Stockholder") has granted to each other party (the "Offeree") a right of first offer to purchase shares of Class A Common Stock that the Offering Stockholder intends to sell to a person (or group of persons) who is not a Lauder Family Member. Each Offeree has the opportunity to purchase the Offeree's pro rata portion of the shares to be offered by the Offering Stockholder, as well as additional shares not purchased by other Offerees. Any shares not purchased pursuant to the right of first offer may be sold at or above 95% of the price offered to the Offerees. The Stockholders' Agreement also includes provisions for bona fide pledges of shares of Common Stock and procedures related to such pledges. The Stockholders' Agreement will terminate upon the occurrence of certain specified events, including the transfer of shares of Common Stock by a party to the Stockholders' Agreement that causes all parties thereto immediately after such transaction to own beneficially in the aggregate shares having less than 10% of the total voting power of the Company.

**Agreements with Aerin Lauder.** Estee Lauder Inc. ("ELI"), a subsidiary of the Company, is party to (i) a creative consultant agreement with Aerin Lauder (the "Creative Consultant Agreement") and (ii) a brand license agreement with Ms. Lauder and Aerin LLC, a limited liability company wholly owned by Ms. Lauder (the "License Agreement").

Under the Creative Consultant Agreement, Aerin Lauder is a spokesperson for the Estée Lauder brand and collaborates with the Estée Lauder Creative Director on creative aspects of the brand as Style and Image Director. The current term of this agreement expires June 30, 2021. For fiscal 2018, Ms. Lauder received approximately \$604,500 for her services under the agreement. For fiscal 2019, she will receive approximately \$628,600 for such services. During the term of the Creative Consulting Agreement, the Company has the exclusive right to use Ms. Lauder's name and image to market beauty products and related services of the Estée Lauder brand, and Ms. Lauder has agreed to no more than 25 days of personal appearances per year for the brand, the Company, or its subsidiaries, after which ELI is required to pay her an additional amount per day (for fiscal 2018, \$26,000; and for fiscal 2019, \$27,000). No additional amount per day was paid in fiscal 2018. In addition, an office and access to an assistant are provided to Ms. Lauder in connection with her services.

Separately, in fiscal 2017, the Company agreed to make payments totaling \$500,000 to Aerin LLC in each of fiscal 2017 through and including fiscal 2021 in connection with brand-building activities for AERIN Beauty and the AERIN lifestyle brand, provided that the then current Aerin LLC management remained in place. The Company made such payments in fiscal 2017 (totaling \$500,000) and in fiscal 2018 (totaling \$333,330). The lower amount in fiscal 2018 reflected changes in Aerin LLC management.

Under the License Agreement, Aerin LLC has granted ELI a worldwide license to use the "Aerin" trademark and "A" logo (and related marks) and Ms. Lauder's name and image (i) exclusively in connection with "Core Beauty Products" (cosmetics, fragrances, toiletries, skin care, hair care, value sets, and beauty accessories) and (ii) non-exclusively in connection with "Non-Core Beauty Products"



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(cosmetics bags, tote bags, and fragranced candles). The License Agreement covers the name "Aerin" and not the name "Lauder," for which the Company and its subsidiaries retain sole ownership. The initial license term expired on June 30, 2017, at which time the agreement automatically renewed for an additional 5-year period through June 30, 2022. The License Agreement provides for two additional 5-year renewal terms if ELI does not give notice of non-renewal and net sales hit certain performance targets (or if ELI cures a sales shortfall, in certain circumstances).

Under the License Agreement, Aerin LLC will receive the following royalties: (i) for all products other than fragrances, 4% of annual net sales up to \$40 million and 5% of annual net sales in excess thereof; and (ii) for fragrances, 5% of annual net sales. For fiscal 2018, Aerin LLC was paid approximately \$607,600 in royalties. Under the agreement, ELI must spend the following minimum amounts to promote Aerin-branded products: 15% of ELI's net sales each annual period (June 30 – July 1) in the remaining term of the agreement, with such requirement capped each year at 50% of Aerin LLC's similar expenditures, either directly or through other licensees, on Aerin-branded products. Both ELI and Aerin LLC will distribute Aerin-branded products only through prestige retailers. In addition, in fiscal 2018, in connection with the License Agreement, the Company received approximately \$112,000 from Aerin LLC for AERIN products provided for sale in Aerin retail locations and on Aerin LLC's website.

ELI launched AERIN Beauty in September 2012 with several products, and additional products have been introduced since then. ELI may launch additional AERIN-branded products in its reasonable commercial judgment. Under the License Agreement, Ms. Lauder has agreed to provide at least ten personal appearances during each fiscal year, for which she will not be compensated, and which are in addition to those appearances covered by the Creative Consultant Agreement. ELI will be responsible for Ms. Lauder's reasonable travel expenses in connection with such appearances. Aerin LLC may terminate the License Agreement if an unaffiliated third party obtains more than 50% of the voting power or equity of ELI. ELI may terminate the License Agreement if control of Aerin LLC (or substantially all of its assets) is transferred to a competitor of ELI or to certain categories of retailers not engaged in prestige distribution. Either side may terminate the License Agreement for an uncured material breach.

**Other Arrangements.** The Company has subleased certain of its office space in New York to an affiliate of Ronald S. Lauder. For fiscal 2018, the rent paid or accrued was approximately \$911,900, which equals the Company's lease payments for that space. The Company also has agreed to provide such affiliate with certain services, such as phone systems, payroll service, and office and administrative services, which are reimbursed at a rate approximating the Company's incremental cost thereof. For fiscal 2018, such affiliate paid approximately \$13.2 million pursuant to such agreement. At June 30, 2018, such affiliate had deposited with the Company approximately \$2.0 million to cover expenses. The Company has similar arrangements for space and services with an affiliate of Leonard A. Lauder and his family. For fiscal 2018, that affiliate and/or family member(s) paid the Company approximately \$7.76 million for office space and certain services, such as phone systems, payroll service, and office and administrative services. At June 30, 2018, that affiliate and family members had deposited with the Company approximately \$297,600 to cover expenses. The payments by the affiliates and family members approximated the Company's incremental cost of the relevant space and services.

Certain members of the Lauder family (and entities affiliated with one or more of them) own numerous works of art that are displayed at the Company's offices. The Company pays no fee to the owners for displaying such works. The owners of the works pay for their maintenance. In fiscal 2018, the Company paid premiums of less than \$10,000 for insurance relating to such works.

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## Director Compensation

The following summary describes compensation for non-employee directors.

**Annual Cash Retainer for Board Service.** Each non-employee director receives an annual cash retainer of \$100,000, payable quarterly, which may be deferred as explained below.

**Annual Cash Retainer for Presiding Director.** The Presiding Director receives an additional annual cash retainer of \$30,000, payable quarterly, which may be deferred as explained below.

**Annual Cash Retainer for Committee Service.** Each non-employee director who serves on a committee receives an additional annual cash retainer in the following amounts: \$12,000 per year for service on the Audit Committee, \$8,000 per year for service on the Compensation Committee (including service on the Stock Plan Subcommittee), and \$8,000 per year for service on the Nominating and Board Affairs Committee. The Chair of the Audit Committee receives a further annual cash retainer of \$25,000. The Chairs of the Compensation Committee and the Nominating and Board Affairs Committee receive a further annual cash retainer of \$15,000 each. Cash retainers for committee service are paid quarterly and may be deferred, as explained below.

**Deferral of Annual Cash Retainers.** Non-employee directors may elect to defer receipt of all or part of their cash-based compensation. Specifically, pursuant to Deferred Compensation Agreements, they may defer any or all of the above-referenced annual cash retainers into either (i) stock units (accompanied by dividend equivalent rights) or (ii) an interest-bearing cash account, in each case to be paid out in a lump sum in cash as of the first business day of the calendar year following the date on which the director ceases to be a member of the Board.

**Initial Stock Grant.** On the date of the first annual meeting of stockholders that is more than six months after a non-employee director's initial election to the Board, the director receives a grant of 2,000 shares of Class A Common Stock (plus a cash payment in an amount to cover related income taxes), pursuant to the Amended and Restated Non-Employee Director Share Incentive Plan (the "Director Share Plan").

**Annual Stock Units Retainer for Board Service.** An additional \$75,000 is payable to each non-employee director by a grant of stock units (accompanied by dividend equivalent rights) as an annual stock retainer, pursuant to the Director Share Plan. This grant is made on the date of each annual meeting of stockholders. The number of stock units to be awarded is determined by dividing \$75,000 by the average closing price of the Class A Common Stock on the twenty trading days preceding the date of grant. Each stock unit is convertible into one share of Class A Common Stock, and the Class A Common Stock represented by the stock units is distributed to the director on or after the first business day of the calendar year following the date on which the director ceases to be a member of the Board.

**Annual Stock Options.** In addition to the cash and stock portion of the retainer, each non-employee director receives an annual grant of options valued at no more than \$100,000 on the date of grant, pursuant to the Director Share Plan. This grant is made on the date of each annual meeting of stockholders. The exercise price of the options is equal to the closing price of the Class A Common Stock on the date of grant. The options are exercisable beginning one year after the date of grant, provided that the director continues to serve as of such date. The options generally terminate ten years after the date of grant.

**Stock Ownership Requirement.** As set forth in the Company's Corporate Governance Guidelines, the Board believes that in order to align the interests of directors and stockholders, directors should have a significant financial stake in the Company. Specifically, each director should own shares of the Company's Common Stock with a value equal to or greater than four times the annual cash retainer for Board service. Applying this guideline for fiscal 2018, each director was



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required to own shares of the Company's Common Stock with a value equal to or greater than \$400,000 (i.e. \$100,000 × 4). A director must be in compliance with this requirement no later than three years after initial election to the Board. Therefore, Ms. Hyman and Ms. Tejada have until April 2021 to satisfy this requirement. As of the end of fiscal 2018, each of the other directors was in compliance with this stock ownership requirement.

**Company Products.** The Company provides directors with certain Company products from different brands and product categories. The Company believes that providing these products serves a business purpose by expanding the directors' knowledge of the Company's business. The Company also provides each non-employee director with the opportunity to purchase up to \$1,280 worth of the Company's products each calendar year (based on suggested retail prices) at no charge; if a director chooses to take advantage of this opportunity and purchase more than \$640 worth of the Company's products, the excess is imputed as taxable income to the director. For the year ended June 30, 2018, the aggregate incremental cost to the Company for products provided to the directors was substantially less than \$10,000 per director. Non-employee directors may also purchase Company products at a price equal to 50% off the suggested retail price, which is the same discount made available to officers and other employees of the Company.

**Reimbursement of Expenses.** Non-employee directors are reimbursed for their reasonable expenses (including costs of travel, food, and lodging) incurred in attending Board, committee, and stockholder meetings. Directors are also reimbursed for any other reasonable expenses relating to their service on the Board, including participating in director continuing education and Company site visits.

**Management Directors.** Directors who are also employees of the Company receive no additional compensation for service as directors. These directors are Fabrizio Freda, Jane Lauder, Leonard A. Lauder, Ronald S. Lauder, and William P. Lauder.

The following table sets forth compensation information regarding the Company's non-employee directors in fiscal 2018.

|                             |            |           |           |           |            |
|-----------------------------|------------|-----------|-----------|-----------|------------|
| Charlene Barshefsky         | \$ 101,750 | \$ 74,999 | \$ 99,966 | \$ 24,037 | \$ 300,752 |
| Rose Marie Bravo            | 101,750    | 74,999    | 99,966    |           | 276,715    |
| Wei Sun Christianson        | 101,750    | 74,999    | 99,966    |           | 276,715    |
| Paul J. Fribourg            | 113,750    | 74,999    | 99,966    |           | 288,715    |
| Melody Hobson               | 105,750    | 74,999    | 99,966    |           | 280,715    |
| Irvine O. Hockaday, Jr.     | 160,750    | 74,999    | 99,966    |           | 335,715    |
| Jennifer Hyman*             | 28,000     |           |           |           | 28,000     |
| Richard D. Parsons          | 124,750    | 74,999    | 99,966    |           | 299,715    |
| Lynn Forester de Rothschild | 116,750    | 74,999    | 99,966    |           | 291,715    |
| Barry S. Sternlicht         | 101,750    | 74,999    | 99,966    |           | 276,715    |
| Jennifer Tejada*            | 28,000     |           |           |           | 28,000     |
| Richard F. Zannino          | 113,750    | 74,999    | 99,966    |           | 288,715    |

\*

Ms. Hyman and Ms. Tejada joined the Board and the Audit Committee in April 2018.



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- (1) These amounts represent the Annual Cash Retainer for Board Service, the Annual Cash Retainer for Committee Service, and the Annual Cash Retainer for Presiding Director. Ms. Hyman and Ms. Tejada each received one quarterly cash retainer payment for their Board and committee service during fiscal 2018.
- (2) These amounts represent the aggregate grant date fair value of the Annual Stock Units Retainer for Board Service, as computed in accordance with FASB Accounting Standard Codification Topic 718, Compensation – Stock Compensation. The amounts were calculated based on the closing price per share of the Class A Common Stock on the NYSE on the date of grant (November 14, 2017). Ms. Hyman and Ms. Tejada were not on the Board at the time of this grant.
- (3) These stock units convert into Class A Common Stock on or after the first business day of the calendar year following the date on which the director ceases to serve on the Board. Presented below are the aggregate number of shares of Class A Common Stock underlying Annual Stock Unit Retainers outstanding as of June 30, 2018, which include dividend equivalents.

|                             |          |
|-----------------------------|----------|
| Charlene Barshefsky         | 17,395   |
| Rose Marie Bravo            | 13,842   |
| Wei Sun Christianson        | 7,568    |
| Paul J. Fribourg            | 9,142    |
| Melody Hobson               | 15,770   |
| Irvine O. Hockaday, Jr.     | 20,974   |
| Jennifer Hyman*             | 0        |
| Richard D. Parsons          | 16,363** |
| Lynn Forester de Rothschild | 17,177   |
| Barry S. Sternlicht         | 12,917   |
| Jennifer Tejada*            | 0        |
| Richard F. Zannino          | 8,381    |

\* Ms. Hyman and Ms. Tejada joined the Board in April 2018.

\*\* This includes 5,779 stock units held indirectly by Mr. Parsons as a co-trustee of a family trust.

- (4) These amounts represent the aggregate grant date fair value of the Annual Stock Options as computed in accordance with FASB Accounting Standard Codification Topic 718, Compensation – Stock Compensation. Amounts shown disregard estimates of forfeitures related to service-based vesting conditions. The fair-market values of stock options at grant date (November 14, 2017) were calculated using the Black-Scholes options-pricing model, with the following assumptions: an expected volatility of 26% determined using a combination of both current and historical implied volatilities of the underlying Class A Common Stock obtained from public data sources; an expected term to exercise of 9 years from the date of grant; a risk-free interest rate of 2.11%; and a dividend yield of 1.52%. The value of any options that will ultimately be realized by the director will depend upon the actual performance of the Company's Class A Common Stock during the term of the option from the date of grant through the date of exercise. Ms. Hyman and Ms. Tejada were not on the Board at the time of this grant.





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- (5) Presented below are the aggregate number of shares of Class A Common Stock underlying stock options outstanding as of June 30, 2018.

|                             |          |
|-----------------------------|----------|
| Charlene Barshefsky         | 59,074** |
| Rose Marie Bravo            | 19,762   |
| Wei Sun Christianson        | 29,074   |
| Paul J. Fribourg            | 19,762   |
| Melody Hobson               | 49,074   |
| Irvine O. Hockaday, Jr.     | 15,949   |
| Jennifer Hyman*             | 0        |
| Richard D. Parsons          | 19,762   |
| Lynn Forester de Rothschild | 49,074   |
| Barry S. Sternlicht         | 66,752   |
| Jennifer Tejada*            | 0        |
| Richard F. Zannino          | 19,762   |

\*

Ms. Hyman and Ms. Tejada joined the Board in April 2018.

\*\*

This includes 34,576 shares of Class A Common Stock underlying stock options that are held indirectly by Ambassador Barshefsky through a family trust.

- (6) Non-employee directors do not receive pension benefits from the Company. Certain of the Company's directors in fiscal 2018 and prior years deferred their Annual Cash Retainers for Board and Committee service pursuant to applicable deferral agreements. Ambassador Barshefsky defers her compensation into an interest-bearing cash account; the interest rate is the Citibank base rate at the last day of the calendar year. The amount shown for Ambassador Barshefsky is the interest that accrued above the applicable federal rate set by the Internal Revenue Service (the "AFR") in fiscal 2018, using the Citibank base rate and the AFR at December 31, 2017 as the rates for fiscal 2018. Mr. Fribourg, Ms. Hobson, Mr. Hockaday, Lady de Rothschild, and Mr. Sternlicht deferred their Annual Cash Retainers for Board and Committee service into stock units; all earnings on the fees deferred by these directors were based on the value of a hypothetical investment in shares of Class A Common Stock made at the time of the deferral, plus the accrual of dividend equivalents on any dividends paid by the Company on the Class A Common Stock. As of June 30, 2018, the directors held units in respect of the following amounts of shares of Class A Common Stock: Mr. Fribourg, 31,239; Ms. Hobson, 36,343; Mr. Hockaday, 75,872; Lady de Rothschild, 66,733; and Mr. Sternlicht, 37,729.



Table of Contents**Ownership of Shares**

The following table sets forth certain information regarding the beneficial ownership of the Company's Class A Common Stock and Class B Common Stock as of August 6, 2018 by: (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of either Class A Common Stock or Class B Common Stock; (ii) each of the Company's directors or nominees; (iii) each of the current or former executive officers whose names appear in the Summary Compensation Table; and (iv) all current directors and executive officers as a group. Except as set forth in the notes to the table, the business or mailing address of each 5% stockholder is 767 Fifth Avenue, New York, New York 10153. **As described in the notes to the table, certain named beneficial owners share voting and/or investment power with respect to certain shares of Common Stock. Consequently, such shares are shown as beneficially owned by more than one person.**

|  |            |                |            |             |
|--|------------|----------------|------------|-------------|
| Leonard A. Lauder <sup>(3)(4)</sup>  | 1,527,838  | 0.7%           |            | *           |
| LAL Family Corporation <sup>(3)(5)</sup>                                     |            | 88,859,684     | 62.1%      | 53.7%       |
| Ronald S. Lauder <sup>(3)(6)</sup>   | 73,335     | * 9,409,895    | 6.6%       | 5.7%        |
| William P. Lauder <sup>(3)(7)</sup>  | 422,056    | 0.2% 8,093,904 | 5.7%       | 4.9%        |
| Gary M. Lauder <sup>(3)(8)</sup>   | 10,468     | * 45,740       | *          | *           |
| Aerin Lauder <sup>(3)(9)</sup>   | 1,692      | * 6,585,594    | 4.6%       | 4.0%        |
| Jane Lauder <sup>(3)(10)</sup>   | 195,466    | * 5,185,594    | 3.6%       | 3.1%        |
| Joel S. Ehrenkranz, as trustee <sup>(3)(11)</sup>                            | 1,507,838  | 0.7%           |            | *           |
| Richard D. Parsons, individually and as trustee <sup>(3)(12)</sup>           | 37,661     | * 29,781,862   | 20.8%      | 18.0%       |
| Charlene Barshefsky <sup>(13)</sup>  | 117,568    | *              |            | *           |
| Rose Marie Bravo <sup>(14)</sup>   | 38,698     | *              |            | *           |
| Wei Sun Christianson <sup>(15)</sup>   | 37,795     | *              |            | *           |
| Paul J. Fribourg <sup>(16)</sup>   | 29,998     | *              |            | *           |
| Melody Hobson <sup>(17)</sup>  | 231,161    | 0.1%           |            | *           |
| Irvine O. Hockaday, Jr. <sup>(18)</sup>                                      | 50,757     | *              |            | *           |
| Jennifer Hyman <sup>(19)</sup>   |            |                |            |             |
| Lynn Forester de Rothschild <sup>(20)</sup>                                  | 67,345     | *              |            | *           |
| Barry S. Sternlicht <sup>(21)</sup>  | 143,745    | *              |            | *           |
| Jennifer Tejada <sup>(22)</sup>  |            |                |            |             |
| Richard F. Zannino <sup>(23)</sup>   | 25,237     | *              |            | *           |
| Fabrizio Freda <sup>(24)</sup>   | 1,067,293  | 0.5%           |            | *           |
| John Demsey <sup>(25)</sup>  |            |                |            |             |
| Cedric Prouvé <sup>(26)</sup>  | 236,181    | 0.1%           |            | *           |
| Tracey T. Travis <sup>(27)</sup>   | 272,732    | 0.1%           |            | *           |
| BlackRock, Inc. <sup>(28)</sup>  | 15,790,395 | 7.0%           |            | 1.0%        |
| FMR LLC <sup>(29)</sup>  | 17,263,713 | 7.7%           |            | 1.0%        |
| The Vanguard Group <sup>(30)</sup>   | 16,073,929 | 7.2%           |            | 1.0%        |
| All directors and executive officers as a group (26 persons) <sup>(31)</sup> | 4,950,836  | 2.2%           | 24,146,255 | 37.9% 33.0% |

Voting power represents combined voting power of Class A Common Stock (one vote per share) and Class B Common Stock (10 votes per share) owned beneficially as of August 6, 2018. On that date, there were 224,132,189 shares of Class A Common Stock and 143,051,679 shares of Class B Common Stock outstanding.

\*

Less than 0.1%



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- (1) The number of shares of Class A Common Stock and percentages contained under this heading do not account for the conversion right with regard to Class B Common Stock. Each share of Class B Common Stock is convertible at the option of the holder into one share of Class A Common Stock and is automatically converted into one share of Class A Common Stock upon transfer to a person who is not a Lauder Family Member (as defined, see "Certain Relationships and Related Transactions – Lauder Family Relationships and Compensation"). In addition, as set forth in detail in the Corporation's Certificate of Incorporation, if on the record date for any meeting of stockholders of the Corporation, the outstanding Class B Common Stock constitutes less than 10% of the total outstanding Common Stock, then each share of Class B Common Stock shall be converted automatically as of the record date into one share of Class A Common Stock with one vote per share. As of the record date for the 2018 Annual Meeting of Stockholders, the outstanding Class B Common Stock constituted 39% of the total outstanding Common Stock.
- (2) The number of shares of Class A Common Stock includes shares owned, any shares underlying restricted stock units payable in shares that are expected to vest within 60 days after August 6, 2018 (i.e. by October 5, 2018), and any exercisable options (including options that will be exercisable as of October 5, 2018). It does not include Performance Share Units ("PSUs") that were paid out after August 6, 2018; for more information on those awards, see "Outstanding Equity Awards at June 30, 2018," as well as the Form 4s filed for the Company's executive officers after the payouts of those PSUs. The stock units included in the table that are beneficially owned by the non-employee directors represent the Annual Stock Units Retainer for Board Service (plus dividend equivalents). Such units will be settled in shares of Class A Common Stock. Amounts are rounded to the nearest whole unit.
- (3) Leonard A. Lauder, Ronald S. Lauder, William P. Lauder, and Gary M. Lauder, each individually and as trustees of various trusts, Aerin Lauder, as trustee, Jane Lauder, as trustee, Joel S. Ehrenkranz, as trustee, Richard D. Parsons, as trustee, and LAL Family Partners L.P. ("LALFP") are parties to a Stockholders' Agreement, pursuant to which each has agreed to vote his or the trust's or partnership's shares for the election of Leonard A. Lauder (or one of his sons), Ronald S. Lauder (or one of his daughters), and one person, if any, designated by each as a director of the Company. See note (12) for certain exceptions. Shares underlying stock options and stock units are not subject to the Stockholders' Agreement until the stock options are exercised or the stock units are converted. For purposes of the table, shares owned by each such individual are not attributed to the others by reason of such voting arrangement.
- (4) Includes shares owned beneficially or deemed to be owned beneficially by Leonard A. Lauder as follows:
  - (a) 1,507,838 shares of Class A Common Stock as co-trustee of The Leonard A. Lauder 2013 Revocable Trust and with respect to which he may be deemed to have shared voting and investment power with Joel S. Ehrenkranz, as co-trustee; and
  - (b) 20,000 shares of Class A Common Stock held indirectly through a trust of Mr. Lauder's spouse with respect to which Mr. Lauder may be deemed to have shared voting and investment power.
- (5) LAL Family Corporation is the sole general partner of LALFP and may be deemed to be the beneficial owner of 88,859,684 shares of Class B Common Stock owned directly by LALFP.
- (6) Includes shares owned beneficially or deemed to be owned beneficially by Ronald S. Lauder as follows:
  - (a) 9,403,531 shares of Class B Common Stock directly, over which he has (i) sole voting power for all such shares, (ii) sole investment power for 28,531 shares, and (iii) shared investment power for 9,375,000 shares as described below;
  - (b) 6,364 shares of Class A Common Stock and 6,364 shares of Class B Common Stock as sole trustee of a trust for the benefit of his children and with respect to which he has sole voting and investment power; and
  - (c) 66,971 shares of Class A Common Stock as a Director of The Ronald S. Lauder Foundation and with respect to which he shares voting and investment power.



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Mr. R. Lauder disclaims beneficial ownership of the shares of Class A Common Stock and Class B Common Stock owned by trusts for the benefit of one or more of his children and by the Ronald S. Lauder Foundation. 7,375,000 shares of Class B Common Stock are pledged by Mr. R. Lauder to secure loans under loan facilities with certain banks as to which he has sole voting power and shares investment power with certain pledgees under the loan facilities; and 2,000,000 shares of Class B Common Stock are pledged to secure his obligations under a prepaid variable forward sale contract to an unaffiliated third-party buyer and with respect to which he has sole voting power and shares investment power with such third-party buyer.

(7)

Includes shares owned beneficially or deemed to be owned beneficially by William P. Lauder as follows:

(a)

68,550 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power;

(b)

8,093,904 shares of Class B Common Stock directly and with respect to which he has sole voting and investment power; and

(c)

353,506 shares of Class A Common Stock underlying options held by Mr. W. Lauder.

Mr. W. Lauder disclaims beneficial ownership of shares held by the trust to the extent he does not have a pecuniary interest in such shares.

(8)

Includes shares deemed to be owned beneficially by Gary M. Lauder as follows: 10,468 shares of Class A Common Stock and 45,740 shares of Class B Common Stock as custodian for his nieces and with respect to which he has sole voting and investment power.

Mr. G. Lauder disclaims beneficial ownership of the shares to the extent he does not have a pecuniary interest in such shares.

(9)

Includes shares owned beneficially or deemed to be owned beneficially by Aerin Lauder as follows:

(a)

1,692 shares of Class A Common Stock and 1,675,000 shares of Class B Common Stock directly and with respect to which she has sole voting and investment power; and

(b)

4,910,594 shares of Class B Common Stock as co-trustee of the Trust under Article 2 of The Zinterhofer 2008 Descendants Trust Agreement u/a/d December 24, 2008 (the "2008 Descendants Trust") with respect to which she shares voting and investment power with Jane Lauder, as co-trustee.

Ms. A. Lauder disclaims beneficial ownership to the extent that she does not have a pecuniary interest in the shares held by the trust. Shares held by Ms. A. Lauder directly are not subject to the Stockholders' Agreement. Richard D. Parsons is trustee of a trust for the benefit of Ms. A. Lauder that holds shares of Class B Common Stock. See note (12).

(10)

Includes shares owned beneficially or deemed to be owned beneficially by Jane Lauder as follows:

(a)

36,703 shares of Class A Common Stock and 275,000 shares of Class B Common Stock directly and with respect to which she has sole voting and investment power;

(b)

4,910,594 shares of Class B Common Stock as co-trustee of the 2008 Descendants Trust and with respect to which she shares voting and investment power with Aerin Lauder, as co-trustee; and

(c)

158,763 shares of Class A Common Stock underlying options held by Ms. J. Lauder.

Ms. J. Lauder disclaims beneficial ownership to the extent that she does not have a pecuniary interest in the shares held by the trust. Shares held by Ms. J. Lauder directly are not subject to the Stockholders' Agreement. Richard D. Parsons is trustee of a trust for the benefit of Ms. J. Lauder that holds shares of Class B Common Stock. See note (12).



- (11) Represents shares of Class A Common Stock beneficially owned indirectly by Joel S. Ehrenkranz as co-trustee, with Leonard A. Lauder as co-trustee, of The Leonard A. Lauder 2013 Revocable Trust for the benefit of Leonard A. Lauder and with respect to which Mr. Ehrenkranz may be deemed to have shared voting and investment power. Mr. Ehrenkranz

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disclaims beneficial ownership of all such shares. Mr. Ehrenkranz's business address is 375 Park Avenue, New York, New York 10152.

(12)

Includes shares owned beneficially or deemed to be owned beneficially by Richard D. Parsons as follows:

- (a) 4,442 shares of Class A Common Stock held indirectly through a family foundation, with respect to which he has shared voting and investment power;
- (b) 10,584 shares of Class A Common Stock underlying stock units held directly that are payable in shares, and 5,779 shares of Class A Common Stock underlying stock units held indirectly through a family trust that are payable in shares;
- (c) 16,856 shares of Class A Common Stock underlying options;
- (d) 11,196,516 shares of Class B Common Stock as trustee of the Aerin Lauder Zinterhofer 2000 Revocable Trust u/a/d 4/24/00 for the benefit of Aerin Lauder and with respect to which Mr. Parsons has sole voting and investment power;
- (e) 17,161,020 shares of Class B Common Stock as trustee of the Jane A. Lauder 2003 Revocable Trust for the benefit of Jane Lauder and with respect to which Mr. Parsons has sole voting and investment power; and
- (f) 1,424,326 shares of Class B Common Stock as trustee of a trust for the benefit of Ronald S. Lauder (the "4202 Trust") and with respect to which Mr. Parsons has sole voting power and sole investment power.

The 4202 Trust owns all of the outstanding shares of The 4202 Corporation, which corporation is a Lauder Family Member and owns the shares of Class B Common Stock directly. The 4202 Corporation is not a party to the Stockholders' Agreement; therefore any shares of Class A and Class B Common Stock owned by The 4202 Corporation are not subject to that agreement. Mr. Parsons disclaims beneficial ownership of the shares held by The 4202 Corporation. Mr. Parsons's business address is 9 West 57<sup>th</sup> Street, Suite 4700, New York, New York 10019.

(13)

Includes shares owned beneficially by Charlene Barshefsky as follows:

- (a) 4,000 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power;
- (b) 40,005 shares of Class A Common Stock indirectly through a family trust;
- (c) 17,395 shares of Class A Common Stock underlying stock units payable in shares; and
- (d) 56,168 shares of Class A Common Stock underlying options, including options that are held indirectly through a family trust.

(14)

Includes shares owned beneficially by Rose Marie Bravo as follows:

- (a) 8,000 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power;
- (b) 13,842 shares of Class A Common Stock underlying stock units payable in shares; and

(c) 16,856 shares of Class A Common Stock underlying options.

(15) Includes shares owned beneficially by Wei Sun Christianson as follows:

(a) 4,059 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power;

(b) 7,568 shares of Class A Common Stock underlying stock units payable in shares; and

(c) 26,168 shares of Class A Common Stock underlying options.

(16) Includes shares owned beneficially by Paul J. Fribourg as follows:

(a) 4,000 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power;

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- (b) 9,142 shares of Class A Common Stock underlying stock units payable in shares; and
  - (c) 16,856 shares of Class A Common Stock underlying options.
- (17) Includes shares owned beneficially by Mellody Hobson as follows:
- (a) 19,500 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power;
  - (b) 149,723 shares of Class A Common Stock indirectly in a family member's trust;
  - (c) 15,770 shares of Class A Common Stock underlying stock units payable in shares; and
  - (d) 46,168 shares of Class A Common Stock underlying options.
- (18) Includes shares owned beneficially by Irvine O. Hockaday, Jr. as follows:
- (a) 16,740 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power;
  - (b) 20,974 shares of Class A Common Stock underlying stock units payable in shares; and
  - (c) 13,043 shares of Class A Common Stock underlying options.
- (19) Ms. Hyman joined the Board in April 2018.
- (20) Includes shares owned beneficially by Lynn Forester de Rothschild as follows:
- (a) 4,000 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power;
  - (b) 17,177 shares of Class A Common Stock underlying stock units payable in shares; and
  - (c) 46,168 shares of Class A Common Stock underlying options.
- (21) Includes shares owned beneficially or deemed to be owned beneficially by Barry S. Sternlicht as follows:
- (a) 30,982 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power;
  - (b) 36,000 shares of Class A Common Stock indirectly through three family trusts;
  - (c)

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12,917 shares of Class A Common Stock underlying stock units payable in shares; and

(d) 63,846 shares of Class A Common Stock underlying options.

(22) Ms. Tejada joined the Board in April 2018.

(23) Includes shares owned beneficially by Richard F. Zannino as follows:

(a) 8,381 shares of Class A Common Stock underlying stock units payable in shares; and

(b) 16,856 shares of Class A Common Stock underlying options.

(24) Includes shares owned beneficially by Fabrizio Freda as follows:

(a) 73,174 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; and

(b) 994,119 shares of Class A Common Stock underlying options.

(25) See "Outstanding Equity Awards at June 30, 2018" table for information about John Demsey's equity holdings as of June 30, 2018, which include (i) more than 144,000 shares underlying performance share units, (ii) more than 146,000 shares underlying stock options, and (iii) approximately 40,500 shares underlying restricted stock units.

(26) Includes shares owned beneficially by Cedric Prouvé as follows:

(a) 179,891 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; and

(b) 56,290 shares of Class A Common Stock underlying options.

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- (27) Includes shares owned beneficially by Tracey T. Travis as follows:
- (a) 19,467 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power; and
  - (b) 253,265 shares of Class A Common Stock underlying options.
- (28) Based on a Schedule 13G Amendment filed January 25, 2018 by BlackRock, Inc. ("BlackRock"), 55 East 52<sup>nd</sup> Street, New York, New York 10055, BlackRock may be deemed to be the beneficial owner of 15,790,395 shares of Class A Common Stock, over which it has (a) sole investment power for all such shares and (b) sole voting power for 13,327,922 shares, all of which shares are held by certain of its subsidiaries.
- (29) Based on a Schedule 13G Amendment filed February 13, 2018 by FMR LLC ("FMR"), 245 Summer Street, Boston, Massachusetts 02210, FMR may be deemed to be the beneficial owner of 17,263,713 shares of Class A Common Stock, over which it has (a) sole investment power for all such shares and (b) sole voting power for 1,615,354 shares, all of which shares are held by certain of its subsidiaries and affiliates.
- (30) Based on a Schedule 13G Amendment filed February 9, 2018 by The Vanguard Group ("Vanguard"), 100 Vanguard Boulevard, Malvern, Pennsylvania 19355, Vanguard may be deemed to be the beneficial owner of 16,073,929 shares of Class A Common Stock, over which it has (a) sole investment power for 15,708,985 shares, (b) shared investment power for 364,944 shares, (c) sole voting power for 321,813 shares, and (d) shared voting power for 54,045 shares, all of which shares are held by certain of its subsidiaries.
- (31) See notes (2) through (4), (6), (7), (10), (12) through (27). Includes for executive officers not named in the table:
- (a) 201,281 shares of Class A Common Stock; and
  - (b) 174,688 shares of Class A Common Stock underlying options.

Table of Contents**Executive Compensation***Compensation Discussion and Analysis**Executive Summary*

We drive our annual and long-term performance through our executive compensation programs. Annual incentive pay is tied to business objectives that are specific to each individual's responsibilities and encourage collaboration across the organization. Long-term equity incentives are tied to both the Company's share price and financial goals over a period of three or more years. As explained below, this combination of compensation elements is intended to support and promote strong, balanced, and sustainable corporate performance.

Fiscal 2018 was an outstanding year for our Company. We achieved record net sales and one of our best performances in the last decade. These results reflect, in part, the Company's strategy to drive growth by targeting its investments to shifts in consumer and market dynamics across product categories, geographic regions, brands, and distribution channels. This strategy positioned the Company well for the resurgence in global prestige skin care growth as well as the strong increase in demand among Chinese consumers. We generated higher sales in every region and product category and gained global share. By investing in our hero franchises, fast-growing channels, and digital and social media, we delivered double-digit sales and adjusted earnings per share growth as compared to the prior year.

|   |                 |        |       |        |
|---|-----------------|--------|-------|--------|
| Net Sales   | \$ 13.7 billion | 16%    | 8.3%  | 6.1%   |
| <i>Net Sales as adjusted<sup>(1)</sup></i>                        | \$ 13.7 billion | 16%    | 7.7%  | 6.1%   |
| <i>Net Sales as adjusted in constant currency<sup>(1)</sup></i>   | \$ 13.4 billion | 13%    | N/A   | N/A    |
| Operating Margin  | 15.0%           | +70bp  | +10bp |        |
| <i>Operating Margin as adjusted<sup>(1)</sup></i>                 | 16.6%           | +70bp  | +70bp | +140bp |
| Diluted EPS   | \$ 2.95         | (12)%  | 1.5%  | 2.7%   |
| <i>Diluted EPS as adjusted<sup>(1)</sup></i>                      | \$ 4.51         | 30%    | 13.7% | 11.3%  |
| <i>Diluted EPS as adjusted in constant currency<sup>(1)</sup></i> | \$ 4.31         | 24%    | N/A   | N/A    |
| <i>Return on Invested Capital as adjusted<sup>(2)</sup></i>       | 21.1%           | +220bp | 50bp  | 310bp  |
| Cash Flow from Operations   | \$ 2.6 billion  | 43%    | 9.8%  | 16.0%  |
| Total Stockholder Return ("TSR")                                  |                 |        | 19.7% | 18.2%  |
| <i>TSR S&amp;P 500 Composite</i>                                  |                 |        | 11.9% | 13.4%  |

(1)

Fiscal 2018, 2017, and 2013 have been adjusted to exclude returns and charges associated with restructuring and other activities. Fiscal 2018, 2017, and 2015 have also been adjusted to exclude the impact of changes in the fair value of contingent consideration. Fiscal 2018 Diluted EPS as adjusted also excludes the impact of the provisional adjustments resulting from the enactment of the Tax Cuts and Jobs Act ("TCJA"). Fiscal 2017 has also been adjusted to exclude goodwill and other intangible asset impairments and the China deferred tax asset valuation allowance reversal. Fiscal 2015 has been adjusted for a charge to remeasure net monetary assets in Venezuela and for the impact of the accelerated orders associated with the Company's





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July 2014 implementation of its Strategic Modernization Initiative ("SMI"). Fiscal 2013 has also been adjusted to exclude interest expense on debt extinguishment. Fiscal 2018 Net Sales as adjusted in constant currency excludes the \$325 million favorable impact of foreign currency translation. Fiscal 2018 Diluted EPS as adjusted in constant currency excludes the \$.20 impact of foreign currency translation. See Appendix A for reconciliation and other information about these non-GAAP financial measures.

(2)

Excludes returns and charges associated with restructuring and other activities and the impact of changes in the fair value of contingent consideration in each period, where applicable. Fiscal 2017 also excludes goodwill and other intangible asset impairments. See Appendix A for information about this non-GAAP financial measure.

In fiscal 2018, we increased the common stock dividend 12%, repurchased 6 million shares of our Class A Common Stock for \$759 million, and used \$629 million of cash flow from operations for capital expenditures. Over the five-year period ended June 30, 2018, the total market value of the Company increased by over 100% or approximately \$26 billion.

The following summarizes key executive compensation matters in connection with strong and sustained individual and company performance:

The Compensation Committee (the "Committee") authorized increases in annual compensation for fiscal 2018 for the President and Chief Executive Officer and certain other Named Executive Officers ("NEOs"). On average, fiscal 2018 annual target compensation for the NEOs increased less than 3% from the prior fiscal year.

The annual stock-based compensation awarded to our NEOs in fiscal 2018 was based on target grant levels and an assessment of each officer's performance and expected future contributions. These awards were granted in September 2017 and are shown in "Grants of Plan-Based Awards in Fiscal 2018." The annual equity mix is weighted equally among performance share units ("PSUs"), stock options, and restricted stock units ("RSUs").

The base salary for Fabrizio Freda, our President and Chief Executive Officer, remained at \$1.9 million, his bonus opportunity was increased to \$4.9 million, and his equity target was increased to \$8.88 million, resulting in target total annual compensation of \$15.68 million for fiscal 2018, an increase of 4% from the prior fiscal year. In addition, the Stock Plan Subcommittee (the "Subcommittee") granted Mr. Freda an additional PSU in February 2018 valued at \$27.4 million. By design, this PSU will not be delivered fully to him until after the end of fiscal 2024, which reflects the Company's desire to further align his interests with those of our stockholders over that extended period of time. See additional information in "CEO Compensation" below.

In August 2018, the Subcommittee approved the payout for the first tranche of the PSU that was granted to Mr. Freda in September 2015. For the first tranche Performance Period ended June 30, 2018, positive Cumulative Operating Income has been achieved, and 129,282 shares will be delivered on June 30, 2021 to Mr. Freda, subject to the terms and conditions of the September 2015 PSU. For additional information see "CEO Compensation - Additional PSU Grant in September 2015 (fiscal 2016)."

Based on the Company's performance over the three-year period ended June 30, 2018, the PSUs granted to our executive officers in September 2015 resulted in an aggregate payout of 150% of target. Actual payouts for the NEOs are described in note (4) of the "Outstanding Equity Awards at June 30, 2018" table.

Our NEOs achieved fiscal 2018 payout percentages under the Executive Annual Incentive Plan ("EAIP") ranging from 106% to 143% out of a possible maximum of 150% of target bonus opportunities. Actual payouts were determined by applying the payout percentages to the fiscal 2018 target bonus opportunities and are shown in the "Summary Compensation Table."



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*Advisory Vote on Executive Compensation*

At the 2017 Annual Meeting, approximately 98% of the votes cast in connection with the stockholders advisory vote on compensation of the NEOs were cast in favor of the proposal, and we have considered this voting result. As explained below, our compensation policies and decisions continue to be focused on sustainable financial performance and aligning the interests of senior management with the interests of stockholders.

*Overview of Compensation Philosophy and Objectives*

Our compensation program for executive officers is designed to attract and retain world class talent and to motivate them to achieve both our long-term and short-term goals. We believe that the design and governance of our program supports, and aligns executive officers with, the business strategy and the overall goal to continue sustainable growth of net sales, profitability, and return on invested capital on an annual and long-term basis. Our executive compensation program reflects our successful track record and the control by the Lauder family. Periodically, we review various aspects of our compensation program to ensure that it remains aligned with our business strategy and the above-referenced goals. From time to time, we may discuss various topics, including executive compensation and corporate governance matters, with investors and other stakeholders.

Key features of our compensation programs, policies, and practices are as follows:

Align pay with performance and the interests of stockholders by linking a significant portion of total compensation to the achievement of Company-wide performance criteria during one- and three-year performance periods

Deliver approximately one-third of the value of annual equity awards in PSUs, with failure to achieve the pre-established minimum threshold amount resulting in no payout under the PSUs

Conduct an annual evaluation about risk in compensation programs to confirm that our compensation programs are not reasonably likely to have a material adverse effect on the Company

Maintain stock ownership guidelines and holding requirements for Executive Officers to further align their interests with those of our stockholders

Retain a compensation consultant that is free of conflicts of interest, reports directly to the Committee, and performs no other services for the Company

Do not reprice or buy out stock options

Maintain policies on insider trading and clawbacks

Our executive compensation program is designed to achieve our business and financial goals by providing compensation that:

aligns executives' interests with our long-term and short-term goals, and with the interests of our stockholders;

rewards performance at the Company, business unit, and individual levels;

is competitive with the compensation practices at other leading beauty and consumer products companies; and

is equitable among our executive officers.



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Below are our Named Executive Officers as of June 30, 2018.

|                   |  |
|-------------------|--|
| William P. Lauder | Executive Chairman                                   |
| Fabrizio Freda    | President and Chief Executive Officer                |
| Tracey T. Travis  | Executive Vice President and Chief Financial Officer |
| John Demsey       | Executive Group President                            |
| Cedric Prouvé     | Group President International                        |

Employment agreements in effect during fiscal 2018 for our NEOs are described under "Employment Agreements." Our standard employment agreements for executive officers cover termination and severance and include non-competition, confidentiality, and related provisions. They do not include specified amounts of salary, bonus opportunities, or equity-based compensation for future years. For executive officers who are recruited to join the Company, we will specify levels of salary, bonus opportunities, and equity-based compensation grants for certain initial periods or that relate to initial grants (e.g., to compensate the officer for amounts or awards that may be forfeited at a prior employer).

The compensation program for executive officers is established and administered by the Committee and the Subcommittee. The Subcommittee approves the terms of all equity grants to executive officers under our long-term equity incentive plan (including any equity compensation-related terms of employment agreements for executive officers). The Committee approves all other aspects of executive compensation.

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*Elements of Compensation*

Our executive compensation program for fiscal 2018 generally consisted of the following:

The Committee, Subcommittee, and our senior management begin their review of compensation by looking first at the components of total direct compensation, gauging, for each type of position in the executive officer group, the extent to which total direct compensation is broadly aligned with that of our executive compensation peer group. The Committee, Subcommittee, and our senior management then review the elements of compensation (i.e. base salary, annual cash incentive bonus opportunities, and long-term equity-based compensation opportunities) and determine a mix of these elements as a percentage of total direct compensation. The mix is intended to be performance based (i.e. provide a greater percentage of compensation in the form of variable annual and long-term incentive compensation) and reasonable when compared with the peer group. As shown below, the CEO annual target pay mix for fiscal 2018 was 88% performance based, and the average annual target pay mix for certain other NEOs for fiscal 2018 was 85% performance based. Executive officers with similar responsibilities generally have a similar mix of pay elements. There is internal pay equity among similarly situated executive officers, which is intended to foster a team oriented approach to managing the business. Total direct compensation and allocations of metrics within the EAIP are determined based on the type and level of responsibility of the particular executive officer, internal pay equity, and competitive considerations.

Generally, we believe that executive officers should have a greater percentage of their compensation based on performance in the form of long-term equity-based incentives ("LTI"), followed by annual cash incentives, and then by base salary.



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Based on target levels for incentive compensation for fiscal 2018, the mix of pay for executive officers is shown below:

- 
- (1) Does not include the non-annual PSU granted to Mr. Freda in February 2018.
- (2) Does not include target pay mix for William P. Lauder. For fiscal 2018, Mr. Lauder had a target pay mix of 23% base salary, 46% target annual incentive, and 31% target LTI.

*We Align Executive Compensation with Our Business Strategy and Goals.* We intend for our annual and long-term incentive plans to cover a portfolio of performance measures that balance growth, profitability, and stockholder return over both an annual and long-term period. We work to establish goals that support the long-term strategy of growing sales 1% to 2% ahead of global prestige beauty, improving operating margin, achieving competitive levels of return on invested capital, and optimizing inventory.

Target levels of performance for a given fiscal year are determined based on our internal planning and forecasting processes and are benchmarked against select peer companies. The Committee and the Subcommittee consider various factors including the expected performance of our competitors and our long-term strategy in establishing the performance required to achieve the maximum payout under each measure for both our annual cash and long-term incentive plans.

In addition to total direct compensation described above, we also provide competitive benefits and modest perquisites. In certain circumstances, we may pay amounts or grant equity to attract executives to work for us or move to particular locations, or we may provide additional incentives for executives to perform or remain with us. This reflects, in part, the global nature of our business and the executives that we seek to attract and retain.

*Base Salary*

We pay base salaries to provide executives with a secure base of cash compensation. In determining the amount of base salary for an executive officer, the Committee primarily considers the executive's position, current salary, tenure, and internal pay equity among executives with similar responsibilities, as well as competitiveness of the salary level in the marketplace. The Committee also considers recommendations from the Executive Chairman, the President and Chief Executive Officer, the Executive Vice President - Global Human Resources, and the Committee's outside consultant (Semler Brossy Consulting Group), as well as certain tax matters. See "Tax Deductibility Considerations" below.





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*Annual Incentive Bonus*

Annual incentives provided under the EAIP are of key importance in aligning the interests of our executives with our short-term goals and rewarding them for performance. For executive officers, the level of bonus opportunities and performance targets are based on the scope of the executive's responsibilities, internal pay equity among executives with similar responsibilities, and competitive considerations. The measures in our annual incentive program are designed to foster interdependence and collaboration among brands, regions, and functions to drive the corporate strategy by ensuring alignment of business unit performance with overall corporate performance. Annual incentives payable to our executive officers, including the NEOs, are limited to a pool set at the beginning of the fiscal year by the Committee (3% of our net operating profit in fiscal 2018). Within that limit, the Committee sets annual aggregate bonus opportunities and exercises negative discretion to determine the annual incentives to be paid. For fiscal 2018, the EAIP payout was the product of the target for each executive officer and the EAIP payout percentage ("EAIP Payout %"), which is comprised of (a) the Corporate Multiplier and (b) the Business Unit Multiplier, as described below. Total EAIP payouts were less than the amount of the bonus pool.

Target level performance on each of the criteria would result in multipliers at 100% and payout at 100% of the executive officer's target opportunity. Provided the minimum threshold has been achieved, payouts can range from 31.25% of target up to a maximum of 150% of target. Failure to achieve the pre-established minimum threshold level of performance would result in no credit for that particular criteria and, depending upon performance in respect of other criteria, could result in no bonus being paid. Measurement of performance, including establishment of the bonus pool, is subject to certain automatic adjustments, such as changes in accounting principles, goodwill and other intangible asset impairments, the impact of unplanned completed business acquisition activity, restructuring and other activities, discontinued operations, certain non-recurring income/expenses, and the impact on net sales of unplanned changes in foreign currency rates. Such automatic adjustments in fiscal 2018 include the impact of charges associated with restructuring and other activities related to the Company's Leading Beauty Forward initiatives, changes in fair value of contingent consideration, the impact of the provisional adjustments resulting from the enactment of the TCJA, and impacts from the accounting change for stock compensation relating to excess tax benefits.

The target payout, business criteria, performance levels within each multiplier, and the threshold, target, and maximum payouts associated with each criteria and performance level were set by the Committee in consultation with management and the Committee's outside consultant during the first quarter of the fiscal year. Target payouts for executive officers are largely based on the prior year's target amount and are reviewed by the Committee annually.

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*Corporate Multiplier.* The Corporate Multiplier is comprised of four equally weighted, Company-wide performance criteria: (1) diluted net earnings per share from continuing operations ("Diluted EPS"); (2) Operating Income Margin Percentage ("OI Margin Percent"); (3) Net Sales; and (4) return on invested capital ("ROIC"). If actual performance is between the target and the maximum, or between the threshold and the target, the payout factor is calculated mathematically using straightline interpolation with target level of performance as a base. As an example, for Net Sales performance that is between the threshold and the target, for each 1% that performance is below target, the payout will be 3<sup>1</sup>/<sub>3</sub>% below the target payout of 100%. The chart below shows the threshold, target, and maximum for each criteria making up the Corporate Multiplier as well as the results for fiscal 2018. Because performance exceeded the maximum level for each of the four performance criteria, the payout factor was at 120% of target. The Corporate Multiplier was therefore 120%. Each executive officer's incentive payment is subject to the Corporate Multiplier.

|                             |                 |     |     |      |      |        |      |        |               |
|-----------------------------|-----------------|-----|-----|------|------|--------|------|--------|---------------|
| Diluted EPS                 | \$3.69          | 50% | 50% | 100% | 100% | 101.9% | 120% | 118.7% | 120.0%        |
| OI Margin Percent           | 16.3%           | 50% | 50% | 100% | 100% | 100.9% | 120% | 101.8% | 120.0%        |
| Net Sales                   | \$12.51 billion | 85% | 50% | 100% | 100% | 100.9% | 120% | 106.2% | 120.0%        |
| ROIC                        | 16.7%           | 50% | 50% | 100% | 100% | 102.1% | 120% | 122.7% | 120.0%        |
| <b>Corporate Multiplier</b> |                 |     |     |      |      |        |      |        | <b>120.0%</b> |

(1)

Net Sales are calculated at budgeted exchange rates at the time the target was set. Measurement of performance for each of the metrics is subject to certain automatic adjustments described above in "Annual Incentive Bonus."

*Business Unit Multiplier.* The Business Unit Multiplier works similarly, but is based on various combinations of business criteria at the business unit level, including: (1) Net Sales; (2) Net Operating Margin ("NOP Margin"); (3) inventory management; (4) productivity and other cost savings; and (5) other divisional goals tied to our long-term strategy ("Business Unit Strategic Objectives"). The weighting of the various measures is fixed for each executive officer depending upon position and responsibilities. To ensure better focus on key goals, we eliminated certain metrics and shifted the weightings of some of the measures for the fiscal 2018 EAIP program. As with the Corporate Multiplier, target level performance on all the applicable criteria leads to a Business Unit Multiplier of 100%. If the threshold level of performance is not achieved for any of the applicable criteria, then the Business Unit Multiplier would be zero for those criteria. When performance exceeds the maximum level, the payout factors are at 125% of target. In the case where the actual performance was between the target and the maximum, or between the threshold and the target, the payout factor was calculated mathematically using straightline interpolation with target level of performance and associated payout as a base.

For the Business Unit Multiplier, the Functions Average is a simple average of the performance against Business Unit Strategic Objectives for six Corporate Functions (i.e, Finance; Human Resources; Legal; Global Communications; Global Research and Development, Corporate Product Innovation, Package Development; and Global Supply Chain). For Messrs. Demsey and Prouvé, the threshold, target, and maximum for each criteria making up the Business Unit Multiplier for their



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respective units, as well as the results for fiscal 2018, are shown in the table set forth below. This table reflects the move to one inventory metric, Days to Sell (DTS).

|  |               |     |       |        |        |        |      |        |        |
|--|---------------|-----|-------|--------|--------|--------|------|--------|--------|
| <i>Net Sales</i>                         |               |     |       |        |        |        |      |        |        |
| John Demsey                              | \$7.3 billion | 85% | 62.5% | 100.0% | 100.0% | 100.9% | 125% | 96.9%  | 92.2%  |
| Cedric Prouvé                            | \$8.1 billion | 85% | 62.5% | 100.0% | 100.0% | 100.9% | 125% | 110.8% | 125.0% |
| <i>NOP Margin</i>                        |               |     |       |        |        |        |      |        |        |
| John Demsey                              | 20.9%         | 85% | 62.5% | 100.0% | 100.0% | 101.0% | 125% | 85.6%  | 64.0%  |
| Cedric Prouvé                            | 33.2%         | 85% | 62.5% | 100.0% | 100.0% | 100.5% | 125% | 104.4% | 125.0% |
| <i>Inventory Management Days to Sell</i> |               |     |       |        |        |        |      |        |        |
| John Demsey                              | 173           | 85% | 62.5% | 100.0% | 100.0% | 105.0% | 125% | 88.2%  | 70.4%  |
| Cedric Prouvé                            | 117           | 85% | 62.5% | 100.0% | 100.0% | 105.0% | 125% | 91.0%  | 77.5%  |
| <i>Productivity</i>                      |               |     |       |        |        |        |      |        |        |
| <i>Employee Costs</i>                    |               |     |       |        |        |        |      |        |        |
| John Demsey                              | \$532 million | 90% | 62.5% | 100.0% | 100.0% | 103.0% | 125% | 107.6% | 125.0% |
| Cedric Prouvé                            | \$773 million | 90% | 62.5% | 100.0% | 100.0% | 103.0% | 125% | 102.1% | 117.2% |
| <i>Productivity</i>                      |               |     |       |        |        |        |      |        |        |
| <i>Employee Costs as % of Net Sales</i>  |               |     |       |        |        |        |      |        |        |
| John Demsey                              | 7.1%          | 90% | 62.5% | 100.0% | 100.0% | 105.0% | 125% | 101.5% | 107.3% |
| Cedric Prouvé                            | 9.3%          | 90% | 62.5% | 100.0% | 100.0% | 105.0% | 125% | 110.1% | 125.0% |

(1)

Net Sales and all of the income statement measures are calculated at weighted average exchange rates for the measurement period. Measurement of performance, for each of the metrics, is subject to certain automatic adjustments described above in "Annual Incentive Bonus."

Ms. Travis, Mr. Demsey, and Mr. Prouvé were each assigned Business Unit Strategic Objectives for fiscal 2018 that accounted for the percentages of the individual's aggregate bonus opportunity target indicated below.

These Business Unit Strategic Objectives are aligned with high-level themes, explained below, that help focus collective efforts in areas that are important to shared success across business units and drive the corporate strategy.

- (a) **Strategy** Continue cascading the corporate strategy and its key elements throughout the organization. Translate each Business Unit's strategy into measurable and time bound action items and execute against them.
- (b) **Collaboration and Talent Development** Championing and leading collaborative behavior and the development of talent in the organization, integrating our inclusion and diversity strategy. Align our organizations for speed and efficiency.
- (c) **Key Business Capability Building/Business Transformation** Identifying and taking action on developing capabilities for continuous improvement related to the key operational and financial building blocks that will impact sustainable growth and profitability and the effective use of resources.

After the end of fiscal 2018, the Executive Chairman, the President and Chief Executive Officer, and the Executive Vice President - Global Human Resources, with appropriate input from other employees, reviewed the actions taken by each Group President and the Executive Vice

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President and Chief Financial Officer in connection with the Business Unit Strategic Objectives and, based on that assessment, recommended the payout percentages shown in the table below (with a maximum of 125%). The assessment of these achievements and payouts were confirmed by the Committee in its business judgment.

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*Calculation of EAIP Payout Percentage.* As noted, the weightings of the various criteria for an executive officer's Business Unit Multiplier depend upon the officer's position and responsibilities, as shown in the calculation of the Business Unit Multiplier below.

For each NEO, the calculation of the individual's EAIP Payout % for fiscal 2018, including both the Business Unit Multiplier (weighted accordingly) and the Corporate Multiplier is as follows:

|                                    |      |               |      |               |      |               |      |               |
|------------------------------------|------|---------------|------|---------------|------|---------------|------|---------------|
| Functions Average                  | 25%  | 117.2%        | 10%  | 117.2%        | 10%  | 117.2%        | 10%  | 117.2%        |
| Business Unit Strategic Objectives |      |               | 30%  | 125.0%        | 15%  | 102.0%        | 15%  | 125.0%        |
| Division Net Sales <sup>(1)</sup>  | 25%  | 125.0%        | 20%  | 125.0%        | 25%  | 92.2%         | 25%  | 125.0%        |
| Division NOP Margin <sup>(1)</sup> | 25%  | 125.0%        | 20%  | 125.0%        | 25%  | 64.0%         | 25%  | 125.0%        |
| Inventory Management               | 15%  | 76.2%         | 10%  | 76.2%         | 15%  | 70.4%         | 15%  | 77.5%         |
| Productivity                       | 10%  | 125.0%        | 10%  | 125.0%        | 10%  | 116.2%        | 10%  | 121.1%        |
| Business Unit Payout (a)           | 100% | 115.7%        | 100% | 119.3%        | 100% | 88.3%         | 100% | 116.7%        |
| Corporate Multiplier (b)           |      | 120.0%        |      | 120.0%        |      | 120.0%        |      | 120.0%        |
| <b>EAIP Payout % (a) x (b)</b>     |      | <b>138.9%</b> |      | <b>143.2%</b> |      | <b>105.9%</b> |      | <b>140.0%</b> |

(1)

Net Sales are calculated at weighted average exchange rates at the time of measurement. Measurement of performance for each of the metrics is subject to certain automatic adjustments described above in "Annual Incentive Bonus."

For more information about the potential bonus opportunities of our NEOs for fiscal 2018 and the actual payouts made in September 2018 in respect of fiscal 2018 performance, see "Grants of Plan-Based Awards in Fiscal 2018" and "Summary Compensation Table."

#### *Long-Term Equity-Based Compensation*

We consider equity-based compensation awarded under our Amended and Restated Fiscal 2002 Share Incentive Plan (the "Share Incentive Plan") to be of key importance in aligning executives with our long-term goals and rewarding them for performance. The awards also provide an incentive for continued employment with us. We grant certain executive officers a combination of PSUs, stock options, and RSUs. Since fiscal 2000, no grants of equity-based compensation have been made to Leonard A. Lauder, Chairman Emeritus, or Ronald S. Lauder, Chairman of Clinique Laboratories, LLC. The Subcommittee typically makes equity-based compensation awards to our executive officers at its regularly scheduled meeting during the first quarter of each fiscal year. There is no relationship between the timing of the grants of equity-based awards and our release of material, non-public information.

The target and actual amounts and allocation of equity-based compensation reflect the business judgment of the Subcommittee after discussion with its outside consultant and certain members of our senior management. As with each other element of compensation, and compensation overall, the Subcommittee (or the Committee for non-equity-based compensation), its outside consultant, and management take into account the level of responsibility of the particular executive officer, recent performance and expected future contributions, internal pay equity, and competitive practice. They also consider applicable employment agreements as necessary.

The allocation among the value of the different types of annual awards granted in fiscal 2018 is weighted equally among PSUs (at target), stock options, and RSUs reflecting, in the business judgment of the Subcommittee, a balance among motivating and retaining executive officers, rewarding performance, mitigating risk, and helping executive officers increase their equity





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ownership to further align their interests with those of our stockholders. Such allocation may change depending upon any supplemental grants made to executive officers.

No specific weightings were used to determine the amounts of the equity-based compensation. The Subcommittee applied an individual performance factor to the target equity opportunity for each executive officer. The performance factors ranged from 117%–135% of target. As with the amount of equity-based compensation granted, the allocation among the equity-based compensation elements are compared with practices of the peer group companies (see "Compensation Planning and the Decision Making Process – Peer Group" below) to ensure they are competitive and appropriate.

*Performance Share Units.* Annual PSUs represent approximately one-third of the grant date value of the equity-based compensation granted to executive officers. PSUs are generally rights to receive shares of our Class A Common Stock if certain Company-wide performance criteria are achieved during a three-year performance period. PSUs are expressed in terms of opportunities, and each opportunity is based on a particular financial metric that is considered important in achieving our overall long-term financial goals.

For the annual grant of PSUs, the Subcommittee approves the performance target for each metric during the first quarter of the three-year performance period. Each opportunity is expressed in shares to be paid out if performance equals 100% of the target. PSUs are accompanied by dividend equivalents that are accrued and paid in cash at the end of the performance period. To the extent shares are paid out on a PSU award, the cash amount paid is equal to the dividends declared per share over the performance period times the number of shares paid out. The target amount of a PSU award represents the aggregate payout if the performance of all opportunities equal 100% of the related target performances. An above-target payout can be achieved under a particular opportunity if the performance associated with such opportunity exceeds 100% of the target, up to a maximum of 150% of target. Failure to achieve the pre-established minimum threshold amount would result in no payout being made under the opportunity.

Measurement of performance is subject to certain automatic adjustments described above in "Annual Incentive Bonus." Payout of PSUs is contingent on the Company achieving positive Net Earnings for the fiscal year in which the grant is made. Because the Company achieved positive Net Earnings for fiscal 2018, the payout of the PSUs granted in September 2017 is based solely on achievement of the financial measures described below in "Fiscal 2018 PSU Grants."

*Fiscal 2016 PSU Grants.* The PSU targets for the three-year period ended June 30, 2018 were based on compound annual growth rates ("CAGR") in Company-wide Net Sales, Diluted EPS, and ROIC, weighted equally. Each 1% increase in performance over the threshold results in a 5% increase in associated payout for Net Sales and 3<sup>1</sup>/<sub>3</sub>% increases in associated payouts for Diluted EPS and ROIC up to the target performance levels. Each 1% increase in performance above target results in 38.6%, 11.8%, and 16.4% increases in associated payouts for Net Sales, Diluted EPS, and ROIC, respectively. Performance above maximum results in a payout of 150% of target opportunity.

For the PSUs that were paid out after the end of fiscal 2018 (specifically, in September 2018), the aggregate payout of the three measures, weighted equally, was 150% because all measures

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exceeded the maximum results. The table below summarizes the measures and corresponding payouts.

|                                 |       |     |     |      |      |        |      |        |               |
|---------------------------------|-------|-----|-----|------|------|--------|------|--------|---------------|
| Net Sales (CAGR) <sup>(1)</sup> | 6.80% | 90% | 50% | 100% | 100% | 101.3% | 150% | 102.5% | 50.0%         |
| Diluted EPS (CAGR)              | 7.50% | 85% | 50% | 100% | 100% | 104.2% | 150% | 120.3% | 50.0%         |
| ROIC (CAGR)                     | 5.30% | 85% | 50% | 100% | 100% | 103.0% | 150% | 130.5% | 50.0%         |
| <b>Aggregate Payout</b>         |       |     |     |      |      |        |      |        | <b>150.0%</b> |

(1) Net Sales are calculated at budgeted exchange rates at the time the target was set.

(2) Measurement of performance is subject to certain automatic adjustments. For the fiscal 2016 grants, these include charges associated with restructuring and other activities related to the Company's Leading Beauty Forward and Global Technology Infrastructure initiatives, goodwill and other intangible asset impairments, changes in fair value of contingent consideration, the impact of the provisional adjustments resulting from the enactment of the TCJA, the China deferred tax asset valuation allowance reversal, and impacts from the accounting change for stock compensation relating to excess tax benefits.

*Fiscal 2018 PSU Grants.* The targets for the PSU opportunities and corresponding payouts for PSUs granted in fiscal 2018 for the three-year period ending June 30, 2020 are based on CAGR in Company-wide Net Sales, Diluted EPS, and ROIC, weighted equally, as follows:

|                                 |       |     |     |      |      |        |      |
|---------------------------------|-------|-----|-----|------|------|--------|------|
| Net Sales (CAGR) <sup>(1)</sup> | 7.00% | 90% | 50% | 100% | 100% | 101.4% | 150% |
| Diluted EPS (CAGR)              | 9.70% | 85% | 50% | 100% | 100% | 102.8% | 150% |
| ROIC (CAGR)                     | 4.60% | 85% | 50% | 100% | 100% | 103.7% | 150% |

(1) Net Sales are calculated at budgeted exchange rates at the time the target was set. Measurement of performance for each of the metrics is subject to certain automatic adjustments described above in "Annual Incentive Bonus."

(2) Payouts for an opportunity will be made only if performance exceeds the pre-established minimum threshold for such opportunity.

The goals above were based on the long-term strategic plan and the conditions that existed at the start of fiscal 2018. We believe the targets when set were reasonably aggressive.

*Additional PSU Grants.* From time to time, the Subcommittee makes grants of additional PSUs to executive officers. For information relating to the additional PSUs granted to Mr. Freda in fiscal 2018 and in fiscal 2016, see "CEO Compensation" below and "Outstanding Equity

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Awards at June 30, 2018." The additional PSU grant made to John Demsey on January 28, 2016 (fiscal 2016) is reflected in "Outstanding Equity Awards at June 30, 2018."

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*Stock Options.* Annual stock options represent approximately one-third of the grant date value of the equity-based compensation granted to executive officers. We believe that stock options are performance-based because the exercise price is equal to the closing price of the underlying Class A Common Stock on the date the option is granted. Under our Share Incentive Plan, the exercise price of options cannot be lower than such closing price. Despite the value attributed on the date of grant for accounting purposes, value is realized by the executive officer only to the extent that the stock price exceeds such price during the period in which the executive officer is entitled to exercise the options and the officer exercises them. Options granted to our executive officers generally become exercisable in three equal installments approximately 16 months, 28 months, and 40 months after the date of grant, and expire ten years from the grant date.

*Restricted Stock Units.* Annual RSUs represent approximately one-third of the grant date value of the equity-based compensation granted to executive officers. RSUs are the right to receive shares of our Class A Common Stock over a period of time. RSUs are granted to executive officers to serve as a retention mechanism and to help them build their equity ownership. RSUs are accompanied by dividend equivalents that are paid in cash; at the time an RSU vests, the cash amount paid to the executive officer is equal to the dividends declared per share between the grant date and the vesting date multiplied by the number of shares paid out. RSUs granted to our executive officers generally vest in three equal installments approximately 14 months, 26 months, and 38 months from the date of grant.

*Additional RSU Grants.* From time to time, the Subcommittee makes grants of additional RSUs to executive officers. For example, on September 6, 2016 (fiscal 2017), the Subcommittee granted Tracey T. Travis, Executive Vice President and Chief Financial Officer, an additional RSU award that is reflected in "Outstanding Equity Awards at June 30, 2018."

*Equity-Based Compensation Granted in Fiscal 2018.* As noted above, target award levels and actual grants of equity made to executive officers are determined by taking into account many factors, including an assessment of recent performance and expected future contributions. For the Executive Chairman and the President and Chief Executive Officer, this determination is made by the Subcommittee; for the remaining executive officers, a recommendation is made by the executive officer's immediate manager, and the actual grant is approved by the Subcommittee. Fiscal 2018 annual equity grants were awarded in September 2017; the resulting equity grant percentages awarded to our NEOs in fiscal 2018 were based on target grant levels and an assessment of each officer's performance and expected future contributions. See "Grants of Plan-Based Awards in Fiscal 2018" and "Summary Compensation Table."

*CEO Compensation*

Throughout his tenure, and particularly in fiscal 2018, Mr. Freda demonstrated continued outstanding performance and leadership as our Chief Executive Officer. Some highlights of our fiscal 2018 results are noted in the "Executive Summary" above. Since becoming President and Chief Executive Officer in July 2009, Mr. Freda has led the development and implementation of our long-term strategy. Between that time and June 30, 2018, (i) we have achieved TSR of 872%, placing us among the top 7% of S&P 500 companies (the TSR of the S&P 500 Index was 257%); and (ii) our market capitalization has increased by \$45 billion to \$52 billion.

In recognition of Mr. Freda's leadership and expected future contributions, as well as our strong multi-year performance, the Committee and the Subcommittee increased Mr. Freda's total direct annual compensation for fiscal 2018 by 4% to \$15.68 million, and the Subcommittee approved an additional PSU grant in February 2018 that is discussed below. For fiscal 2018, Mr. Freda's annual equity target increased to \$8.88 million (from \$8.48 million), his base salary remained at \$1.9 million, and his target bonus opportunity increased to \$4.9 million (from \$4.7 million).



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*Additional PSU Grant in February 2018 (fiscal 2018).* On February 14, 2018, the Stock Plan Subcommittee, with input from members of the Board of Directors, granted a PSU award (the "February 2018 PSU") to Mr. Freda to further align his interests with those of our stockholders and motivate his continued stewardship of the Company's brands, talent base, and reputation over the longer term. The shares of Class A Common Stock subject to this award are not intended to be delivered fully to Mr. Freda until after the end of fiscal 2024, which reflects the Company's desire to further align his interests with those of our stockholders over that extended period of time. The award covers an aggregate of 195,940 shares divided in two equal tranches (i.e. 97,970 shares per tranche). The aggregate grant date value of the award (both tranches) is approximately \$27.4 million, based on the closing price of our Class A Common Stock on the date of grant.

The service periods, performance periods and share payment dates for the February 2018 PSU are as follows:

|                                   |                 |               |              |               |                   |
|-----------------------------------|-----------------|---------------|--------------|---------------|-------------------|
| First Tranche<br>(97,970 shares)  | January 1, 2018 | June 30, 2021 | July 1, 2018 | June 30, 2021 | September 3, 2024 |
| Second Tranche<br>(97,970 shares) | January 1, 2018 | June 30, 2022 | July 1, 2018 | June 30, 2022 | September 3, 2024 |

- (1) Payment, if any, and the timing of payment are subject to achievement of the performance goal and other terms and conditions described below.

In its comprehensive and thoughtful consideration of the appropriate size and structure for the February 2018 PSU grant, the Subcommittee considered the input from its consultant and other Board members, as well as the feedback and concerns received from some institutional investors following the September 2015 differentiated long-term award to Mr. Freda. Ultimately, the Subcommittee determined that the February 2018 grant was appropriate and consistent with the Company's long-term business and compensation strategy, providing an incentive for sustainable and effective stewardship of the Company's brands, talent base, and reputation over an extended period of time.

In setting the performance goal for the February 2018 PSU, the Stock Plan Subcommittee determined that any absolute or relative goals would become meaningless or counterproductive in light of a rapidly evolving competitive environment. The performance goal is intended to prevent this award from vesting if our performance were to suffer a substantial reversal during the vesting period and is accompanied by carefully considered payout restrictions around termination scenarios as described below.

The February 2018 PSU covers a period of about six-and-a-half years in total and involves two separate tranches that vest after three-and-a-half and four-and-a-half years based on Mr. Freda's continued employment and achievement of the performance goal described above. If the performance goal for a tranche is achieved, the shares of common stock underlying such tranche would be paid out to Mr. Freda in September 2024, a period of time that is much longer than typical grants. The delayed distribution feature is a key component of the award, intended to ensure that Mr. Freda is further incentivized to drive long-term performance. By separating award vesting from delivery of the underlying common stock, we continue to tie a portion of Mr. Freda's wealth to share value over an extended time horizon (i.e. six-and-a-half years, through the delivery in September 2024).

This award generally provides that the vesting of each tranche is contingent on the Company achieving positive Cumulative Operating Income during the relevant Performance Period. For purposes of this award, "Cumulative Operating Income" means the sum of the operating income for each fiscal year in such Performance Period, subject to certain automatic adjustments including:



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changes in accounting principles; impairment of intangibles; impact of discontinued operations; non-recurring and non-operating income and expenses; and the impact of unplanned acquisitions.

If Mr. Freda's employment is terminated for cause, as defined in the February 2018 PSU award agreement, prior to the delivery of the shares associated with any tranche, regardless of whether that tranche has been otherwise earned or vested, he will receive no shares. If (a) Mr. Freda is no longer employed by us for any reason, (b) payment of a tranche has not previously been made, and (c) it is determined that his behavior while he was employed would have constituted cause, then each tranche not previously paid will be forfeited, regardless of whether such tranche has been otherwise earned and vested. In addition, payouts of the award after termination of Mr. Freda's employment are subject to Mr. Freda not (x) competing with the Company during the lesser of (i) the remaining term of his award or (ii) a period of 24 months, nor (y) conducting himself in a manner adversely affecting the Company. If he voluntarily resigns or retires prior to the end of the Service Period, any unearned, unvested tranches will be forfeited. If Mr. Freda's employment is terminated without cause, then for each Performance Period that has not yet concluded and subject to actual achievement of the performance goal for such tranche, he will earn and vest in the pro rata portion of such tranche inclusive of credit for an additional 12 months of service (up to a maximum of 100% of the Service Period for that tranche). However, instead of a pro rata portion, Mr. Freda would earn and vest fully in such tranche if the Company also has achieved Company-wide performance criteria (currently known as the "corporate multiplier") under the Company's Executive Annual Incentive Plan of at least 90% for each of the Company's two fiscal years preceding the year of Mr. Freda's termination, as determined by the Compensation Committee. If Mr. Freda dies or becomes disabled, then for each Performance Period that has not yet concluded, he will earn and vest in a pro rata portion of such tranche, and the share payment would be made shortly thereafter. Upon a Change in Control, the performance goal will be deemed to be met, and the award will be paid on the earliest of the original payment date, shortly after a qualifying "double trigger" termination of employment, or a date determined by the Stock Plan Subcommittee in accordance with the Plan. Dividend equivalents will be paid out in cash in connection with shares that are earned.

*Additional PSU Grant in September 2015 (fiscal 2016).* The size and structure of the February 2018 PSU described above, as well as the reasons for the grant, are similar to the differentiated long-term grant to Mr. Freda on September 4, 2015 (the "September 2015 PSU"), which is discussed below. The September 2015 PSU award reflected the Company's strong performance, the importance of ensuring the sustainability of the Company's performance and its longer term success, and the desire to retain Mr. Freda and further align his interests with the interests of our stockholders. The Subcommittee also wanted to recognize and provide an incentive for sustainable and effective stewardship of the Company's brands, talent base, and reputation over that extended period of time. The final performance period for the September 2015 grant ends on June 30, 2020, with a payment date of June 30, 2023; the performance periods for the February 2018 PSU end on June 30, 2021 and June 30, 2022, each with a payment date of September 3, 2024. The Company notes that between September 4, 2015 (the grant date of the September 2015 PSU) and June 30, 2018, (i) we have achieved TSR of 94% (the TSR of the S&P 500 Index was 50%); and (ii) our market capitalization increased from \$23 billion to \$52 billion.

The September 2015 PSU is a long-term equity award that is designed to not be delivered fully to Mr. Freda until the end of fiscal 2023. This PSU grant has a target payout of 387,848 shares and was valued at \$30 million on the date of grant. The award is designed to be earned in tranches at the end of certain fiscal years with no shares being delivered to Mr. Freda until the end of subsequent fiscal years as reflected below.



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The September 2015 PSU is divided into three tranches with service periods, performance periods and payment dates, if any, as follows:

|                                    |              |               |              |               |               |
|------------------------------------|--------------|---------------|--------------|---------------|---------------|
| First Tranche<br>(129,282 shares)  | July 1, 2015 | June 30, 2018 | July 1, 2015 | June 30, 2018 | June 30, 2021 |
| Second Tranche<br>(129,283 shares) | July 1, 2015 | June 30, 2019 | July 1, 2016 | June 30, 2019 | June 30, 2022 |
| Third Tranche<br>(129,283 shares)  | July 1, 2015 | June 30, 2020 | July 1, 2017 | June 30, 2020 | June 30, 2023 |

(1)

Payment, if any, and the timing of payment are subject to achievement of performance goals and other conditions described below.

This award provides that the vesting of each of the three tranches is contingent on the Company achieving (i) positive Cumulative Operating Income during the relevant Performance Periods as well as (ii) positive Net Earnings, as defined in the agreement, for the fiscal year ended June 30, 2016. Because the Company achieved positive Net Earnings for the fiscal year ended June 30, 2016, the vesting of each of the three tranches is now based solely on the Company achieving positive Cumulative Operating Income during the relevant Performance Periods. For the first tranche Performance Period ended June 30, 2018, because the Company achieved positive Cumulative Operating Income, 129,282 shares will be delivered on June 30, 2021 to Mr. Freda, subject to the terms and conditions of the September 2015 PSU. For purposes of this award, "Cumulative Operating Income" means the sum of the operating income for each fiscal year in such Performance Period, subject to certain automatic adjustments including changes in accounting principles; impairment of intangibles; the impact of discontinued operations; non-recurring operating income and expenses; and the impact of unplanned acquisitions. Dividend equivalents will be paid out in cash in connection with shares that are earned under this award.

*CEO Compensation on Annualized Basis.* Mr. Freda's total compensation, as disclosed in the "Summary Compensation Table," shows significant fluctuations year-over-year due to the value and timing of equity awards he has received in the past in addition to his annual equity grants. These fluctuations are attributable to applicable disclosure rules, which require that we report the total value of equity grants on the grant date rather than over the life of the award. When the additional (non-annual) equity awards were granted, the Subcommittee considered the impact of those awards on an annualized basis. The table below reflects the amounts shown for each year in the "Stock Awards" column in the Summary Compensation Table adjusted to (a) deduct the grant date fair value of the additional (non-annual) awards from the year in which they were granted and (b) instead include the amounts relating to such awards that were expensed for accounting purposes in each fiscal year shown in the Summary Compensation Table, including the amounts expensed for such awards granted prior to fiscal 2016 as disclosed in previous proxy statements. As adjusted, the amounts shown for "Stock Awards" and "Total" in the Summary Compensation Table for Mr. Freda would be as follows:

|      |           |           |           |           |
|------|-----------|-----------|-----------|-----------|
| 2018 | \$ 19,162 | \$ 35,371 | \$ 32,545 | \$ 48,754 |
| 2017 | 16,752    | 7,349     | 28,386    | 18,983    |
| 2016 | 16,351    | 36,847    | 27,873    | 48,369    |



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*Fiscal 2019 Annual Compensation Decisions for the CEO.* For fiscal 2019, Mr. Freda's base salary was increased to \$2.0 million (from \$1.9 million), his target incentive bonus opportunity was increased to \$5.0 million (from \$4.9 million), and his target equity opportunity was increased to \$9.15 million (from \$8.88 million), resulting in a total direct compensation increase, including target opportunities, of 3.0%. In setting Mr. Freda's compensation for fiscal 2019, the Committee and Subcommittee considered additional equity awards that were made to him in prior years. In September 2018, we granted Mr. Freda equity based compensation with an aggregate value of approximately \$11.44 million, comprised of PSUs with a target payout of 27,597 shares of Class A Common Stock, stock options for 92,200 shares of Class A Common Stock with an exercise price of \$138.15 per share, and RSUs for 27,597 shares of Class A Common Stock. These grants reflect the application of an individual performance factor to the target equity opportunity approved for fiscal 2019. These equity awards will appear in our "Summary Compensation Table" and "Grants of Plan Based Awards" for fiscal 2019.

*Fiscal 2019 Annual Compensation Decisions for Other NEOs*

For fiscal 2019, Mr. Lauder's base salary remained at \$1.5 million, his target incentive bonus opportunity was increased to \$3.1 million (from \$3.0 million), and his target equity opportunity was increased to \$2.1 million (from \$2.0 million), resulting in a total direct compensation increase, including target opportunities, of 3.1%. In September 2018, we granted Mr. Lauder equity based compensation with an aggregate value of approximately \$2.63 million, comprised of PSUs with a target payout of 6,334 shares of Class A Common Stock, stock options for 21,159 shares of Class A Common Stock with an exercise price of \$138.15 per share, and RSUs for 6,334 shares of Class A Common Stock. These grants reflect the application of an individual performance factor to the target equity opportunity approved for fiscal 2019.

For fiscal 2019, we increased Ms. Travis's base salary to \$1.06 million (from \$980,000), her target incentive bonus opportunity to \$1.34 million (from \$1.2 million), and her target equity opportunity to \$3.6 million (from \$3.2 million), resulting in a total direct compensation increase, including target opportunities, of 11.2%. In September 2018, we granted Ms. Travis equity based compensation with an aggregate value of approximately \$4.43 million, comprised of PSUs with a target payout of 10,684 shares of Class A Common Stock, stock options for 35,696 shares of Class A Common Stock with an exercise price of \$138.15 per share, and RSUs for 10,684 shares of Class A Common Stock. These grants reflect the application of an individual performance factor to the target equity opportunity approved for fiscal 2019.

For fiscal 2019, we increased Mr. Demsey's base salary to \$1.18 million (from \$1.16 million), his target incentive bonus opportunity to \$3.13 million (from \$3.06 million), and his target equity opportunity to \$4.8 million (from \$4.75 million), resulting in a total direct compensation increase, including target opportunities, of 1.5%. In September 2018, we granted Mr. Demsey equity based compensation with an aggregate value of approximately \$5.03 million, comprised of PSUs with a target payout of 12,148 shares of Class A Common Stock, stock options for 40,587 shares of Class A Common Stock with an exercise price of \$138.15 per share, and RSUs for 12,148 shares of Class A Common Stock. These grants reflect the application of an individual performance factor to the target equity opportunity approved for fiscal 2019.

For fiscal 2019, we increased Mr. Prouvé's base salary to \$1.13 million (from \$1.1 million), his target incentive bonus opportunity to \$2.58 million (from \$2.48 million), and his target equity opportunity to \$4.1 million (from \$3.8 million), resulting in a total direct compensation increase, including target opportunities, of 5.0%. In September 2018, we granted Mr. Prouvé equity based compensation with an aggregate value of approximately \$4.87 million, comprised of PSUs with a target payout of 11,744 shares of Class A Common Stock, stock options for 39,242 shares of Class A Common Stock with an exercise price of \$138.15 per share, and RSUs for 11,744 shares of Class A Common Stock. These grants reflect the application of an individual performance factor to the target equity opportunity approved for fiscal 2019.

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*Compensation Planning and the Decision Making Process*

*Peer Group.* We consider the compensation practices of a peer group of companies for the purpose of determining the competitiveness of our total compensation and various elements, but we do not target a specific percentile. We believe that the peer group reflects the market in which we compete for executive talent and that we have few direct competitors publicly traded in the United States. Therefore, the Committee has selected a mix of primarily consumer products and consumer discretionary companies to ensure the group includes companies of comparable size and business model to us. The Committee refers to the peer group data when considering compensation levels and the allocation of compensation elements for executive officers. The peer group of companies used for compensation in fiscal 2018, set forth below, was the same peer group used in fiscal 2017.

Avon Products

PepsiCo

Clorox

Procter & Gamble

Colgate-Palmolive

Ralph Lauren

Coty

Revlon

The Gap

Starbucks

International Flavors & Fragrances

Tiffany & Co.

Johnson & Johnson

L Brands

Our revenues approximate the 60<sup>th</sup> percentile relative to the peer group using each company's most recently completed fiscal year ended on or prior to June 30, 2018. For assessing fiscal 2019 compensation levels, the Committee has added the following additional companies to the above-referenced peer group: Kimberly-Clark, Michael Kors, PVH Corp., and Tapestry.

*Compensation Consultant.* The Committee has engaged Semler Brossy Consulting Group ("Semler Brossy") as its consultant for executive compensation. The Committee determined that Semler Brossy is free of conflicts of interest. The consultant reports directly to the Committee and works with the Committee (and the Subcommittee) and management to, among other things, provide advice regarding compensation structures in general and competitive compensation data. The consultant also reviews information prepared by management for the Committee or Subcommittee. All of the decisions with respect to determining the amount or form of executive compensation under our executive compensation programs are made by the Committee or Subcommittee alone and may reflect factors and considerations other than the information and advice provided by the consultant. No other services were provided by Semler Brossy to the Committee, Subcommittee, or Company in fiscal 2018.

*Role of Executive Officers.* As noted above, executive compensation is set by the Committee and Subcommittee. In performing this function, the Committee and Subcommittee rely on the Executive Chairman, the President and Chief Executive Officer, and the Executive Vice President Global Human Resources (the "EVP HR") to provide information regarding the executive officers, their roles and responsibilities, and the general performance of the Company and the various business units. These three executive officers providing support take directions from and bring suggestions to the Committee and Subcommittee. They suggest performance measures and targets for each of the executive officers under the EAIP and for PSUs. They also make suggestions regarding terms of employment agreements. The final decisions regarding salaries, bonuses (including measures, targets, and amounts to be paid), equity grants, and other compensation matters related to executive officers are made by the Committee or Subcommittee, as the case may be. The EVP HR and the human resources staff work with the Executive Vice President and General Counsel, the legal staff, the Executive Vice President and Chief Financial Officer, and the finance staff to support the Committee and Subcommittee.

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*Other Benefits and Perquisites*

*Benefits.* We determine benefits for executive officers by the same criteria applicable to the general employee population in the location where the executive officer is situated except as noted below. In general, benefits are designed to provide protection to the executive and his or her family in the event of illness, disability, or death and to provide retirement income. The benefits are important in attracting and retaining employees and to mitigate distractions that may arise relating to health care, retirement, and similar issues. The NEOs are entitled to the following two Company-paid benefits that are not generally available to the employee population: (a) supplemental executive life insurance with a face amount of \$5 million (\$10 million for Mr. Freda) and (b) for the NEOs who were employees prior to January 1, 2011, payment in lieu of a medical reimbursement program that was discontinued as of such date. For costs associated with such programs, see note (8) to the "Summary Compensation Table."

*Perquisites.* We provide limited perquisites to our executive officers. The perquisites are comprised of (a) an annual perquisite allowance of \$20,000 for the Executive Chairman and the President and Chief Executive Officer and \$15,000 for the other executive officers (other than Leonard A. Lauder and Ronald S. Lauder, who do not receive a perquisite allowance), which allowance can be used for certain specified expenses; (b) personal use of a company car (or cash in lieu of a company car); (c) financial counseling costs up to \$5,000 per year (other than Leonard A. Lauder and Ronald S. Lauder, who do not receive a financial counseling allowance); and (d) spousal or companion travel (with required approval, the executive's spouse, companion, or domestic partner may accompany the executive on up to two business trips per fiscal year). On occasion, we will provide expense reimbursements relating to relocations. In addition, we make available to our employees, including the NEOs, the ability to obtain a limited amount of our products for free or at a discount.

*Post-Termination Compensation*

*Retirement Plans.* We provide retirement benefits to our employees in the United States, including the NEOs, under The Estee Lauder Companies Retirement Growth Account Plan (the "RGA Plan"), the related The Estee Lauder Inc. Benefits Restoration Plan (the "Restoration Plan"), and The Estee Lauder Companies 401(k) Savings Plan. Executive officers who have worked for our subsidiaries outside the United States may also be covered under plans covering such employees. As with other benefits, the retirement plans are intended to enable us to attract and retain employees. The plans provide employees, including executive officers, with an opportunity to plan for future financial needs during retirement. For a more detailed discussion on the retirement plans, see "Pension Benefits." In addition, certain executive officers who joined us mid-career, or who forfeited certain retirement benefits from their former employers to join us, have been provided with nonqualified supplemental pension arrangements.

*Deferred Compensation.* We currently allow executive officers to defer a portion of their base salary and annual bonus. Under the terms of their employment agreements and the EAIP, each of the NEOs may elect to defer all or part of the officer's incentive bonus compensation, subject to the requirements of Section 409A of the Internal Revenue Code ("Section 409A"). The ability to defer is provided to participating executive officers as a way to assist them in saving for future financial needs with relatively little cost to us. The amounts deferred are a general obligation of ours, and the cash that is not paid currently may be used by us for our general corporate purposes. For information about deferred compensation, see the "Nonqualified Deferred Compensation in Fiscal 2018 and at June 30, 2018" table and the accompanying narrative.

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*Potential Payments upon Termination of Employment.* As discussed in more detail under "Potential Payments upon Termination of Employment or Change of Control," the NEOs' employment agreements (as well as agreements related to equity compensation awards) provide for certain payments and other benefits in the event their employment is terminated under certain circumstances, such as retirement, disability, death, termination by us without cause, and termination by us for material breach of their employment arrangement, or termination by the executive officer for "good reason" following a "change of control."

In view of the Lauder family's ownership of shares with substantial voting power, they have the ability to determine whether our company will undergo a "change of control." In order to protect the interests of the executive officers and to keep them involved and motivated during any process that may result in a "change of control," outstanding annual PSUs contain provisions that accelerate vesting upon a "change in control." Unvested RSUs, stock options, and other PSUs (i.e. the PSU granted to Mr. Freda on February 14, 2018, the PSU granted to Mr. Freda on September 4, 2015 for 387,848 shares, and the PSU granted to Mr. Demsey on January 28, 2016) contain provisions that provide for accelerated vesting or exercisability after a "change of control" only if we terminate the executive officer without cause or the executive officer terminates employment for "good reason." The executive employment agreements similarly provide such a "double trigger" for other severance benefits.

The award documents in connection with our equity grants contain certain provisions regarding treatment of the awards upon termination. We place great value on the long-term commitment that many executive officers have made to us. In addition to recognizing the service they have provided during their tenure, we attempt to motivate them to act in a manner that will provide longer-term benefits to us even as they approach retirement. Therefore, annual PSUs, stock options, and annual RSUs granted to executive officers who are retirement-eligible contain provisions that allow them to continue to participate in the longer-term success of the business following retirement. For example, to the extent the performance is achieved, a retiree's annual PSUs will vest in accordance with the original vesting schedule. In addition, stock options become immediately exercisable upon retirement and are exercisable for the remainder of their ten-year terms.

The Share Incentive Plan provides for forfeiture of awards in the event that after termination of employment, a participant competes with or otherwise conducts herself or himself in a manner adversely affecting the Company.

*Tax Deductibility Considerations*

The recently-enacted TCJA eliminated the deductibility exemption for performance-based compensation under Section 162(m) effective for the Company in fiscal 2019. As a result, all compensation in excess of \$1 million paid to covered executive officers will not be deductible unless the compensation qualifies for certain transition relief under the TCJA. While significant portions of the compensation program as it applied to such persons in fiscal 2018 were generally designed to take advantage of the "performance-based" exception to Section 162(m) (such as annual incentive bonuses, PSUs, and stock options), certain non-deductible compensation elements (such as RSUs and the portion of base salaries that exceeded \$1 million) were authorized. While we consider tax deductibility to be important, it is neither the sole nor primary consideration in setting executive compensation. Accordingly, the Committee and Subcommittee have the authority to approve, and regularly approve, the payment of compensation that may not be deductible when they believe such payments are in the best interests of stockholders.

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*Executive Stock Ownership Guidelines and Holding Requirement*

The Company has stock ownership guidelines for executive officers to further align their interests with those of our stockholders.

The following table illustrates which equity holdings count for purposes of meeting our stock ownership guidelines:

| Common Stock <sup>(1)</sup><br>Unvested RSUs<br>Vested PSUs <sup>(2)</sup> | Stock Options (vested or unvested)<br>Unvested PSUs <sup>(3)</sup> |
|--|--|
|--|--|

- (1) Common Stock means Class A or Class B Common Stock held directly by the executive officer or immediate family or held in entities controlled by immediate family members (including trusts for the benefit of immediate family members).
- (2) Vested PSUs mean PSUs that are no longer subject to performance condition(s) but the underlying shares of Common Stock have not yet been delivered to the officer.
- (3) Unvested PSUs mean PSUs still subject to performance condition(s).

Under these guidelines for fiscal 2018, each executive officer was required to have equity holdings with a value equal to or greater than the multiple of base salary set forth below. As of June 30, 2018, all executive officers, including each of the NEOs, met or exceeded the stock ownership guidelines applicable to them.

|                                       |   |
|---------------------------------------|---|
| Executive Chairman                    | 5 |
| President and Chief Executive Officer | 5 |
| Chief Financial Officer               | 3 |
| Group Presidents                      | 3 |
| Other Executive Officers              | 2 |

In fiscal 2019, we increased our stock ownership requirements to further align the interests of our executive officers with those of our stockholders. Current executive officers have until July 31, 2021 to comply with the requirements set forth below.

|                                       |   |
|---------------------------------------|---|
| Executive Chairman                    | 8 |
| President and Chief Executive Officer | 8 |
| Chief Financial Officer               | 4 |
| Group Presidents                      | 4 |
| Other Executive Officers              | 3 |

An executive officer who commences employment with the Company or who is promoted from within the Company has until the fifth anniversary of the date of employment or effective date of promotion to comply with these guidelines. If an executive officer receives an increase in base





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salary, then such officer has until the third anniversary of the effective date of the salary increase to comply with the incremental change in ownership requirements. If an executive officer fails to achieve the requisite ownership level by the required deadline, then until such time as the ownership guidelines are achieved, such executive officer must continue to hold (a) 100% of the net after-tax shares of Common Stock received due to the vesting of RSUs, PSUs, or any other share unit and (b) 100% of the net after-tax shares of any stock option exercise. An executive officer may satisfy the ownership guideline but subsequently, due to a drop in the stock price, the officer's ownership may fall below the required threshold. In such a case, if by the first anniversary of falling below the required threshold, such officer's holdings still do not meet the required threshold, then until such time as the ownership guidelines are achieved, the officer must continue to hold (a) at least 50% of the net after-tax shares of Common Stock received due to the vesting of RSUs, PSUs, or any other share unit and (b) 50% of the net after-tax shares of any stock option exercise. In addition, in settling bonus payouts under the EAIP for an Executive Officer who continues to be below the guidelines after the required deadline, the Compensation Committee may request that up to 50% of the bonus payout be settled in shares of the Company's Common Stock or additional RSUs.

*Insider Trading Policy*

Our Insider Trading Policy prohibits employees, including executive officers, and members of our Board of Directors from trading in Company securities while in possession of material, non-public information about the Company. In addition, under this policy, certain individuals are prohibited from trading in Company securities during various times throughout the year known as "blackout periods," and certain individuals must receive preclearance from the Legal Department before trading in Company securities.

*Pledging Policy*

We do not restrict pledges of securities but require that pledges of securities be precleared by our Legal Department. While shares of our stock held in brokerage margin accounts can be considered to be "pledged," we do not consider margin accounts to be subject to our preclearance policy. As of June 30, 2018, none of our executive officers held shares of our stock in margin accounts.

*Hedging Policy*

We do not restrict transactions in the Company's securities involving hedging or the use of derivative securities but require that such transactions be precleared by our Legal Department.

*Recoupment Policy*

Annual and long-term incentive compensation (whether in the form of stock options or paid or payable in cash or equity) awarded to executive officers are subject to an executive compensation recoupment policy, also known as a "clawback." Under the policy, recoupment would apply in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the applicable securities laws. Recoupment would apply to any current or former executive officer who received incentive compensation within the three-year period prior to the restatement, and the amount to be recouped would be the amount in excess of what the executive officer would have been paid under the restatement.

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*Compensation Committee and Stock Plan Subcommittee Report*

The Compensation Committee and the Stock Plan Subcommittee have reviewed and discussed with management the foregoing Compensation Discussion and Analysis in this Proxy Statement on Schedule 14A. Based on such review and discussions, the Compensation Committee and the Stock Plan Subcommittee have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended June 30, 2018.

*Compensation Committee\**  
Charlene Barshefsky (Chair)  
Rose Marie Bravo  
Paul J. Fribourg  
Richard D. Parsons

*Stock Plan Subcommittee\*\**  
Charlene Barshefsky  
Rose Marie Bravo  
Paul J. Fribourg

*\*Richard F. Zannino left the committee, and Ambassador Barshefsky joined the committee, in each case effective July 12, 2018. Mr. Parsons was Chair of the committee until September 4, 2018, when Ambassador Barshefsky became Chair.*

*\*\*Mr. Zannino left the subcommittee, and Ambassador Barshefsky joined the subcommittee, in each case effective July 12, 2018.*

Table of Contents*Summary Compensation Table*

The following table, footnotes, and narratives describe the compensation during the past three fiscal years for (a) our Chief Executive Officer, (b) our Chief Financial Officer, and (c) our three other most highly compensated executive officers serving at the end of our fiscal year ended June 30, 2018 ("fiscal 2018"). Our fiscal year ended June 30, 2017 is referred to as "fiscal 2017," and our fiscal year ended June 30, 2016 is referred to as "fiscal 2016." See "Compensation Discussion and Analysis" and other disclosures under "Executive Compensation" for a description of the material factors necessary to an understanding of the information disclosed below.

|  |      |              |      |              |            |              |            |           |              |
|--|------|--------------|------|--------------|------------|--------------|------------|-----------|--------------|
| <b>William P. Lauder</b><br>Executive<br>Chairman  | 2018 | \$ 1,500,000 | \$ 0 | \$ 1,799,958 | \$ 900,043 | \$ 4,165,750 | \$ 281,634 | \$ 63,838 | \$ 8,711,223 |
|  | 2017 | 1,500,000    | 0    | 1,733,392    | 866,627    | 3,401,050    | 339,830    | 145,497   | 7,986,396    |
|  | 2016 | 1,500,000    | 0    | 1,733,258    | 866,752    | 3,470,600    | 752,319    | 120,208   | 8,443,137    |
| <b>Fabrizio Freda</b> (1)<br>President and Chief<br>Executive Officer                        | 2018 | 1,900,000    | 0    | 35,370,666   | 3,996,044  | 6,804,050    | 589,517    | 93,542    | 48,753,819   |
|  | 2017 | 1,900,000    | 0    | 7,349,244    | 3,674,773  | 5,328,300    | 598,833    | 132,089   | 18,983,239   |
|  | 2016 | 1,900,000    | 0    | 36,846,755   | 3,423,277  | 5,437,250    | 677,622    | 84,497    | 48,369,401   |
| <b>Tracey T. Travis</b> (2)<br>Executive Vice<br>President and<br>Chief Financial<br>Officer | 2018 | 980,000      | 0    | 2,807,780    | 1,403,892  | 1,718,400    | 66,629     | 49,123    | 7,025,824    |
|  | 2017 | 950,000      | 0    | 4,102,736    | 1,301,339  | 1,400,700    | 69,304     | 74,042    | 7,898,121    |
|  | 2016 | 900,000      | 0    | 2,474,736    | 1,237,255  | 1,235,800    | 74,528     | 52,369    | 5,974,688    |
| <b>John Demsey</b> (3)<br>Executive Group<br>President                                       | 2018 | 1,161,000    | 0    | 3,827,692    | 1,913,782  | 3,240,750    | 280,891    | 73,404    | 10,497,519   |
|  | 2017 | 1,150,000    | 0    | 3,906,082    | 1,952,920  | 3,300,800    | 307,291    | 95,286    | 10,712,379   |
|  | 2016 | 1,100,000    | 0    | 9,813,427    | 1,906,634  | 3,763,250    | 436,886    | 66,804    | 17,087,001   |
| <b>Cedric Prouvé</b><br>Group President<br>International                                     | 2018 | 1,105,000    | 0    | 3,254,908    | 1,627,599  | 3,480,200    | 185,800    | 121,701   | 9,775,208    |
|  | 2017 | 1,080,000    | 0    | 2,836,736    | 1,418,270  | 3,143,500    | 220,396    | 120,691   | 8,819,593    |
|  | 2016 | 1,050,000    | 0    | 2,768,976    | 1,384,523  | 2,999,150    | 403,512    | 100,750   | 8,706,911    |

(1)

For each fiscal year shown, the "Stock Awards" column in the Summary Compensation Table shows the grant date fair values of all stock awards, which are comprised of annual grants of PSUs and RSUs and, where applicable, additional (non-annual) awards such as the PSUs granted to Mr. Freda in fiscal 2018 (i.e. the February 2018 PSU) and fiscal 2016 (i.e. the September 2015 PSU). In contrast, the table below reflects the amounts shown for each year in the "Stock Awards" column in the Summary Compensation Table adjusted to (a) deduct the grant date fair value of the additional (non-annual) awards from the year in which they were granted and (b) instead include the amounts relating to such awards that were expensed for accounting purposes in each fiscal year shown in the Summary Compensation Table, including the amounts expensed for such awards granted prior to fiscal 2016 as disclosed in previous proxy statements. As adjusted, the amounts shown for "Stock Awards" and "Total" in the Summary Compensation Table for Mr. Freda would be as follows:

|      |              |              |
|------|--------------|--------------|
| 2018 | \$19,162,234 | \$32,545,387 |
| 2017 | 16,752,310   | 28,386,305   |
| 2016 | 16,350,705   | 27,873,351   |

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For the February 2018 PSU, the total grant date fair value was approximately \$27.4 million. In connection with this award, approximately \$3 million was recognized in fiscal 2018, and approximately \$24.4 million in total is expected to be recognized in fiscal years 2019 to 2022, subject to the award's terms and conditions. For the non-annual September 2015 PSU, the total grant date fair value was approximately \$30 million; approximately \$23 million was recognized in total in fiscal years 2016 to 2018, and approximately \$7 million in total is expected to be recognized in fiscal years 2019 and 2020, subject to the award's terms and conditions. See "Compensation Discussion and Analysis – CEO Compensation" for additional information about these awards.

(2) Stock awards for Ms. Travis in each year reflect annual grants of PSUs and RSUs and also reflect an additional (non-annual) RSU grant on September 6, 2016 (fiscal 2017) with a grant date fair value of approximately \$1.5 million. See "Outstanding Equity Awards at June 30, 2018" for additional information about this award.

(3) Stock awards for Mr. Demsey in each year reflect annual grants of PSUs and RSUs and also reflect an additional (non-annual) PSU grant on January 28, 2016 (fiscal 2016) with a grant date fair value of approximately \$6 million. See "Outstanding Equity Awards at June 30, 2018" for additional information about this award.

(4) Amounts represent the aggregate grant date fair value of PSUs and RSUs granted in the respective fiscal year computed in accordance with Financial Accounting Standards Board Accounting Standard Codification Topic 718, Compensation – Stock Compensation ("FASB ASC Topic 718"). Amounts shown for Mr. Freda for fiscal 2018 and fiscal 2016 include additional PSU awards noted in note (1). Amounts shown for Ms. Travis for fiscal 2017 include an additional RSU award noted in note (2). Amounts shown for Mr. Demsey for fiscal 2016 include an additional PSU award noted in note (3). Amounts shown disregard estimates of forfeitures related to service-based vesting conditions and were calculated generally based on the closing prices of our Class A Common Stock on the NYSE on the dates of grant. For PSUs, the amount included was calculated based on the probable (i.e. likely) outcome with respect to satisfaction of the performance conditions at the date of grant, which is the target payout, consistent with the recognition criteria in FASB ASC Topic 718 (excluding the effect of estimated forfeitures). The maximum potential values of PSUs (assuming the grant date stock price) awarded at the date of grant for fiscal 2018, fiscal 2017, and fiscal 2016 were as follows: Mr. Lauder, \$1,350,023, \$1,300,089, and \$1,299,944; Mr. Freda, \$33,372,728, \$5,511,978, and \$35,135,077; Ms. Travis, \$2,105,889, \$1,952,056, and \$1,856,091; Mr. Demsey, \$2,870,822, \$2,929,606, and \$8,860,087; and Mr. Prouvé, \$2,441,181, \$2,127,597, and \$2,076,770.

(5) Amounts represent aggregate grant date fair value of stock options granted in the respective fiscal year computed in accordance with FASB ASC Topic 718. Amounts shown disregard estimates of forfeitures related to service-based vesting conditions. The fair values of stock options granted were calculated using the Black-Scholes options-pricing model based on the following assumptions:

|                                 |     |   |      |      |
|---------------------------------|-----|---|------|------|
| September 5, 2017 (fiscal 2018) | 26% | 9 | 1.5% | 2.1% |
| September 6, 2016 (fiscal 2017) | 26% | 9 | 1.3% | 1.6% |
| September 4, 2015 (fiscal 2016) | 27% | 8 | 1.2% | 2.0% |

The expected volatility assumption is a combination of both current and historical implied volatilities of the underlying stock. The implied volatilities were obtained from publicly available data sources. See "Grants of Plan-Based Awards in Fiscal 2018" for information about



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option awards granted in fiscal 2018 and "Outstanding Equity Awards at June 30, 2018" for information with respect to options outstanding at June 30, 2018.

- (6) Amounts represent incentive payments made in respect of each fiscal year under our EAIP. See "Grants of Plan-Based Awards in Fiscal 2018" for the potential payouts to which the executive was entitled depending on the outcome of the performance criteria in fiscal 2018. For a description of the performance criteria for fiscal 2018, see "Compensation Discussion and Analysis Elements of Compensation Annual Incentive Bonus."
- (7) Amounts represent the aggregate change in each fiscal year in the actuarial present value of each NEO's accumulated pension benefits under the RGA Plan and the Restoration Plan and any above market portion of interest earned during each fiscal year on deferred compensation balances. Mr. Lauder is the only NEO with a deferred compensation balance. The above market portions of interest earned by Mr. Lauder during fiscal 2018, fiscal 2017, and fiscal 2016 were \$97,377, \$72,173, and \$54,189, respectively. See "Nonqualified Deferred Compensation in Fiscal 2018 and at June 30, 2018" and the related discussion for information about our deferred compensation arrangements applicable to executive officers. For Mr. Freda, the amount also represents a supplemental deferral intended to replicate pension benefits foregone at his former employer plus earnings on such deferral. See "Pension Benefits."
- (8) Amounts reported for fiscal 2018, fiscal 2017, and fiscal 2016 are shown in the table below.

|                          |      |           |           |          |           |          |          |        |           |
|--------------------------|------|-----------|-----------|----------|-----------|----------|----------|--------|-----------|
| <b>William P. Lauder</b> | 2018 | \$ 12,500 | \$ 18,598 | \$ 6,475 | \$ 20,000 | \$ 5,000 | \$ 1,265 | \$ 0   | \$ 63,838 |
|                          | 2017 | 13,775    | 18,598    | 6,805    | 20,000    | 10,000   | 53,010   | 23,309 | 145,497   |
|                          | 2016 | 12,975    | 18,598    | 7,479    | 40,000    | 0        | 28,893   | 12,263 | 120,208   |
| <b>Fabrizio Freda</b>    | 2018 | 13,824    | 35,735    | 8,551    | 20,000    | 5,000    | 1,406    | 9,026  | 93,542    |
|                          | 2017 | 12,714    | 35,735    | 6,805    | 20,000    | 5,000    | 0        | 1,835  | 132,089   |
|                          | 2016 | 13,250    | 35,735    | 7,479    | 20,000    | 5,000    | 0        | 3,033  | 84,497    |
| <b>Tracey T. Travis</b>  | 2018 | 13,279    | 7,644     |          | 15,000    | 0        | 13,200   | 0      | 49,123    |
|                          | 2017 | 12,083    | 7,644     |          | 15,000    | 10,000   | 13,200   | 16,115 | 74,042    |
|                          | 2016 | 11,525    | 7,644     |          | 15,000    | 5,000    | 13,200   | 0      | 52,369    |
| <b>John Demsey</b>       | 2018 | 13,868    | 19,285    | 8,551    | 15,000    | 3,500    | 13,200   | 0      | 73,404    |
|                          | 2017 | 13,034    | 43,850    | 6,702    | 15,000    | 3,500    | 13,200   | 0      | 95,286    |
|                          | 2016 | 13,325    | 14,300    | 7,479    | 15,000    | 3,500    | 13,200   | 0      | 66,804    |
| <b>Cedric Prouvé</b>     | 2018 | 13,841    | 44,190    | 6,058    | 15,000    | 3,500    | 6,852    | 2,260  | 121,701   |
|                          | 2017 | 13,063    | 44,190    | 6,257    | 30,000    | 3,500    | 6,875    | 16,806 | 120,691   |
|                          | 2016 | 13,125    | 44,190    | 6,929    | 15,000    | 3,500    | 6,875    | 11,131 | 100,750   |

(a)



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The perquisite allowance and financial counseling plans are administered on a calendar year basis, which accounts for the variation in amounts for a particular fiscal year.

(b)

Includes personal use of a company car or cash in lieu of a company car. The amounts for all NEOs for fiscal 2018 are related to payments for car usage.

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The Company's flight safety policy provides that our Chairman Emeritus, our Executive Chairman, and our Chief Executive Officer should not fly together for any reason. We allow these officers to use Company-provided aircraft for non-business trips where it is necessary to comply with the flight safety policy. In addition, we make available to our employees, including the NEOs, the ability to obtain a limited amount of our products for free or at a discount. The incremental cost of the free product program did not exceed \$1,000 in any of the last three fiscal years for any of the NEOs. The sales of products to employees at a discount are profitable for us.

*Employment Agreements*

The material terms of each NEO's employment agreement are described below:

*William P. Lauder.* Under his employment agreement effective July 1, 2010, Mr. Lauder is an employee-at-will, and he will continue as Executive Chairman until his retirement or other termination of his employment. The agreement provides that his base salary and bonus opportunities will be set by the Compensation Committee and that his equity grants are to be determined by the Subcommittee. In addition to benefits generally available to senior executives (e.g., annual perquisite reimbursement under our Executive Perquisite Plan up to \$20,000, financial counseling services up to \$5,000, and participation in our Executive Automobile Program with an automobile having an acquisition value of \$75,000), we pay annual premiums for additional executive term life insurance with a face amount of \$5 million for Mr. Lauder.

*Fabrizio Freda.* Under his employment agreement effective July 1, 2011, Mr. Freda is an employee-at-will, and he will continue as President and Chief Executive Officer until his retirement or other termination of his employment. The agreement provides that his base salary and bonus opportunities will be set by the Compensation Committee and that his equity grants will be determined by the Subcommittee. In addition to benefits generally available to senior executives (e.g., annual perquisite reimbursement under our Executive Perquisite Plan of up to \$20,000, financial counseling services up to \$5,000, and participation in the Company's Executive Automobile Program with an automobile having an acquisition value of \$75,000), we pay annual premiums for additional executive term life insurance with a face amount of \$10 million for Mr. Freda. We also pay travel expenses for his spouse to accompany him on up to two business-related travel itineraries per fiscal year. In addition, Mr. Freda is entitled to an annual supplemental deferral computed by taking the difference between \$485,000 and the actual vested annual accruals and contributions made to the Company's qualified and nonqualified pension and qualified retirement savings plans on his behalf. Such deferrals are credited with interest annually at a rate per annum equal to the Citibank base rate but in no event more than 9%. Mr. Freda will also be reimbursed for relocation costs of his family from New York to Italy in the event of the termination of his employment.

*Tracey T. Travis.* Under her employment agreement effective August 20, 2012, Ms. Travis is an employee-at-will, and she will continue as Executive Vice President and Chief Financial Officer until her retirement or other termination of her employment. The agreement provides for a base salary and bonus opportunities to be set by the Compensation Committee and for equity grants as determined by the Subcommittee. In addition to the benefits generally available to our senior executives (e.g., annual perquisite reimbursement under our Executive Perquisite Plan up to \$15,000, financial counseling services up to \$5,000, and participation in our Executive Automobile Program with an automobile having an acquisition value of \$50,000), we pay annual premiums for additional executive term life insurance with a face amount of \$5 million for Ms. Travis.

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*John Demsey.* Under his employment agreement effective July 1, 2010, Mr. Demsey is an employee-at-will, and he will continue as Group President until his retirement or other termination of his employment. The agreement provides for his base salary and bonus opportunities to be set by the Compensation Committee and that his equity grants will be determined by the Subcommittee. In addition to the benefits generally available to our senior executives (e.g., annual perquisite reimbursement under our Executive Perquisite Plan up to \$15,000, financial counseling services up to \$5,000, and participation in our Executive Automobile Program with an automobile having an acquisition value of \$50,000), we pay annual premiums for additional executive term life insurance with a face amount of \$5 million for Mr. Demsey.

*Cedric Prouvé.* Under his employment agreement effective July 1, 2011, Mr. Prouvé is an employee-at-will, and he will continue as Group President, International until his retirement or other termination of his employment. The agreement provides for his base salary and bonus opportunities to be set by the Compensation Committee and for equity grants as determined by the Subcommittee. In addition to the benefits generally available to our senior executives (e.g., annual perquisite reimbursement under our Executive Perquisite Plan up to \$15,000, financial counseling services up to \$5,000, and participation in our Executive Automobile Program with an automobile having an acquisition value of \$50,000), we pay annual premiums for additional executive term life insurance with a face amount of \$5 million for Mr. Prouvé.

Each agreement described above also (a) contains provisions relating to termination of employment and payments relating to termination, which are discussed in "Potential Payments upon Termination of Employment or Change of Control," (b) provides that the executive must abide by restrictive covenants relating to non-competition and non-solicitation during employment and, under certain circumstances, for two years following termination of employment, (c) provides that the executive must abide by restrictive covenants regarding non-disclosure of our confidential information, (d) provides that the executive may elect to defer all or part of his or her annual incentive bonus compensation in compliance with Section 409A, and (e) provides that benefits under the agreement may be modified by the Compensation Committee at any time other than in contemplation of a "Change of Control" (as defined in the agreement) or after a Change of Control, provided that any such modification shall not be effective until at least two years after such modification is approved by the Compensation Committee.

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The following table sets forth information with respect to each award of plan-based compensation in fiscal 2018 to each NEO, including bonus opportunities under the EAIP, and PSUs, RSUs, and stock options under the Share Incentive Plan. The material terms of the incentive bonus opportunities are described in "Compensation Discussion and Analysis Elements of Compensation Annual Incentive Bonus," and the material terms of the equity awards are described in "Compensation Discussion and Analysis Elements of Compensation Long-Term Equity-Based Compensation" and "Compensation Discussion and Analysis CEO Compensation." See "Compensation Discussion and Analysis" and other disclosures under "Executive Compensation" for a description of the material factors necessary to an understanding of the information disclosed below.

|                              |        |        |            |              |              |                  |                   |
|------------------------------|--------|--------|------------|--------------|--------------|------------------|-------------------|
| <b>William P.<br/>Lauder</b> | EAIP   | N/A    | \$ 937,500 | \$ 3,000,000 | \$ 4,500,000 |                  |                   |
|                              | PSU    | 5/2017 |            |              |              | 4,189,372        | \$ 899,979        |
|                              | RSU    | 5/2017 |            |              |              | 8,337            | 899,979           |
|                              | Option | 5/2017 |            |              |              | 30,541           | \$ 107.95 900,043 |
| <b>Fabrizio<br/>Freda</b>    | EAIP   | N/A    | 1,531,250  | 4,900,000    | 7,350,000    |                  |                   |
|                              | PSU    | 5/2017 |            |              |              | 18,370,155       | 3,995,985         |
|                              | PSU    | 4/2018 |            |              |              | 195,940(6)       | 27,378,696        |
|                              | RSU    | 5/2017 |            |              |              | 37,017           | 3,995,985         |
| Option                       | 5/2017 |        |            |              | 135,597      | 107.95 3,996,044 |                   |
| <b>Tracey T.<br/>Travis</b>  | EAIP   | N/A    | 375,000    | 1,200,000    | 1,800,000    |                  |                   |
|                              | PSU    | 5/2017 |            |              |              | 6,530,905        | 1,403,890         |
|                              | RSU    | 5/2017 |            |              |              | 13,005           | 1,403,890         |
|                              | Option | 5/2017 |            |              |              | 47,638           | 107.95 1,403,892  |
| <b>John<br/>Demsey</b>       | EAIP   | N/A    | 956,250    | 3,060,000    | 4,590,000    |                  |                   |
|                              | PSU    | 5/2017 |            |              |              | 8,875,226        | 1,913,846         |
|                              | RSU    | 5/2017 |            |              |              | 17,729           | 1,913,846         |
|                              | Option | 5/2017 |            |              |              | 64,940           | 107.95 1,913,782  |
| <b>Cedric<br/>Prouvé</b>     | EAIP   | N/A    | 776,563    | 2,485,000    | 3,727,500    |                  |                   |
|                              | PSU    | 5/2017 |            |              |              | 7,558,872        | 1,627,454         |
|                              | RSU    | 5/2017 |            |              |              | 15,076           | 1,627,454         |
|                              | Option | 5/2017 |            |              |              | 55,229           | 107.95 1,627,599  |

(1)

The amounts shown represent the possible aggregate payouts in respect of fiscal 2018 under the EAIP at the threshold, target, and maximum levels. Actual payouts for fiscal 2018 are disclosed in the Summary Compensation Table in the column "Non-Equity Incentive Plan Compensation." No future payout will be made under these awards. For a discussion of the EAIP and the fiscal 2018

payouts, see "Compensation Discussion and Analysis Elements of Compensation Annual Incentive Bonus."

(2)

The amounts shown represent the number of shares of Class A Common Stock underlying threshold, target, and maximum payout of PSUs granted under the Share Incentive Plan in fiscal 2018. The February 2018 PSU grant to Mr. Freda is discussed in "Compensation Discussion and Analysis CEO Compensation." Future payout of all other PSUs (i.e. annual PSUs) shown in this table is generally subject to the achievement of our Net Sales, Diluted EPS, and ROIC compound annual growth rate goals for the three-year period ending June 30, 2020; these goals were set in September 2017. Payout of annual PSUs generally assumes continued employment and is subject to acceleration upon the occurrence of certain events as described in "Potential Payments upon Termination of Employment or Change of Control Events of Termination under the Employment Agreements and under the Share Incentive Plan." For each

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executive officer, no payout of annual PSUs will be made pursuant to the Net Sales, Diluted EPS, or ROIC compound annual growth rate opportunities unless the threshold for such opportunity is achieved, and additional shares shall be paid out if performance exceeds the targeted performance goals. Measurement of performance is subject to certain automatic adjustments. See "Compensation Discussion and Analysis Elements of Compensation Long-Term Equity-Based Compensation Performance Share Units." The PSUs shown in the table above are subject to restrictions on transfer and forfeiture prior to vesting. Upon payout of the PSUs, shares will be withheld to satisfy statutory tax obligations. PSUs are accompanied by dividend equivalent rights that will be payable in cash at the time of payout of the related shares. PSUs do not have any voting rights with respect to the shares of Class A Common Stock underlying the award.

- (3) The amounts shown represent the number of shares of Class A Common Stock underlying RSUs granted under the Share Incentive Plan in fiscal 2018. RSUs generally vest in three equal installments approximately 14 months, 26 months, and 38 months from the date of grant. The vesting of RSUs is subject to continued employment and subject to acceleration upon the occurrence of certain events as described in "Potential Payments upon Termination of Employment or Change of Control Events of Termination under the Employment Agreements and under the Share Incentive Plan." RSUs are subject to restrictions on transfer and forfeiture prior to vesting. Upon payout, shares will be withheld to satisfy statutory tax obligations. RSUs are accompanied by dividend equivalent rights that will be payable in cash at the time of payout of the related shares. RSUs do not have any voting rights with respect to the shares of Class A Common Stock underlying the award. See "Compensation Discussion and Analysis Elements of Compensation Long-Term Equity-Based Compensation Restricted Stock Units."
- (4) The amounts shown represent the number of shares of Class A Common Stock underlying stock options granted under the Share Incentive Plan in fiscal 2018. The exercise price of the stock options is equal to the closing price of our Class A Common Stock on the date of grant. The stock options become exercisable in three equal installments approximately 16 months, 28 months, and 40 months after the date of grant, and expire ten years from the grant date assuming continued employment and subject to acceleration upon the occurrence of certain events as described in "Potential Payments upon Termination of Employment or Change of Control Events of Termination under the Employment Agreements and under the Share Incentive Plan." Stock options do not have dividend equivalent rights or any voting rights with respect to the shares of Class A Common Stock underlying the options. See "Compensation Discussion and Analysis Elements of Compensation Long-Term Equity-Based Compensation Stock Options."
- (5) The amounts shown are the total FASB ASC Topic 718 values for PSUs, RSUs, and stock options, calculated using assumptions previously described in notes (4) and (5) of the Summary Compensation Table. The grant date fair values of PSU awards were calculated assuming the target payout.
- (6) See "Compensation Discussion and Analysis CEO Compensation" for additional information on the February 2018 PSU grant to Mr. Freda.

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*Outstanding Equity Awards at June 30, 2018*

The following table sets forth information with respect to stock options, RSUs, and PSUs outstanding on June 30, 2018 under our plans existing at the time of grant for each NEO.

|                              |         |         |        |          |      |            |            |             |              |
|------------------------------|---------|---------|--------|----------|------|------------|------------|-------------|--------------|
| <b>William P.<br/>Lauder</b> | 9/12/14 | 132     | 0      | \$ 29.09 | 1/20 |            |            |             |              |
|                              | 9/16/17 | 1,056   | 0      | 49.08    | 5/21 |            |            |             |              |
|                              | 9/4/16  | 2,561   | 0      | 59.78    | 4/22 |            |            |             |              |
|                              | 9/4/14  | 4,739   | 0      | 67.39    | 4/23 |            |            |             |              |
|                              | 9/3/14  | 4,110   | 0      | 76.29    | 3/24 |            |            |             |              |
|                              | 9/4/15  | 25,025  | 25,513 | 77.35    | 4/25 | RSU 3,735  | \$ 546,767 | PSU 16,806  | \$ 2,460,230 |
| <b>Fabrizio<br/>Freda</b>    | 9/6/11  | 168,823 | 23,766 | 89.49    | 6/26 | RSU 6,458  | 937,637    | PSU 14,531  | 2,109,756    |
|                              | 9/5/17  | 30,541  |        | 107.95   | 5/27 | RSU 8,337  | 1,199,118  | PSU 12,506  | 1,798,738    |
|                              | 9/12/14 | 1,262   | 0      | 29.09    | 1/20 |            |            |             |              |
|                              | 9/16/17 | 1,652   | 0      | 49.08    | 5/21 |            |            |             |              |
|                              | 9/4/16  | 3,822   | 0      | 59.78    | 4/22 |            |            |             |              |
|                              | 9/4/17  | 3,239   | 0      | 67.39    | 4/23 |            |            |             |              |
| <b>Tracey T.<br/>Travis</b>  | 9/3/17  | 7,919   | 0      | 76.29    | 3/24 |            |            |             |              |
|                              | 9/4/15  | 15,839  | 19,420 | 77.35    | 4/25 | RSU 14,753 | 2,159,692  | PSU 66,387  | 9,718,393    |
|                              | 9/4/15  |         |        |          |      |            |            | PSU 357,848 | 56,777,069   |
|                              | 9/6/16  | 106,380 | 77,776 | 89.49    | 6/26 | RSU 27,381 | 3,975,447  | PSU 61,607  | 8,944,720    |
|                              | 9/5/17  | 135,597 |        | 107.95   | 5/27 | RSU 37,017 | 5,324,153  | PSU 55,526  | 7,986,305    |
|                              | 2/14/18 |         |        |          |      |            |            | PSU 95,940  | 28,107,593   |
| <b>Tracey T.<br/>Travis</b>  | 9/4/16  | 12,862  | 0      | 59.78    | 4/22 |            |            |             |              |
|                              | 9/4/17  | 3,990   | 0      | 67.39    | 4/23 |            |            |             |              |
|                              | 9/3/15  | 5,848   | 0      | 76.29    | 3/24 |            |            |             |              |
|                              | 9/4/15  | 15,727  | 27,862 | 77.35    | 4/25 | RSU 5,333  | 780,698    | PSU 23,996  | 3,512,774    |

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|                      |         |             |        |      |            |           |             |           |
|----------------------|---------|-------------|--------|------|------------|-----------|-------------|-----------|
|                      | 9/6/17  | 178,435,688 | 89.49  | 6/26 | RSU 9,697  | 1,407,907 | PSU 21,818  | 3,167,755 |
|                      | 9/6/16  |             |        |      | RSU(8),766 | 2,434,256 |             |           |
|                      | 9/5/17  | 47,638      | 107.95 | 5/27 | RSU13,005  | 1,870,509 | PSU 19,508  | 2,805,836 |
| <b>John Demsey</b>   | 9/4/15  | 27,525      | 77.35  | 4/25 | RSU 8,217  | 1,202,887 | PSU 36,975  | 5,412,770 |
|                      | 1/28/16 |             |        |      |            |           | PSU(47),796 | 6,982,518 |
|                      | 9/6/16  | 53,556      | 89.49  | 6/26 | RSU14,553  | 2,112,950 | PSU 32,744  | 4,754,101 |
|                      | 9/5/17  | 64,940      | 107.95 | 5/27 | RSU17,729  | 2,549,962 | PSU 26,594  | 3,825,015 |
| <b>Cedric Prouvé</b> | 9/3/16  | 856         | 76.29  | 3/24 |            |           |             |           |
|                      | 9/4/15  | 19,987,988  | 77.35  | 4/25 | RSU 5,967  | 873,509   | PSU 26,849  | 3,930,425 |
|                      | 9/6/16  | 448,894     | 89.49  | 6/26 | RSU10,569  | 1,534,518 | PSU 23,780  | 3,452,618 |
|                      | 9/5/17  | 55,229      | 107.95 | 5/27 | RSU15,076  | 2,168,381 | PSU 22,614  | 3,252,572 |

- (1) Stock options become exercisable in three equal installments approximately 16 months, 28 months, and 40 months after the date of grant, and expire ten years from the grant date assuming continued employment and subject to acceleration upon the occurrence of certain events as described in "Potential Payments upon Termination of Employment or Change of Control – Events of Termination under the Employment Agreements and under the Share Incentive Plan."
- (2) RSUs generally vest in three equal installments approximately 14 months, 26 months, and 38 months from the date of grant. The vesting of RSUs assumes continued employment and is subject to acceleration upon the occurrence of certain events as described in "Potential Payments upon Termination of Employment or Change of Control – Events of Termination under the Employment Agreements and under the Share Incentive Plan." The September 6, 2016 RSU grant to Ms. Travis for 16,766 shares is discussed in note (8) below.
- (3) Represents the sum of (a) the product of (i) \$142.69 (which was the closing price of the Class A Common Stock on June 29, 2018, the last trading day of fiscal 2018) and (ii) the number of shares of Class A Common Stock underlying the RSUs, and (b) the cash dividend equivalents



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related to such RSUs. As of June 30, 2018, the NEOs had earned dividend equivalents on outstanding unvested RSUs with dollar values as follows: Mr. Lauder, \$39,469; Mr. Freda, \$165,238; Ms. Travis, \$100,715; Mr. Demsey, \$86,996; and Mr. Prouvé, \$65,687.

- (4) Represents (a) the actual payouts in September 2018 of the annual PSUs granted on September 4, 2015 (fiscal 2016), at an aggregate payout of 150%; (b) the maximum level of payout for the annual PSUs granted (i) on September 6, 2016 (fiscal 2017) and (ii) on September 5, 2017 (fiscal 2018); (c) the shares underlying the non-annual PSUs granted to Mr. Freda in September 2015 (fiscal 2016) and in February 2018 (fiscal 2018), which are discussed in note (6) and (7) below respectively; and (d) the shares underlying the non-annual PSUs granted to Mr. Demsey in January 2016 (fiscal 2016) discussed in note (9) below. In connection with the September 2018 PSU payouts referenced in clause (a) above, each NEO also received a cash payment in September 2018 reflecting dividend equivalents on such shares as follows: Mr. Lauder, \$62,182; Mr. Freda, \$245,632; Ms. Travis, \$88,785; Mr. Demsey, \$136,808; and Mr. Prouvé, \$99,341. Payouts under the fiscal 2017 annual PSUs and the fiscal 2018 annual PSUs will be made in early fiscal 2020 and early fiscal 2021, respectively, assuming the performance criteria are achieved.
- (5) The amounts represent the sum of (a) the product of (i) \$142.69 (which was the closing price of the Class A Common Stock on June 29, 2018, the last trading day of fiscal 2018) and (ii) the number of shares of Class A Common Stock underlying the PSUs at the levels described in notes (4), (6), (7), and (9), and (b) the cash dividend equivalents related to such PSUs. As of June 30, 2018, the NEOs had dividend equivalents on the outstanding PSUs shown in the table (except for the annual PSUs granted in fiscal 2016 that paid out in September 2018, which are addressed in note (4) above) with dollar values as follows: Mr. Lauder, \$50,584; Mr. Freda, \$1,801,269; Ms. Travis, \$76,784; Mr. Demsey, \$274,684; and Mr. Prouvé, \$85,230.
- (6) Represents the target level of payout for the PSUs granted to Mr. Freda on September 4, 2015 with a performance period divided into three tranches. The first tranche had a three year performance period that ended June 30, 2018; the second has a three year performance period ending June 30, 2019; and the third has a three year performance period ending June 30, 2020. Payment with respect to a tranche will be made on the third anniversary of the last day of the respective performance period. Accordingly, the payout of the first tranche will be made on June 30, 2021. The PSUs are accompanied by dividend equivalent rights that will be payable in cash at the same time as the payment of shares of Class A Common Stock, and such accumulated dividend equivalents are included in the dollar amount shown in the table as well as in the amount shown in note (5) above.
- (7) Represents the target level of payout for the PSUs granted to Mr. Freda on February 14, 2018 with a performance period divided into two tranches, with the first having a three year performance period ending June 30, 2021 and the second, a four year performance period ending June 30, 2022. Payment for each tranche will be made on September 3, 2024. The PSUs are accompanied by dividend equivalent rights that will be payable in cash at the same time as the payment of shares of Class A Common Stock, and such accumulated dividend equivalents are included in the dollar amount shown in the table as well as in the amount shown in note (5) above.
- (8) Represents RSUs granted to Ms. Travis that vest 100% on October 31, 2019. The accumulated dividend equivalents are included in the dollar amount shown in the table as well as in the amount shown in note (3) above.
- (9) Represents the target level of payout for the PSUs granted to Mr. Demsey on January 28, 2016 with a performance period divided into three tranches. The first tranche had a three year performance period that ended January 29, 2018; the second has a four year performance period ending January 29, 2019; and the third has a five year performance period ending January 29, 2020. Because the Company achieved positive Net Earnings for fiscal 2017, the



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payout of these PSUs is based solely on achievement of certain financial measures. The PSUs are accompanied by dividend equivalent rights that will be payable in cash at the same time as the payment of shares of the Company's Class A Common Stock, and such accumulated dividend equivalents are included in the dollar amount shown in the table as well as in the amount shown in note (5) above. On January 29, 2018, Mr. Demsey received the payout of shares for the first tranche. See "Option Exercises and Stock Vested in Fiscal 2018."

*Option Exercises and Stock Vested in Fiscal 2018*

The following table sets forth for each NEO the number of shares acquired on the exercise of stock options and the number of shares acquired on the vesting of stock awards in fiscal 2018.

|                          |   |    |   |                       |    |
|--------------------------|---|----|---|-----------------------|----|
| <b>William P. Lauder</b> | 0 | \$ | 0 | 19,496 <sub>(4)</sub> | \$ |
|--------------------------|---|----|---|-----------------------|----|