

## BUILDING BRANDS

Our dialogue with consumers reminds us that our most important assets are our brands and their credibility. We continuously find that consumers want to do more than buy a brand; they want to associate with a brand's values.

Each of our 18 brands has built a compelling brand proposition through which it creates and maintains meaningful relationships with our consumers. For example, in our biggest brands this year, we've seen the Estée

WE ARE INCREDIBLY  
FORTUNATE TO HAVE  
INTENSELY LOYAL  
CONSUMERS WHO ARE  
PASSIONATE ABOUT  
OUR BRANDS.

Lauder brand redefine the notion of contemporary beauty with outstanding products, appealing packaging and a trio of glamorous spokesmodels. Meanwhile, our colleagues at Clinique reinforced their leadership position in skin care, remaining true to their dermatological heritage. As consumers fight the aging effects of sun, stress and pollution, Clinique rightfully captures the market for high-performance skin care.

Communicating these propositions is critical, and it is a point of pride that we did not retreat from our advertising and promotion commitments during this period of slower growth. In fact, we saw this as an opportunity to build brand equity and capture greater market share. Accordingly, we have been aggressive in our advertising and promotion spending, raising it to \$1.43 billion from \$1.33 billion in the previous year.

Beyond our current brands, we will continue to be opportunistic in our acquisitions. We will look for brands that strategically enhance our portfolio and meet our high standards. We endeavor to be the best company, not the biggest.

## STRENGTHENING DISTRIBUTION

Integral to being the best company is utilizing a distribution system that is modern, efficient and appealing to customers. We have always been committed to being in the finest stores in the world. Our relationships with retailers have never been stronger.

Additionally, we conduct a tremendous amount of business through retailers at airports and other travel venues around the world. Even during a year when many people were deferring their travel, our travel retail division delivered strong sales growth.

## INTERNATIONAL EXPANSION

We still have a significant opportunity to grow in countries outside the United States. There is a long list of countries that have welcomed our brands—both the established and newer lines—over the last year. In fiscal year 2003, we launched Stila in Greece, Spain and Singapore, and M·A·C products are now sold in Brazil.

In emerging markets, Russia and China present an enormous opportunity for us to reach new consumers who are eager to enjoy the benefits of prestige cosmetics. To take full advantage of the opportunity in China, we will be moving our Asia regional headquarters to Shanghai in the coming year. In Moscow, we are establishing our own affiliate for Russia to serve this fast-growing market.