# UNITED STATES SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

## FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 30, 2017**

**Commission file number 1-7685**

# AVERY DENNISON CORPORATION

*(Exact Name of Registrant as Specified in Its Charter)*

| | |
|---|---|
| **Delaware**<br>*(State of Incorporation)* | **95-1492269**<br>*(I.R.S. Employer Identification No.)* |
| **207 Goode Avenue**<br>**Glendale, California**<br>*(Address of Principal Executive Offices)* | **91203**<br>*(Zip Code)* |

**Registrant's telephone number, including area code:**
**(626) 304-2000**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of each exchange on which registered |
|---|---|
| Common stock, $1 par value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
**Not applicable.**

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☑ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(do not check if a smaller reporting company) | Smaller reporting company ☐ |
| | | | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a). ☐

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

The aggregate market value of voting and non-voting common equity held by non-affiliates as of July 1, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was $7,752,539,694.

Number of shares of common stock, $1 par value, outstanding as of January 27, 2018, the end of the registrant's most recent fiscal month: 87,927,816.

The following documents are incorporated by reference into the Parts of this Form 10-K below indicated:

| Document | Incorporated by reference into: |
|---|---|
| Portions of Annual Report to Shareholders for fiscal year ended December 30, 2017 (filed as Exhibit 13 hereto) | **Parts I, II** |
| Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 26, 2018 | **Parts III, IV** |

**AVERY DENNISON CORPORATION**

**FISCAL YEAR 2017 ANNUAL REPORT ON FORM 10-K**

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# PART I

## Item 1. BUSINESS

### Company Background

Avery Dennison Corporation ("Avery Dennison," the "Company," "Registrant," or "Issuer," which are generally referred to as "we" or "us") was incorporated in Delaware in 1977 as Avery International Corporation, the successor corporation to a California corporation of the same name that had been incorporated in 1946. In 1990, we merged one of our subsidiaries into Dennison Manufacturing Company ("Dennison"), as a result of which Dennison became our wholly-owned subsidiary and in connection with which our name was changed to Avery Dennison Corporation. You can learn more about us by visiting our website at www.averydennison.com. Our website address provided in this Form 10-K is not intended to function as a hyperlink and the information on our website is not, nor should it be considered, part of this report or incorporated by reference into this report.

### Business Overview and Reportable Segments

Our businesses include the production of pressure-sensitive materials and a variety of tickets, tags, labels and other converted products. We sell most of our pressure-sensitive materials to label printers and converters that convert the materials into labels and other products through embossing, printing, stamping and die-cutting. We sell other pressure-sensitive materials in converted form as tapes and reflective sheeting. We also manufacture and sell a variety of other converted products and items not involving pressure-sensitive components, such as fasteners, tickets, tags, radio-frequency identification ("RFID") inlays and tags, and imprinting equipment and related services, which we market to retailers, apparel manufacturers, and brand owners.

Our reportable segments for fiscal year 2017 were:

- Label and Graphic Materials ("LGM");
- Retail Branding and Information Solutions ("RBIS"); and
- Industrial and Healthcare Materials ("IHM").

In 2017, the LGM, RBIS, and IHM segments made up approximately 68%, 23% and 9%, respectively, of our total sales.

In 2017, international operations constituted a substantial majority of our business, representing approximately 76% of our sales. As of December 30, 2017, we operated approximately 180 manufacturing and distribution facilities worldwide with approximately 30,000 employees and had operations in over 50 countries.

### Label and Graphic Materials Segment

Our LGM segment manufactures and sells Fasson®-, JAC®-, and Avery Dennison®-brand pressure-sensitive label and packaging materials, Avery Dennison®- and Mactac®-brand graphics, and Avery Dennison®-brand reflective products. The business of this segment tends not to be seasonal, except for certain outdoor graphics and reflective products.

Pressure-sensitive materials consist primarily of papers, plastic films, metal foils and fabrics, which are coated with internally-developed and purchased adhesives, and then laminated with specially-coated backing papers and films. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties.

A pressure-sensitive, or self-adhesive, material is one that adheres to a surface by press-on contact. It generally consists of four layers: a face material, which may be paper, metal foil, plastic film or fabric; an adhesive, which may be permanent or removable; a release coating; and a backing material to protect the adhesive from premature contact with other surfaces which can also serve as a carrier for supporting and dispensing individual labels. When the products are to be used, the release coating and protective backing are removed, exposing the adhesive so that the label or other face material may be pressed or rolled into place. Because they are easy to apply without the need for adhesive activation, self-adhesive materials can provide cost savings compared to other materials that require heat- or moisture-activated adhesives and offer aesthetic and other advantages over alternative technologies.

Label and packaging materials are sold worldwide to label converters for labeling, decorating, and specialty applications in the home and personal care, beer and beverage, durables, pharmaceutical, wine and spirits, and food market segments. When used in package decoration applications, the visual appeal of self-adhesive materials can help increase sales of the products on which the materials are applied. Self-adhesive materials are also used to convey variable information, such as bar codes for mailing or weight and price information for packaged meats and other foods. Self-adhesive materials provide consistent and versatile adhesion and are available in a large selection of materials, which can be made into labels of varying sizes and shapes.

Our graphics and reflective products include a variety of films and other products that are sold to the architectural, commercial sign, digital printing, and other related market segments. We also sell durable cast and reflective films to the construction, automotive, and fleet transportation market segments and reflective films for traffic and safety applications. We provide sign shops, commercial printers and designers a broad range of pressure-sensitive materials to enable them to create impactful and informative brand and decorative graphics. We have an array of pressure-sensitive vinyl and specialty materials designed for digital imaging, screen printing and sign cutting applications.

In the LGM segment, our larger competitors in label and packaging materials include Raflatac, a subsidiary of UPM-Kymmene Corporation; Lintec Corporation; Ritrama, Inc.; Flexcon Corporation, Inc.; and various regional firms. For graphics and reflective products, our largest competitors are 3M Company ("3M") and the Orafol Group. We believe that entry of competitors into the field of pressure-sensitive adhesives and materials is limited by technical knowledge and capital requirements. We believe that our technical expertise, size and scale of operations, broad line of quality products and service programs, distribution capabilities, brand strength, and new product innovation are the primary advantages in maintaining and further developing our competitive position.

**Retail Branding and Information Solutions Segment**

Our RBIS segment designs, manufactures and sells a wide variety of branding and information solutions to retailers, brand owners, apparel manufacturers, distributors and industrial customers. This segment experiences some seasonality, with higher volume generally in advance of the spring, fall (back-to-school), and holiday shipping periods. In recent years, as the apparel industry has moved to more frequent seasonal updates, this segment has experienced less seasonality.

The branding solutions of RBIS include creative services, brand embellishments, graphic tickets, tags, and labels, and sustainable packaging. RBIS information solutions include item-level RFID solutions; visibility and loss prevention solutions; price ticketing and marking; care, content, and country of origin compliance solutions; and brand protection and security solutions.

In the RBIS segment, our primary competitors include Checkpoint Systems, Inc., a subsidiary of CCL Industries Inc.; R-pac International Corporation; and SML Group Limited. We believe that our global distribution network, reliable service, product quality and consistency, and ability to serve customers consistently with comprehensive solutions wherever they manufacture are the key advantages in maintaining and further developing our competitive position.

**Industrial and Healthcare Materials Segment**

Our IHM segment manufactures and sells Fasson®-brand and Avery Dennison®-brand tapes and fasteners, Vancive™-brand medical pressure-sensitive adhesive (PSA) based materials and products, and performance polymers. Our tape products include coated tapes and adhesive transfer tapes that are sold for use in non-mechanical fastening, bonding and sealing systems. IHM also manufactures and sells Yongle® brand tapes for wire harnessing and cable wrapping in automotive, electrical, and general industrial applications. The mechanical fasteners are primarily precision extruded and injection-molded plastic devices used in various automotive, industrial, and retail applications.

These tapes and fasteners are sold worldwide to original equipment manufacturers, and their supply chain partners (tier one suppliers and converters). The tapes are available in roll form and in a wide range of face materials, sizes, thicknesses and adhesive properties, and are used in various bonding and fastening applications in the automotive, electronics, building and construction, other industrial, and personal care segments.

Our Vancive-brand products include an array of PSA materials and products that address the needs of medical device manufacturers, converters, clinicians, and patients for surgical, wound care, ostomy, diagnostic, electromedical and wearable device applications. Acquired in May 2017, Finesse Medical Ltd. has a range of products, including private-label wound and skin care devices, sold to medical device manufacturers and regional distributors.

For tapes and bonding solutions, our primary competitors include 3M; Tesa-SE, a subsidiary of Beiersdorf AG; Nitto Denko Corporation; and various regional firms. We believe that entry of competitors into this field is limited by technical knowledge and capital requirements. We believe that our technical expertise, size and scale of operations, broad line of quality products and new product innovation are the most significant advantages in maintaining and further developing our competitive position in this business. For Vancive products, we compete with a variety of specialized medical tapes and converted products suppliers ranging from start-ups to multinational companies. We believe that entry into the medical solutions business is limited by capital and regulatory requirements. For fastener products, there are a variety of competitors supplying extruded and injection molded fasteners and fastener attaching equipment. They range from smaller regional competitors to multinational companies. We believe that entry into this business is limited by capital requirements and technical knowledge. For both our Vancive and fastener solutions businesses, we believe that our ability to serve our customers with high-quality, cost-effective solutions and our innovation capabilities are the most significant factors in developing our competitive position.

**Segment Financial Information**

Certain financial information on our reporting segments for fiscal years 2017, 2016 and 2015 appears in Note 15, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2017 Annual Report to Shareholders (our "2017 Annual Report") and is incorporated herein by reference.

**Foreign Operations**

Certain financial information about our sales by geographic area and property, plant and equipment in our U.S. and international operations for fiscal years 2017, 2016 and 2015 appears in Note 15, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2017 Annual Report and is incorporated herein by reference.

**Working Capital**

Certain financial information about our working capital for fiscal years 2017, 2016 and 2015 appears in the "Financial Condition" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7) and is incorporated herein by reference.

**Research and Development**

Many of our products are the result of our research and development efforts. Our research efforts are directed primarily toward developing new products and operating techniques and improving productivity and product performance, often in close association with customers. These efforts include patent and product development work relating to printing and coating technologies, as well as adhesive, release and ink chemistries in our LGM and IHM segments. Additionally, we focus on research projects related to RFID and external embellishments in our RBIS segment and medical technologies in our IHM segment, for both of which we hold and license a number of patents.

Our expenses for research and development were $93.4 million in 2017, $89.7 million in 2016, and $91.9 million in 2015.

**Patents, Trademarks and Licenses**

The loss of individual patents or licenses would not be material to us taken as a whole, nor to our operating segments individually. Our principal trademarks are Avery Dennison, our logo, and Fasson. We believe these trademarks are strong in the market segments in which we compete.

**Manufacturing and Environmental Matters**

We use various raw materials – primarily paper, plastic films and resins, as well as specialty chemicals purchased from various commercial and industrial sources – that are subject to price fluctuations. Although shortages can occur from time to time, these raw materials are generally available.

We produce a majority of our self-adhesive materials using water-based emulsion and hot-melt adhesive technologies. A portion of our manufacturing process for self-adhesive materials utilizes organic solvents, which, unless controlled, could be emitted into the atmosphere or contaminate soil or groundwater. Emissions from these operations contain small amounts of volatile organic compounds, which are regulated by federal, state, local and foreign governments. We continue to evaluate the use of alternative materials and technologies to minimize these emissions. In connection with the maintenance and acquisition of certain manufacturing equipment, we invest in solvent capture and control units to assist in regulating these emissions.

We have developed adhesives and adhesive processing systems that minimize the use of solvents. Emulsion adhesives, hot-melt adhesives, and solventless and emulsion silicone systems have been installed in many of our facilities.

Based on current information, we do not believe that the cost of complying with applicable laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon our capital expenditures, consolidated financial position or results of operations.

For information regarding our potential responsibility for cleanup costs at certain hazardous waste sites, see "Legal Proceedings" (Part I, Item 3) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7).

**Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge on our investor website at www.investors.averydennison.com as soon as reasonably practicable after electronic filing with or furnishing to the SEC. We also make available on our website our (i) Amended and Restated Certificate of Incorporation, (ii) Amended and Restated Bylaws, (iii) Corporate Governance Guidelines, (iv) Code of Conduct, which applies to our directors, officers and employees, (v) Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (vi) charters of the Audit and Finance, Compensation and Executive Personnel, and Governance and Social Responsibility Committees of our Board of Directors, and (vii) Audit Committee Complaint Procedures for Accounting and Auditing Matters. These documents are also available free of charge by written request to Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

Reports filed with the SEC may be viewed at www.sec.gov or obtained at the SEC Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

**Item 1A. RISK FACTORS**

The risk factors described below, as well as the matters generally described in this Annual Report on Form 10-K and the documents incorporated herein by reference, could materially adversely affect our business, including our results of operations, cash flows and financial condition, and cause the value of our securities to decline. The risks described below are not exhaustive. Our ability to attain our goals and objectives is dependent on numerous factors and risks, including but not limited to, the primary ones described below.

*The demand for our products is impacted by the effects of, and changes in, worldwide economic, political and market conditions, which could have a material adverse effect on our business.*

In 2017, approximately 76% of our sales were from international operations. We have operations in over 50 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in political, social, economic and labor conditions, tax laws (including U.S. taxes on foreign earnings), and international trade regulations (including tariffs), as well as the impact of these changes on the underlying demand for our products.

Macroeconomic developments such as slower growth in certain regions, the ongoing restructuring efforts relating to European sovereign and other debt obligations, the continuing uncertainty surrounding the exit of the United Kingdom ("UK") from the European Union, the weakening or strengthening of local economies in which we operate, and uncertainty in the global credit or financial markets leading to the loss of consumer confidence could result in a material adverse effect on our business as a result of, among other things, reduced consumer spending, declines in asset valuations, diminished liquidity and credit availability, volatility in securities prices, credit rating downgrades, and fluctuations in foreign currency exchange rates. Fluctuations in currencies, such as the value of the euro and the British pound in 2017, can result in a variety of negative effects, including lower revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, and required recognition of impairments of capitalized assets, including goodwill and other intangibles.

We continue to face uncertainty with respect to trade relations between the U.S. and many of its trading partners. There remains a significant risk that tariffs or other restrictions could be imposed on products imported from China, Mexico or other countries, or that relations with these countries could more broadly deteriorate. These countries could retaliate by imposing similar tariffs or restrictions on products exported from the U.S. Any of these actions or further developments in U.S. trade relations could have a material adverse effect on our business.

In addition, business and operational disruptions or delays caused by political, social or economic instability and unrest – such as the ongoing civil, political and economic disturbances in places like Russia, Ukraine, Syria, Iraq, Iran, Turkey, North Korea and the related impact on global stability, terrorist attacks and the potential for other hostilities, public health crises or natural disasters in various parts of the world – could contribute to a climate of economic and political uncertainty that in turn could have material adverse effects on our business. We are not able to predict the duration and severity of adverse economic, political or market conditions in the U.S. or other countries.

*As a manufacturer, our sales and profitability are dependent upon the cost and availability of raw materials and energy, which are subject to price fluctuations, and our ability to control or offset raw material and labor costs. Raw material cost increases could materially adversely affect our business.*

The environment for raw materials used in our businesses could become challenging and volatile, impacting availability and pricing. Additionally, energy costs can be volatile and unpredictable. Shortages and inflationary or other increases in the costs of raw materials, labor and energy have occurred in the past, and could recur. Our performance depends in part on our ability to offset cost increases for raw materials by raising the selling prices for our products and improving productivity. For example, in 2017, we announced targeted price increases in our LGM segment in all regions to address our outlook for raw material inflation, including in China, the U.S. and certain countries in Europe.

Also, it is important for us to obtain timely delivery of materials, equipment, and other resources from suppliers, and to make timely delivery to customers. We may experience supply chain interruptions due to natural and other disasters or other events, or our existing relationships with suppliers could be terminated in the future. Any such disruption to our supply chain could have a material adverse effect on our sales and profitability, and any sustained interruption in our receipt of adequate supplies could have a material adverse effect on our business.

*We are affected by competitive conditions and customer preferences. If we do not compete effectively, we could lose market share or reduce selling prices to maintain market share, which could materially adversely affect our business.*

We are at risk that our competitors, which include certain of our customers, distributors, and suppliers, will expand in our key market segments and implement new technologies, enhancing their competitive position relative to ours. Competitors also may be able to offer additional products, services, lower prices, or other incentives that we cannot or would not offer or that would make our products less profitable. There can be no assurance that we will be able to compete successfully against current or future competitors.

We also are at risk to changes in customer order patterns, such as changes in the levels of inventory maintained by customers and the timing of customer purchases, which may be affected by announced price changes, changes in our incentive programs, or changes in the customer's ability to achieve incentive targets. Changes in customers' preferences for our products can also affect the demand for our products. Decline in demand for our products could have a material adverse effect on our business. For example, in 2016, we announced a program loss in personal care tapes that had a negative impact on our business during 2016 and 2017 compared to the prior year.

*We have recently acquired companies and are likely to acquire other companies. Acquisitions come with significant risks and uncertainties, including those related to integration, technology and employees.*

To grow existing businesses and expand into new areas, we have made acquisitions and are likely to continue doing so. In 2016, we completed the acquisition of the European business of Mactac, a leading manufacturer of high-quality pressure-sensitive materials serving several graphics, specialty labels and industrial tapes segments, for $220 million. In 2017, we completed the following acquisitions for an aggregate of approximately $360 million: Yongle Tape Ltd., a China-based manufacturer of specialty tapes and related products used in a variety of industrial markets; Finesse Medical Ltd., an Ireland-based manufacturer of healthcare products used in the management of wound care and skin conditions; and the net assets of Hanita Coatings Rural Cooperative Association Limited, an Israel-based pressure-sensitive manufacturer of specialty films and laminates, and stock of certain of its subsidiaries. Various risks, uncertainties, and costs are associated with acquisitions. Effective integration of systems, controls, employees, product lines, market segments, customers, suppliers, and production facilities and cost savings can be difficult to achieve and the results of integration actions are uncertain. In addition, we may not be able to retain key employees of an acquired company or successfully execute integration strategies and achieve projected performance targets for the business segment into which an acquired company is integrated. Both before and after the closing of an acquisition, our business and those of the acquired company or companies may suffer due to uncertainty or diversion of management attention. There can be no assurance that any acquisitions will be successful and contribute to our profitability and we may not be able to identify or execute new acquisition opportunities in the future.

*Because some of our products are sold by third parties, our business depends in part on the financial health of these parties.*

Some of our products are sold not only by us, but also by third-party distributors. Some of our distributors also market products that compete with our products. Changes in the financial or business conditions, including economic weakness, market trends or industry consolidation, or the purchasing decisions of these third parties or their customers could materially adversely affect our business.

*We outsource some of our manufacturing. If there are significant changes in the quality control or financial or business condition of these outsourced manufacturers, our business could be negatively impacted.*

We manufacture most of our products, but we also occasionally use third-party manufacturers to optimize production efficiencies, manage capacity overflow, and produce specialty jobs, particularly in our RBIS segment. Outsourcing manufacturing reduces our ability to prevent product quality issues, late deliveries, customer dissatisfaction and noncompliance with customer requirements. While we have stringent onboarding processes and continuous performance assessments for these outsourced manufacturers, we may experience quality issues and customer dissatisfaction which could have a material adverse effect on our business.

*Our operations and activities outside of the U.S. may subject us to risks different from and potentially greater than those associated with our domestic operations.*

A substantial portion of our employees and assets are located outside of the U.S. and, for the year ended December 30, 2017, approximately 76% of our sales were generated from customers located outside of the U.S. International operations and activities involve risks that are different from and potentially greater than the risks we face with respect to our domestic operations, including our less extensive knowledge of and relationships with contractors, suppliers, distributors and customers in certain of these markets; changes in foreign political, regulatory and economic conditions, including nationally, regionally and locally; materially adverse effects of changes in exchange rates for foreign currencies; laws and regulations impacting the ability to repatriate foreign earnings; challenges of complying with a wide variety of foreign laws and regulations, including those relating to sales, operations, taxes, employment and legal proceedings; establishing effective controls and procedures to regulate our international operations and monitor compliance with U.S. laws and regulations such as the Foreign Corrupt Practices Act and similar foreign laws and regulations, including the United Kingdom's Bribery Act of 2010; differences in lending practices; challenges with complying with applicable export and import control laws and regulations; and differences in languages, cultures and time zones.

The realization of any of these risks or the failure to comply with any of these laws or regulations could expose us to liabilities and have a material adverse effect on our business.

In June 2016, the UK held a referendum in which voters approved the UK's exit from the European Union (commonly known as "Brexit"). The immediate impact of Brexit was a significant decline in the value of the British pound compared to the U.S. dollar. There may be further volatility in the value of the British pound and the economic stability of the UK, which may affect our ability to sell products in the UK. There is also continued uncertainty as to how Brexit will affect the legal and regulatory environment in the UK and European Union, as well as whether other countries in the European Union may approve similar measures and cause further uncertainty in the region. While our operations in the UK are relatively small, legal and regulatory changes in this region could have a material adverse effect on our business.

*Our reputation, sales, and earnings could be materially adversely affected if the quality of our products and services does not meet customer expectations. In addition, product liability claims or regulatory actions could materially adversely affect our business or reputation.*

There are occasions when we experience product quality issues resulting from defective materials, manufacturing, packaging or design. These issues are often discovered before shipping, causing delays in shipping, delays in the manufacturing process, and occasionally cancelled orders. When issues are discovered after shipment, they may result in additional shipping costs, discounts, refunds, or loss of future sales. Both pre-shipping and post-shipping quality issues could have material adverse effects on our business and negatively impact our reputation.

Claims for losses or injuries purportedly caused by some of our products arise in the ordinary course of our business. In addition to the risk of substantial monetary judgments and penalties that could have a material adverse effect on our business, product liability claims or regulatory actions could result in negative publicity that could harm our reputation in the marketplace and the value of our brands. We also could be required to recall and possibly discontinue the sale of potentially defective or unsafe products, which could result in adverse publicity and significant expenses. Although we maintain product liability insurance coverage, potential product liability claims are subject to a deductible or may not be covered under the terms of the policy.

*Changes in our business strategies may increase our costs and could affect the profitability of our businesses.*

As our business environment changes, we may need to adjust our business strategies or restructure our operations or particular businesses. We are in the process of a multi-year transformation of our RBIS segment focused on accelerating growth through a more regionally driven business model intended to simplify our go-to-market strategy, optimize management efficiencies and consolidate our manufacturing footprint. In addition, we have initiated restructuring and investment actions across our businesses designed to increase profitability. As we continue to develop and adjust our growth strategies, we may invest in new businesses that have short-term returns that are negative or low and whose ultimate business prospects are uncertain or unprofitable. For example, in 2015, we exited one of our anticipated growth platforms in our IHM segment to refocus our efforts on more profitable strategic alternatives. We cannot provide assurance that we will achieve the intended results of any of our business strategies, which involve operational complexities, consume management attention and require substantial resources and effort. If we fail to achieve the intended results of such actions, our costs could increase, our assets could be impaired, and our returns on investments could be lower.

*Our growth strategy includes increased concentration in emerging markets, which could create greater exposure to unstable political conditions, civil unrest, economic volatility and other risks applicable to international operations.*

An increasing amount of our sales are derived from emerging markets, including countries in Asia, Latin America and Eastern Europe. The profitable growth of our business in emerging markets is a significant focus of our long-term growth strategy and our regional results can fluctuate significantly based on economic conditions in these regions, which occurred with our results in China in 2016. Our business operations may be adversely affected by the current and future political environment in China. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations or the interpretation thereof, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property, foreign currency conversion, the regulation of private enterprises and other matters.

If we are unable to successfully expand our business in China or other emerging markets or achieve the return on capital we expect as a result of our investments in these countries, our financial performance could be materially adversely affected. In addition to the risks applicable to our international operations, factors that could have a material adverse effect on our operations in these emerging markets include the lack of well-established or reliable legal systems and possible disruptions due to unstable political conditions, civil unrest or economic volatility. These factors could have a material adverse effect on our business by decreasing consumer purchasing power, reducing demand for our products or impairing our ability to achieve our long-term goals.

*If we are unable to develop and successfully market new products and applications, we could compromise our competitive position.*

The timely introduction of new products and improvements in current products helps determine our success. Many of our current products are the result of our research and development efforts. Our research efforts are directed primarily toward developing new products and operating techniques and improving product performance, often in close association with our customers or end users. These efforts include patent and product development work relating to printing and coating technologies, as well as adhesive, release and ink chemistries in our LGM and IHM segments. Additionally, we focus on research projects related to RFID and external embellishments in our RBIS segment and medical technologies in our IHM segment, for both of which we hold and license a number of patents. However, research and development is complex and uncertain, requiring innovation and anticipation of market trends. We could focus on products that ultimately are not accepted by customers or end users or we could suffer delays in the production or launch of new products that may not lead to the recovery of our research and development expenditures and, as a result, could compromise our competitive position.

*Miscalculation of our infrastructure needs could have a material adverse effect on our business.*

We may not be able to recoup the costs of our infrastructure investments if actual demand is not as we anticipate. In recent years, we expanded our manufacturing facility located in Kunshan, China; moved our RBIS Vietnam business into a new, expanded facility; added a new coater to meet our projected demand for pressure-sensitive tapes in China; and made additional investments in capacity to support growth in our U.S. graphics business, in Asia and Luxembourg, and in RFID and heat transfer technology. In addition, we added capacity through our recent acquisitions of Mactac Europe, Yongle Tapes, Hanita Coatings and Finesse Medical. Infrastructure investments, which are long-term in nature, may not generate the expected return due to changes in the marketplace, failures to complete implementation, and other factors. Significant changes from our expected need for and/or returns on our infrastructure investments could materially adversely affect our business.

*Our future profitability may be materially adversely affected if we generate less productivity improvement than projected.*

We engage in restructuring actions intended to reduce our costs and increase efficiencies across our business segments. For example, we are in the process of a multi-year transformation of our RBIS segment focused on accelerating growth through a more regionally driven business model intended to simplify our go-to-market strategy, optimize management efficiencies and consolidate our manufacturing footprint. In addition, we intend to continue efforts to reduce costs in our operations, which have in the past included, and may continue to include, facility closures and square footage reductions, headcount reductions, organizational restructuring, process standardization, and manufacturing relocation. The success of these efforts is not assured and lower levels of productivity could reduce profitability. In addition, cost reduction actions could expose us to production risk, loss of sales and employee turnover.

*Foreign currency exchange rates, and fluctuations in those rates, may materially adversely affect our business.*

With approximately 76% of our sales for the fiscal year ending December 30, 2017 arising from foreign sales, we are subject to fluctuations in foreign currencies, such as the euro and the Chinese Yuan (renminbi), which can cause transaction, translation and other losses, and could negatively impact our sales and profitability. Margins on sales of our products in foreign countries could be materially adversely affected by foreign currency exchange rate fluctuations.

We monitor our foreign currency exposures and may, from time to time, use hedging instruments to mitigate transactional and translational exposure to changes in foreign currencies. For example, in 2017, we designated our €500 million senior notes as a net investment hedge of our investment in foreign operations to mitigate our foreign currency translation exposure. The effectiveness of our hedges in part depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. Further, hedging activities may only offset a portion, or none at all, of the material adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and we may incur significant losses from hedging activities due to factors such as demand volatility and foreign currency fluctuations.

Continued concerns regarding the short- and long-term stability of the euro and its ability to serve as a single currency for countries in the Eurozone could lead individual countries to revert, or threaten to revert, to their former local currencies, potentially dislocating the euro. If this were to occur, the assets we hold in a country that re-introduces its local currency could be significantly devalued, the cost of raw materials or our manufacturing operations could substantially increase, and the demand and pricing for our products could be materially adversely affected. Furthermore, if it were to become necessary for us to conduct business in additional currencies, we could be subject to additional earnings volatility as amounts in these currencies are translated into U.S. dollars.

*Difficulty in the collection of receivables as a result of economic conditions or other market factors could have a material adverse effect on our business.*

Although we have processes to administer credit granted to customers and believe our allowance for doubtful accounts is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect certain accounts receivable. The financial difficulties of a customer could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a customer experiencing financial difficulty. If these developments occur, our inability to collect on our accounts receivable from major customers could substantially reduce our cash flows and income and have a material adverse effect on our business.

*Changes in our tax rates could affect our future results.*

Our future effective tax rate could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws and regulations or their interpretation, including, among others, the Tax Cuts and Jobs Act (the "TCJA") enacted on December 22, 2017 in the U.S. There can be no assurance that these changes will not have a material adverse effect on our business.

*The TCJA may materially adversely affect our financial condition, results of operations and cash flows.*

The TCJA has significantly changed the federal income taxation of U.S. corporations by, among other things, reducing the federal corporate income tax rate, limiting interest deductions, permitting certain capital expenditures to be expensed immediately, adopting elements of a modified territorial tax system, imposing a one-time transition tax on a deemed repatriation of all undistributed earnings and profits of certain U.S.-owned foreign corporations ("transition tax"), revising the rules governing foreign tax credits, and introducing new anti-base erosion provisions. Certain changes became effective immediately, while others become effective for tax years beginning after December 31, 2017. The legislation is unclear in certain respects and may be subject to technical amendments, as well as interpretations and implementing regulations by the Department of Treasury and Internal Revenue Service, any of which could increase or decrease one or more impacts of the legislation. It is also unclear how these changes will affect state and local corporate taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

While our analysis and interpretation of the TCJA is ongoing, based on our current evaluation, the reduction of the U.S. corporate income tax rate from 35% to 21% required a write-down of our net deferred income tax assets resulting in an estimated material noncash charge against earnings in the fourth quarter of 2017, the period in which the TCJA was enacted. This and other impacts of the TCJA are subject to further adjustments in subsequent periods throughout 2018 in accordance with recent interpretive guidance issued by the SEC under Staff Accounting Bulletin No. 118 ("SAB 118"). Similarly, the transition tax resulted in a material charge against income in the fourth quarter of 2017. The limitation on interest deductions may negatively impact our effective tax rate and cash flows going forward. There may be material adverse effects resulting from the TCJA of which we have not yet completed our analysis. These effects may relate to the potential adjustments described above or future guidance and regulations.

*The enactment of legislation implementing changes in taxation of international business activities, adoption of other corporate tax reform policies, or other changes in tax legislation or policies could materially and adversely impact our financial position and results of operations.*

In 2017, approximately 76% of our sales were generated from customers located outside of the U.S., and a substantial portion of our assets and employees were located outside of the U.S. While we are taxed by local authorities on earnings from these sales, we have historically not accrued U.S. income taxes or foreign withholding taxes on most of our undistributed earnings and profits for non-U.S. subsidiaries because we intend to indefinitely reinvest in the operations of those subsidiaries. The TCJA imposed a one-time transition tax subjecting the undistributed earnings and profits of our non-U.S. subsidiaries to immediate U.S. taxation and eliminated future foreign tax credit for foreign income taxes or withholding taxes paid with respect to certain foreign dividends. As a result, we accrued foreign withholding taxes in the fourth quarter of 2017 for certain jurisdictions related to the future repatriation of cash and cash equivalents as of December 30, 2017. We continue to evaluate our indefinite reinvestment assertions, which may be subject to adjustments throughout 2018 in accordance with SAB 118.

Corporate tax reform, base-erosion efforts and tax transparency continue to be high priorities in many of the jurisdictions in which we do business. As a result, policies regarding corporate income and other taxes in numerous jurisdictions are under heightened scrutiny, while tax reform legislation has been proposed or enacted in a number of jurisdictions. For example, the TCJA enacted broad U.S. corporate income tax reform, including the changes described above. The TCJA affected the tax position reflected in our consolidated balance sheet and financial results in fiscal year 2017. Our cash tax payments in the U.S. starting in fiscal year 2018 may also be affected.

In addition, many countries are beginning to implement legislation and other guidance to align their international tax rules with the Organisation for Economic Co-operation's Base Erosion and Profit Shifting recommendations and action plan, which aim to standardize and modernize global corporate tax policy, with changes to cross-border tax, transfer-pricing documentation rules, and nexus-based tax incentive practices. As a result of the heightened scrutiny of corporate taxation policies, prior decisions by tax authorities regarding treatments and positions of corporate income taxes could be subject to enforcement activities or legislative investigation and inquiry, which could also result in changes in tax policies or prior tax rulings. Any such changes in policies or rulings may also result in the taxes we previously paid being subject to change.

Due to the large scale of our international business activities, any substantial change in international corporate tax policies, enforcement activities or legislative initiatives could have a material adverse effect on the amount of taxes we are required to pay and our business generally.

*The amount of various taxes we pay is subject to ongoing compliance requirements and audits by federal, state and foreign tax authorities.*

We are subject to regular examinations of our income tax returns by various tax authorities. We regularly assess the likelihood of material adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes. In addition, tax enforcement has become increasingly aggressive in recent years, including continued actions by the European Commission related to illegal state aid, with increased focus on transfer pricing and intercompany documentation. Our estimate of the potential outcome of uncertain tax issues is subject to our assessment of relevant risks, facts, and circumstances existing at the time. We use these assessments to determine the adequacy of our provision for income taxes and other tax-related accounts. Our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may materially adversely impact our effective tax rate and have a material adverse effect on our business.

*We have deferred tax assets that we may not be able to realize under certain circumstances.*

If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowances against our deferred tax assets. This would result in an increase in our effective tax rate and could have a material adverse effect on our future results. In addition, changes in statutory tax rates may change our deferred tax asset or liability balances, with either a favorable or unfavorable impact on our effective tax rate. The computation and assessment of realizability of our deferred tax assets may also be materially impacted by new legislation or regulations.

*Significant disruption to the information technology infrastructure that stores our information could materially adversely affect our business.*

We rely on the efficient and uninterrupted operation of a large and complex information technology infrastructure to link our global business. Like other information technology systems, ours is susceptible to a number of risks including, but not limited to, damage or interruptions resulting from obsolescence, natural disasters, power failures, human error, viruses, social engineering, phishing, ransomware or other malicious attacks and data security breaches. We upgrade and install new systems, which, if installed or programmed incorrectly or on a delayed timeframe, could cause delays or cancellations of customer orders, impede the manufacture or shipment of products, or disrupt the processing of transactions. For example, we are in the process of investing in information technology to upgrade the systems in both our LGM North America business and RBIS segment to drive business efficiency and supply chain productivity. We have implemented measures to mitigate our risk related to system and network disruptions, but if a disruption were to occur, we could incur significant losses and remediation costs that could have a material adverse effect on our business. Additionally, we rely on services provided by third-party vendors for certain information technology processes, which makes our operations vulnerable to a failure by any one of these vendors to perform adequately or maintain effective internal controls.

*Security breaches could compromise our information and expose us to liability, which could cause our business and reputation to suffer.*

We maintain information necessary to conduct our business in digital form, which is stored in data centers and on our networks and third-party cloud services, including confidential and proprietary information as well as personal information regarding our customers and employees. The secure maintenance of this information is critical to our operations. Data maintained in digital form is subject to the risk of intrusion, tampering and theft. We develop and maintain systems to prevent this from occurring, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of intrusion, tampering and theft cannot be eliminated entirely. Our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Additionally, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, assess the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised.

Any such breach or attack could compromise our network, the network of a third party to whom we have disclosed confidential, proprietary or personal information, a data center where we have stored such information or a third-party cloud service provider, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, impair our ability to conduct business, or result in the loss or diminished value of profitable opportunities and the loss of revenue as a result of unlicensed use of our intellectual property. Contractual provisions with third parties, including cloud service providers, may limit our ability to recover these losses. If personal information of our customers or employees were misappropriated, our reputation with our customers and employees could be injured, resulting in loss of business or morale, and we could incur costs to compensate our customers or employees or pay damages or fines as a result of litigation or regulatory actions arising out of any such incident. Data privacy legislation and regulation have been increasing in recent years – including, for example, the General Data Protection Regulation in the EU and the Cyber Security Law in China – and although we take reasonable efforts to comply with all applicable laws and regulations, there can be no assurance that we will not be subject to regulatory action in the event of an incident.

From time to time, we have experienced unauthorized intrusions into our network, and although these intrusions did not have a material adverse effect on our business, this may not be the case going forward. We have taken many steps to improve the security of our networks and computer systems, including user education and phishing exercises to protect against social engineering and inadvertent or intentional disclosure of data; implementing multi-factor authentication and advanced malware detection measures; upgrading legacy information technology systems; and establishing a data loss prevention framework to better identify and protect our critical data. Despite these mitigation efforts, there can be no assurance that we are adequately protecting our information, that third parties to whom we have disclosed such information or with whom we have stored such information (in data centers and on the cloud) are taking similar precautions, or that we will not continue to experience future intrusions.

*For us to remain competitive, it is important to recruit and retain our key management and highly-skilled employees. We also utilize various outsourcing arrangements for certain services, and related delays, resource availability, or errors by these service providers may lead to increased costs or disruption in our business.*

There is significant competition to recruit and retain key management and highly-skilled employees. In particular, due to expansion to additional geographies and our ongoing productivity efforts and recent employee restructuring actions, it may be difficult for us to recruit and retain sufficient numbers of highly-skilled employees. We may also be unable to recruit and retain key management and highly-skilled employees if we do not offer market-competitive employment and compensation terms. If we fail to recruit or retain our key management or sufficient numbers of highly-skilled employees, we could experience disruption in our businesses and difficulties managing our operations and implementing our business strategy.

Executive succession planning is also important to our long-term success. For example, we experienced several recent key management changes, including promotions of long-serving and experienced leaders to the positions of Chief Executive Officer and Chief Financial Officer in 2016 and 2017, respectively. While we believe we have appropriate leadership development programs and succession plans in place, any failure to ensure effective transfer of knowledge and smooth transitions involving any of our key management or other highly-skilled employees could hinder our strategic planning and execution.

In addition, we have outsourced certain services to third-party service providers, and may outsource other services in the future to achieve cost savings and operating efficiencies. Service provider delays, resource availability, business issues or errors may disrupt our businesses and/or increase costs. If we do not effectively develop, implement and manage outsourcing relationships, if third-party providers do not perform effectively or in a timely manner, or if we experience problems with transitioning work to a third party, we may not be able to achieve our expected cost savings, and may experience delays or incur additional costs to correct errors made by these service providers.

*We have various non-U.S. collective labor arrangements, which make us subject to potential work stoppages, union and works council campaigns and other labor disputes, any of which could adversely impact our business.*

Work interruptions or stoppages could significantly impact the volume of products we have available for sale. In addition, collective bargaining agreements, union contracts and labor laws may impair our ability to reduce labor costs by closing or downsizing manufacturing facilities because of limitations on personnel and salary changes and similar restrictions. A work stoppage at one or more of our facilities could have a material adverse effect on our business. In addition, if any of our customers were to experience a work stoppage, that customer may halt or limit purchases of our products, which could have a material adverse effect on our business.

*Our share price may be volatile.*

Changes in our stock price may affect our access to, or cost of financing from, capital markets and may affect our stock-based compensation arrangements, among other things. Our stock price, which has at times experienced, and may in the future experience, substantial volatility, is influenced by changes in the overall stock market and demand for equity securities in general. Other factors, including our financial performance on a standalone basis and relative to our peers and competitors, as well as market expectations of our future performance, the level of perceived growth of our industries, and other company-specific factors, can also materially adversely affect our share price. There can be no assurance that our stock price will not be volatile in the future.

*If our indebtedness increases significantly or our credit ratings are downgraded, we may have difficulty obtaining acceptable short- and long-term financing.*

Our overall level of indebtedness and credit ratings are significant factors in our ability to obtain short- and long-term financing. Higher debt levels could negatively impact our ability to meet other business needs and could result in higher financing costs. The credit ratings assigned to us also impact the interest rates paid. A downgrade of our short-term credit ratings could impact our ability to access the commercial paper markets and increase our borrowing costs. If our access to commercial paper markets were to become limited and we were required to obtain short-term funding under our revolving credit facility or our other credit facilities, we would face increased exposure to variable interest rates.

*An increase in interest rates could have a material adverse effect on our business.*

In 2017, our average variable-rate borrowings were approximately $256 million. Increases in short-term interest rates would directly impact the amount of interest we pay. Fluctuations in interest rates can increase borrowing costs and have a material adverse effect on our business.

In response to the last global economic recession, extraordinary monetary policy actions of the U.S. Federal Reserve and other central banking institutions, including the utilization of quantitative easing, were taken to create and maintain a low interest rate environment. However, over the past few years the U.S. Federal Reserve has raised its benchmark interest rate, now between 1.25% and 1.5%, indicating that additional increases would be likely, which may result in significantly higher long-term interest rates. Such a transition may, among other things, reduce the availability and/or increase the costs of obtaining new debt and refinancing existing indebtedness, and negatively impact the market price of our common stock.

*Our current and future debt covenants may limit our flexibility.*

Our credit facilities and the indentures governing our notes contain, and any of our future indebtedness likely would contain, restrictive covenants that impose operating and financial restrictions on us. Among other things, these covenants restrict our ability to incur additional indebtedness, incur certain liens on our assets, make certain investments, sell our assets or merge with third parties, and enter into certain transactions. We are also required to maintain specified financial ratios under certain conditions. These restrictive covenants and ratios in our existing debt agreements and any future financing agreements may limit or prohibit us from engaging in certain activities and transactions that may be in our long-term best interests and could place us at a competitive disadvantage relative to our competitors, which could materially adversely affect our business.

*The level of returns on our pension and postretirement plan assets and the actuarial assumptions used for valuation purposes could affect our earnings and cash flows in future periods. Changes in accounting standards and government regulations could also affect our pension and postretirement plan expense and funding requirements.*

We evaluate the assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans in consultation with outside actuaries. In the event that we were to determine that changes were warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or mortality rates, our future pension and projected postretirement benefit expenses and funding requirements could increase or decrease. Because of changing market conditions or changes in the participant population, the actuarial assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related costs. Funding obligations for each plan are determined based on the value of assets and liabilities on a specific date as required under applicable government regulations. Future pension funding requirements, and the timing of funding payments, could also be affected by future legislation or regulation.

*Our pension assets are significant and subject to market, interest and credit risk that may reduce their value.*

Changes in the value of our pension assets could materially adversely affect our earnings and cash flows. In particular, the value of our investments may decline due to increases in interest rates or volatility in the financial markets. In addition, we may take actions to reduce the financial volatility associated with our pension liabilities, which could result in charges in the nearer term. In 2016, we incurred approximately $41 million in non-cash charges in connection with the lump-sum settlement of certain pension obligations to terminated vested employees in our U.S. pension plan, which reduced our pension liability by approximately $70 million. We continue to evaluate options to better manage the volatility associated with our pension liabilities. Although we mitigate these risks by investing in high quality securities, ensuring adequate diversification of our investment portfolio and monitoring our portfolio's overall risk profile, the value of our investments may nevertheless decline.

*An impairment in the carrying value of goodwill could negatively impact our results of operations and net worth.*

Goodwill is initially recorded at fair value and not amortized, but is reviewed for impairment annually (or more frequently if impairment indicators are present). We review goodwill for impairment by comparing the fair value of a reporting unit to its carrying value. In assessing fair value, we make estimates and assumptions about sales, operating margins, growth rates, and discount rates based on our business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Goodwill valuations have been calculated primarily using an income approach based on the present value of projected future cash flows of each reporting unit. We could be required to evaluate the carrying value of goodwill prior to the annual assessment if we experience disruptions to our business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. These types of events could result in goodwill impairment charges in the future. Impairment charges could substantially affect our business in the periods in which they are made.

*Unfavorable developments in legal proceedings, investigations and other legal, environmental, compliance and regulatory matters, could impact us in a materially adverse manner.*

There can be no assurance that any outcome of any litigation, investigation or other legal, environmental, compliance and regulatory matter will be favorable. Our financial results could be materially adversely affected by an unfavorable outcome to pending or future litigation and investigations, and other legal, environmental, compliance and regulatory matters. See "Legal Proceedings" (Part I, Item 3).

*We are required to comply with anti-corruption laws and regulations of the U.S. government and various international jurisdictions, and our failure to comply with these laws and regulations could have a material adverse effect on our business.*

We are required to comply with the anti-corruption laws and regulations of the U.S. government and various international jurisdictions, such as the U.S. Foreign Corrupt Practices Act and the UK's Bribery Act of 2010. If we fail to comply with anti-corruption laws, we could be subject to substantial civil and criminal penalties, including regulatory fines, monetary damages and incarceration for responsible employees and managers. In addition, if our distributors or agents fail to comply with these laws, we may also be materially adversely affected through reputational harm and penalties.

*We are required to comply with environmental, health, and safety laws at our operations around the world. The costs of complying with these laws could materially adversely affect our business.*

We are subject to national, state, provincial and/or local environmental, health, and safety laws and regulations in the U.S. and abroad, including those related to the disposal of hazardous waste from our manufacturing processes. These laws are often unclear and subject to the discretion of the enforcing authorities. Compliance with existing and future environmental, health and safety laws could subject us to future fees, penalties, costs or liabilities, impact our production capabilities, limit our ability to sell, expand or acquire facilities, and have a material adverse effect on our business. Environmental and product content and product safety laws and regulations can be complex, change often, and be open to different interpretations. In addition, we could be materially and adversely impacted by any environmental or product safety enforcement action affecting our suppliers, particularly in emerging markets.

We have accrued liabilities for the environmental clean-up of certain sites, including sites for which U.S. governmental agencies have designated us as a potentially responsible party, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. See "Legal Proceedings" (Part I, Item 3). However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate currently identified sites and other sites that could be identified for cleanup in the future could be higher than the liabilities accrued.

*We are subject to governmental export and import control laws and regulations in certain jurisdictions where we do business that could subject us to liability or impair our ability to compete in these markets.*

Certain of our products are subject to export control laws and regulations and may be exported only with an export license or through an applicable export license exception. If we fail to comply with export licensing, customs regulations, economic sanctions or other laws, we could be subject to substantial civil or criminal penalties, including economic sanctions against us, incarceration for responsible employees and managers, and the possible loss of export or import privileges. In addition, if our distributors fail to obtain appropriate import, export or re-export licenses or permits, we may also be materially adversely affected through reputational harm and penalties. Obtaining the necessary export license for a particular sale may be time consuming and expensive and could result in the delay or loss of sales opportunities.

Furthermore, export control laws and economic sanctions prohibit the shipment of certain products to embargoed or sanctioned countries, governments and persons. While we train our employees to comply with these regulations, we cannot guarantee that a violation will not occur. A prohibited shipment could have negative consequences, including government investigations, penalties, fines, civil and criminal sanctions and reputational harm. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could decrease our ability to export or sell our products internationally. Any limitation on our ability to export or sell our products could materially adversely affect our business.

*Infringing intellectual property rights of third parties or inadequately acquiring or protecting our intellectual property could harm our ability to compete or grow.*

Because our products involve complex technology and chemistry, we are involved from time to time in litigation involving patents and other intellectual property. Parties have filed, and in the future may file, claims against us alleging that we have infringed their intellectual property rights. If we were held liable for infringement, we could be required to pay damages, obtain licenses or cease making or selling certain products. There can be no assurance that licenses would be available on commercially reasonable terms or at all. The defense of these claims, whether or not meritorious, or the development of new technologies could cause us to incur significant costs and divert the attention of management.

We also have valuable intellectual property upon which third parties may infringe. We attempt to protect and restrict access to our intellectual property and proprietary information by relying on the patent, trademark, copyright and trade secret laws of the U.S. and other countries, as well as non-disclosure agreements. However, it may be possible for a third party to obtain our information without our authorization, independently develop similar technologies, or breach a non-disclosure agreement entered into with us. In addition, many of the countries in which we operate do not have intellectual property laws that protect proprietary rights as fully as do laws in the U.S. The use of our intellectual property by someone else without our authorization could reduce or eliminate certain competitive advantages we have, cause us to lose sales or otherwise harm our business. Further, the costs associated with protecting our intellectual property rights could materially adversely impact our business.

We have obtained and applied for U.S. and foreign trademark registrations and patents, and will continue to evaluate whether to register additional trademarks and apply for additional patents. We cannot guarantee that any of the pending applications will be approved by the applicable government authorities. Further, we cannot assure that the validity of our patents or our trademarks will not be challenged. In addition, third parties may be able to develop competing products using technology that avoids our patents.

*We are subject to risks associated with the availability and coverage of various types of insurance.*

We have various types of insurance, including property, workers' compensation, general liability, and environmental liability. Insurance costs can be unpredictable and may materially adversely impact our business. We retain some portion of our insurable risks, and therefore, unforeseen or catastrophic losses in excess of insured limits could have a material adverse effect on our business.

## Item 1B. UNRESOLVED STAFF COMMENTS

None.

## Item 2. PROPERTIES

As of December 30, 2017, we operated manufacturing facilities in excess of 100,000 square feet in the locations listed below.

**Label and Graphic Materials Segment**

| | |
|---|---|
| Domestic | Peachtree City, Georgia; Fort Wayne, Greenfield, and Lowell, Indiana; Fairport Harbor, Mentor, and Painesville, Ohio; Mill Hall and Quakertown, Pennsylvania |
| Foreign | Soignies, Belgium; Vinhedo, Brazil; Guangzhou and Kunshan, China; Champ-sur-Drac, France; Gotha and Schwelm, Germany; Pune, India; Kibbutz Hanita, Israel; Rodange, Luxembourg; Bangi, Malaysia; and Cramlington, United Kingdom |

**Retail Branding and Information Solutions Segment**

| | |
|---|---|
| Domestic | Miamisburg, Ohio |
| Foreign | Nansha, Panyu, and Suzhou, China; Bufalo, Honduras; Ancarano, Italy; and Long An Province, Vietnam |

**Industrial and Healthcare Materials Segment**

| | |
|---|---|
| Domestic | Painesville, Ohio |
| Foreign | Turnhout, Belgium; and Kunshan, Shanghai and Zhouzhou, China |

In addition to the manufacturing facilities described above, our other principal facilities include our corporate headquarters in Glendale, California and our divisional offices located in Boston, Massachusetts; Mentor, Ohio; Kunshan, China; and Oegstgeest, the Netherlands.

We own all of the principal properties identified above, except for facilities in the following locations, which are leased: Glendale, California; Panyu and Zhouzhou, China; Bufalo, Honduras; Kibbutz Hanita, Israel; Boston, Massachusetts; Mentor, Ohio; and Oegstgeest, the Netherlands.

We consider all our properties, whether owned or leased, suitable and adequate for our present needs. We generally expand production capacity as needed to meet increased demand. Owned buildings and plant equipment are insured against major losses from fire and other usual business risks, subject to deductibles. We are not aware of any material defects in title to, or significant encumbrances on, our properties, except for certain mortgage liens.

## Item 3. LEGAL PROCEEDINGS

As of December 30, 2017, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at thirteen waste disposal or waste recycling sites that are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination. No settlement of our liability related to any of the sites has been agreed upon. We are participating with other PRPs at these sites and anticipate that our share of remediation costs will be determined pursuant to agreements that we negotiate with the EPA or other governmental authorities.

We have accrued liabilities for sites where it is probable that a loss or cost will be incurred and the amount of loss or cost can be reasonably estimated. These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, future expenses to remediate these sites could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our environmental liabilities accordingly. In addition, we may be identified as a PRP at additional sites in the future. The range of expenses for remediation of any future-identified sites would be addressed as they arise; until then, a range of expenses for such remediation cannot be determined.

As of December 30, 2017, our accrued liability associated with environmental remediation was $21.1 million.

In addition, we are involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of our business. We have accrued liabilities for matters where it is probable that a loss will be incurred and the amount of loss can be reasonably estimated. Because of the uncertainties associated with claims resolution and litigation, future expenses to resolve these matters could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our accrued liabilities accordingly. Additional lawsuits, claims, inquiries, and other regulatory and compliance matters could arise in the future. The range of expenses for resolving any future matters would be assessed as they arise; until then, a range of potential expenses for such resolution cannot be determined. Based upon current information, we believe that the impact of the resolution of these matters would not be, individually or in the aggregate, material to our financial position, results of operations or cash flows.

See also Note 8, "Contingencies," in the Notes to Consolidated Financial Statements contained in our 2017 Annual Report, which is incorporated herein by reference.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The information called for by Item 201 of Regulation S-K appears under "Corporate Information – Stock and Dividend Data" in our 2017 Annual Report and is incorporated herein by reference. We did not sell any unregistered securities during the fourth quarter of 2017.

(b) Not applicable.

(c) Repurchases of Equity Securities by Issuer

Repurchases by us or our "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Exchange Act) of registered equity securities in the three fiscal months of the fourth quarter of 2017 are listed in the table below. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes.

| Period(1) | Total number of shares purchased(2) | Average price paid per share | Total number of shares purchased as part of publicly announced plans(2)(3) | Approximate dollar value of shares that may yet be purchased under the plans(4) |
|---|---|---|---|---|
| October 1, 2017 – October 28, 2017 | 58.8 | $99.92 | 58.8 | |
| October 29, 2017 – November 25, 2017 | 50.1 | 106.96 | 50.1 | |
| November 26, 2017 – December 30, 2017 | 120.1 | 113.94 | 120.1 | |
| Total | 229.0 | $108.81 | 229.0 | $625.2 |

(1) The periods shown are our fiscal periods during the thirteen-week quarter ended December 30, 2017.
(2) Shares in thousands.
(3) In April 2017, our Board authorized the repurchase of shares of our common stock with a fair market value of up to $650 million, exclusive of any fees, commissions or other expenses related to such purchases. The Board authorization was announced in a Current Report on Form 8-K on April 28, 2017 and will remain in effect until shares in the amount authorized thereunder have been repurchased.
(4) Dollars in millions.

## Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of our last five fiscal years appears under "Five-year Summary" in our 2017 Annual Report and is incorporated herein by reference.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information called for by this Item appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2017 Annual Report and is incorporated herein by reference.

## Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item is contained under "Market-Sensitive Instruments and Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2017 Annual Report and incorporated herein by reference.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item is contained in our 2017 Annual Report (including the Consolidated Financial Statements and the Notes thereto, Statement of Management Responsibility for

Financial Statements and Management's Report on Internal Control Over Financial Reporting, and the Report of Independent Registered Public Accounting Firm) and incorporated herein by reference.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in providing reasonable assurance that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer as appropriate, to allow for timely decisions regarding required disclosure.

*Management's Report on Internal Control Over Financial Reporting.* We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 30, 2017. (See Management's Report on Internal Control Over Financial Reporting contained in our 2017 Annual Report, which is incorporated herein by reference.)

Management's assessment of the effectiveness of our internal control over financial reporting as of December 30, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm contained in our 2017 Annual Report, which is also incorporated herein by reference.

*Changes in Internal Control over Financial Reporting.* We periodically assess our internal control environment. We are in the process of investing in information technology to upgrade the systems in our RBIS segment. Processes affected by this implementation include, among other things, order management, pricing, shipping, purchasing, general accounting and planning. Where appropriate, we are reviewing related internal controls and making changes.

We have excluded Yongle Tape Ltd. from our assessment of internal control over financial reporting as of December 30, 2017 because we acquired the company in a purchase business combination during fiscal year 2017. Yongle Tape Ltd. is a wholly-owned subsidiary whose total assets and total revenues excluded from our assessment of internal control over financial reporting represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2017.

Other than the system implementation and acquisition referenced above, there have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information concerning directors and corporate governance called for by this Item is incorporated herein by reference from the definitive proxy statement for our Annual Meeting of Stockholders to be held on April 26, 2018 (our "2018 Proxy Statement"), which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. The information concerning executive officers called for by this Item appears, in part, on the next page of this report, and is also incorporated by reference from our 2018 Proxy Statement. The information concerning any late filings under Section 16(a) of the Exchange Act is incorporated by reference from our 2018 Proxy Statement.

We have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers (the "Code"), which applies to our Chief Executive Officer, Chief Financial Officer, and Controller/Chief Accounting Officer. The Code is available on our investor website at www.investors.averydennison.com. We will satisfy the disclosure requirements of Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code that applies to these officers by disclosing the nature of any such amendment or waiver on our website or in a Current Report on Form 8-K. Our Code of Conduct, which applies to our directors, officers and employees, is also available on our investor website. Our website address is not intended to function as a hyperlink, and the contents of the website are not a part of this Form 10-K, nor are they incorporated herein by reference.

The information called for by this Item concerning our Audit and Finance Committee is incorporated by reference from our 2018 Proxy Statement.

**EXECUTIVE OFFICERS OF AVERY DENNISON**[1]

| Name and Position | Age | Served as Executive Officer since | | Former Positions within Past Five Years/ Prior Positions with Avery Dennison |
|---|---|---|---|---|
| Mitchell R. Butier<br>President and<br>Chief Executive Officer | 46 | March 2007 | 2015-2016<br>2014-2015<br><br>2010-2014<br><br>2007-2010<br><br>2004-2006 | President and Chief Operating Officer<br>President, Chief Operating Officer and Chief Financial Officer<br>Senior Vice President and Chief Financial Officer<br>Vice President, Global Finance and Chief Accounting Officer<br>Vice President, Finance, Retail Branding and Information Solutions |
| Dean A. Scarborough<br>Executive Chairman[2] | 62 | August 1997 | 2014-2016<br>2010-2014<br>2005-2010<br>2000-2005 | Chairman and Chief Executive Officer<br>Chairman, President and Chief Executive Officer<br>President and Chief Executive Officer<br>President and Chief Operating Officer |
| Gregory S. Lovins<br>Senior Vice President and<br>Chief Financial Officer | 45 | March 2017 | 2017<br><br>2016-2017<br>2011-2016 | Vice President and Interim Chief Financial Officer<br>Vice President and Treasurer<br>Vice President, Global Finance, Materials Group |
| Lori J. Bondar<br>Vice President, Controller and<br>Chief Accounting Officer | 57 | June 2010 | 2008-2010 | Vice President and Controller |
| Georges Gravanis<br>President,<br>Label and Graphic Materials | 60 | May 2015 | 2015-2016<br>2010-2015<br><br>2006-2010<br><br>2004-2006 | President, Materials Group<br>Vice President and General Manager, Materials Group Asia Pacific<br>Vice President of Sales, Roll Materials Europe<br>Vice President and General Manager, Roll Materials Europe Southern Region |
| Anne Hill<br>Senior Vice President and<br>Chief Human Resources Officer | 58 | May 2007 | | |
| Susan C. Miller<br>Senior Vice President,<br>General Counsel and Secretary | 58 | March 2008 | 2008-2009<br><br>2007-2008<br>1998-2006 | Senior Vice President and General Counsel<br>Vice President and General Counsel<br>Assistant General Counsel |
| Deon Stander<br>Vice President and<br>General Manager,<br>Retail Branding<br>and Information<br>Solutions | 49 | August 2016 | 2013-2015<br><br><br>2010-2012 | Vice President and General Manager, Global Commercial and Innovation, RBIS<br>Vice President and General Manager, Global Commercial RBIS |
| Michael Johansen<br>Vice President and<br>General Manager,<br>Industrial and Healthcare<br>Materials | 52 | December 2016 | 2015-2016<br><br>2010-2015 | Vice President & General Manager, Performance Tapes<br>Vice President & General Manager, RBIS Sourcing Regions & Supply Chain |

(1) Officers are generally elected on the date of our annual stockholder meeting to serve a one-year term and until their successors are duly elected and qualified.

(2) Mr. Scarborough ceased serving as an executive officer on December 31, 2017. Effective January 1, 2018, Mr. Scarborough began serving as non-executive chairman.

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## Item 11. EXECUTIVE COMPENSATION

The information called for by this Item is incorporated by reference from our 2018 Proxy Statement.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this Item is incorporated by reference from our 2018 Proxy Statement.

## Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this Item is incorporated by reference from our 2018 Proxy Statement.

## Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this Item is incorporated by reference from our 2018 Proxy Statement.

## PART IV

### Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedule and Exhibits

(1) Financial statements filed as part of this report are listed on the accompanying Index to Financial Statements.

(2) All financial statement schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(3) Exhibits filed as a part of this report are listed on the accompanying Exhibit Index. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K is identified as such on the Exhibit Index and incorporated herein by reference.

(b) The exhibits required to be filed by Item 601 of Regulation S-K are set forth on the following Exhibit Index and incorporated herein by reference.

### Item 16. FORM 10-K SUMMARY

None.

**AVERY DENNISON CORPORATION**

**INDEX TO FINANCIAL STATEMENTS**

Data incorporated by reference from the attached portions of the 2017 Annual Report to Shareholders of Avery Dennison Corporation:



Except for the Consolidated Financial Statements, Statement of Management Responsibility for Financial Statements, Management's Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm listed above, and certain information referred to in Items 1, 5, 6, 7, and 7A of this report that is expressly incorporated herein by reference, our 2017 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

**AVERY DENNISON CORPORATION**

**EXHIBIT INDEX**

**For the Year Ended December 30, 2017**

| Exhibit No. | Exhibit Name | Originally Filed as Exhibit No. | Filing[1] |
|---|---|---|---|
| 3.1(i) | Amended and Restated Certificate of Incorporation, as filed on April 28, 2011 with the Office of Delaware Secretary of State | 3.1 | Current Report on Form 8-K, filed April 29, 2011 |
| 3.1(ii)† | Amended and Restated Bylaws, effective as of December 7, 2017 | 3.1(ii) | Current Report on Form 8-K, filed December 8, 2017 |
| 4.1 | Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "1991 Indenture") | 4.1 | Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991 |
| 4.2 | First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture") | 4.4 | Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993 |
| 4.3 | Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the 1991 Indenture, as amended by the Supplemental Indenture | 4.1 | Current Report on Form 8-K, filed May 12, 1995 |
| 4.4 | Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the 1991 Indenture, as amended by the Supplemental Indenture | 4.1 | Current Report on Form 8-K, filed December 16, 1996 |
| 4.5 | Indenture, dated as of July 3, 2001, between Registrant and Chase Manhattan Bank and Trust Company, National Association, as trustee ("2001 Indenture") | 4.1 | Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001 |
| 4.6 | Officers' Certificate establishing two series of Securities entitled "4.875% Notes due 2013" and "6.000% Notes due 2033" under the 2001 Indenture | 4.2 | Current Report on Form 8-K, filed January 16, 2003 |
| 4.7 | 6.000% Notes Due 2033 | 4.4 | Current Report on Form 8-K, filed January 16, 2003 |

| Exhibit No. | Exhibit Name | Originally Filed as Exhibit No. | Filing[1] |
|---|---|---|---|
| 4.8 | Indenture, dated as of September 25, 2007, among Avery Dennison Office Products Company ("ADOPC"), Registrant and The Bank of New York Trust Company, N.A., as Trustee ("Bank of NY") | 99.1 | Current Report on Form 8-K, filed October 1, 2007 |
| 4.9 | Form of 6.625% Guaranteed Notes due 2017 | 99.1 | Current Report on Form 8-K, filed October 1, 2007 |
| 4.10 | Indenture, dated as of November 20, 2007, between Registrant and Bank of NY | 4.2 | Current Report on Form 8-K, filed November 20, 2007 |
| 4.11 | First Supplemental Indenture, dated as of November 20, 2007, between Registrant and Bank of NY | 4.3 | Current Report on Form 8-K, filed November 20, 2007 |
| 4.12 | Second Supplemental Indenture, dated as of April 13, 2010, between Registrant and Bank of NY | 4.2 | Current Report on Form 8-K, filed April 13, 2010 |
| 4.13 | Form of 5.375% Senior Notes due 2020 | 4.2 | Current Report on Form 8-K, filed April 13, 2010 |
| 4.14 | Third Supplemental Indenture, dated as of April 8, 2013, between Registrant and Bank of NY | 4.2 | Current Report on Form 8-K, filed April 8, 2013 |
| 4.15 | Form of 3.35% Senior Notes due 2023 | 4.2 | Current Report on Form 8-K, filed April 8, 2013 |
| 4.16 | Fourth Supplemental Indenture, dated as of March 3, 2017, between Registrant and The Bank of New York Mellon Trust Company, N.A. as Trustee (including Form of 1.250% Senior Notes due 2025 on Exhibit A thereto) | 4.2 | Current Report on Form 8-K, filed March 3, 2017 |
| 10.1 | Amended and Restated Credit Agreement, dated as of February 8, 2008, among ADOPC, Registrant, Bank of America, N.A. and Banc of America Securities LLC and JP Morgan Securities Inc. ("ADOPC Credit Agreement") | 10.1 | Quarterly Report on Form 10-Q, filed August 7, 2008 |
| 10.2 | Second Amendment to ADOPC Credit Agreement, dated as of January 23, 2009 | 99.4 | Current Report on Form 8-K, filed January 27, 2009 |

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| Exhibit No. | Exhibit Name | Originally Filed as Exhibit No. | Filing[1] |
|---|---|---|---|
| 10.3 | Fourth Amended and Restated Credit Agreement, dated as of November 8, 2017, by and among Registrant, Bank of America, N.A., Citibank, N.A. and JPMorgan Chase Bank, N.A. and the other lenders party thereto | 10.1 | Current Report on Form 8-K, filed November 9, 2017 |
| 10.4* | Deferred Compensation Plan for Directors | 10.3 | 1981 Annual Report on Form 10-K, filed February 29, 1982 |
| 10.5* | Amended and Restated Supplemental Executive Retirement Plan ("SERP") | 10.11.1 | Quarterly Report on Form 10-Q, filed August 12, 2009 |
| 10.6* | Letter of Grant to D.A. Scarborough under SERP | 10.11.2.1 | Quarterly Report on Form 10-Q, filed August 12, 2009 |
| 10.7* | Letter Agreement with D.A. Scarborough regarding SERP benefits | 10.11.2.1 | Current Report on Form 8-K, filed December 15, 2010 |
| 10.8* | Complete Restatement and Amendment of Executive Deferred Compensation Plan | 10.12 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| 10.9* | Amended and Restated Retirement Plan for Directors | 10.13.1 | 2002 Annual Report on Form 10-K, filed March 28, 2003 |
| 10.10* | Amended and Restated Director Equity Plan ("Director Plan") | 10.15.1 | Current Report on Form 8-K, filed December 11, 2008 |
| 10.11* | Form of Non-Employee Director Stock Option Agreement under Director Plan | 10.15.1 | 2003 Annual Report on Form 10-K, filed March 11, 2004 |
| 10.12* | Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan ("EVDCP") | 10.16 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| 10.13* | Amendment No. 1 to EVDCP | 10.16.1 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| 10.14* | Complete Restatement and Amendment of Directors Deferred Compensation Plan | 10.17 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| 10.15* | Amended and Restated 2005 Directors Variable Deferred Compensation Plan | 10.18.2 | Quarterly Report on Form 10-Q, filed May 10, 2011 |
| 10.16* | Amended and Restated Stock Option and Incentive Plan ("Equity Plan") | A | 2012 Proxy Statement on Schedule 14A, filed March 9, 2012 |

| Exhibit No. | Exhibit Name | Originally Filed as Exhibit No. | Filing[1] |
|---|---|---|---|
| 10.17 | First Amendment to Equity Plan | 10.20 | 2014 Annual Report on Form 10-K, filed February 25, 2015 |
| 10.18* | 2017 Incentive Award Plan ("2017 Plan") | B | 2018 Proxy Statement on Schedule 14A, filed March 10, 2017 |
| 10.19* | Senior Executive Annual Incentive Plan | A | 2014 Proxy Statement on Schedule 14A, filed March 7, 2014 |
| 10.20* | Annual Incentive Plan | 10.26 | 2014 Annual Report on Form 10-K, filed February 25, 2015 |
| 10.21* | Complete Restatement and Amendment of Executive Deferred Retirement Plan ("EDRP") | 10.28 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| 10.22* | Amendment No. 1 to EDRP | 10.28.1 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| 10.23* | Amendment No. 2 to EDRP | 10.28.2 | 2001 Annual Report on Form 10-K, filed March 4, 2002 |
| 10.24* | 2005 Executive Variable Deferred Retirement Plan, amended and restated | 10.1 | Quarterly Report on Form 10-Q, filed May 7, 2013 |
| 10.25* | Benefit Restoration Plan, amended and restated ("BRP") | 10.32.1 | Current Report on Form 8-K/A, filed December 11, 2008 |
| 10.26* | First Amendment to BRP | 10.32.1 | 2010 Annual Report on Form 10-K, filed February 28, 2011 |
| 10.27* | Amended and Restated Capital Accumulation Plan ("CAP") | 10.34 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| 10.28* | Amendment No. 1 to CAP | 10.34.2 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| 10.29*† | Amended and Restated Key Executive Change of Control Severance Plan | N/A | N/A |
| 10.30*† | Amended and Restated Executive Severance Plan | N/A | N/A |
| 10.31*† | Form of Executive Severance Agreement | N/A | N/A |
| 10.32* | Long-Term Incentive Unit Plan ("LTI Unit Plan") | 10.43 | 2012 Annual Report on Form 10-K, filed February 27, 2013 |
| 10.33* | Form of Restricted Stock Unit Agreement under Equity Plan | 10.38 | 2013 Annual Report on Form 10-K, filed February 26, 2014 |
| 10.34* | Form of Performance Unit Agreement under Equity Plan | 10.39 | 2013 Annual Report on Form 10-K, filed February 26, 2014 |

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| Exhibit No. | Exhibit Name | Originally Filed as Exhibit No. | Filing[1] |
|---|---|---|---|
| 10.35* | Form of Market-Leveraged Stock Unit Agreement under Equity Plan | 10.40 | 2013 Annual Report on Form 10-K, filed February 26, 2014 |
| 10.36* | Form of Long-Term Incentive Unit Agreement under LTI Unit Plan | 10.41 | 2013 Annual Report on Form 10-K, filed February 26, 2014 |
| 10.37* | Form of Director Restricted Stock Unit Agreement under 2017 Plan | 10.2 | Quarterly Report on Form 10-Q, filed August 1, 2017 |
| 10.38* | Form of Employee Market-Leveraged Stock Unit Agreement under 2017 Plan | 10.3 | Quarterly Report on Form 10-Q, filed August 1, 2017 |
| 10.39* | Form of Employee Performance Unit Agreement under 2017 Plan | 10.4 | Quarterly Report on Form 10-Q, filed August 1, 2017 |
| 10.40* | Form of Employee Restricted Stock Unit Agreement under 2017 Plan | 10.5 | Quarterly Report on Form 10-Q, filed August 1, 2017 |
| 10.41* | Form of Employee Non-Qualified Stock Option Agreement under 2017 Plan | 10.6 | Quarterly Report on Form 10-Q, filed August 1, 2017 |
| 10.42* | Offer Letter to Georges Gravanis | 10.1 | Quarterly Report on Form 10-Q, filed May 5, 2015 |
| 10.43* | Offer Letter to Dean A. Scarborough | 10.1 | Quarterly Report on Form 10-Q, filed May 3, 2016 |
| 10.44* | Offer Letter to Mitchell R. Butier | 10.2 | Quarterly Report on Form 10-Q, filed May 3, 2016 |
| 10.45* | Localization Letter to Georges Gravanis | 10.1 | Quarterly Report on Form 10-Q, filed August 2, 2016 |
| 10.46* | Offer Letter to Gregory S. Lovins | 10.1 | Quarterly Report on Form 10-Q, filed May 2, 2017 |
| 10.47* | Offer Letter to Gregory S. Lovins | 10.1 | Quarterly Report on Form 10-Q, filed August 2, 2017 |
| 12† | Computation of Ratio of Earnings to Fixed Charges | N/A | N/A |
| 13† | Portions of Annual Report to Shareholders for fiscal year ended December 30, 2017 | N/A | N/A |
| 21† | List of Subsidiaries | N/A | N/A |
| 23† | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm | N/A | N/A |
| 24† | Power of Attorney (see Signatures — Power of Attorney) | N/A | N/A |

| Exhibit No. | Exhibit Name | Originally Filed as Exhibit No. | Filing(1) |
|---|---|---|---|
| 31.1† | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | N/A | N/A |
| 31.2† | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | N/A | N/A |
| 32.1†† | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | N/A | N/A |
| 32.2†† | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | N/A | N/A |
| 101INS††† | XBRL Instance Filing | N/A | N/A |
| 101SCH††† | XBRL Extension Schema Filing | N/A | N/A |
| 101CAL††† | XBRL Extension Calculation Linkbase Filing | N/A | N/A |
| 101LAB††† | XBRL Extension Label Linkbase Filing | N/A | N/A |
| 101PRE††† | XBRL Extension Presentation Linkbase Filing | N/A | N/A |
| 101DEF††† | XBRL Extension Definition Linkbase Filing | N/A | N/A |

(1) Unless otherwise noted, the File Number for all filings is File No. 1-7685.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

† Filed herewith.

†† This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Exchange Act and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

††† Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION

By: /s/ Gregory S. Lovins

Gregory S. Lovins
Senior Vice President and Chief Financial Officer

Dated: February 21, 2018

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below does hereby constitute and appoint Gregory S. Lovins and Susan C. Miller, and each of them, with full power of substitution, his or her true and lawful attorney-in-fact to act for him or her in any and all capacities, to sign this Annual Report on Form 10-K and any or all amendments or supplements thereto, and to file each of the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully, to all intents and purposes, as he or she could do in person, hereby ratifying and confirming all that said attorneys-in-fact or substitutes, or any of them, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and as of the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Mitchell R. Butier<br>Mitchell R. Butier | President, Chief Executive Officer, and Director | February 21, 2018 |
| /s/ Gregory S. Lovins<br>Gregory S. Lovins | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | February 21, 2018 |
| /s/ Lori J. Bondar<br>Lori J. Bondar | Vice President, Controller, and Chief Accounting Officer (Principal Accounting Officer) | February 21, 2018 |
| /s/ Dean A. Scarborough<br>Dean A. Scarborough | Chairman | February 21, 2018 |
| /s/ Bradley A. Alford<br>Bradley A. Alford | Director | February 21, 2018 |
| /s/ Anthony K. Anderson<br>Anthony K. Anderson | Director | February 21, 2018 |
| /s/ Peter K. Barker<br>Peter K. Barker | Director | February 21, 2018 |

| Signature | Title | Date |
|---|---|---|
| /s/ Ken C. Hicks<br>Ken C. Hicks | Director | February 21, 2018 |
| /s/ Andres A. Lopez<br>Andres A. Lopez | Director | February 21, 2018 |
| /s/ David E. I. Pyott<br>David E. I. Pyott | Director | February 21, 2018 |
| /s/ Patrick T. Siewert<br>Patrick T. Siewert | Director | February 21, 2018 |
| /s/ Julia A. Stewart<br>Julia A. Stewart | Director | February 21, 2018 |
| /s/ Martha N. Sullivan<br>Martha N. Sullivan | Director | February 21, 2018 |

**Exhibit 10.29**

AVERY DENNISON CORPORATION

AMENDED AND RESTATED KEY EXECUTIVE CHANGE OF CONTROL SEVERANCE PLAN

Avery Dennison Corporation has issued this Avery Dennison Corporation Key Executive Change of Control Severance Plan to provide certain designated executives of the Company and its affiliates and Subsidiaries with severance protection under covered circumstances.

## ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01 Definitions. Capitalized terms used in this Plan shall have the following meanings, except as otherwise provided or as the context of the Plan otherwise requires:

"*16(b) Officer*" shall mean any employee who is an "officer" within the meaning of Section 16(b) of the Exchange Act.

"*Administrator*" shall mean the Compensation Committee or any delegate of the Compensation Committee acting within the authority delegated to it pursuant to Section 5.04.

"*Annual Bonus*" shall have the meaning set forth in Section 3.01(a)(ii).

"*Annual Salary*" shall mean the highest annualized rate of base salary applicable to the Participant during the six month period ending on the Termination Date. For the avoidance of doubt, "base salary" shall include amounts earned in the applicable period the payment of which is deferred to a future year but shall not include amounts earned in prior periods the payment of which is deferred to the applicable period, and "base salary" also shall not include any bonus, commission, incentive or retention payments, stock options, restricted stock, restricted stock units, performance units, market-leveraged stock units or other stock related rights, or other forms of employee benefits such as vacation, insurance, health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, and post-employment or retirement benefits (including but not limited to compensation, pension, health, medical or life insurance).

"*Benefit Plan*" shall mean any "employee benefit plan" (including any "employee benefit plan" within the meaning of Section 3(3) of ERISA), program, arrangement or practice maintained, sponsored or provided by the Company or any of its Subsidiaries, including those relating to compensation, bonuses, profit-sharing, stock option, or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangements), health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance or other benefits).

"*Board*" shall mean the Board of Directors of the Company.

"*Cause*" shall mean: (a) Participant's commission of a crime or other act that could materially damage the reputation of the Company or its Subsidiaries; (b) Participant's theft, misappropriation, or embezzlement of property of the Company or its Subsidiaries; (c) Participant's falsification of records maintained by the Company or its Subsidiaries; (d) Participant's substantial failure to comply with the written policies and procedures of the Company or its Subsidiaries as they may be published or revised from time to time; (e) Participant's misconduct; or (f) Participant's substantial failure to perform the material duties of Participant's job with the Company or its Subsidiaries, which failure is not cured within 30 days after written notice from the Company specifying the act or acts of non-performance. Determination of Cause shall be made by the Administrator, in its sole and exclusive discretion.

"*Change of Control*" shall mean "a change in the ownership or effective control," or in "the ownership of a substantial portion of the assets of" the Company, within the meaning of Section 409A, and shall include any of the following events as such concepts are interpreted under Section 409A:

(a) the date on which a majority of members of the Board is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or

(b) the acquisition, by any one Person, or by Persons acting as a group, or by a corporation owned by a group of Persons that has entered into a merger, acquisition, consolidation, purchase, stock acquisition, asset acquisition, or similar business transaction with the Company, of:

(i) ownership of stock of the Company, that, together with any stock previously held by such Person or group, constitutes more than fifty percent (50%) of either (i) the total fair market value or (ii) the total voting power of the stock of the Company;

(ii) ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the Company, during the twelve-month period ending on the date of such acquisition; or

(iii) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company during the twelve-month period ending on the date of such acquisition; provided, however, that any transfer of assets to a related person as defined under Section 409A shall not constitute a Change of Control.

"*Change of Control Period*" shall mean the period beginning on the date of a Change of Control and ending on the date twenty-four (24) months following such Change of Control.

"*Change of Control Severance Payment*" shall have the meaning set forth in Article III.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended in the past and the future. Reference in this Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

"*Company*" shall mean Avery Dennison Corporation and its Successors and assigns.

"*Comparable Position*" shall mean a job position with the Company or any of its Subsidiaries, or any of their respective Successors and assigns, the principal work location of which does not satisfy the conditions of subsection (d) of the definition of "Good Reason" and which position provides pay and benefits that as a whole are substantially equivalent to, or better than, the Participant's aggregate pay and benefits with the Company at the time of the Termination of Employment when taking into account the Participant's base salary, target bonus opportunity, incentive pay and equity opportunities, health and welfare benefits, severance protection, and other benefits.

"*Compensation Committee*" shall mean the Compensation and Executive Personnel Committee of the Board.

"*Disability*" shall mean, when used with reference to any Participant, long term disability as defined by the applicable long term disability plan maintained by the Company or one of its Subsidiaries under which the Participant is covered.

"*Effective Date*" shall mean the date that the Compensation Committee adopts this Plan.

"*ERISA*" shall mean the Employee Retirement Income Security Act of 1974, as may be amended from time to time.

"*Exchange Ac*t" shall mean the Securities Exchange Act of 1934, as amended.

"*Excise Tax*" shall have the meaning set forth in Section 3.03.

"*Good Reason*" shall mean "a separation from service for good reason" as set forth in Section 409A, which shall mean that, without the express written consent of the Participant, one or more of the following shall have occurred without being timely remedied in the manner set forth below: (a) a material diminution in the Participant's base compensation; (b) a material diminution in the Participant's authority, duties, or responsibilities; (c) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Participant is required to report; (d) a material change in the geographic location at which the Participant must perform the services; or (e) any other action or inaction that constitutes a material breach by the Company of the agreement under which the Participant provides services. The Participant shall have "Good Reason" in connection with any or all of the above solely if (i) the Participant provides notice to the Company of the existence of the particular condition, action or inaction which the Participant considers to give the Participant "Good Reason" within 90 days of the initial existence of such condition, action or inaction, and (ii) the Company shall not have remedied the condition, action or inaction within 30 days of its receipt of the Participant's notice. The effective date of any termination for "Good Reason" shall be no later than 12 months after the initial existence of such condition, action or inaction constituting "Good Reason."

"*Parachute Value*" of a Payment shall mean the present value as of the date of the Change of Control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2) of the Code, as determined by the accounting firm referred to in Section 3.03 for purposes of determining whether and to what extent the Excise Tax (as defined in Section 3.03) will apply to such Payment.

"*Participant(s)*" shall mean an employee (or employees) of the Company or any of its Subsidiaries or affiliates who are from time-to-time designated as Participants in accordance with Section 2.01 of the Plan.

"*Payments*" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Participant, whether paid or payable pursuant to this Plan or otherwise.

"*Person*" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) of the Exchange Act, except that such term shall not include (a) the Company or any of its Subsidiaries, (b) a trustee or other fiduciary holding securities under a Benefit Plan of the Company or any of its affiliates, (c) an underwriter temporarily holding securities pursuant to an offering of such securities, or (d) a corporation owned, directly or indirectly, by substantially all of the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

"*Plan*" shall mean this Avery Dennison Corporation Key Executive Change of Control Severance Plan, as may be amended, supplemented or modified from time to time in accordance with its terms.

"*Safe Harbor Amount*" shall mean three times the Participant's "base amount," (within the meaning of Section 280G(b)(3) of the Code, as may be amended from time to time) less $1.

"*Section 409A*" shall mean Section 409A of the Code and the Department of Treasury Regulations and other interpretive guidance issued thereunder, including, without limitation, any such regulations or other guidance that may be issued after the Effective Date.

"*Severance Multiplier*" shall mean the multiplier, designated pursuant to Section 2.01(b) in accordance with a Participant's Tier, to be applied to a Participant's Change of Control Severance Payment under Section 3.01.

"*Specified Employee*" shall mean any Participant who, as of such Participant's Termination Date, is determined to be a "key employee" of the Company if, at such time, the Company has any stock that is publicly traded on an established securities market or otherwise. For purposes of this definition, a Participant is a "key employee" if the Participant meets the requirements of Sections 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the twelve (12) month period ending on the last day of the applicable calendar year (referred to as the "identification date" below). If a Participant is a "key employee" as of the identification date, such Participant shall be treated as a "key employee" for the entire twelve (12) month period beginning on the first day of the fourth month following the identification date. For purposes of this definition, a Participant's compensation for the twelve (12) month period ending on an identification date shall mean such Participant's compensation, as determined under Treasury Regulation Section 1.415(c)-2(d)(4), from the Company for such period.

"*Subsidiary*" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, as well as partnerships and limited liability companies, in which the Company holds a 33% or more interest.

"*Successor*" shall mean a successor to all or substantially all of the business, operations or assets of the Company or such other portion of the Company's business as shall be determined by the Administrator.

"*Termination Date*" shall mean, with respect to any Participant, the actual date of the Participant's Termination of Employment.

"*Termination of Employment*" shall mean the time when the employee-employer relationship between the Participant and the Company or any Subsidiary is terminated for any reason, with or without Cause, including, but not limited to, a termination by resignation, discharge, death, Disability or retirement; provided that such "*Termination of Employment*" constitutes a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h).

"*Termination Notice*" shall mean written notice from the Company to any Participant stating that the Participant's employment has been or is being terminated for Cause or Disability in accordance with Section 5.07(b).

"*Tier*" shall mean the tier designated for each Participant by the Administrator in accordance with Section 2.01.

Section 1.02 Interpretation. In this Plan, unless a clear contrary intention appears, (a) the words "herein," "hereof" and "hereunder" refer to this Plan as a whole and not to any particular Article, Section or other subdivision, (b) reference to any Article or Section, means such Article or Section hereof and (c) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

## ARTICLE II

ELIGIBILITY

Section 2.01 Eligible Employees. Only employees of the Company or any of its Subsidiaries or affiliates who are designated as Participants according to this Section 2.01 shall be eligible for payments and benefits under this Plan.

(a) The Participants shall be Level 1 and Level 2 executives of the Company and any other individual specifically designated as a Participant by the Administrator. The designation of an individual as a Participant (or removal of such designation) shall be made by the Administrator in its discretion. The Administrator also shall designate the Participant's Tier for purposes of the Severance Multiplier, which designated Tier may be changed by the Administrator in its discretion.

(b) A designation of "Tier A" shall mean the Participant's Severance Multiplier is three (3x). A designation of "Tier B" shall mean the Participant's Severance Multiplier is two (2x).

Section 2.02 Individuals Not Eligible. An individual shall not be eligible to be a Participant in the Plan, and shall not be designated as such, if the individual is otherwise designated by the Company as a temporary employee, as an individual working for the Company or any of its affiliates or Subsidiaries on referral from a temporary personnel agency or employee leasing agency, or as an independent contractor or person working for an independent contractor.

## ARTICLE III

SEVERANCE AND RELATED TERMINATION BENEFITS

Section 3.01 Termination of Employment during Change of Control Period. In the event that, during a Change in Control Period, a Participant incurs a Termination of Employment initiated by the Company or any Subsidiary or affiliate without Cause or initiated by the Participant for Good Reason (for the avoidance of doubt, the Terminations of Employment covered by the preceding clause do not include a Termination of Employment (w) due to Disability or death, (x) where there is a simultaneous reemployment or continuing employment of the Participant by the Company or any Subsidiary or affiliate of the Company in any position; (y) resulting from the Participant declining an offer of simultaneous reemployment or continuing employment in a Comparable Position with the Company or with any Subsidiary or affiliate of the Company; and (z) where a Successor or assign of the Company, or of that portion of the assets of the Company that is transferred, sold or outsourced to the Successor or assign, offers to the Participant a Comparable Position), the Participant shall receive the following Change of Control Severance Payment and benefits, subject to Section 3.02 and any other conditions set forth in this Plan:

(a) Subject to the limitations set forth in Section 3.05, the "*Change of Control Severance Payment*" shall be a lump sum cash payment equal to the sum of (x) the sum of the amounts described in Sections 3.01(a)(i), (ii), and (iii) multiplied by the Participant's Severance Multiplier and (y) the amount described in Section 3.01(a)(iv):

(i) The Participant's Annual Salary.

(ii) The highest of the payments received by the Participant under the Company's Annual Incentive Plan (or any successor plan) for the last three annual periods completed prior to the Termination Date (the "*Annual Bonus*"). For the avoidance of doubt, the Annual Bonus shall not include any long term incentive compensation, commissions, stock based compensation, or any other incentive or retention compensation, bonuses, or awards of any kind other than payment under the Company's Annual Incentive Plan (or any successor plan).

(iii) The cash value of twelve months of employee and employer premiums (as previously established by the Company in its sole and exclusive discretion) for qualified medical and dental plans in which the Participant participates, as of the Termination Date, but excluding any supplemental health and welfare benefits.

(iv) The product of (A) the Participant's Annual Bonus and (B) a fraction, the numerator of which is the number of days which have elapsed in the Company's current fiscal year through the Termination Date, and the denominator of which is 365.

(b) Outplacement services appropriate for a senior executive of the Company, to be provided by a nationally recognized outplacement firm capable of providing such services, selected by the Participant with the Company's approval, in an amount not to exceed twenty-five thousand dollars and 00/100 cents ($25,000.00) to the extent such services are used by the Participant within one year of his or her Termination Date. The Company will pay the outplacement firm directly. For purposes of Section 409A, to the extent that payment pursuant to this Section 3.01(b) constitutes a reimbursement that is "deferred compensation" under Section 409A, such payment shall be provided no later than December 31 of the year following the year in which the expense was incurred.

(c) Subject to Section 3.04, any Change of Control Severance Payment shall be paid to the Participant on or before the 60th day after the Termination Date.

(d) The Company shall be entitled to deduct any required tax withholding from any Change of Control Severance Payments. There shall be no deferrals, contributions or additional accruals to any qualified savings or retirement plan of the Company or to any deferred compensation plan of the Company from, or based on, any Change of Control Severance Payment.

Section 3.02 Condition to Receipt of Severance Benefits. In order to receive any Change of Control Severance Payment or benefit under this Plan, the Participant must (a) timely execute a Separation and Release Agreement with the Company (provided by the Company to the Participant within seven days following the Participant's Termination Date) (the "*Release*") on or prior to the Release Expiration Date in a form and with content determined solely and exclusively by the Administrator and containing generally the following provisions, unless prohibited by law: No-Hire, Non-Competition, Confidentiality, Non-Disclosure, Claw-Back, Cooperation, Return of Company Property, and Comprehensive Waiver, Release and Covenant Not-To-Sue, and (b) not revoke his or her acceptance of the Release within the seven (7) day period following such acceptance. For purposes of this Section 3.02, "*Release Expiration Date*" shall mean the date that is 21 days following the date upon which the Company timely delivers the Release to the Participant, or, in the event that the Participant's Termination of Employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967), the date that is 45 days following such delivery date.

Section 3.03 Parachute Payments. In the event that it shall be determined that any payment or distribution to or for the benefit of any Participant under this Plan or under any other Company plan, contract or agreement would, but for the effect of this Section, be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (collectively, such excise tax, together with any such interest or penalties, the "*Excise Tax*"), then, in the event that the after-tax value of all Payments to a Participant (such after-tax value to reflect the deduction of the Excise Tax and all income or other taxes on such Payments) would, in the aggregate, be less than the after-tax value (so calculated) to the Participant of the Safe Harbor Amount, (i) the cash portions of the Payments payable to the Participant under this Plan shall be reduced, in the order in which they are due to be paid, until the Parachute Value of all Payments paid to the Participant, in the aggregate, equals the Safe Harbor Amount, and (ii) if the reduction of the cash portions of the Payments, payable under this Plan, to zero would not be sufficient to reduce the Parachute Payments to the Safe Harbor Amount, then any cash portions of the Payments payable to the Participant under any other plans shall be reduced, in the order in which they are due to be paid, until the Parachute Value of all Payments paid to the Participant, in the aggregate, equals the Safe Harbor Amount, and (iii) if the reduction of all cash portions of the Payments, payable pursuant to this Plan and otherwise, to zero would not be sufficient to reduce the Parachute Payments to the Safe Harbor Amount, then non-cash portions of the Payments shall be reduced, in the order in which they are due to be paid, until the Parachute Value of all Payments paid to the Participant, in the aggregate, equals the Safe Harbor Amount.

Section 3.04 Section 409A Compliance. No payments under this Article III shall be paid to a Participant prior to or during the 6-month period following the Participant's Termination Date if the Company determines in its sole discretion that paying such amounts at the time or times indicated in this Article III would be a prohibited payment of deferred compensation to a Specified Employee under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amounts is not made as a result of the previous sentence, then within 15 business days following the end of such 6-month period (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Participant's death), the Company shall pay the Participant a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Participant during such period, and any remaining amounts due to such Participant shall be paid as otherwise provided in the Plan. For any payment that is delayed under this Article III, the Company shall also pay to the Participant interest on the delayed payment at a rate equal to the rate provided under Section 1274(b)(2)(B) of the Code as of the Termination Date.

Section 3.05 Limitation of Benefits. Notwithstanding anything to the contrary in this Plan, a Participant's Change of Control Severance Payment shall be reduced by the aggregate amount of any termination, redundancy, severance or similar separation payments or benefits (other than state unemployment benefits) which such Participant is eligible for and receives, due to the Participant's Termination of Employment, under any other agreement or plan (including, without limitation, any severance plans of the Company or any Subsidiary or affiliate or any government-mandated plans) or pursuant to any statutory, legislative, or regulatory requirement.

Section 3.06 Plan Unfunded; Participant's Rights Unsecured. The Company shall not be required to establish any special or separate fund or make any other segregation of funds or assets to assure the payment of any Change of Control Severance Payment or benefit under this Plan. The right of any Participant to receive the Change of Control Severance Payment and benefits provided for herein shall be an unsecured claim against the general assets of the Company. No payment or benefit under this Plan shall be deemed earned, vested or accrued compensation or benefits, except according to the express terms of this Plan.

## ARTICLE IV

CLAIMS PROCEDURE/ARBITRATION

Section 4.01 Filing and Determination of Claim. A Participant who believes he or she is entitled to receive a benefit under this Plan and desires written confirmation must file a claim in writing with the Administrator. The Administrator shall, within 90 days after receipt of the claim, either allow or deny the claim in writing.

Section 4.02 Denial of Claim. Any initial denial of a claim for benefits shall be from the Administrator in writing, setting forth, in a manner calculated to be understood by the claimant, the following:

(a) the specific reason(s) for the denial;

(b) specific reference(s) to pertinent provision(s) of the Plan on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the Plan's review procedure and time limits applicable to such procedure, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination.

Section 4.03 Request for Review of Denial. Within 60 days after a claimant's receipt of written notification of denial of a claim, the claimant (or his/her duly authorized representative) upon written application to the Administrator, delivered in person or by certified mail, postage prepaid, may request a review of such denial. The application shall state the name and address of the claimant; the fact that the claimant is disputing the denial of claim; the date of the notice of denial; and the reason(s), in clear and concise terms, for disputing the denial. In addition, to the extent required by law, claimant shall have the right to (a) be provided with, upon request and free of charge, reasonable access to and copies of all pertinent documents, records and other information relevant to his/her claim and (b) submit in writing to the Administrator any comments, documents, records or other information relating to his/her claim.

Section 4.04 Review of Denial. The Administrator shall make a decision on review of a denied claim within 60 days after receipt of the request for review, taking into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision on review shall be deemed final. The Administrator's decision on review shall be from the Company's Vice President, Total Rewards in writing, setting forth, in a manner calculated to be understood by the claimant the following:

(a) the specific reason(s) for the final decision;

(b) specific reference(s) to the pertinent provisions of the Plan on which the final decision is based;

(c) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to his/her claim; and

(d) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to bring an action under Section 502(a) of ERISA.

Section 4.05 Extensions of Review Periods. The 90-day period described in Section 4.01 and the 60-day period described in Section 4.04 may be extended at the sole and absolute discretion of the Administrator for a second 90-day or 60-day period, as the case may be, provided that written notice of the extension is furnished to the claimant prior to the termination of the initial period, indicating the special circumstances requiring such extension and the date by which a final decision is expected. Any person submitting a claim may, with the consent of the Administrator, withdraw the claim at any time, or defer the date as of which such claim shall be deemed filed for purposes of this procedure.

Section 4.06 Arbitration.

(a) Before pursuing a legal remedy, a claimant shall first exhaust the claims procedures set forth in Sections 4.01 through 4.05 of this Plan. Any disputes, controversies or claims that arise between any Participant (or any person claiming on behalf of any Participant) and the Company or any of its Subsidiaries and affiliates (including the Administrator) relating to or arising out of this Plan, which are not resolved in accordance with the procedures set forth in Sections 4.01 through 4.05 of the Plan, shall be settled by arbitration in accordance with the JAMS Employment Arbitration Rules & Procedures or any successor thereto (the "*JAMS Rules*"). The arbitration shall be before a single arbitrator selected in accordance with the JAMS Rules or otherwise by mutual agreement of the parties. The arbitration shall take place in Los Angeles County, California, unless the parties agree to hold the arbitration in another location. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of Delaware, except to the extent preempted by U.S. Federal law (in which case such law will apply).

(b) In consideration of the benefits provided herein, the anticipated expedition and the minimizing of expense of this arbitration remedy, and other good and valuable consideration, the arbitration provisions of this Plan shall provide the exclusive remedy for disputes following exhaustion of the claims procedures set forth in Sections 4.01 through 4.05 of this Plan, and each party expressly waives any right such party may have to seek redress in any other forum. To the maximum extent permitted by law, the arbitrator's review of a claimant's denied claim shall be limited to a determination of whether the denial was an abuse of discretion based on the evidence and theories the claimant presented during the claims procedure. The arbitration and any decision and award or order of the arbitrator shall be final and binding upon the parties and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(c) The Company and any Participant may bring an action in any court of competent jurisdiction to compel arbitration under this Plan and to enforce an arbitration award. Except as otherwise provided in this Plan, both the Company and the Participant agree that neither of them shall initiate or prosecute any lawsuit or administrative action in any way related to any claim covered by this Plan.

(d) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section 4.06, must be presented in writing by the claiming party to the other party within one year after the receipt of the Administrator's decision under Section 4.04. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time period specified shall be waived and forever barred, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(e) The Company shall advance the costs and expenses of the arbitrator. In any arbitration to enforce any of the provisions or rights under this Plan, the unsuccessful party in such arbitration, as determined by the arbitrator, shall pay to the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party or parties shall recover an award in any such arbitration proceeding, such costs, expenses and attorneys' fees shall be included as part of such award. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party for costs, expenses and attorneys' fees that exceeds the unsuccessful party's costs, expenses and attorneys' fees in connection with the action or proceeding. Any reimbursement of attorneys' fees to the Participant pursuant to this Section 4.06(e) shall be provided no later than the last day of the Participant's taxable year following the later of (i) the year in which such attorneys' fees were incurred and (ii) the year in which the arbitrator determined that the Participant was the successful party.

(f) Each of the terms and conditions contained in this Section 4.06 shall have separate validity, and the invalidity of any part thereof shall not affect the remaining parts.

## ARTICLE V

MISCELLANEOUS PROVISIONS

Section 5.01 Cumulative Benefits. Except as provided in Section 3.05 or as otherwise agreed to in a writing signed between the Company and the Participant, the rights and benefits provided to any Participant under this Plan are cumulative of, and are in addition to, all of the other rights and benefits provided to such Participant under any Benefit Plan or any agreement between such Participant and the Company or any of its Subsidiaries; provided, that, in no event shall a Participant (a) be entitled to participate in the Severance Pay Plan of Avery Dennison Corporation, as amended and re-stated effective March 6, 2013, and any amendments or successors to that plan or (b) to the extent he or she receives severance or any other benefits under this Plan, be eligible to receive severance or any other benefits under the Avery Dennison Corporation Executive Severance Plan, as amended and restated effective December 7, 2017, and any amendments or successors to that plan.

Section 5.02 No Mitigation. No Participant shall be required to mitigate the amount of any payment provided for in this Plan by seeking or accepting other employment following a Termination of Employment with the Company. The amount of any payment or benefit provided for in this Plan shall not be reduced by any compensation or benefit earned by a Participant as the result of employment by another employer or by retirement or other benefits, except as described in Section 3.05.

Section 5.03 Amendment, Modification or Termination.

(a) The Administrator may amend, modify, or terminate the Plan at any time in its sole and exclusive discretion; provided, however, that: (i) no such amendment, modification or termination may materially and adversely affect any rights of any Participant who has incurred a Termination of Employment on or prior to the effective date of such amendment, modification or termination; (ii) any termination of the Plan or modification that is a material diminishment of the severance benefit shall not be effective until twelve (12) months after written notice of such action has been provided to the Participants, except that any modification or amendment shall be immediately applicable to any employee designated as a Participant after the date that the Administrator adopts the modification or amendment; and (iii) the Plan shall not be terminated or materially amended during any Change of Control Period. Notwithstanding the foregoing, the Plan shall terminate when all of the obligations to Participants hereunder have been satisfied in full.

(b) Notwithstanding Section 5.03(a) or any other provision of this Plan, and to the fullest extent applicable, this Plan shall be interpreted and the terms shall be applied in accordance with Section 409A. In the event that the Administrator in its sole and exclusive discretion determines that any payments, disbursements, or benefits provided, or to be provided, under this Plan may be subject to, and not in compliance with, Section 409A, the Administrator may adopt at any time (without any obligation to do so or to indemnify any Participant for failure to do so) such limited amendments to this Plan, including amendments with retroactive effect, that it reasonably determines are necessary or appropriate to (i) exempt the compensation and benefits payable under this Plan from Section 409A and/or preserve the intended tax treatment of the compensation and benefits provided with respect to this Agreement or (ii) comply with the requirements of Section 409A; and all such amendments shall be immediately effective as to all Participants. No provision of this Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from any Participant or any other individual to the Company or any of its affiliates, employees or agents.

Section 5.04 Administration.

(a) Subject to the limitations of the Plan, the Administrator shall have full and final authority, in its sole and exclusive discretion, to administer the Plan, to construe and interpret its provisions, to decide matters arising under the Plan, and to take all other actions deemed necessary or advisable for the proper administration of this Plan. This authority and discretion includes, but is not limited to, determining whether objective (or subjective) criteria under the Plan have been satisfied, resolving any possible inconsistencies or ambiguities, determining eligibility, determining the amount of any payments or benefits, and ensuring compliance with legal and tax matters.

(b) Subject to its charter and applicable law, the Compensation Committee may, in its discretion, delegate to one or more appropriate executives of the Company any duty or authority of the Compensation Committee hereunder (including, without limitation, the authority to designate Participants and to designate a Participant's Level for purposes of the Severance Multiplier); provided that the Compensation Committee shall retain (and shall not delegate) (i) authority with respect to any Participant who is a 16(b) Officer (including, without limitation, any authority with respect to whether or not a 16(b) Officer is designated as a Participant and any 16(b) Officer's eligibility to receive a payment or benefit or the amount of the payment or benefit (such as determinations of Cause, Disability, eligibility, or Level)) and (ii) authority to terminate the Plan or materially diminish or increase the formula for determining a Change of Control Severance Payment.

Section 5.05 Consolidations, Mergers, Etc. In the event of a merger, consolidation or other transaction, nothing herein shall relieve the Company from any of the obligations set forth in the Plan; provided, however, that nothing in this Section 5.05 shall prevent an acquirer of or Successor to the Company from assuming the obligations, or any portion thereof, of the Company hereunder pursuant to the terms of the Plan provided that such acquirer or Successor provides adequate assurances of its ability to meet this obligation. In the event that an acquirer of or Successor to the Company agrees to perform the Company's obligations, or any portion thereof, hereunder, the Company shall require any person, firm or entity which becomes its Successor to expressly assume and agree to perform such obligations in writing, in the same manner and to the same extent that the Company would be required to perform hereunder if no such succession had taken place.

Section 5.06 Successors and Assigns. This Plan shall be binding upon and inure to the benefit of the Company and its Successors and assigns. This Plan and all rights of each Participant shall inure to the benefit of and be enforceable by such Participant and his or her personal or legal representatives, executors, administrators, heirs and permitted assigns. If any Participant should die while any amounts are due and payable to such Participant hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to such Participant's devisees, legatees or other designees or, if there be no such devisees, legatees or other designees, to such Participant's estate. No payments, benefits or rights arising under this Plan may be assigned or pledged by any Participant, except under the laws of descent and distribution.

Section 5.07 Notices.

(a) All notices and other communications provided for in this Plan shall be in writing and shall be delivered as follows: (i) if to the Company, at the Company's principal office address or such other address as the Company may have designated by written notice to all Participants for purposes hereof, directed to the attention of the General Counsel, and (ii) if to any Participant, at his or her residence address on the records of the Company or to such other address as he or she may have designated to the Company in writing for purposes hereof. Each such notice or other communication according to this Plan shall be deemed to have been duly delivered upon being deposited in the United States Mail via certified or registered mail, return receipt requested, postage prepaid, or by overnight delivery using a service capable of tracking and confirmation of receipt (with postage fees prepaid) such as FedEx or UPS, except that any change of notice address shall be effective only upon receipt.

(b) The Company shall deliver to each Participant, within 30 days of such Participant's designation as eligible for this Plan, a letter notifying such Participant that he or she has been designated as a Participant in the Plan and his or her Severance Multiplier and Tier, and a copy of the Plan. Within 30 days following any material amendment to the Plan or any change to the Participant's Severance Multiplier, the Company shall deliver such amendment, amended Plan, or other confirming document to each affected Participant.

(c) For purposes of this Plan, in order for the Company to terminate any Participant's employment for Cause, the Company must deliver a Termination Notice to such Participant, which notice shall be dated the date it is transmitted for delivery to such Participant, shall specify the Termination Date and shall state that the termination is for Cause and shall set forth in reasonable detail the particulars thereof. For purposes of this Plan, in order for the Company to terminate any Participant's employment for Disability, the Company must give a Termination Notice to such Participant, which notice shall be dated the date it is transmitted for delivery to such Participant, shall specify the Termination Date and shall state that the termination is for Disability and shall set forth in reasonable detail the particulars thereof. Any Termination Notice delivered by the Company that does not comply, in all material respects, with the foregoing requirements shall be invalid and ineffective for purposes of this Plan.

Section 5.08 No Employment Rights Conferred. This Plan shall not be deemed to create a right, promise, contract or guarantee of employment, continued employment, or of any particular job position, between any Participant and the Company and/or any of its affiliates or Subsidiaries.

Section 5.09 Severability. If any provision of the Plan is, becomes or is deemed to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Plan shall not be affected thereby.

Section 5.10 Governing Law. Except to the extent preempted by U.S. Federal law, this Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflict of laws rules, and applicable federal law.

**Exhibit 10.30**

AVERY DENNISON CORPORATION

AMENDED AND RESTATED EXECUTIVE SEVERANCE PLAN

Avery Dennison Corporation has issued this Avery Dennison Corporation Executive Severance Plan to provide certain designated executives of the Company and its affiliates and Subsidiaries with severance protection under covered circumstances.

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. Capitalized terms used in this Plan shall have the following meanings, except as otherwise provided or as the context of the Plan otherwise requires:

"*16(b) Officer*" shall mean any employee who is an "officer" within the meaning of Section 16(b) of the Exchange Act.

"*Administrator*" shall mean the Compensation Committee or any delegate of the Compensation Committee acting within the authority delegated to it pursuant to Section 5.3.

"*Annual Salary*" shall mean the highest annualized rate of base salary applicable to the Participant during the six month period ending on the Termination Date. For the avoidance of doubt, "base salary" shall include amounts earned in the applicable period the payment of which is deferred to a future year but shall not include amounts earned in prior periods the payment of which is deferred to the applicable period, and "base salary" also shall not include any bonus, commission, incentive or retention payments, stock options, restricted stock, restricted stock units, performance units, market-leveraged stock units or other stock related rights, or other forms of employee benefits such as vacation, insurance, health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, and post-employment or retirement benefits (including but not limited to compensation, pension, health, medical or life insurance).

"*Board*" shall mean the Board of Directors of the Company.

"*Cause*" shall mean: (1) Participant's commission of a crime or other act that could materially damage the reputation of the Company or its Subsidiaries; (2) Participant's theft, misappropriation, or embezzlement of property of the Company or its Subsidiaries; (3) Participant's falsification of records maintained by the Company or its Subsidiaries; (4) Participant's substantial failure to comply with the written policies and procedures of the Company or its Subsidiaries as they may be published or revised from time to time; (5) Participant's misconduct; or (6) Participant's substantial failure to perform the material duties of Participant's job with the Company or its Subsidiaries, which failure is not cured within 30 days after written notice from the Company specifying the act or acts of non-performance. Determination of Cause shall be made by the Administrator, in its sole and exclusive discretion.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended in the past and the future. Reference in this Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

"*Company*" shall mean Avery Dennison Corporation and its Successors and assigns.

"*Comparable Position*" shall mean a job position with the Company or any of its Subsidiaries, or any of their respective Successors and assigns, the principal work location of which is within at least 50 miles of the Participant's residence (or if further away does not require a materially longer commute than Participant's commute at Participant's job position as of the Termination Date) and provides pay and benefits that as a whole are substantially equivalent to, or better than, the Participant's aggregate pay and benefits with the Company at the time of the Termination of Employment when taking into account the Participant's base salary, target bonus opportunity, incentive pay and equity opportunities, health and welfare benefits, severance protection, and other benefits.

"*Compensation Committee*" shall mean the Compensation and Executive Personnel Committee of the Board.

“*Disability*” shall mean, when used with reference to any Participant, long term disability as defined by the applicable long term disability plan maintained by the Company or one of its Subsidiaries under which the Participant is covered.

“*Effective Date*” shall mean the date that the Compensation Committee adopts this Plan.

“*ERISA*” shall mean the Employee Retirement Income Security Act of 1974, as may be amended from time to time.

“*Participant(s)*” shall mean an employee (or employees) of the Company or any of its Subsidiaries or affiliates who are from time to time designated as Participants in accordance with Section 2.1 of the Plan.

“*Plan*” shall mean this Avery Dennison Corporation Executive Severance Plan, as may be amended, supplemented or modified from time to time in accordance with its terms.

“*Section 409A*” shall mean Section 409A of the Code and the Department of Treasury Regulations and other interpretive guidance issued thereunder, including, without limitation, any such regulations or other guidance that may be issued after the Effective Date.

“*Severance Multiplier*” shall mean the multiplier designated pursuant to Section 2.1 to be applied to a Participant’s Severance Payment under Section 3.2.

“*Severance Payment*” shall mean the amount described in Section 3.2 of the Plan.

“*Specified Employee*” shall mean any Participant who, as of such Participant’s Termination Date, is determined to be a “key employee” of the Company if, at such time, the Company has any stock that is publicly traded on an established securities market or otherwise. For purposes of this definition, a Participant is a “key employee” if the Participant meets the requirements of Sections 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the 12-month period ending on the last day of the applicable calendar year (referred to as the “identification date” below). If a Participant is a “key employee” as of the identification date, such Participant shall be treated as a “key employee” for the entire 12-month period beginning on the first day of the fourth month following the identification date. For purposes of this definition, a Participant’s compensation for the 12-month period ending on an identification date shall mean such Participant’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(d)(4), from the Company for such period.

“*Subsidiary*” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, as well as partnerships and limited liability companies, in which the Company holds a 33% or more interest.

“*Successor*” shall mean a successor to all or substantially all of the business, operations or assets of the Company or such other portion of the Company’s business as shall be determined by the Administrator.

“*Termination Date*” shall mean, with respect to any Participant, the actual date of the Participant’s Termination of Employment.

“*Termination of Employment*” shall mean the time when the employee-employer relationship between the Participant and the Company or any Subsidiary is terminated for any reason, with or without Cause, including, but not limited to a termination by resignation, discharge, death, Disability or retirement; provided that such “*Termination of Employment*” constitutes a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h).

“*Termination Notice*” shall mean written notice from the Company to any Participant stating that the Participant’s employment has been or is being terminated for Cause or Disability in accordance with Section 5.5(b).

ARTICLE II

ELIGIBILITY

Section 2.1 Eligible Employees. Only employees of the Company or any of its Subsidiaries or affiliates who are designated as Participants according to this Section 2.1 shall be eligible for payments and benefits under this Plan.

(a) The Participants shall be Level 1 through Level 4 executives of the Company and any other individual specifically designated as a Participant by the Administrator. The designation of an individual as a Participant (or removal of such designation) shall be made by the Administrator in its discretion. The Administrator also shall designate the Participant's Level for purposes of the Severance Multiplier, which designated Level may be changed by the Administrator in its discretion.

(b) A designation of "Level 1" shall mean the Participant's Severance Multiplier is two (2x). A designation of "Level 2", "Level 3" or "Level 4" shall mean the Participant has a Severance Multiplier of one (1x).

Section 2.2 Individuals Not Eligible. Notwithstanding Section 2.1, no Participant shall be eligible to receive any payments or benefits under this Plan if at the time of Termination of Employment the Participant is eligible for and receives severance payments and benefits under the Avery Dennison Key Executive Change of Control Severance Plan or under any other agreement or plan that contains a change of control provision for severance pay and benefits. An individual shall not be eligible to be a Participant in the Plan, and shall not be designated as such, if the individual is otherwise designated by the Company as a temporary employee, as an individual working for the Company or any of its affiliates or Subsidiaries on referral from a temporary personnel agency or employee leasing agency, or as an independent contractor or person working for an independent contractor.

ARTICLE III

SEVERANCE AND RELATED TERMINATION BENEFITS

Section 3.1 Conditions to Receipt of Severance Pay and Benefits.

(a) Subject to Section 3.1(b), a Participant will only be eligible for payments and benefits under this Plan in the event of an involuntary Termination of Employment initiated by the Company or by any of its affiliates or Subsidiaries, except that a Participant shall not be eligible for severance pay and benefits under any of the following circumstances: (i) a Termination of Employment for Cause, or due to Disability, death, or the Participant's voluntary resignation; (ii) an employment termination where there is a simultaneous reemployment or continuing employment of the Participant by the Company or any Subsidiary or affiliate of the Company in any position; (iii) an employment termination resulting from the Participant declining an offer of simultaneous reemployment or continuing employment in a Comparable Position with the Company or with any Subsidiary or affiliate of the Company; and (iv) an employment termination where a Successor or assign of the Company, or of that portion of the Company that is transferred, sold or outsourced to the Successor or assign, offers to the Participant a Comparable Position.

(b) In the event of any Termination of Employment for which a Participant is eligible for payments or benefits under this Plan, the Participant's right to such payments and benefits will be subject to the timely execution of a Separation and Release Agreement on or prior to the Release Expiration Date (as defined below) and the absence of any revocation of the Separation and Release Agreement during any applicable revocation period (and the lapse of any such revocation period). The Company shall provide the Participant with a Separation and Release Agreement within seven days following the Participant's Termination Date. The Separation and Release Agreement shall be in a form and with content determined solely and exclusively by the Administrator and containing generally the following provisions, unless prohibited by law: No-Hire, Non-Competition, Confidentiality, Non-Disclosure, Claw-Back, Cooperation, Return of Company Property, and Comprehensive Waiver, Release and Covenant Not-To-Sue. For purposes of this Section 3.1(b), "*Release Expiration Date*" shall mean the date that is 21 days following the date upon which the Company timely delivers the Release to the Participant, or, in the event that the Participant's Termination of Employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967), the date that is 45 days following such delivery date.

Section 3.2 Severance Benefits. For any Participant who satisfies the conditions of Section 3.1, the Participant shall receive the following:

(a) On the 60th day after the Participant's Termination Date, a severance payment in a lump sum cash payment equal to the sum of the amounts described in Section 3.2(a)(i), (ii), and (iii), multiplied by the Participant's Severance Multiplier (the "*Severance Payment*"):

(i) The Participant's Annual Salary.

(ii) The highest of the payments received by the Participant under the Company's Annual Incentive Plan (or any successor plan) for the last three (3) annual periods completed prior to the Termination Date (the "*Annual Bonus*"). For the avoidance of doubt, the Annual Bonus shall not include any long term incentive compensation, commissions, stock based compensation, or any other incentive or retention compensation, bonuses, or awards of any kind other than payment under the Company's Annual Incentive Plan (or any successor plan); and

(iii) The cash value of twelve months of employee and employer premiums (as previously established by the Company in its sole and exclusive discretion) for qualified medical and dental plans in which the Participant participates, as of the Termination Date, but excluding any supplemental health and welfare benefits.

(b) Outplacement services appropriate for a senior executive of the Company in an amount and nature determined by the Administrator in its sole and exclusive discretion. Such outplacement benefits must be fully used by the Participant within one (1) year of his or her Termination Date. The Company will pay the outplacement firm directly. For purposes of Section 409A, to the extent that payment pursuant to this Section 3.2(b) constitutes a reimbursement that is "deferred compensation" under Section 409A, such payment shall be provided no later than December 31 of the year following the year in which the expense was incurred.

(c) No payments under this Article III shall be paid to a Participant prior to or during the 6-month period following the Participant's Termination Date if the Company determines in its sole discretion that paying such amounts at the time or times indicated in this Article III would be a prohibited payment of deferred compensation to a Specified Employee under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amounts is not made as a result of the previous sentence, then within 15 business days following the end of such 6-month period (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Participant's death), the Company shall pay the Participant a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Participant during such period, and any remaining amounts due to such Participant shall be paid as otherwise provided in the Plan. For any payment that is delayed under this Article III, the Company shall also pay to the Participant interest on the delayed payment at a rate equal to the rate provided under Section 1274(b)(2)(B) of the Code as of the Termination Date.

(d) The Company shall be entitled to deduct any required tax withholding from any Severance Payments. There shall be no deferrals, contributions or additional accruals to any qualified savings or retirement plan of the Company or to any deferred compensation plan of the Company, from, or based on, any Severance Payment.

Section 3.3 Limitation of Benefits. Notwithstanding anything to the contrary in this Plan, a Participant's Severance Payment shall be reduced by the aggregate amount of any termination, redundancy, severance or similar separation payments or benefits (other than state unemployment benefits) which such Participant is eligible for and receives, due to the Participant's Termination of Employment, under any other agreement or plan (including, without limitation, any severance plans of the Company or any Subsidiary or affiliate or any government-mandated plans) or pursuant to any statutory, legislative, or regulatory requirement. For the avoidance of doubt, this limitation and reduction does not include benefits under plans such as retirement pension and savings plans, supplemental retirement plans, deferred compensation plans, and similar compensation or benefit plans.

Section 3.4 Plan Unfunded; Participant's Rights Unsecured. The Company shall not be required to establish any special or separate fund or make any other segregation of funds or assets to assure the payment of any Severance Payment or benefit under this Plan. The right of any Participant to receive a Severance Payment and benefits provided for under this Plan shall be an unsecured claim against the general assets of the Company. No payment or benefit under this Plan shall be deemed earned, vested or accrued compensation or benefits, except according to the express terms of this Plan.

## ARTICLE IV

## CLAIMS PROCEDURE/ARBITRATION

Section 4.1 Filing and Determination of Claim. A Participant who believes he or she is entitled to receive a benefit under this Plan and desires written confirmation must file a claim in writing with the Administrator. The Administrator shall, within 90 days after receipt of the claim, either allow or deny the claim in writing.

Section 4.2 Denial of Claim. Any initial denial of a claim for benefits shall be from the Administrator in a writing, setting forth, in a manner calculated to be understood by the claimant, the following:

(a) the specific reason(s) for the denial;

(b) specific reference(s) to pertinent provision(s) of the Plan on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the Plan's review procedure and time limits applicable to such procedure, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination.

Section 4.3 Request for Review of Denial. Within 60 days after a claimant's receipt of written notification of denial of a claim, the claimant (or his/her duly authorized representative) upon written application to the Administrator, delivered in person or by certified mail, postage prepaid, may request a review of such denial. The application shall state the name and address of the claimant; the fact that the claimant is disputing the denial of claim; the date of the notice of denial; and the reason(s), in clear and concise terms, for disputing the denial. In addition, to the extent required by law, claimant shall have the right to (a) be provided with, upon request and free of charge, reasonable access to and copies of all pertinent documents, records and other information relevant to his/her claim and (b) submit in writing to the Administrator any comments, documents, records or other information relating to his/her claim.

Section 4.4 Review of Denial. The Administrator shall make a decision on review of a denied claim within 60 days after receipt of the request for review, taking into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision on review shall be deemed final. The Administrator's decision on review shall be from the Company's Vice President, Total Rewards in a writing, setting forth, in a manner calculated to be understood by the claimant the following:

(a) the specific reason(s) for the final decision;

(b) specific reference(s) to the pertinent provisions of the Plan on which the final decision is based;

(c) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to his/her claim; and

(d) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to bring an action under Section 502(a) of ERISA.

Section 4.5 Extensions of Review Periods. The 90-day period described in Section 4.1 and the 60-day period described in Section 4.4 may be extended at the sole and absolute discretion of the Administrator for a second 90-day or 60-day period, as the case may be, provided that written notice of the extension is furnished to the claimant prior to the termination of the initial period, indicating the special circumstances requiring such extension and the date by which a final decision is expected. Any person submitting a claim may, with the consent of the Administrator, withdraw the claim at any time, or defer the date as of which such claim shall be deemed filed for purposes of this procedure.

Section 4.6 Arbitration.

(a) Before pursuing a legal remedy, a claimant shall first exhaust the claims procedures set forth in Sections 4.1 through 4.5 of this Plan. Any disputes, controversies or claims that arise between any Participant (or any person claiming on behalf of any Participant) and the Company or any of its Subsidiaries and affiliates (including the Administrator) relating to or arising out of this Plan, which are not resolved in accordance with the procedures set forth in Sections 4.1 through 4.5 of the Plan, shall be settled by arbitration in accordance with the JAMS Employment Arbitration Rules & Procedures or any successor thereto (the "*JAMS Rules*"). The arbitration shall be before a single arbitrator selected in accordance with the JAMS Rules or otherwise by mutual agreement of the parties. The arbitration shall take place in Los Angeles County, California, unless the parties agree to hold the arbitration in another location. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of Delaware, except to the extent preempted by U.S. Federal law (in which case such law will apply).

(b) In consideration of the benefits provided herein, the anticipated expedition and the minimizing of expense of this arbitration remedy, and other good and valuable consideration, the arbitration provisions of this Plan shall provide the exclusive remedy for disputes following exhaustion of the claims procedures set forth in Sections 4.1 through 4.5 of this Plan, and each party expressly waives any right such party may have to seek redress in any other forum. To the maximum extent permitted by law, the arbitrator's review of a claimant's denied claim shall be limited to a determination of whether the denial was an abuse of discretion based on the evidence and theories the claimant presented during the claims procedure. The arbitration and any decision and award or order of the arbitrator shall be final and binding upon the parties and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(c) The Company and any Participant may bring an action in any court of competent jurisdiction to compel arbitration under this Plan and to enforce an arbitration award. Except as otherwise provided in this Plan, both the Company and the Participant agree that neither of them shall initiate or prosecute any lawsuit or administrative action in any way related to any claim covered by this Plan.

(d) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section 4.6, must be presented in writing by the claiming party to the other party within one (1) year after the receipt of the Administrator's decision under Section 4.4. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time period specified shall be waived and forever barred, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(e) The Company shall advance the costs and expenses of the arbitrator. In any arbitration to enforce any of the provisions or rights under this Plan, the unsuccessful party in such arbitration, as determined by the arbitrator, shall pay to the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees related to any appeals), and if such successful party or parties shall recover an award in any such arbitration proceeding, such costs, expenses and attorneys' fees shall be included as part of such award. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party for costs, expenses and attorneys' fees that exceeds the unsuccessful party's costs, expenses and attorneys' fees in connection with the action or proceeding. Any reimbursement of attorneys' fees to the Participant pursuant to this Section 4.6(e) shall be provided no later than the last day of the Participant's taxable year following the later of (i) the year in which such attorneys' fees were incurred and (ii) the year in which the arbitrator determined that the Participant was the successful party.

(f) Each of the terms and conditions contained in this Section 4.6 shall have separate validity, and the invalidity of any part thereof shall not affect the remaining parts.

## ARTICLE V

## MISCELLANEOUS PROVISIONS

Section 5.1 Cumulative Benefits. Except as provided in Section 3.3 or as otherwise agreed to in a writing signed between the Company and the Participant, the rights and benefits provided to any Participant under this Plan are cumulative of, and are in addition to, all of the other rights and benefits provided to such Participant under any Benefit Plan or any agreement between such Participant and the Company or any of its Subsidiaries; provided, that, in no event shall a Participant (a) be entitled to participate in the Severance Pay Plan of Avery Dennison Corporation, as amended and re-stated effective March 6, 2013, and any amendments or successors to that plan or (b) to the extent he or she receives severance or any other benefits under this Plan, be eligible to receive severance or any other benefits under the Avery Dennison Corporation Key Executive Change of Control Severance Plan, as amended and restated effective December 7, 2017, and any amendments or successors to that plan.

Section 5.2 No Mitigation. No Participant shall be required to mitigate the amount of any payment provided for in this Plan by seeking or accepting other employment following a Termination of Employment with the Company. The amount of any payment or benefit provided for in this Plan shall not be reduced by any compensation or benefit earned by a Participant as the result of employment by another employer or by retirement or other benefits, except as described in Section 3.3.

Section 5.3 Amendment, Modification or Termination.

(a) The Administrator may amend, modify, or terminate the Plan at any time in its sole and exclusive discretion; provided, however, that: (i) no such amendment, modification or termination may materially and adversely affect any rights of any Participant who has incurred a Termination of Employment on or prior to the effective date of such amendment, modification, or termination; and (ii) any termination of the Plan or modification that is a material diminishment of the severance benefit shall not be effective until twelve (12) months after written notice of such action has been provided to the Participants, except that any modification or amendment shall be immediately applicable to any employee designated as a Participant after the date that the Administrator adopts the modification or amendment.

(b) Notwithstanding Section 5.3(a) or any other provision of this Plan, and to the fullest extent applicable, this Plan shall be interpreted and the terms shall be applied in accordance with Section 409A. In the event that the Administrator, in its sole and exclusive discretion, determines that any payments, disbursements, or benefits provided, or to be provided, under this Plan may be subject to, and not in compliance with, Section 409A, the Administrator may adopt at any time (without any obligation to do so or to indemnify any Participant for failure to do so) such limited amendments to this Plan, including amendments with retroactive effect, that it reasonably determines are necessary or appropriate to (i) exempt the compensation and benefits payable under this Plan from Section 409A and/or preserve the intended tax treatment of the compensation and benefits provided with respect to this Agreement or (ii) comply with the requirements of Section 409A; and all such amendments shall be immediately effective as to all Participants. No provision of this Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from any Participant or any other individual to the Company or any of its affiliates, employees or agents.

Section 5.4 Administration.

(a) Subject to the limitations of the Plan, the Administrator shall have full and final authority, in its sole and exclusive discretion, to administer the Plan, to construe and interpret its provisions, to decide matters arising under the Plan, and to take all other actions deemed necessary or advisable for the proper administration of this Plan. This authority and discretion includes, but is not limited to, determining whether objective (or subjective) criteria under the Plan have been satisfied, resolving any possible inconsistencies or ambiguities, determining eligibility, determining the amount of any payments or benefits, and ensuring compliance with legal and tax matters.

(b) Subject to its charter and applicable law, the Compensation Committee may, in its discretion, delegate to one or more appropriate executives of the Company any duty or authority of the Compensation Committee hereunder (including, without limitation, the authority to designate Participants and to designate a Participant's Level for purposes of the Severance Multiplier); provided that the Compensation Committee shall retain (and shall not delegate) (i) authority with respect to any Participant who is a 16(b) Officer (including, without limitation, any authority with respect to whether or not a 16(b) Officer is designated as a Participant and any 16(b) Officer's eligibility to receive a payment or benefit or the amount of the payment or benefit (such as determinations of Cause, Disability, eligibility, or Level)) and (ii) authority to terminate the Plan or materially diminish or increase the formula for determining a Severance Payment.

Section 5.5 Successors and Assigns. This Plan shall be binding upon and inure to the benefit of the Company and its Successors and assigns. This Plan and all rights of each Participant shall inure to the benefit of and be enforceable by such Participant and his or her personal or legal representatives, executors, administrators, heirs and permitted assigns. If any Participant should die while any amounts are due and payable to such Participant hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to such Participant's devisees, legatees or other designees or, if there be no such devisees, legatees or other designees, to such Participant's estate. No payments, benefits or rights arising under this Plan may be assigned or pledged by any Participant, except under the laws of descent and distribution.

Section 5.6 Notices.

(a) All notices and other communications provided for in this Plan shall be in writing and shall be delivered as follows: (i) if to the Company, at the Company's principal office address or such other address as the Company may have designated by written notice to all Participants for purposes hereof, directed to the attention of the General Counsel, and (ii) if to any Participant, at his or her residence address on the records of the Company or to such other address as he or she may have designated to the Company in writing for purposes hereof. Each such notice or other communication according to this Plan shall be deemed to have been duly delivered upon being deposited in the United States Mail via certified or registered mail, return receipt requested, postage prepaid, or by overnight delivery using a service capable of tracking and confirmation of receipt (with postage fees prepaid) such as FedEx or UPS, except that any change of notice address shall be effective only upon receipt.

(b) The Company shall deliver to each Participant, within 30 days of such Participant's designation as eligible for this Plan, a letter notifying such Participant that he or she has been designated as a Participant in the Plan and his or her Severance Multiplier, as well as a copy of this Plan. Within 30 days following any material amendment to the Plan or any change to the Participant's multiplier, the Company shall deliver such amendment, amended Plan, or other confirming document to each affected Participant.

(c) For purposes of this Plan, in order for the Company to terminate any Participant's employment for Cause, the Company must deliver a Termination Notice to such Participant, which notice shall be dated the date it is transmitted for delivery to such Participant, shall specify the Termination Date and shall state that the termination is for Cause and shall set forth in reasonable detail the particulars thereof. For purposes of this Plan, in order for the Company to terminate any Participant's employment for Disability, the Company must give a Termination Notice to such Participant, which notice shall be dated the date it is transmitted for delivery to such Participant, shall specify the Termination Date and shall state that the termination is for Disability and shall set forth in reasonable detail the particulars thereof. Any Termination Notice delivered by the Company that does not comply, in all material respects, with the foregoing requirements shall be invalid and ineffective for purposes of this Plan.

Section 5.7 No Employment Rights Conferred. This Plan shall not be deemed to create a right, promise, contract or guarantee of employment, continued employment, or of any particular job position, between any Participant and the Company and/or any of its affiliates or Subsidiaries.

Section 5.8 Severability. If any provision of the Plan is, becomes or is deemed to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Plan shall not be affected thereby.

Section 5.9 Governing Law. Except to the extent preempted by U.S. Federal law, this Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflict of laws rules, and applicable federal law.

# CONFIDENTIAL SEPARATION AND RELEASE AGREEMENT

This Confidential Separation and Release Agreement ("Agreement") is between ____________________ ("You" or "Your") and Avery Dennison Corporation, including its successors, assigns, predecessors, parents, subsidiaries, and affiliates ("Company" or "Avery Dennison"). You and Avery Dennison agree as follows:

1. Termination Date. Your employment will continue until Your termination date which shall be __________, unless Avery Dennison agrees to extend Your termination date in its sole discretion ("Termination Date").

2. Severance Benefits. Subject to Your execution and non-revocation of this Agreement (in accordance with Section 16 hereof), Avery Dennison will provide to You the following benefits after Your Termination Date:

   A. Subject to the terms of and in accord with the Avery Dennison Corporation Executive Severance Plan ("Executive Severance Plan"), You will receive a gross lump sum severance payment in the amount of ____________ and ____ Dollars ($______________.__), which is the sum total of (i) your annual base salary as of Your Termination Date ($______________), (ii) the cash value of twelve (12) months of premiums for qualified medical and dental plans in which You participate as of Your Termination Date ($________________), and (iii) the highest of the last three (3) AIP awards received by You ($____________; AIP received in _______). This severance payment will be paid to You according to the terms of the Executive Severance Plan. All required taxes and withholdings will be deducted from this amount.

   B. Outplacement services will be provided to You by an agency selected by Avery Dennison. Avery Dennison's selection of the agency, as well as the type of the benefits provided to You, will be determined in Avery Dennison's sole discretion and commensurate with Your executive level within Avery Dennison. You must complete using these outplacement services within one (1) year of Your Termination Date.

3. Post-Termination Benefits and Obligations.

   A. After Your Termination Date, You are eligible to elect COBRA continuation coverage for the group medical, group dental and/or comprehensive vision coverage that You had elected, if any, while employed with Avery Dennison. You will be responsible for all required payments for such coverage. You must at all times meet COBRA eligibility requirements.

   B. After Your Termination Date, Your deferred compensation account balance, if any, will be paid to You according to the terms of the plan.

   C. You will be eligible to exercise any vested stock options on or before the earlier of (i) each option's expiration date, or (ii) six (6) months after Your Termination Date, unless otherwise specified according to the terms of the applicable equity plans and agreements. Stock options, Restricted Stock Units, Performance Units and Market-Leveraged Stock Units that are not vested as of Your Termination Date shall be cancelled. No term of any previously granted stock option shall be extended.

   D. Outstanding expenses that have been properly incurred and submitted to Avery Dennison within thirty (30) days after Your Termination Date and according to Company policies will be reimbursed to the appropriate authorized account.

   E. All perquisites, including any executive benefit allowance(s), will cease as of Your Termination Date.

F. After Your Termination Date, and as reasonably requested by Avery Dennison, You agree to assist Avery Dennison and its attorneys in any formal or informal legal matters in which You are named as a party and/or relating to which you have relevant knowledge or documents, including any matters in which You are currently involved or that arose while You were an employee of Avery Dennison. You acknowledge and agree that such assistance may include, but will not be limited to, providing truthful information at all times; providing background information regarding any matter on which You previously worked; aiding in the drafting of declarations, affidavits or similar documents and executing the foregoing; testifying or otherwise appearing at investigation interviews, depositions, arbitrations or court hearings and preparation for the above-described or similar activities; assistance with reviewing and drafting patent applications concerning inventions for which you were an inventor, including executing any documents necessary for Avery Dennison to file for or obtain any patents for such inventions.

If You receive notice or legal process that requires You to provide testimony or information in any context about Avery Dennison to any third party, You agree to inform Avery Dennison's General Counsel via e-mail message or fax transmission within seventy-two (72) hours of receiving such notice. You agree to cooperate with Avery Dennison and its attorneys in responding to such legal process. Should it be necessary for You to involve Your personal attorney for representation on such matters, Avery Dennison will reimburse You for these legal fees at actual and reasonable hourly rates, and reasonable travel expenses associated with such assistance that are approved by Avery Dennison in advance will be reimbursed. Travel will be arranged and approved according to Avery Dennison's employee travel policy which is in effect at the time of the required travel (for an employee in a status of Your former position with Avery Dennison). Fees and expenses incurred shall be submitted by You, with required supporting documentation, within thirty (30) days after they are incurred, and Avery Dennison will reimburse You according to its reimbursement program and process within sixty (60) days of receiving the reimbursement request from You.

4. Waiver and Release. You agree, for Yourself and Your spouse and child or children (if any), heirs, beneficiaries, devisees, executors, administrators, attorneys, personal or legal representatives, successors and assigns, hereby forever to release, discharge, and covenant not to sue Avery Dennison, Avery Dennison's past, present, or future parent, affiliated, related, and/or subsidiary entities, and all of their past and present directors, owners, shareholders, officers, general or limited partners, employees, agents, and attorneys, and agents and representatives of such entities, and employee benefit plans in which You are or have been a participant by virtue of Your employment with Avery Dennison, from any and all claims, debts, demands, accounts, judgments, rights, causes of action, equitable relief, damages, costs, charges, complaints, obligations, promises, agreements, controversies, suits, expenses, compensation, responsibility and liability of every kind and character whatsoever (including attorneys' fees and costs), whether in law or equity, known or unknown, asserted or unasserted, suspected or unsuspected, which You have or may have had based on any events or circumstances arising or occurring on or prior to the Effective Date of this Agreement, and arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever:

A. Your employment and separation from Avery Dennison;

B. Your status at any time as a holder of any derivative or non-derivative securities of Avery Dennison;

C. Any and all claims arising under any federal, state, or local law relating to Your employment, including without limitation claims of wrongful discharge, discrimination, harassment, retaliation, whistleblowing, breach of express or implied contract, fraud, misrepresentation, estoppel, defamation, or liability in tort of any kind, claims of any kind that may be brought in any court or administrative agency, any claims arising under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991,42 U.S.C. Section 1981, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act, the Family and Medical Leave Act, the Immigration Reform and Control Act, the Occupational Safety and Health Act, the Genetic Information Nondisclosure Act, the Sarbanes-Oxley Act, the Securities Act of 1933, the Securities Exchange Act of 1934, and any state or local statutes, ordinances, and regulations; and

D. Any and all claims, allegations, assertions or defenses that the restrictions contained within Sections 6 or 8 of this Agreement are overly broad, unreasonable, unenforceable, or supported by insufficient consideration.

You also agree not to file any lawsuit or other action asserting any claim, cause of action, or liability that is waived and released as described above in this Section 4. Excluded from this Section 4 are claims and causes of action (i) that by law cannot be waived in this Agreement, including, but not limited to, workers' compensation claims; (ii) for employee benefits that have already vested according to the terms of Avery Dennison's benefit plans; (iii) for any obligation assumed under this Agreement by any party hereto; and (iv) Your rights to indemnity, if any, including under law or any Company policy, practice, insurance policy or otherwise.

**[[ADD FOR CALIFORNIA]:** You expressly waive and relinquish all rights and benefits afforded by Section 1542 of the Civil Code of California, and You do so understanding and acknowledging the significance and consequences of such specific waiver of Section 1542. Section 1542 of the Civil Code of California states as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his/her favor at the time of executing the release, which if known by him/her must have materially affected his/her settlement with the debtor."

Thus, notwithstanding Section 1542, You expressly acknowledge and agree that this Agreement is intended to include in its effect all claims which may exist, whether or not You know of such claims, at the time of the execution hereof.**]**

5. Confidentiality of Agreement. You agree not to disclose, or discuss with, any person (other than Your spouse, attorney and tax or other financial advisor) any of the terms and conditions of this Agreement, except as may be required (a) by law or regulation, (b) to effectuate the terms of this Agreement, (c) to notify a potential employer of Your confidentiality, non-competition, and non-solicitation obligations, or (d) to comply with a request or order of a government agency or court during an investigation or other legal proceeding. Except as permitted in this Section 5, disclosure of any term of this Agreement is a material breach.

6. Avery Dennison's Confidential Information. You agree not to directly, indirectly, or inevitably appropriate, disclose, or use any Confidential Information for Your own use or for the use of others, except as permitted expressly in writing by an officer of Avery Dennison. "Confidential Information" means any Avery Dennison information or material, regardless of the form in which it was made available to You, that is not generally known by the public, including but not limited to, information or material relating to: trade secrets, products, manufacturing, engineering, processes, research, development, tests, specifications, methods, strategies, mergers, acquisitions, divestitures, joint ventures, capabilities, know-how, vendors, suppliers, finances, accounting, audits, computer and electronic systems, software and hardware, customers, marketing, sales, services, prices, costs, employees, liabilities, third party information shared with Avery Dennison under an agreement requiring confidentiality, and any other technical, financial or business information existing or developed at any time by Avery Dennison or by You during Your employment at Avery Dennison's request or otherwise with the scope of Your employment with Avery Dennison.

You understand and agree that such information which was disclosed to You or to which You obtained access during Your employment, whether created or originated by You or others, and which You have a reasonable basis to believe is Confidential Information or is treated by Avery Dennison as Confidential Information, is Confidential Information regardless of whether the information is marked as "confidential" or with any similar legend. You further understand and agree that Confidential Information is special and unique, is the result of great effort and expense, and provides a competitive advantage to Avery Dennison.

Notwithstanding anything to the contrary in this Agreement, You will be immune from liability if You disclose a trade secret as permitted by and in compliance with 18 USC § 1833(b).

7. Return of Company Property. You represent that, except as required to perform Your job duties or as authorized in writing by Your manager or supervisor, You have not (a) removed Confidential Information from Avery Dennison's premises or systems in any manner, or (b) destroyed, deleted, modified, altered, removed, taken, or retained any Company property, including but not limited to equipment, devices, storage media, information (including Confidential Information), and data, whether in hard copy or electronic form, including any copies or duplicates, and You warrant and agree that You will not do any of the foregoing. You further represent that You used Confidential Information only as necessary to perform Your job and complied with any rules and procedures for protecting and maintaining Confidential Information, including any additional obligations that Avery Dennison undertook in receiving materials from any third parties.

   You agree to return to the Company all Company property, equipment, devices, storage media, documents, files, lists and other information of a business nature, whether Confidential Information or not, and whether in hard copy or electronic form, including copies and duplicates, on or before Your termination date. If the return of such property is not possible as of Your termination date, You must do so at the earliest possible time thereafter.

8. Non-Competition and Non-Solicitation Obligations. **[DO NOT USE THIS SECTION IF EMPLOYEE IS IN CALIFORNIA; USE ALTERNATIVE SECTION BELOW INSTEAD]** For a period of two years after Your termination date, You agree not to directly or indirectly engage in Competitive Employment unless expressly authorized in writing by an officer of Avery Dennison. This restriction in no way limits or diminishes Your obligations under any other provision of this Agreement. If requested by Avery Dennison, You agree to provide employment information demonstrating Your compliance with this Section. "Competitive Employment" means any non-Avery Dennison position in which You directly or indirectly provide services as an owner, partner, officer, director, employee, advisor, consultant, contractor, or agent for any person, firm, corporation, partnership, venture, self employment, or other entity that is engaged in, or that is intending or attempting to become engaged in the Business in any Restricted Area. "Business" means the research, development, manufacture, sale, service or supply of any product, process, or service substantially similar to or competitive with any product, process, or service (a) on which or with which You worked during the last two years of Your employment with Avery Dennison or (b) about which You obtained Confidential Information at any time. "Restricted Area" means the United States and each additional country or countries (and states and/or state equivalents therein) in which the Company is engaged in the Business.

   For two (2) years after Your last day of employment, unless You have the express written permission of an officer of Avery Dennison, You agree that You will not directly or indirectly: (A) call upon, solicit, divert or take away, or attempt to call upon, solicit, divert or take away, any customers, business, suppliers, or vendors of the Company upon whom You called, serviced, supported or solicited during Your employment with the Company, or with whom You became acquainted as a result of Your employment with the Company; or (B) solicit, influence or encourage (or attempt to do so) any person or business that was an employee, consultant, contractor, customer, supplier, or vendor of the Company during the period of Your employment with the Company to terminate his, her or its employment or relationship with the Company for any reason.**]**

   **[[IF EMPLOYEE IS IN CALIFORNIA, INCLUDE THE FOLLOWING IN PLACE OF THE ABOVE]:** You agree that upon the conclusion of Your employment with the Company and for a period of one year thereafter, unless You have the express written permission of an officer of Avery Dennison, You will not directly or indirectly solicit, influence or encourage (or attempt to do so) any person who was an employee, consultant, or contractor of the Company during the period of Your employment with the Company to terminate his or her employment or relationship with the Company for any reason. You further agree that upon the conclusion of Your employment with the Company and at all times thereafter, You will not use any trade secret(s) of the Company to compete with the Company, including but not limited to by using any trade secret(s) of the Company to call upon, solicit, divert or take away, or attempt to call upon, solicit, divert or take away, any customers, business, suppliers, or vendors of the Company upon whom You called, or who You serviced, supported or solicited, during Your employment with the Company, or with whom You became acquainted as a result of Your employment with the Company.**]**

9. Loss of Right to or Repayment of Severance. You will not be entitled to the severance payments set forth in Section 2.A., or if already paid, You will be required to repay such severance payments (a) if it is determined by Avery Dennison, within one year after Your Termination Date, that while employed with Avery Dennison you committed a crime, engaged in material dishonesty, fraud, misconduct, or grossly negligent conduct, or breached Your fiduciary duty or duty of loyalty to Avery Dennison; (b) if You breach or have breached Your obligations under Sections 6, 7 or 8 of this Agreement; or (c) as may otherwise be required by law.

10. Non-Admission. The offering, negotiating, undertaking, or signing of this Agreement, are not in any way an acknowledgement or admission that You, Avery Dennison, or any person acting on behalf of Avery Dennison, have (a) violated or failed to comply with any federal, state, or local constitutional provision, statute, law, regulation, rule, or ordinance; or (b) not complied with any of Avery Dennison's policies, procedures, or contracts.

11. No Interference with Rights. You understand, agree and acknowledge that nothing contained in this Agreement, including but not limited to Sections 4 (Waiver and Release), 5 (Confidentiality of Agreement), 6 (Avery Dennison's Confidential Information) and 7 (Return of Company Property), will prevent You from filing a charge or complaint with, reporting possible violations of any law or regulation, making disclosures to, and/or participating in any investigation or proceeding conducted by, the Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB"), the Securities and Exchange Commission ("SEC") or any state or federal administrative agencies charged with the enforcement of any laws. But, except for relief ordered by the SEC or where such a waiver of individual relief is prohibited, by signing this release You are waiving rights to individual relief based on any claims asserted in such a charge or complaint, or asserted by any third-party on Your behalf. This Agreement also does not limit Your right to receive an award for information provided to the SEC.

12. Successors and Assigns. The Company may assign this Agreement to any successor or assign (whether direct or indirect, by purchase, merger, consolidation, operation of law or otherwise) to all or substantially all of the business or assets of the Company. This Agreement shall inure to the benefit of the Company and permitted successors and assigns.

13. Construction of Agreement. This Agreement shall be governed by the laws of the state in which you last regularly worked for Avery Dennison or by U.S. federal law as applicable to the Agreement. If any provision of this Agreement shall, for any reason, be adjudged by any court or arbitrator of competent jurisdiction to be invalid or unenforceable, in whole or in part, such judgment shall not affect, impair or invalidate the remainder of the Agreement. This Agreement is the only and complete agreement between You and the Company on or in any way relating to the subject matter hereof, provided, however, that Your obligations of confidentiality, non-competition and non-solicitation set forth in any agreement between You and the Company shall expressly remain in full force and effect except to the extent modified by the specific inclusion of new confidentiality, non-competition and non-solicitation provisions in this Agreement. You acknowledge and agree that you are not entitled to any post-employment compensation or severance except as exclusively provided for herein. No prior or contemporaneous statements, promises or representations have been made by either party to the other and no consideration has been or is offered, promised or expected other than that already received or described in this Agreement. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against either party.

14. Dispute Resolution. All disputes arising out of or in connection with this Agreement or with any aspect of Your employment shall be finally determined by arbitration administered by the American Arbitration Association and governed by its commercial arbitration rules in effect as of the date of this Agreement. The seat and place of arbitration shall be and all hearings shall take place in ____________, and any and all awards and other decisions shall be deemed to have been made there. All hearings shall take place in ____________,. The language of the arbitration shall be English. The number of arbitrators shall be one. All orders, decisions, and awards rendered by the arbitral tribunal will be final, binding, and enforceable by any court of competent jurisdiction.

Either Party shall have the right to seek injunctive relief to preserve the *status quo* pending a final award in the arbitration and may do so before or after the constitution of the arbitral tribunal without waiving the right to arbitration. The Parties further agree that any breach of this Agreement shall constitute irreparable harm to Avery Dennison for which judicial injunctive relief shall be available in any court of competent jurisdiction without necessity for posting bond or other security, and any requirement for which is hereby waived. With regard to any action, claim or proceeding for such injunctive relief or to enforce any order, decision, or award rendered by the arbitral tribunal in a court of competent jurisdiction, including the courts of the United States, each party irrevocably consents to the jurisdiction and venue of such courts (and of the appropriate appellate courts thereof) in any such action, claim or proceeding and irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the venue of any such action, suit, or proceeding in such court or that any such action, suit, or proceeding brought in such court has been brought in an inconvenient forum. Process in any such action, suit, or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court.

The parties agree to use all possible measures to keep the existence of any dispute hereunder and any and all information concerning any arbitral proceedings and any order, decision or award strictly confidential except (i) to the extent necessary to enable a party to properly exercise or enforce its rights under this Agreement or under any order, decision, or award rendered by the arbitral tribunal, or (ii) to the extent required by applicable law or by regulations of any stock exchange or regulatory authority or pursuant to any order of court or any other competent authority or tribunal.

15. 409A Internal Revenue Code Compliance. The parties acknowledge and agree that, to the extent applicable, this Agreement shall be interpreted in accordance with, and the parties agree to use their best efforts to achieve timely compliance with, Section 409A of the Internal Revenue Code of 1986, as amended, and the Department of Treasury Regulations and other interpretive guidance issued thereunder ("Section 409A"), including, without limitation, any such regulations or other guidance that may be issued after the Effective Date of this Agreement. Notwithstanding any provision of this Agreement to the contrary, in the event that Avery Dennison determines that any compensation or benefits payable or provided under this Agreement may be subject to Section 409A, Avery Dennison may adopt (without any obligation to do so or to indemnify You for failure to do so) such limited amendments to this Agreement and appropriate policies and procedures, including amendments and policies with retroactive effect, that Avery Dennison reasonably determines are necessary or appropriate to (a) exempt the compensation and benefits payable under this Agreement from Section 409A and/or preserve the intended tax treatment of the compensation and benefits provided with respect to this Agreement or (b) comply with the requirements of Section 409A.

16. Time for Consideration. You must both sign this Agreement **[INSERT THE FOLLOWING ONLY IF THE EMPLOYEE IS AGE 40 OR OLDER:** and not revoke Your signature**]** within sixty (60) days following Your Termination Date. You can sign the Agreement any time on or prior to this Date. **[INSERT THE FOLLOWING ONLY IF THE EMPLOYEE IS AGE 40 OR OLDER:** You have seven (7) days after You sign the Agreement to revoke Your signature, if You choose to do so, provided that a revocation means that You will not receive the benefits provided under this Agreement. Your revocation must be in writing, signed by You, and received by [NAME, POSITION, ADDRESS] within seven (7) calendar days after You sign the Agreement, not including the day You signed it. This Agreement shall be effective only after this seven (7) day revocation period has expired without Your revocation ("Effective Date"). If You revoke Your signature, this Agreement shall not be effective or enforceable.] You are advised to consult with an attorney prior to signing if You desire to do so.

**You agree: (a) that You have been provided an adequate opportunity to read, understand, and consider this Agreement; (b) that You have been advised to consult with an attorney if you desire; (c) that You understand this Agreement; and (d) that You are agreeing to this Agreement knowingly and voluntarily.**

This Agreement may be signed in counterparts, each to be effective as to the other party.  Both parties to exchange signed signature pages.

**[EMPLOYEE NAME]**

Signature: ___________________________

Date: ________________________________

AVERY DENNISON CORPORATION

Signature: ____________________________

Print Name: ___________________________

Title: _________________________________

Date: _________________________________

**Exhibit 12**

**AVERY DENNISON CORPORATION AND SUBSIDIARIES**
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**
(Dollars in millions)

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Earnings: | | | | | |
| Income from continuing operations before taxes | $ 589.5 | $ 477.1 | $ 408.9 | $ 360.8 | $ 366.0 |
| Add: Fixed charges[(1)] | 90.4 | 83.8 | 83.8 | 90.7 | 89.8 |
| Amortization of capitalized interest | 4.3 | 4.3 | 4.6 | 3.9 | 3.8 |
| Less: Capitalized interest | (4.9) | (3.6) | (3.0) | (3.9) | (3.4) |
| | $ 679.3 | $ 561.6 | $ 494.3 | $ 451.5 | $ 456.2 |
| Fixed charges:[(1)] | | | | | |
| Interest expense | $ 63.0 | $ 59.9 | $ 60.5 | $ 63.3 | $ 60.8 |
| Capitalized interest | 4.9 | 3.6 | 3.0 | 3.9 | 3.4 |
| Interest portion of leases | 22.5 | 20.3 | 20.3 | 23.5 | 25.6 |
| | $ 90.4 | $ 83.8 | $ 83.8 | $ 90.7 | $ 89.8 |
| Ratio of Earnings to Fixed Charges | 7.5 | 6.7 | 5.9 | 5.0 | 5.1 |

(1) The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, "earnings" consist of income from continuing operations before taxes plus fixed charges and amortization of capitalized interest, less capitalized interest. "Fixed charges" consist of interest expense, capitalized interest and the portion of rent expense (estimated to be 35%) on operating leases deemed representative of interest.

# Businesses at a Glance

| | Segment<br>Label and Graphic Materials | Segment<br>Retail Branding and Information Solutions | Segment<br>Industrial and Healthcare Materials |
|---|---|---|---|
| **BUSINESSES** | Label and Packaging Materials<br>Graphics Solutions<br>Reflective Solutions | Retail Branding and Information Solutions<br>Printer Solutions | Performance Tapes<br>Fastener Solutions<br>Vancive Medical Technologies |
| **2017 SALES IN MILLIONS** | $4,512 | $1,511 | $591 |
| **% OF SALES** | 68% | 23% | 9% |
| **GLOBAL BRAND** | Avery Dennison®<br>Fasson® | Avery Dennison®<br>Monarch® | Avery Dennison®<br>Vancive Medical Technologies® |
| **DESCRIPTION** | The technologies and materials of our Label and Graphic Materials businesses enhance brands' shelf, store and street appeal; inform shoppers of ingredients; protect brand security; improve operational efficiency and customer product performance; and provide visual information that enhances safety. | Our Retail Branding and Information Solutions provide intelligent, creative, and sustainable solutions that elevate brands and accelerate performance through the global retail supply chain. | Our Industrial and Healthcare Materials businesses provide tapes products, including coated and adhesives transfer tapes; fasteners, primarily precision-extruded and injection-molded plastic devices; and wound care, ostomy, surgical and electromedical device applications for manufacturers, clinicians and patients. |
| **PRODUCTS/SOLUTIONS** | Pressure-sensitive labeling materials; packaging materials and solutions; roll-fed sleeve; engineered films; graphic imaging media; reflective materials | Creative services; brand embellishments; graphic tickets; tags and labels; sustainable packaging; inventory visibility and loss prevention solutions; data management services; price tickets; printers and scanners; radio-frequency identification inlays and tags; brand protection and security solutions | Pressure-sensitive tapes for automotive, building and construction; electronics; general industrial; diaper tapes and closures; fasteners; skin-contact adhesives; surgical, wound care, ostomy and securement products; medical barrier films |
| **MARKET SEGMENTS** | Food; beverage; wine and spirits; home and personal care products; pharmaceuticals; durables; fleet vehicle/automotive; architectural/ retail; promotional/advertising; traffic; safety; transportation | Apparel manufacturing and retail supply chain; food service and supply chain; hard goods and supply chain; pharmaceutical supply chain; logistics | Original equipment manufacturing; personal care; electronics; building and construction; retail supply chain; medical |
| **CUSTOMERS** | Label converters; package designers; packaging engineers and manufacturers; industrial manufacturers; printers; distributors; designers; advertising agencies; government agencies; sign manufacturers; graphics vendors | Apparel and footwear brands; manufacturers and retailers; food service, grocery and pharmaceutical supply chains; consumer goods brands; automotive manufacturers; transportation companies | Tape converters; original equipment manufacturers; original design manufacturers; construction firms; personal care product manufacturers; manufacturers and retailers; medical device manufacturers |
| **WEBSITES** | www.label.averydennison.com<br>www.graphics.averydennison.com<br>www.reflectives.averydennison.com | www.rbis.averydennison.com<br>www.rfid.averydennison.com | www.tapes.averydennison.com<br>www.vancive.averydennison.com |
| **LEADERS** | Georges Gravanis<br>President<br>Label and Graphic Materials | Deon Stander<br>Vice President and General Manager<br>Retail Branding and Information Solutions | Michael Johansen<br>Vice President and General Manager<br>Industrial and Healthcare Materials |

## Safe Harbor Statement

The matters discussed in this Annual Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, contain estimates, assumptions, projections and/or expectations regarding future events, which may or may not occur. Words such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "foresee," "guidance," "intend," "may," "might," "objective," "plan," "potential," "project," "seek," "shall," "should," "target," "will," "would," or variations thereof, and other expressions that refer to future events and trends, identify forward-looking statements. These forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause our actual results to differ materially from the expected results, performance or achievements expressed or implied by such forward-looking statements.

Certain risks and uncertainties are discussed in more detail under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017 and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; worldwide and local economic conditions; changes in political conditions; changes in governmental laws and regulations; fluctuations in foreign currency exchange rates and other risks associated with foreign operations, including in emerging markets; the financial condition and inventory strategies of customers; changes in customer preferences; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; the impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; execution and integration of acquisitions; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems, including cyber-attacks or other intrusions to network security; successful installation of new or upgraded information technology systems; data security breaches; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; changes in tax laws and regulations including the Tax Cuts and Jobs Act, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; fluctuations in pension, insurance, and employee benefit costs; the impact of legal and regulatory proceedings, including with respect to environmental, health and safety; protection and infringement of intellectual property; the impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

We believe that the most significant risk factors that could affect our financial performance in the near-term include: (1) the impacts of global economic conditions and political uncertainty on underlying demand for our products and foreign currency fluctuations; (2) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through selling price increases, without a significant loss of volume; (3) competitors' actions, including pricing, expansion in key markets, and product offerings; and (4) the execution and integration of acquisitions.

Our forward-looking statements are made only as of the date hereof. We assume no duty to update these forward-looking statements to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

## Five-Year Summary

| (Dollars in millions, except percentages and per share amounts) | 2017 Dollars | % | 2016 Dollars | % | 2015 Dollars | % | 2014 (1) Dollars | % | 2013 Dollars | % |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the Year** | | | | | | | | | | |
| Net sales | $ 6,613.8 | 100.0 | $ 6,086.5 | 100.0 | $ 5,966.9 | 100.0 | $ 6,330.3 | 100.0 | $ 6,140.0 | 100.0 |
| Gross profit | 1,812.2 | 27.4 | 1,699.7 | 27.9 | 1,645.8 | 27.6 | 1,651.2 | 26.1 | 1,637.7 | 26.7 |
| Marketing, general and administrative expense | 1,123.2 | 17.0 | 1,097.5 | 18.0 | 1,108.1 | 18.6 | 1,158.9 | 18.3 | 1,174.2 | 19.1 |
| Other expense, net (2) | 36.5 | .6 | 65.2 | 1.1 | 68.3 | 1.1 | 68.2 | 1.1 | 36.6 | .6 |
| Interest expense | 63.0 | 1.0 | 59.9 | 1.0 | 60.5 | 1.0 | 63.3 | 1.0 | 60.9 | 1.0 |
| Income from continuing operations before taxes | 589.5 | 8.9 | 477.1 | 7.8 | 408.9 | 6.9 | 360.8 | 5.7 | 366.0 | 6.0 |
| Provision for income taxes (5) | 307.7 | 4.7 | 156.4 | 2.6 | 134.5 | 2.3 | 113.5 | 1.8 | 124.3 | 2.0 |
| Income from continuing operations | 281.8 | 4.3 | 320.7 | 5.3 | 274.4 | 4.6 | 247.3 | 3.9 | 241.7 | 3.9 |
| Loss from discontinued operations, net of tax | — | N/A | — | N/A | (.1) | N/A | (2.2) | N/A | (28.5) | N/A |
| Net income | 281.8 | 4.3 | 320.7 | 5.3 | 274.3 | 4.6 | 245.1 | 3.9 | 213.2 | 3.5 |

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Per Share Information** | | | | | |
| Income per common share from continuing operations | $ 3.19 | $ 3.60 | $ 3.01 | $ 2.64 | $ 2.46 |
| Loss per common share from discontinued operations | — | — | — | (.03) | (.29) |
| Net income per common share | 3.19 | 3.60 | 3.01 | 2.61 | 2.17 |
| Income per common share from continuing operations, assuming dilution | 3.13 | 3.54 | 2.95 | 2.58 | 2.41 |
| Loss per common share from discontinued operations, assuming dilution | — | — | — | (.02) | (.28) |
| Net income per common share, assuming dilution | 3.13 | 3.54 | 2.95 | 2.56 | 2.13 |
| Dividends per common share | 1.76 | 1.60 | 1.46 | 1.34 | 1.14 |
| Weighted average number of common shares outstanding (in millions) | 88.3 | 89.1 | 91.0 | 93.8 | 98.4 |
| Weighted average number of common shares outstanding, assuming dilution (in millions) | 90.1 | 90.7 | 92.9 | 95.7 | 100.1 |
| Market price per share at fiscal year-end | $ 114.86 | $ 70.22 | $ 62.66 | $ 51.79 | $ 50.48 |
| Market price per share range | 70.14 to 117.10 | 58.16 to 78.84 | 51.07 to 66.18 | 41.28 to 52.67 | 34.92 to 50.65 |
| **At End of Year** | | | | | |
| Property, plant and equipment, net (3) | $ 1,097.9 | $ 915.2 | $ 847.9 | $ 875.3 | $ 922.5 |
| Total assets (4) | 5,136.9 | 4,396.4 | 4,133.7 | 4,356.9 | 4,608.3 |
| Long-term debt and capital leases | 1,316.3 | 713.4 | 963.6 | 940.1 | 944.6 |
| Total debt | 1,581.7 | 1,292.5 | 1,058.9 | 1,144.4 | 1,021.5 |
| Shareholders' equity (4) | 1,046.2 | 925.5 | 965.7 | 1,047.7 | 1,468.1 |
| **Other Information** | | | | | |
| Depreciation and amortization expense (3) | $ 178.7 | $ 180.1 | $ 188.3 | $ 201.6 | $ 204.3 |
| Research and development expense (3) | 93.4 | 89.7 | 91.9 | 102.5 | 96.0 |
| Effective tax rate (3)(5) | 52.2% | 32.8% | 32.9% | 31.5% | 34.0% |

(1) Results for 2014 reflected a 53-week period.

(2) Included pre-tax charges for severance and related costs, asset impairment charges, lease and other contract cancellation costs, loss from settlement of pension obligations, and other items.

(3) Amounts are for continuing operations only.

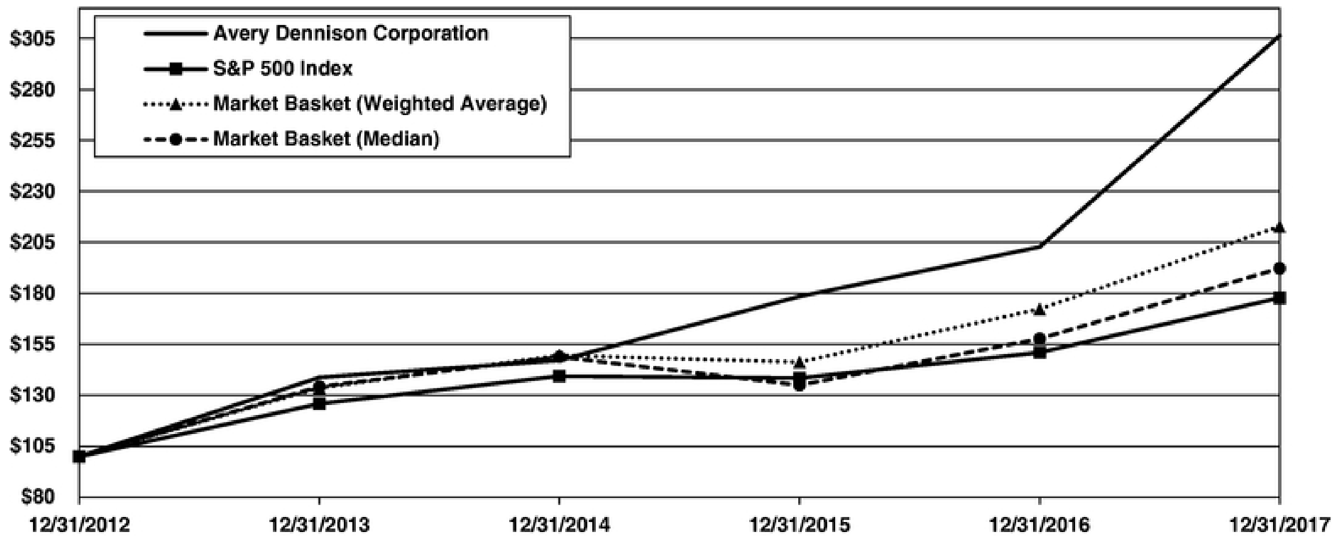
(4) Amounts are for continuing and discontinued operations.

(5) "Provision for income taxes" for fiscal year 2017 includes the estimated impact of the Tax Cuts and Jobs Act ("TCJA") enacted in the U.S. on December 22, 2017. The TCJA significantly revises U.S. corporate income taxation, among other changes, lowering corporate income tax rates, implementing a modified territorial tax regime, and imposing a one-time transition tax through a deemed repatriation of accumulated untaxed earnings and profits of foreign subsidiaries. This provision includes a reasonable estimate ("provisional amount") of the impact of the TCJA on our tax provision following the guidance of SEC Staff Accounting Bulletin No. 118 ("SAB 118").

**Stockholder Return Performance**

The graph below compares the cumulative stockholder return on our common stock, including the reinvestment of dividends, with the return on the S&P 500® Stock Index, the average return (weighted by market capitalization) of the S&P 500® Materials and Industrials subsets (the "Market Basket"), and the median return of the Market Basket, in each case for the five-year period ending December 31, 2017.

**Comparison of Five-Year Cumulative Total Return as of December 31, 2017**




**Total Return Analysis** (1)

| | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
|---|---|---|---|---|---|---|
| Avery Dennison Corporation | $ 100.00 | $ 138.87 | $ 147.24 | $ 178.63 | $ 202.93 | $ 306.70 |
| S&P 500 Index | 100.00 | 125.93 | 139.51 | 138.50 | 151.11 | 177.93 |
| Market Basket (Weighted Average) (2) | 100.00 | 133.70 | 149.72 | 146.41 | 172.49 | 213.06 |
| Market Basket (Median) | 100.00 | 134.32 | 149.00 | 135.06 | 157.84 | 192.44 |

(1) Assumes $100.00 invested on December 31, 2012 and the reinvestment of dividends.
(2) Average weighted by market capitalization.

Historical stock price performance is not necessarily indicative of future stock price performance.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## ORGANIZATION OF INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, provides management's views on our financial condition and results of operations, should be read in conjunction with the accompanying Consolidated Financial Statements and notes thereto, and includes the following sections:



## NON-GAAP FINANCIAL MEASURES

We report our financial results in conformity with accounting principles generally accepted in the United States of America, or GAAP, and also communicate with investors using certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement presentation of our financial results that are prepared in accordance with GAAP. Based on feedback from investors and financial analysts, we believe that the supplemental non-GAAP financial measures we provide are useful to their assessments of our performance and operating trends, as well as liquidity.

Our non-GAAP financial measures exclude the impact of certain events, activities or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP financial measures, may make it difficult to assess our underlying performance in a single period. By excluding the accounting effects, both positive and negative, of certain items (e.g., restructuring charges, legal settlements, certain effects of strategic transactions and related costs, losses from debt extinguishments, gains and losses from curtailment and settlement of pension obligations, gains or losses on sales of certain assets, and other items), we believe that we are providing meaningful supplemental information that facilitates an understanding of our core operating results and liquidity measures. These non-GAAP financial measures are used internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for a single period. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency, or timing.

We use the following non-GAAP financial measures in this MD&A:

- *Sales change ex. currency* refers to the increase or decrease in sales excluding the estimated impact of foreign currency translation. The estimated impact of foreign currency translation is calculated on a constant currency basis, with prior period results translated at current period average exchange rates to exclude the effect of foreign currency fluctuations.
- *Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of foreign currency translation, product line exits, acquisitions and divestitures, and, where applicable, an extra week in our fiscal year.

We believe that sales change ex. currency and organic sales change assist investors in evaluating the sales growth from the ongoing activities of our businesses and provide greater ability to evaluate our results from period to period.

- *Free cash flow* refers to cash flow from operations, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from sales (purchases) of investments, plus (minus) free cash outflow (inflow) from discontinued operations. We believe that free cash flow assists investors by showing the amount of cash we have available for debt reductions, dividends, share repurchases, and acquisitions.
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable, and excludes cash and cash equivalents, short-term borrowings, deferred taxes, other current assets and other current liabilities, as well as net current assets or liabilities held-for-sale. We believe that operational working capital assists investors in assessing our working capital requirements because it excludes the impact of fluctuations attributable to our financing and other activities (which affect cash and cash equivalents, deferred taxes, other current assets, and other current liabilities) that tend to be disparate in amount, frequency, or timing, and that may increase the volatility of working capital as a percentage of sales from period to period. The items excluded from this measure are not significantly influenced by our day-to-day activities managed at the operating level and do not necessarily reflect the underlying trends in our operations.
- *Net debt to EBITDA ratio* refers to total debt (including capital leases) less cash and cash equivalents, divided by EBITDA, which refers to net income before interest, taxes, depreciation and amortization. We believe the net debt to EBITDA ratio is meaningful because investors view it as a useful measurement of our leverage position.

## OVERVIEW AND OUTLOOK

### Fiscal Year

Normally, our fiscal years consist of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2017, 2016, and 2015 fiscal years consisted of 52-week periods ending December 30, 2017, December 31, 2016, and January 2, 2016, respectively.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Net Sales

The factors impacting the reported sales change are shown in the table below:

| | 2017 | 2016 |
|---|---|---|
| Reported sales change | 9% | 2% |
| Foreign currency translation | (1) | 3 |
| Sales change ex. currency | 8% | 5% |
| Acquisitions | (4) | (1) |
| Organic sales change | 4% | 4% |

In both years, net sales increased on an organic basis due to higher volume.

### Income from Continuing Operations

Income from continuing operations decreased from approximately $321 million in 2016 to approximately $282 million in 2017. Major factors affecting the change in income from continuing operations in 2017 compared to 2016 included:

- Higher income taxes primarily due to our provisional estimate of the impact resulting from the enactment of the Tax Cuts and Jobs Act ("TCJA")
- Higher employee-related costs
- Net impact of pricing and raw material costs
- Higher restructuring charges

Offsetting factors:

- Volume/mix
- Benefits from productivity initiatives, including savings from restructuring actions, net of transition costs
- Prior-year loss from settlement of pension obligations

### Acquisitions

During 2017, we completed the stock acquisitions of Yongle Tape Ltd. and Finesse Medical Limited, and the net asset acquisition of Hanita Coatings Rural Cooperative Association Limited and stock acquisition of certain of its subsidiaries (collectively, the "2017 Acquisitions"), which were not material, individually or in the aggregate, to the Consolidated Financial Statements. In 2016, we completed the acquisition of the European business of Mactac ("Mactac"), which was not material to the Consolidated Financial Statements. Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for more information.

### Cost Reduction Actions

*2015/2016 Actions*

During fiscal year 2017, we recorded $34.1 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 ("2015/2016 Actions"). These charges consisted of severance and related costs for the reduction of approximately 920 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2016, we recorded $20.9 million in restructuring charges, net of reversals, related to our 2015/2016 Actions. These charges consisted of severance and related costs for the reduction of approximately 440 positions, lease cancellation costs, and asset impairment charges.

*Impact of Cost Reduction Actions*

During fiscal year 2017, we realized $59.5 million in savings, net of transition costs, primarily from our 2015/2016 Actions.

We anticipate incremental savings, net of transition costs, primarily from our 2015/2016 Actions of approximately $30 million to $35 million in 2018. We estimate cash restructuring costs of at least $15 million in 2018. However, we continue to assess restructuring options and may adjust our restructuring plans.

Restructuring charges were included in "Other expense, net" in the Consolidated Statements of Income. Refer to Note 13, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

### Cash Flow

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net cash provided by operating activities | $ 650.1 | $ 585.3 | $ 473.7 |
| Purchases of property, plant and equipment | (190.5) | (176.9) | (135.8) |
| Purchases of software and other deferred charges | (35.6) | (29.7) | (15.7) |
| Proceeds from sales of property, plant and equipment | 6.0 | 8.5 | 7.6 |
| Purchases of investments, net | (8.3) | (.1) | (.5) |
| Plus: free cash outflow from discontinued operations | – | – | .1 |
| Free cash flow | $ 421.7 | $ 387.1 | $ 329.4 |

In 2017, net cash provided by operating activities increased compared to 2016 primarily due to higher income from continuing operations before taxes, as well as lower pension plan contributions, partially offset by higher income tax payments, net of refunds. Net cash provided by operating activities in 2017 reflected the impact of our adoption of the accounting guidance update related to stock-based payments described in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements. Free cash flow increased due to higher net cash flow provided by operating activities, partially offset by higher net capital and software expenditures.

In 2016, net cash provided by operating activities increased compared to 2015 primarily due to higher net income, lower severance payments, benefits from changes in operational working capital, and lower income tax payments, net of refunds, partially offset by higher incentive compensation paid in 2016 for the 2015 performance year and higher pension plan contributions. Free cash flow increased due to higher net cash flow provided by operating activities, partially offset by higher capital and software expenditures.

### Outlook

Certain factors that we believe may contribute to our 2018 results are described below:

- We expect our net sales to increase by approximately 8%.
- Assuming the continuation of foreign currency rates in effect at year-end 2017, we expect foreign currency translation to increase pre-tax operating income by approximately $20 million.
- We expect our full year effective tax rate to be in the mid-twenty percent range.
- We anticipate capital and software expenditures of approximately $250 million.
- We estimate cash restructuring costs of at least $15 million.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### ANALYSIS OF RESULTS OF OPERATIONS

#### Income from Continuing Operations before Taxes

| (In millions, except percentages) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net sales | $ 6,613.8 | $ 6,086.5 | $ 5,966.9 |
| Cost of products sold | 4,801.6 | 4,386.8 | 4,321.1 |
| Gross profit | 1,812.2 | 1,699.7 | 1,645.8 |
| Marketing, general and administrative expense | 1,123.2 | 1,097.5 | 1,108.1 |
| Other expense, net | 36.5 | 65.2 | 68.3 |
| Interest expense | 63.0 | 59.9 | 60.5 |
| Income from continuing operations before taxes | $ 589.5 | $ 477.1 | $ 408.9 |
| | | | |
| Gross profit margin | 27.4% | 27.9% | 27.6% |

#### Gross Profit Margin

Gross profit margin in 2017 decreased compared to 2016 due to margin decline in the Industrial and Healthcare Materials reportable segment driven by the impact of acquisitions, growth investments, near-term operational challenges, and a program loss in personal care tapes, which began impacting results in mid-2016.

Gross profit margin in 2016 improved compared to 2015 primarily reflecting benefits from productivity initiatives, including savings from restructuring, net of transition costs, and higher volume, partially offset by higher employee-related costs, the net impact of pricing and raw material costs, and unfavorable geographic mix.

#### Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in 2017 compared to 2016 due to acquisitions. Before the impact of acquisitions, the benefits from productivity initiatives, including savings from restructuring, net of transition costs, were partially offset by higher employee-related costs.

Marketing, general and administrative expense decreased in 2016 compared to 2015 reflecting benefits from productivity initiatives, including savings from restructuring, net of transition costs, and the favorable impact of foreign currency translation, partially offset by higher employee-related costs.

#### Other Expense, net

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Other expense, net by type** | | | |
| Restructuring charges: | | | |
| Severance and related costs | $ 31.2 | $ 14.7 | $ 52.5 |
| Asset impairment charges and lease cancellation costs | 2.2 | 5.2 | 7.0 |
| Other items: | | | |
| Transaction costs | 5.2 | 5.0 | – |
| Net gains on sales of assets | (2.1) | (1.1) | (1.7) |
| Net loss from curtailment and settlement of pension obligations | – | 41.4 | .3 |
| Legal settlements | – | – | (.3) |
| Loss on sale of a product line and related exit costs | – | – | 10.5 |
| Other expense, net | $ 36.5 | $ 65.2 | $ 68.3 |

Refer to Note 13, "Cost Reduction Actions," and Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.

#### Interest Expense

Interest expense increased approximately $3 million in 2017 compared to 2016, primarily due to additional long-term borrowings made in 2017. Refer to Note 4, "Debt and Capital Leases," to the Consolidated Financial Statements for more information.

#### Net Income and Earnings per Share

| (In millions, except percentages and per share amounts) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Income from continuing operations before taxes | $ 589.5 | $ 477.1 | $ 408.9 |
| Provision for income taxes | 307.7 | 156.4 | 134.5 |
| Income from continuing operations | 281.8 | 320.7 | 274.4 |
| Loss from discontinued operations, net of tax | – | – | (.1) |
| Net income | $ 281.8 | $ 320.7 | $ 274.3 |
| Net income per common share | $ 3.19 | $ 3.60 | $ 3.01 |
| Net income per common share, assuming dilution | 3.13 | 3.54 | 2.95 |
| | | | |
| Effective tax rate for continuing operations | 52.2% | 32.8% | 32.9% |

#### Provision for Income Taxes

The 2017 effective tax rate for continuing operations included a net tax charge of $172 million related to the enactment of the TCJA, $5.1 million of tax benefit from the release of valuation allowance on certain state deferred tax assets, $4.2 million of tax benefit, including previously accrued interest and penalties, from effective settlements and changes in our judgment about tax filing positions as a result of new information, and $4.4 million of tax benefit from decreases in certain tax reserves, including interest and penalties, as a result of closing tax years.

The 2017 effective tax rate also included a net benefit of $16 million related to our adoption of the accounting guidance update related to stock-based payments described in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements. This accounting guidance update required that the effect of excess tax benefits associated with stock-based payments be recognized in the income statement instead of in capital in excess of par value as was the case prior to our adoption of this update. Excess tax benefits are the effects of tax deductions in excess of compensation expense recognized for financial accounting purposes. These benefits related to stock-based awards generally are generated as a result of stock price appreciation during the vesting period or between the time of grant and the time of exercise. We expect future excess tax benefits to vary depending on our stock-based payments in future reporting periods. These excess tax benefits may cause variability in our future effective tax rate as they can fluctuate based on vesting and exercise activity, as well as our future stock price.

In 2017, as a result of intra-entity sales and transfers of assets other than inventory related to the recent integration of an acquisition, we recognized a total of approximately $14 million of tax-related deferred charges in "Other current assets" and "Other assets." However, we expect the tax-related deferred charges to be derecognized as an adjustment to retained earnings upon our adoption of the accounting guidance update described in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements.

The 2016 effective tax rate for continuing operations included $7.6 million of tax expense associated with the cost to repatriate current earnings of certain foreign subsidiaries and $46.3 million of tax expense related to U.S. income and foreign withholding taxes resulting from changes in indefinite reinvestment assertions on certain foreign earnings and profits; benefits from changes in certain tax reserves, including interest and penalties, of $16.8 million resulting from settlements of certain foreign audits and $5.4 million resulting from expirations of statutes of limitations; benefits of $6.7 million from the release of valuation allowances against certain deferred tax assets in a foreign jurisdiction associated with a structural simplification approved by the tax authority and $3.6 million from the release of valuation allowances on certain state deferred tax assets; and $8.4 million of tax expense from deferred tax adjustments resulting from tax rate changes in certain foreign jurisdictions.

The 2015 effective tax rate for continuing operations included tax expense of $20 million associated with the tax cost to repatriate current earnings of certain foreign subsidiaries; benefits from changes in certain tax reserves, including interest and penalties, of $5.8 million resulting from settlements of audits and $8.2 million resulting from expirations of statutes of limitations; and a tax benefit of $2.6 million from the extension of the federal research and development credit, as a result of the enactment of the Protecting Americans from Tax Hikes Act of 2015 ("PATH Act"), which included a provision making permanent the federal research and development tax credit for the tax years 2015 and beyond. The PATH Act also retroactively extended the controlled foreign corporation ("CFC") look-through rule that had expired on December 31, 2014.

Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for more information.

**RESULTS OF OPERATIONS BY REPORTABLE SEGMENT**

Operating income refers to income from continuing operations before interest and taxes.

**Label and Graphic Materials**

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net sales including intersegment sales | $ 4,575.8 | $ 4,250.7 | $ 4,093.4 |
| Less intersegment sales | (64.1) | (63.4) | (61.3) |
| Net sales | $ 4,511.7 | $ 4,187.3 | $ 4,032.1 |
| Operating income (1) | 567.3 | 516.2 | 453.4 |
| (1) Included charges associated with restructuring in all years, transaction costs in 2017 and 2016, gains on sale of assets in 2017 and 2015, and losses from curtailment and settlement of pension obligations in 2015. | $ 14.5 | $ 13.0 | $ 12.1 |

*Net Sales*

The factors impacting reported sales change are shown in the table below:

| | 2017 | 2016 |
|---|---|---|
| Reported sales change | 8% | 4% |
| Foreign currency translation | (1) | 3 |
| Sales change ex. currency | 7 | 7 |
| Acquisitions | (3) | (1) |
| Organic sales change (1) | 4% | 5% |

(1) Totals may not sum due to rounding.

In both years, net sales increased on an organic basis due to higher volume.

In 2017, net sales increased on an organic basis at mid-single digit rates in emerging markets and Western Europe and at a low-single digit rate in North America.

In 2016, net sales increased on an organic basis at a low-teen digit rate in emerging markets, at a mid-single digit rate in Western Europe, and at a low-single digit rate in North America.

*Operating Income*

Operating income increased in 2017 compared to 2016 primarily reflecting higher volume/mix and benefits from productivity initiatives, including savings from restructuring, net of transition costs, partially offset by higher employee-related costs and the net impact of pricing and raw material costs.

Operating income increased in 2016 compared to 2015 due to higher volume and benefits from productivity initiatives, including savings from restructuring, net of transition costs, partially offset by the net impact of pricing and raw material costs, unfavorable geographic mix, the unfavorable impact of foreign currency translation, and higher employee-related costs.

**Retail Branding and Information Solutions**

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net sales including intersegment sales | $ 1,514.4 | $ 1,448.3 | $ 1,446.3 |
| Less intersegment sales | (3.2) | (2.9) | (2.9) |
| Net sales | $ 1,511.2 | $ 1,445.4 | $ 1,443.4 |
| Operating income (1) | 122.9 | 102.6 | 51.6 |
| (1) Included charges associated with restructuring and transaction costs related to the sale of a product line in all years, gains on sales of assets in 2017 and 2016, and legal settlement in 2015. | $ 18.1 | $ 9.8 | $ 45.7 |

*Net Sales*

The factors impacting reported sales change are shown in the table below:

| | 2017 | 2016 |
|---|---|---|
| Reported sales change | 5% | –% |
| Foreign currency translation | – | 2 |
| Sales change ex. currency | 5 | 2 |
| Product line divestiture | – | 2 |
| Organic sales change (1) | 5% | 3% |

(1) Totals may not sum due to rounding.

In 2017, net sales increased on an organic basis due to higher volume, reflecting growth in both base apparel tickets and tags and radio-frequency identification products.

In 2016, net sales increased on an organic basis primarily due to higher volume from sales of radio-frequency identification products.

*Operating Income*

Operating income increased in 2017 compared to 2016 due to benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, and higher volume, partially offset by higher employee-related costs.

Operating income increased in 2016 compared to 2015 due to higher volume, lower restructuring charges, benefits from productivity initiatives, including savings from restructuring, net of transition costs, and the loss on sale of a product line and related transaction and exit costs in the prior year, partially offset by higher employee-related costs and the impact of strategic pricing actions.

**Industrial and Healthcare Materials**

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net sales including intersegment sales | $ 598.6 | $ 461.0 | $ 506.2 |
| Less intersegment sales | (7.7) | (7.2) | (14.8) |
| Net sales | $ 590.9 | $ 453.8 | $ 491.4 |
| Operating income (1) | 50.5 | 54.6 | 57.1 |
| (1) Included charges associated with restructuring in all years and transaction costs in 2017 and 2016. | $ 3.7 | $ 1.9 | $ 8.0 |

*Net Sales*

The factors impacting reported sales change are shown in the table below:

| | 2017 | 2016 |
|---|---|---|
| Reported sales change | 30% | (8)% |
| Foreign currency translation | – | 2 |
| Sales change ex. currency | 30 | (6) |
| Acquisitions | (28) | (2) |
| Organic sales change | 2% | (8)% |

In 2017, net sales increased on an organic basis due to higher volume, as growth in industrial categories more than offset the anticipated decline in healthcare categories.

In 2016, net sales decreased on an organic basis primarily due to lower volume in the Performance Tapes product group. Net sales decreased on an organic basis at a high-single digit rate for the Performance Tapes product group primarily due to a program loss in personal care tapes.

*Operating Income*

Operating income decreased in 2017 compared to 2016 due to the program loss in personal care tapes, which began impacting results in mid-2016, higher employee-related costs, and growth investments, partially offset by volume growth in the industrial categories and the impact of acquisitions.

Operating income decreased in 2016 compared to 2015 primarily due to lower volume, including the program loss in personal care tapes, partially offset by benefits from productivity initiatives, including savings from restructuring, net of transition costs, and lower restructuring charges.

## FINANCIAL CONDITION

### Liquidity

### Operating Activities

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $ 281.8 | $ 320.7 | $ 274.3 |
| Depreciation and amortization | 178.7 | 180.1 | 188.3 |
| Provision for doubtful accounts and sales returns | 37.6 | 54.4 | 46.5 |
| Net losses from asset impairments and sales/disposals of assets | 1.4 | 1.5 | 12.2 |
| Stock-based compensation | 30.2 | 27.2 | 26.3 |
| Loss from settlement of pension obligations | – | 41.4 | – |
| Deferred income taxes | 151.6 | 52.3 | 12.9 |
| Other non-cash expense and loss | 53.9 | 46.2 | 50.1 |
| Trade accounts receivable | (141.2) | (88.2) | (135.9) |
| Inventories | (14.9) | (19.6) | (34.4) |
| Other current assets | (6.5) | (7.6) | 3.9 |
| Accounts payable | 83.4 | 31.6 | 65.5 |
| Accrued liabilities | (.6) | 32.4 | 7.0 |
| Taxes on income | 29.6 | (14.1) | (23.7) |
| Other assets | (11.8) | (1.2) | (.3) |
| Long-term retirement benefits and other liabilities | (23.1) | (71.8) | (19.0) |
| Net cash provided by operating activities | $ 650.1 | $ 585.3 | $ 473.7 |

For cash flow purposes, changes in assets and liabilities and other adjustments exclude the impact of foreign currency translation (discussed below in "Analysis of Selected Balance Sheet Accounts").

In 2017, cash flow provided by operating activities increased compared to 2016 primarily due to higher income from continuing operations before taxes, as well as lower pension plan contributions, partially offset by higher income tax payments, net of refunds. In addition, operating activities reflected the impact of our adoption of the accounting guidance update related to stock-based payments described in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements.

In 2016, cash flow provided by operating activities increased compared to 2015 due to higher net income, lower severance payments, benefits from changes in operational working capital, and lower income tax payments, net of refunds, partially offset by higher incentive compensation paid in 2016 for the 2015 performance year and higher pension contributions.

### Investing Activities

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Purchases of property, plant and equipment | $ (190.5) | $ (176.9) | $ (135.8) |
| Purchases of software and other deferred charges | (35.6) | (29.7) | (15.7) |
| Proceeds from sales of property, plant and equipment | 6.0 | 8.5 | 7.6 |
| Purchases of investments, net | (8.3) | (.1) | (.5) |
| Payments for acquisitions, net of cash acquired, and investments in businesses | (319.3) | (237.2) | – |
| Other | – | – | 1.5 |
| Net cash used in investing activities | $ (547.7) | $ (435.4) | $ (142.9) |

*Capital and Software Spending*

In 2017 and 2016, we invested in new equipment to support growth in Asia, Europe and North America and to improve manufacturing productivity. In 2015, we invested in new equipment to support growth, primarily in Asia and Europe, and to improve manufacturing productivity.

In 2017, we invested in information technology primarily associated with enterprise resource planning system implementations in North America, Asia, and Europe. Information technology investments in 2016 and 2015 were primarily associated with standardization initiatives in Asia and North America.

*Payments for Acquisitions and Investments in Businesses*

In 2017 and 2016, the aggregate payments for acquisitions, net of cash acquired, and investments in businesses were approximately $319 million and $237 million, respectively, which we funded through cash and commercial paper borrowings. The 2017 Acquisitions were also partially funded through proceeds from the senior notes we issued in 2017.

Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for more information.

*Other*

In May 2015, we received $1.5 million from the sale of a product line in our RBIS reportable segment.

### Financing Activities

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net change in borrowings and repayments of debt | $ (343.0) | $ 232.2 | $ (105.8) |
| Additional long-term borrowings | 542.9 | – | – |
| Dividend payments | (155.5) | (142.5) | (133.1) |
| Share repurchases | (129.7) | (262.4) | (232.3) |
| Proceeds from exercises of stock options, net | 22.0 | 71.0 | 104.0 |
| Tax withholding for and excess tax benefit from stock-based compensation, net | (20.6) | (4.5) | (.1) |
| Net cash used in financing activities | $ (83.9) | $ (106.2) | $ (367.3) |

*Borrowings and Repayment of Debt*

In March 2016, we entered into an agreement to establish a Euro-Commercial Paper Program pursuant to which we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding of $500 million. As of December 31, 2016, $209 million was outstanding under this program, which reflected borrowings to fund a portion of our acquisition of Mactac. As of December 30, 2017, no balance was outstanding under this program.

In March 2017, we issued €500 million of senior notes, due March 2025. The senior notes bear an interest rate of 1.25% per year, payable annually in arrears. The net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses, were $526.6 million (€495.5 million), a portion of which we used to repay commercial paper borrowings used to finance a portion of our acquisition of Mactac and the remainder of which we used for general corporate purposes and the 2017 Acquisitions.

Given the seasonality of our cash flow from operating activities, during 2017, 2016, and 2015, our commercial paper borrowings were also used to fund share repurchase activity, dividend payments, and capital expenditures. In October 2017, we repaid $250 million of senior notes at maturity using U.S. commercial paper borrowings.

Refer to Note 2, "Acquisitions," and Note 4, "Debt and Capital Leases," to the Consolidated Financial Statements for more information.

*Dividend Payments*

We paid dividends of $1.76 per share in 2017 compared to $1.60 per share in 2016. In April 2017, we increased our quarterly dividend to $.45 per share, representing an increase of approximately 10% from our previous dividend rate of $.41 per share.

*Share Repurchases*

From time to time, our Board of Directors ("Board") authorizes the repurchase of shares of our outstanding common stock. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes. In 2017, we repurchased approximately 1.5 million shares of our common stock at an aggregate cost of $129.7 million. In 2016, we repurchased approximately 3.8 million shares of our common stock at an aggregate cost of $262.4 million.

In April 2017, our Board authorized the repurchase of shares of our common stock with a fair market value of up to $650 million, exclusive of any fees, commissions or other expenses related to such purchases, in addition to the amount outstanding under our previous Board authorization. Board authorizations remain in effect until shares in the amount authorized thereunder have been repurchased. As of December 30, 2017, shares of our common stock in the aggregate amount of $625.2 million remained authorized for repurchase under this Board authorization. As of December 31, 2016, shares of our common stock in the aggregate amount of $104.9 million remained authorized under our previous Board authorization.

*Proceeds from Exercises of Stock Options, net*

The number of stock options exercised was approximately .6 million, 1.4 million, and 2.5 million in 2017, 2016, and 2015, respectively. Refer to Note 12, "Long-Term Incentive Compensation," to the Consolidated Financial Statements for more information.

*Tax Withholding for and Excess Tax Benefit from Stock-Based Compensation, Net*

In 2017, tax withholding for and excess tax benefit from stock-based compensation, net, reflected the impact of our adoption of the accounting guidance update related to stock-based payments described in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements.

**Analysis of Selected Balance Sheet Accounts**

*Long-lived Assets*

Property, plant and equipment, net, increased by approximately $183 million to $1.1 billion at year-end 2017, which primarily reflected purchases of property, plant and equipment, as well as the preliminary valuation of property, plant and equipment from the 2017 Acquisitions of approximately $66 million and the impact of foreign currency translation, partially offset by depreciation expense.

Goodwill increased by approximately $192 million to $985.1 million at year-end 2017, which primarily reflected the preliminary valuation of goodwill associated with the 2017 Acquisitions and the impact of foreign currency translation.

Other intangibles resulting from business acquisitions, net, increased by approximately $100 million to $166.3 million at year-end 2017, which primarily reflected the valuation of intangibles resulting from the 2017 Acquisitions and the impact of foreign currency translation, partially offset by amortization expense.

Refer to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions," to the Consolidated Financial Statements for more information.

Other assets increased by approximately $51 million to $453.4 million at year-end 2017, which primarily reflected an increase in the cash surrender value of our corporate-owned life insurance policies, an increase to tax-related deferred charges associated with the recent integration of an acquisition, and the impact of the 2017 Acquisitions, partially offset by amortization expense related to software and other deferred charges, net of purchases.

*Shareholders' Equity Accounts*

The balance of our shareholders' equity increased by approximately $121 million to $1.05 billion at year-end 2017, which reflected current year net income, the use of treasury shares to settle exercises of stock options and vesting of stock-based awards and fund contributions to our U.S. defined contribution plan, and the net decrease in "Accumulated other comprehensive loss." These increases were partially offset by dividend payments and share repurchases.

The balance of our treasury stock increased by approximately $85 million to $1.86 billion at year-end 2017, which primarily reflected share repurchase activity, partially offset by the use of treasury shares to settle exercises of stock options and vesting of stock-based awards and fund contributions to our U.S. defined contribution plan.

Accumulated other comprehensive loss decreased by approximately $71 million to $680.5 million at year-end 2017 primarily due to the favorable impact of foreign currency translation and amortization of net actuarial losses related to our pension plans.

Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Impact of Foreign Currency Translation

| (In millions) | 2017 | 2016 |
|---|---|---|
| Change in net sales | $ 29 | $ (147) |
| Change in net income from continuing operations | 1 | (12) |

In 2017, international operations generated approximately 76% of our net sales. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The favorable impact of foreign currency translation on net sales in 2017 compared to 2016 was primarily related to euro-denominated sales and sales in Brazil, partially offset by the unfavorable impact of foreign currency translation on sales in China.

### Effect of Foreign Currency Transactions

The impact on net income from transactions denominated in foreign currencies is largely mitigated because the costs of our products are generally denominated in the same currencies in which they are sold. In addition, to reduce our income and cash flow exposure to transactions in foreign currencies, we enter into foreign exchange forward, option and swap contracts where available and appropriate. We also utilize certain foreign-currency-denominated debt to mitigate our foreign currency translation exposure from our net investment in foreign operations.

### Analysis of Selected Financial Ratios

We utilize the financial ratios discussed below to assess our financial condition and operating performance.

*Working Capital (Deficit) and Operational Working Capital Ratios*

Working capital (deficit) (current assets minus current liabilities), as a percentage of net sales, was 4% in 2017 compared to (1.6)% in 2016. The increase was primarily driven by increases in trade accounts receivable and inventories, as well as the decrease in short-term debt as a result of lower commercial paper borrowings, partially offset by an increase in accounts payable.

Operational working capital, as a percentage of net sales, is reconciled with working capital (deficit) below. Our objective is to minimize our investment in operational working capital, as a percentage of sales, to maximize our cash flow and return on investment.

| (In millions, except percentages) | 2017 | 2016 |
|---|---|---|
| (A) Working capital (deficit) | $ 266.1 | $ (99.5) |
| Reconciling items: | | |
| Cash and cash equivalents | (224.4) | (195.1) |
| Current refundable income taxes and other current assets | (217.3) | (182.8) |
| Assets held for sale | (6.3) | (6.8) |
| Short-term borrowings and current portion of long-term debt and capital leases | 265.4 | 579.1 |
| Current income taxes payable and other current accrued liabilities | 699.2 | 583.3 |
| (B) Operational working capital | $ 782.7 | $ 678.2 |
| (C) Net sales | $ 6,613.8 | $ 6,086.5 |
| Working capital (deficit), as a percentage of net sales (A) ÷ (C) | 4.0% | (1.6)% |
| Operational working capital, as a percentage of net sales (B) ÷ (C) | 11.8% | 11.1% |

*Accounts Receivable Ratio*

The average number of days sales outstanding was 63 days in 2017 compared to 62 days in 2016, calculated using the four-quarter average accounts receivable balance divided by the average daily sales in 2017 and 2016, respectively. The increase in the average number of days sales outstanding reflected the impact of foreign currency translation and the timing of collections.

*Inventory Ratio*

Average inventory turnover was 7.9 in 2017 compared to 8.2 in 2016, calculated using the annual cost of sales in 2017 and 2016, respectively, and divided by the four-quarter average inventory balance. The decrease in the average inventory turnover primarily reflected the timing of inventory purchases.

*Accounts Payable Ratio*

The average number of days payable outstanding was 72 days in 2017 compared to 71 days in 2016, calculated using the four-quarter average accounts payable balance divided by the average daily cost of products sold in 2017 and 2016, respectively. The increase in average number of days payable outstanding primarily reflected the impact of foreign currency translation and the timing of vendor payments.

*Net Debt to EBITDA Ratio*

| (In millions, except ratios) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $ 281.8 | $ 320.7 | $ 274.3 |
| Reconciling items: | | | |
| Interest expense | 63.0 | 59.9 | 60.5 |
| Provision for income taxes | 307.7 | 156.4 | 134.5 |
| Depreciation | 126.6 | 117.5 | 125.2 |
| Amortization | 52.1 | 62.5 | 62.9 |
| EBITDA | $ 831.2 | $ 717.0 | $ 657.4 |
| Total debt and capital leases | $ 1,581.7 | $ 1,292.5 | $ 1,058.9 |
| Less cash and cash equivalents | (224.4) | (195.1) | (158.8) |
| Net debt | $ 1,357.3 | $ 1,097.4 | $ 900.1 |
| Net debt to EBITDA ratio | 1.6 | 1.5 | 1.4 |

The net debt to EBITDA ratio was higher in 2017 compared to 2016 primarily due to higher net debt as a result of the issuance of €500 million of senior notes, a portion of which was used to repay commercial paper borrowings that we used to finance a portion of our acquisition of Mactac and the remainder of which was used for general corporate purposes and the 2017 Acquisitions, partially offset by higher EBITDA.

The net debt to EBITDA ratio was higher in 2016 compared to 2015 primarily due to higher net debt as a result of higher commercial paper borrowings (primarily to fund the Mactac acquisition) and share repurchase activity, partially offset by higher EBITDA.

*Financial Covenants*

Our revolving credit facility (the "Revolver") contains financial covenants requiring that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. As of December 30, 2017 and December 31, 2016, we were in compliance with our financial covenants.

*Fair Value of Debt*

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit rating, and remaining maturities. The fair value of short-term borrowings, which includes commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations. The increase in the fair value of our total debt from $1.31 billion at December 31, 2016 to $1.6 billion at December 30, 2017 primarily reflected our issuance of €500 million of senior notes in 2017, partially offset by a reduction in commercial paper borrowings in that year. Fair value amounts were determined based primarily on Level 2 inputs. Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

**Capital Resources**

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At year-end 2017, we had cash and cash equivalents of $224.4 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At year-end 2017, the majority of our cash and cash equivalents was held by our foreign subsidiaries.

To meet U.S. cash requirements, we have several cost-effective liquidity options available. These options include borrowing funds at reasonable rates, including borrowings from foreign subsidiaries, and repatriating foreign earnings and profits. However, if we were to repatriate incremental foreign earnings and profits, we may be subject to withholding taxes imposed by foreign tax authorities and additional U.S. taxes due to the impact of foreign currency movements related to such earnings and profits.

In November 2017, we amended and restated the Revolver, increasing the amount available from certain domestic and foreign banks from $700 million to $800 million. The amendment also extended the Revolver's maturity date to November 8, 2022. The maturity date may be extended for additional one-year periods under certain circumstances. The commitments under the Revolver may be increased by up to $300 million, subject to lender approval and customary requirements. The Revolver is used as a back-up facility for our commercial paper program and can be used for other corporate purposes.

No balances were outstanding under the Revolver as of year-end 2017 or 2016. Commitment fees associated with the Revolver in 2017, 2016, and 2015 were $1.1 million, $1.1 million, and $1.9 million, respectively.

In addition to the Revolver, we have significant short-term lines of credit available in various countries totaling approximately $330 million at December 30, 2017. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under our lines of credit were $76.1 million and $72.9 million at December 30, 2017 and December 31, 2016, respectively, with a weighted-average interest rate of 6.2% and 6.5%, respectively.

In March 2016, we entered into an agreement to establish a Euro-Commercial Paper Program pursuant to which we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding of $500 million. Proceeds from issuances under this program may be used for general corporate purposes. The maturities of the notes may vary, but may not exceed 364 days from the date of issuance. Our payment obligations with respect to any notes issued under this program are backed by the Revolver. There are no financial covenants under this program. As of December 30, 2017, no balance was outstanding under this program.

We had $183.8 million and $44.5 million of borrowings from U.S. commercial paper issuances outstanding at year-end 2017 and 2016, respectively, with a weighted-average interest rate of 1.8% and .9%, respectively.

We had medium-term notes of $45 million outstanding at year-end 2017 and 2016.

Refer to Note 4, "Debt and Capital Leases," to the Consolidated Financial Statements for more information.

We are exposed to financial market risk resulting from changes in interest and foreign currency rates, and to possible liquidity and credit risks of our counterparties.

*Capital from Debt*

Our total debt increased by approximately $289 million to $1.58 billion at year-end 2017 compared to $1.29 billion at year-end 2016, primarily reflecting the issuance of €500 million of senior notes, a portion of which we used to repay commercial paper borrowings used to finance a portion of our acquisition of Mactac and the remainder of which we used for general corporate purposes and to fund the 2017 Acquisitions.

Credit ratings are a significant factor in our ability to raise short- and long-term financing. The credit ratings assigned to us also impact the interest rates paid and our access to commercial paper, credit facilities, and other borrowings. A downgrade of our short-term credit ratings could impact our ability to access the commercial paper markets. If our access to commercial paper markets were to become limited, the Revolver and our other credit facilities would be available to meet our short-term funding requirements, if necessary. When determining a credit rating, we believe that rating agencies primarily consider our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. We remain committed to maintaining an investment grade rating.

#### Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations at End of Year 2017

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| **(In millions)** | **Total** | **2018** | **2019** | **2020** | **2021** | **2022** | **Thereafter** |
| Short-term borrowings | $ 259.9 | $ 259.9 | $ – | $ – | $ – | $ – | $ – |
| Long-term debt | 1,304.5 | 1.5 | 15.0 | 265.0 | – | – | 1,023.0 |
| Payments related to long-term capital leases | 37.2 | 6.2 | 6.2 | 5.6 | 5.3 | 4.8 | 9.1 |
| Interest on long-term debt | 283.2 | 41.6 | 41.6 | 31.5 | 27.1 | 27.1 | 114.3 |
| Operating leases | 189.7 | 48.2 | 35.8 | 26.3 | 18.2 | 13.6 | 47.6 |
| Total contractual obligations | $ 2,074.5 | $ 357.4 | $ 98.6 | $ 328.4 | $ 50.6 | $ 45.5 | $ 1,194.0 |

We enter into operating leases primarily for office and warehouse space and equipment for information technology, machinery, and transportation. The table above includes minimum annual rental commitments on operating leases having initial or remaining non-cancelable lease terms of one year or more.

The table above does not include:

- Purchase obligations or open purchase orders at year-end – It is impracticable for us to obtain this information or provide a reasonable estimate thereof due to the decentralized nature of our purchasing systems. In addition, purchase orders are generally entered into at fair value and cancelable without penalty.
- Cash funding requirements for pension benefits payable to certain eligible current and future retirees under our funded plans – Benefits under our funded pension plans are paid through a trust or trust equivalent. Cash funding requirements for our funded plans, which can be significantly impacted by earnings on investments, the discount rate, changes in the plans, and funding laws and regulations, are not included as we are not able to estimate required contributions to the trust or trust equivalent. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for information regarding expected contributions to these plans.
- Pension and postretirement benefit payments – As of December 30, 2017, we had unfunded benefit obligations from certain defined benefit plans. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information, including expected benefit payments over the next 10 years.
- Deferred compensation plan benefit payments – It is impracticable for us to obtain a reasonable estimate for 2017 and beyond due to the volatility of the payment amounts and certain events that could trigger immediate payment of benefits to participants. In addition, participant account balances are marked-to-market monthly and benefit payments are adjusted annually. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.
- Cash awards to employees under incentive compensation plans – The amounts to be paid to employees under these awards are based on our stock price and, if applicable, achievement of certain performance objectives as of the end of their respective performance periods, and, therefore, we cannot reasonably estimate the amounts to be paid on the vesting dates. Refer to Note 12, "Long-term Incentive Compensation," to the Consolidated Financial Statements for more information.
- Unfunded termination indemnity benefits to certain employees outside of the U.S. – These benefits are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to these arrangements.
- Unrecognized tax benefits of $108.7 million – The resolution of the balance, including the timing of payments, is contingent upon various unknown factors and cannot be reasonably estimated. Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for more information.
- The TCJA transition tax – We estimated a provisional cash tax impact related to the transition tax resulting from the TCJA to be approximately $27.8 million, which we will elect, to pay over a period of eight years, free of interest, with the first installment due in 2018 and the final installment due in 2025. This amount may materially change pending completion of the analysis related to the impact of the TCJA following the guidance of SEC Staff Accounting Bulletin No. 118 ("SAB 118"). Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for more information.
- Contingent consideration liabilities – The amounts to be paid for earn-out payments related to certain of the 2017 Acquisitions are subject to the acquired company's achievement of certain performance targets and may differ from the amounts accrued as of December 30, 2017. Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for more information.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expense. Actual results could differ from these estimates.

Critical accounting estimates are those that are important to our financial condition and results, and which require us to make difficult, subjective and/or complex judgments. Critical accounting estimates cover accounting matters that are inherently uncertain because their future resolution is unknown. We believe our critical accounting estimates include accounting for goodwill, pension and postretirement benefits, taxes based on income, long-term incentive compensation, litigation matters, and environmental expenditures.

**Goodwill**

Our reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. In performing the required impairment tests, we perform a quantitative assessment, primarily consisting of a present value (discounted cash flow) method, to determine the fair value of the reporting units with goodwill. For certain reporting units the goodwill of which is acquired in the current period, we perform a qualitative assessment to determine whether a quantitative assessment was necessary. We perform our annual impairment test of goodwill during the fourth quarter.

Certain factors may result in the need to perform an impairment test prior to the fourth quarter, including significant underperformance of a business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, or a decision to divest a portion of a reporting unit.

We compare the fair value of each reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill of that reporting unit.

In consultation with outside specialists, we estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about the reporting units, including sales, operating margins, growth rates, and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We base our fair value estimates on projected financial information and assumptions that we believe are reasonable. However, actual future results may materially differ from these estimates and projections. The valuation methodology used to estimate the fair value of reporting units requires inputs and assumptions that reflect current market conditions, as well as the impact of planned business and operational strategies that require management judgment. The estimated fair value could increase or decrease depending on changes in the inputs and assumptions. Our annual impairment analysis in the fourth quarter of 2017 indicated that the fair values of our reporting units exceeded their respective carrying amounts, including goodwill. The fair values of the reporting units tested exceeded their carrying amounts by 100% or more.

**Pension and Postretirement Benefits**

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our defined benefit pension plans and other postretirement benefit plans are evaluated by management in consultation with outside actuaries. In the event that we determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care costs, future pension and postretirement benefit expenses could increase or decrease. Due to changes in market conditions or participant population, the actuarial assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related costs.

*Discount Rate*

In consultation with our actuaries, we annually review and determine the discount rates to be used in valuing our postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. Our discount rate is determined by evaluating yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams are then matched with the bond portfolios to determine a rate that reflects the liability duration unique to our plans. As of December 30, 2017, a .25% increase in the discount rate in the U.S. would have decreased our year-end projected benefit obligation by approximately $30 million and increased expected periodic benefit cost for the coming year by approximately $.1 million. Conversely, a .25% decrease in the discount rate in the U.S. would have increased our year-end projected benefit obligation by approximately $31 million and decreased expected periodic benefit cost for the coming year by approximately $.2 million. As of December 30, 2017, a .25% increase in the discount rate associated with our international plans would have decreased our year-end projected benefit obligation by $40 million and increased expected periodic benefit cost for the coming year by approximately $2 million. Conversely, a .25% decrease in the discount rate associated with our international plans would have increased our year-end projected benefit obligation by approximately $43 million and decreased expected periodic benefit cost for the coming year by approximately $3 million.

In 2016, we began using the full yield curve approach to estimate the service and interest cost components of net periodic benefit cost for our pension and other postretirement benefit plans. Under this approach, we applied multiple discount rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. We believe this approach provides a more precise measurement of service and interest cost by aligning the timing of the plans' liability cash flows to the corresponding rates on the yield curve. Historically, we estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period.

*Long-term Return on Assets*

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between returns in our asset classes, and our mix of active and passive investments. Additionally, current market conditions, including interest rates, are evaluated and market data is reviewed for reasonableness and appropriateness. An increase or decrease of .25% on the long-term return on assets in the U.S. would have decreased or increased, respectively, our 2017 periodic benefit cost by approximately $2 million. An increase or decrease of .25% on the long-term return on assets associated with our international plans would have decreased or increased, respectively, our 2017 periodic benefit cost by approximately $2 million.

**Taxes Based on Income**

Deferred income tax assets represent amounts available to reduce income taxes payable in future years. These assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. These amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. Our assessment of these sources of income relies heavily on estimates. Our forecasted earnings by jurisdiction are determined by the manner in which we operate our business and any changes to our operations may affect our effective tax rate. For example, our future income tax rate could be adversely affected by earnings being lower than anticipated in jurisdictions in which we carry significant deferred tax assets. We use historical experience along with operating forecasts to evaluate expected future taxable income. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established in the period we make such a determination. A tax planning strategy is defined as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets."

Our income tax rate is significantly affected by the different tax rates applicable in the jurisdictions in which we do business. For example, the TCJA had a significant impact on our effective tax rate for the fourth quarter of 2017. Additionally, our effective tax rate depends on the extent earnings are indefinitely reinvested outside the U.S. Indefinite reinvestment is determined using management's judgment about our ability and intent concerning estimates of our future financial results, cash flows, capital investment plans and our actions to return cash to shareholders.

Furthermore, our current income tax provision reflects certain tax incentives realized through the application of lower income tax rates in certain jurisdictions that may be subject to expirations absent of options to renew or other replacements.

Changes in accounting for intercompany transactions may also affect our effective tax rate. For example, with the adoption of the accounting guidance update related to intra-entity sales and transfers of assets other than inventory effective January 1, 2018, as described in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements, the income tax effects of an intercompany transfer will be recognized in the period in which the transfer occurs, rather than amortized over time, which may increase the impact of the transfer on our effective tax rate in a particular period.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Tax laws are complex and subject to different interpretations by taxpayers and governmental taxing authorities. We review our tax positions quarterly and adjust the balances as new information becomes available. Significant judgment is required in determining our tax expense and evaluating our tax positions, including evaluating uncertainties. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant facts and circumstances existing at the balance sheet date, taking into consideration existing laws, regulations and practices of any governmental authorities exercising jurisdiction over our operations. For example, the European Commission has conducted investigations in multiple countries focusing on whether local country tax rulings or tax legislation provides preferential tax treatment that violates European Union state aid rules and concluded that certain countries, including the Netherlands, Luxembourg, Belgium, and Ireland, have provided illegal state aid in certain cases. We continue to monitor state aid developments since they involve jurisdictions in which we have significant operations, and consider these matters in determining our uncertain tax positions.

Our income tax provision for fiscal year 2017 includes the estimated impact of the TCJA enacted in the U.S. on December 22, 2017. The TCJA significantly revises U.S. corporate income taxation by, among other changes, lowering corporate income tax rates, implementing a modified territorial tax regime, and imposing a one-time transition tax through a deemed repatriation of accumulated untaxed earnings and profits of foreign subsidiaries. Due to the magnitude of changes adopted by the TCJA and uncertainties pending further regulatory and interpretative guidance, our results of operations may be affected in the future. Complying with the TCJA and accounting for its provisions will require accumulation of information not previously required or regularly produced, hence, we included a reasonable estimate ("provisional amount") of the impact of the TCJA on our tax provision following the guidance of SAB 118. The final impact of the TCJA may materially differ from the provisional amount, due to, among other things, further refinement of our estimates in calculating the effect, changes in interpretations and assumptions, regulatory and administrative guidance, changes to certain estimates and amounts related to earnings and profits of and taxes paid by certain foreign subsidiaries, and actions we may take as a result of the TCJA.

Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for more information.

**Long-Term Incentive Compensation**

We have not capitalized expense associated with our long-term incentive compensation.

Changes in estimated forfeiture rates are recorded as cumulative adjustments in the period estimates are revised.

*Valuation of Stock-Based Awards*

Our stock-based compensation expense is based on the fair value of awards, adjusted for estimated forfeitures, and amortized on a straight-line basis over the requisite service period for stock options, restricted stock units ("RSUs"), and performance units ("PUs"). The compensation expense related to market-leveraged stock units ("MSUs") is based on the fair value of awards, adjusted for estimated forfeitures, and amortized on a graded-vesting basis over their respective performance periods.

Compensation expense for awards with a market condition as a performance objective, which includes PUs and MSUs, is not adjusted if the condition is not met, as long as the requisite service period is met.

The fair value of stock options is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate and the expected option term.

The following assumptions are used in estimating the fair value of granted stock options:

*Risk-free interest rate* is based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term.

*Expected stock price volatility* represents an average of implied and historical volatility.

*Expected dividend yield* is based on the current annual dividend divided by the 12-month average of our monthly stock price prior to the date of grant.

*Expected option term* is determined based on historical experience under our stock option and incentive plans.

The fair value of RSUs and the component of PUs that is subject to achievement of performance objectives based on a financial performance condition is determined based on the fair market value of our common stock as of the date of grant, adjusted for foregone dividends.

The fair value of stock-based awards that are subject to achievement of performance objectives based on a market condition, which includes MSUs and the other component of PUs, is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected stock price volatility and other assumptions appropriate for determining fair value, to estimate the probability of satisfying the target performance objectives established for the award.

Certain of these assumptions are based on management's estimates, in consultation with outside specialists. Significant changes in assumptions for future awards and actual forfeiture rates could materially impact stock-based compensation expense and our results of operations.

*Valuation of Cash-Based Awards*

Cash-based awards consist of long-term incentive units ("LTI Units") granted to eligible employees. LTI Units are classified as liability awards and remeasured at each quarter-end over the applicable vesting or performance period. In addition to LTI Units with terms and conditions that mirror those of RSUs, we also grant certain employees LTI Units with terms and conditions that mirror those of PUs and MSUs.

## RECENT ACCOUNTING REQUIREMENTS

Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for this information.

## MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

### Risk Management

We are exposed to the impact of changes in interest rates and foreign currency exchange rates.

We generally do not purchase or hold foreign currency or interest rate or commodity contracts for trading purposes.

Our objective in managing our exposure to foreign currency changes is to reduce the risk to our earnings and cash flow associated with foreign exchange rate changes. As a result, we enter into foreign exchange forward, option and swap contracts to reduce risks associated with the value of our existing foreign currency assets, liabilities, firm commitments and anticipated foreign revenues and costs, when available and appropriate. The gains and losses on these contracts are intended to offset changes in the related exposures. We do not hedge our foreign currency translation exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on our net income. We also utilize certain foreign-currency-denominated debt to mitigate our foreign currency translation exposure from our net investment in foreign operations.

Our objective in managing our exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows. To achieve our objectives, we may periodically use interest rate contracts to manage our exposure to interest rate changes.

Additionally, we enter into certain natural gas futures contracts to reduce the risks associated with natural gas anticipated to be used in manufacturing and operations. These amounts are not material to our financial statements.

In the normal course of operations, we also face other risks that are either non-financial or non-quantifiable. These risks principally include changes in economic or political conditions, other risks associated with foreign operations, commodity price risk and litigation and compliance risk, which are not reflected in the analyses that follow.

### Foreign Exchange Value-At-Risk

We use a Value-At-Risk ("VAR") model to determine the estimated maximum potential one-day loss in earnings associated with our foreign exchange positions and contracts. This approach assumes that market rates or prices for foreign exchange positions and contracts are normally distributed. VAR model estimates were made assuming normal market conditions. The model includes foreign exchange derivative contracts. Forecasted transactions, firm commitments, and accounts receivable and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

In both 2017 and 2016, the VAR was estimated using a variance-covariance methodology. The currency correlation was based on one-year historical data obtained from one of our domestic banks. A 95% confidence level was used for a one-day time horizon.

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was $1.1 million at year-end 2017 and $1.6 million at year-end 2016.

The VAR model is a risk analysis tool and does not represent actual losses in fair value that we could incur, nor does it consider the potential effect of favorable changes in market factors.

### Interest Rate Sensitivity

In 2017, an assumed 30 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have increased interest expense by approximately $.7 million.

In 2016, an assumed 20 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have increased interest expense by approximately $.5 million.

# Consolidated Balance Sheets

| (Dollars in millions, except per share amount) | December 30, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 224.4 | $ 195.1 |
| Trade accounts receivable, less allowances of $36.2 and $47.8 at year-end 2017 and 2016, respectively | 1,180.3 | 1,001.0 |
| Inventories, net | 609.6 | 519.1 |
| Refundable income taxes | 28.9 | 30.3 |
| Assets held for sale | 6.3 | 6.8 |
| Other current assets | 188.4 | 152.5 |
| Total current assets | 2,237.9 | 1,904.8 |
| Property, plant and equipment, net | 1,097.9 | 915.2 |
| Goodwill | 985.1 | 793.6 |
| Other intangibles resulting from business acquisitions, net | 166.3 | 66.7 |
| Non-current deferred income taxes | 196.3 | 313.2 |
| Other assets | 453.4 | 402.9 |
| | $ 5,136.9 | $ 4,396.4 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Short-term borrowings and current portion of long-term debt and capital leases | $ 265.4 | $ 579.1 |
| Accounts payable | 1,007.2 | 841.9 |
| Accrued payroll and employee benefits | 248.5 | 217.4 |
| Accrued trade rebates | 112.3 | 95.2 |
| Income taxes payable | 49.2 | 37.9 |
| Other accrued liabilities | 289.2 | 232.8 |
| Total current liabilities | 1,971.8 | 2,004.3 |
| Long-term debt and capital leases | 1,316.3 | 713.4 |
| Long-term retirement benefits and other liabilities | 629.3 | 660.9 |
| Non-current deferred and payable income taxes | 173.3 | 92.3 |
| Commitments and contingencies (see Notes 7 and 8) | | |
| Shareholders' equity: | | |
| Common stock, $1 par value per share, authorized – 400,000,000 shares at year-end 2017 and 2016; issued – 124,126,624 shares at year-end 2017 and 2016; outstanding – 88,011,541 shares and 88,308,860 shares at year-end 2017 and 2016, respectively | 124.1 | 124.1 |
| Capital in excess of par value | 862.6 | 852.0 |
| Retained earnings | 2,596.7 | 2,473.3 |
| Treasury stock at cost, 36,115,083 shares and 35,817,764 shares at year-end 2017 and 2016, respectively | (1,856.7) | (1,772.0) |
| Accumulated other comprehensive loss | (680.5) | (751.9) |
| Total shareholders' equity | 1,046.2 | 925.5 |
| | $ 5,136.9 | $ 4,396.4 |

See Notes to Consolidated Financial Statements

## Consolidated Statements of Income

| (In millions, except per share amounts) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net sales | $ 6,613.8 | $ 6,086.5 | $ 5,966.9 |
| Cost of products sold | 4,801.6 | 4,386.8 | 4,321.1 |
| Gross profit | 1,812.2 | 1,699.7 | 1,645.8 |
| Marketing, general and administrative expense | 1,123.2 | 1,097.5 | 1,108.1 |
| Other expense, net | 36.5 | 65.2 | 68.3 |
| Interest expense | 63.0 | 59.9 | 60.5 |
| Income from continuing operations before taxes | 589.5 | 477.1 | 408.9 |
| Provision for income taxes | 307.7 | 156.4 | 134.5 |
| Income from continuing operations | 281.8 | 320.7 | 274.4 |
| Loss from discontinued operations, net of tax | – | – | (.1) |
| Net income | $ 281.8 | $ 320.7 | $ 274.3 |
| | | | |
| Per share amounts: | | | |
| Net income per common share: | | | |
| Continuing operations | $ 3.19 | $ 3.60 | $ 3.01 |
| Discontinued operations | – | – | – |
| Net income per common share | $ 3.19 | $ 3.60 | $ 3.01 |
| | | | |
| Net income per common share, assuming dilution: | | | |
| Continuing operations | $ 3.13 | $ 3.54 | $ 2.95 |
| Discontinued operations | – | – | – |
| Net income per common share, assuming dilution | $ 3.13 | $ 3.54 | $ 2.95 |
| Dividends per common share | $ 1.76 | $ 1.60 | $ 1.46 |
| | | | |
| Weighted average number of shares outstanding: | | | |
| Common shares | 88.3 | 89.1 | 91.0 |
| Common shares, assuming dilution | 90.1 | 90.7 | 92.9 |

See Notes to Consolidated Financial Statements

## Consolidated Statements of Comprehensive Income

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $ 281.8 | $ 320.7 | $ 274.3 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation: | | | |
| Translation gain (loss) | 56.4 | (53.7) | (139.0) |
| Pension and other postretirement benefits: | | | |
| Net loss recognized from actuarial gain/loss and prior service cost/credit | (3.0) | (62.9) | (18.9) |
| Reclassifications to net income | 19.3 | 44.2 | 22.9 |
| Cash flow hedges: | | | |
| (Losses) gains recognized on cash flow hedges | (2.2) | .7 | (.5) |
| Reclassifications to net income | .9 | 2.8 | (2.0) |
| Other comprehensive income (loss), net of tax | 71.4 | (68.9) | (137.5) |
| Total comprehensive income, net of tax | $ 353.2 | $ 251.8 | $ 136.8 |

See Notes to Consolidated Financial Statements

## Consolidated Statements of Shareholders' Equity

| (Dollars in millions, except per share amounts) | Common stock, $1 par value | Capital in excess of par value | Retained earnings | Treasury stock | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|
| Balance as of January 3, 2015 | $ 124.1 | $ 823.9 | $ 2,116.5 | $ (1,471.3) | $ (545.5) | $ 1,047.7 |
| Net income | – | – | 274.3 | – | – | 274.3 |
| Other comprehensive loss, net of tax | – | – | – | – | (137.5) | (137.5) |
| Repurchase of 3,858,376 shares for treasury | – | – | – | (232.3) | – | (232.3) |
| Issuance of 3,019,001 shares under stock-based compensation plans, including tax of $10.6 | – | 10.1 | 11.8 | 104.5 | – | 126.4 |
| Contribution of 348,116 shares to 401(k) Plan | – | – | 8.1 | 12.1 | – | 20.2 |
| Dividends: $1.46 per share | – | – | (133.1) | – | – | (133.1) |
| Balance as of January 2, 2016 | $ 124.1 | $ 834.0 | $ 2,277.6 | $ (1,587.0) | $ (683.0) | $ 965.7 |
| Net income | – | – | 320.7 | – | – | 320.7 |
| Other comprehensive loss, net of tax | – | – | – | – | (68.9) | (68.9) |
| Repurchase of 3,781,528 shares for treasury | – | – | – | (262.4) | – | (262.4) |
| Issuance of 1,842,165 shares under stock-based compensation plans, including tax of $12.3 | – | 18.0 | 7.7 | 67.2 | – | 92.9 |
| Contribution of 280,526 shares to 401(k) Plan | – | – | 9.8 | 10.2 | – | 20.0 |
| Dividends: $1.60 per share | – | – | (142.5) | – | – | (142.5) |
| Balance as of December 31, 2016 | $ 124.1 | $ 852.0 | $ 2,473.3 | $ (1,772.0) | $ (751.9) | $ 925.5 |
| Net income | – | – | 281.8 | – | – | 281.8 |
| Other comprehensive income, net of tax | – | – | – | – | 71.4 | 71.4 |
| Repurchase of 1,488,890 shares for treasury | – | – | – | (129.7) | – | (129.7) |
| Issuance of 960,656 shares under stock-based compensation plans | – | 10.6 | (14.4) | 36.2 | – | 32.4 |
| Contribution of 230,915 shares to 401(k) Plan | – | – | 11.5 | 8.8 | – | 20.3 |
| Dividends: $1.76 per share | – | – | (155.5) | – | – | (155.5) |
| Balance as of December 30, 2017 | $ 124.1 | $ 862.6 | $ 2,596.7 | $ (1,856.7) | $ (680.5) | $ 1,046.2 |

See Notes to Consolidated Financial Statements

# Consolidated Statements of Cash Flows

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | $ 281.8 | $ 320.7 | $ 274.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 126.6 | 117.5 | 125.2 |
| Amortization | 52.1 | 62.6 | 63.1 |
| Provision for doubtful accounts and sales returns | 37.6 | 54.4 | 46.5 |
| Net losses from asset impairments and sales/disposals of assets | 1.4 | 1.5 | 12.2 |
| Stock-based compensation | 30.2 | 27.2 | 26.3 |
| Loss from settlement of pension obligations | – | 41.4 | – |
| Deferred income taxes | 151.6 | 52.3 | 12.9 |
| Other non-cash expense and loss | 53.9 | 46.2 | 50.1 |
| Changes in assets and liabilities and other adjustments: | | | |
| Trade accounts receivable | (141.2) | (88.2) | (135.9) |
| Inventories | (14.9) | (19.6) | (34.4) |
| Other current assets | (6.5) | (7.6) | 3.9 |
| Accounts payable | 83.4 | 31.6 | 65.5 |
| Accrued liabilities | (.6) | 32.4 | 7.0 |
| Taxes on income | 29.6 | (14.1) | (23.7) |
| Other assets | (11.8) | (1.2) | (.3) |
| Long-term retirement benefits and other liabilities | (23.1) | (71.8) | (19.0) |
| Net cash provided by operating activities | 650.1 | 585.3 | 473.7 |
| **Investing Activities** | | | |
| Purchases of property, plant and equipment | (190.5) | (176.9) | (135.8) |
| Purchases of software and other deferred charges | (35.6) | (29.7) | (15.7) |
| Proceeds from sales of property, plant and equipment | 6.0 | 8.5 | 7.6 |
| Purchases of investments, net | (8.3) | (.1) | (.5) |
| Payments for acquisitions, net of cash acquired, and investments in businesses | (319.3) | (237.2) | – |
| Other | – | – | 1.5 |
| Net cash used in investing activities | (547.7) | (435.4) | (142.9) |
| **Financing Activities** | | | |
| Net (decrease) increase in borrowings (maturities of three months or less) | (89.2) | 234.9 | (98.4) |
| Additional long-term borrowings | 542.9 | – | – |
| Repayments of long-term debt | (253.8) | (2.7) | (7.4) |
| Dividend payments | (155.5) | (142.5) | (133.1) |
| Share repurchases | (129.7) | (262.4) | (232.3) |
| Proceeds from exercises of stock options, net | 22.0 | 71.0 | 104.0 |
| Tax withholding for and excess tax benefit from stock-based compensation, net | (20.6) | (4.5) | (.1) |
| Net cash used in financing activities | (83.9) | (106.2) | (367.3) |
| Effect of foreign currency translation on cash balances | 10.8 | (7.4) | (11.9) |
| Increase (decrease) in cash and cash equivalents | 29.3 | 36.3 | (48.4) |
| Cash and cash equivalents, beginning of year | 195.1 | 158.8 | 207.2 |
| Cash and cash equivalents, end of year | $ 224.4 | $ 195.1 | $ 158.8 |

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

We develop identification and decorative solutions for businesses worldwide. Our products include pressure-sensitive labeling technology and materials; films for graphic and reflective applications; brand and price tickets, tags and labels (including radio-frequency identification ("RFID") inlays); performance tapes; and pressure-sensitive adhesive products for surgical, wound care, ostomy, and electromedical applications.

**Principles of Consolidation**

The consolidated financial statements include the accounts of majority-owned and controlled subsidiaries. Intercompany accounts, transactions, and profits are eliminated in consolidation. We apply the equity method of accounting for investments in which we have significant influence but not a controlling interest.

**Fiscal Year**

Normally, our fiscal years consist of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2017, 2016, and 2015 fiscal years consisted of 52-week periods ending December 30, 2017, December 31, 2016, and January 2, 2016, respectively.

**Financial Presentation**

As further discussed in Note 16, "Supplemental Financial Information," we have classified certain costs associated with the divestiture of our former Office and Consumer Products ("OCP") and Designed and Engineered Solutions ("DES") businesses as discontinued operations in the Consolidated Statements of Income for fiscal year 2015. Unless otherwise noted, the results and financial condition of discontinued operations have been excluded from the notes to our Consolidated Financial Statements.

**Accounting Guidance Update**

In the first quarter of 2017, we adopted an accounting guidance update that simplifies several aspects of the accounting for stock-based payment transactions. As a result of adopting this update, beginning in the first quarter of 2017, (i) the tax effects related to stock-based payments at settlement or expiration were recognized through the income statement, a change from the previous requirement that certain tax effects be recognized in capital in excess of par value, and, as required by this guidance, this change was applied prospectively, and (ii) all tax-related cash flows resulting from stock-based payments were reported as operating activities on the statements of cash flows, a change from the previous requirement to present excess tax benefits as an inflow from financing activities and an outflow from operating activities, and, as permitted by this update, these changes were applied prospectively. Refer to Note 14, "Taxes Based on Income," for more information.

In the third quarter of 2017, we adopted an accounting guidance update that simplifies the measurement of goodwill impairment. This guidance update eliminates step two of the goodwill impairment test, so that goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Our adoption of this guidance update did not have a significant impact on our financial position, results of operations, cash flows, or disclosures.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions for the reporting period and as of the date of the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expense. Actual results could differ from these estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents generally consist of cash on hand, deposits in banks, cash-in-transit, and bank drafts and short-term investments with maturities of three months or less when purchased or received. The carrying value of these assets approximates fair value due to the short maturity of the instruments.

**Accounts Receivable**

We record trade accounts receivable at the invoiced amount. The allowance for doubtful accounts reserve represents allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. The customer complaint reserve represents estimated sales returns and allowances. These allowances are used to reduce gross trade receivables to their net realizable values. We record these allowances based on estimates related to the following:

- Customer-specific allowances;
- Amounts based upon an aging schedule; and
- An amount based on our historical experience.

No single customer represented 10% or more of our net sales in, or trade accounts receivable at, year-end 2017 or 2016. However, during 2017, 2016, and 2015, our ten largest customers by net sales represented approximately 15%, 14%, and 15% of our net sales, respectively. As of December 30, 2017 and December 31, 2016, our ten largest customers by trade accounts receivable represented approximately 14% of our trade accounts receivable. These customers were concentrated primarily in our Label and Graphic Materials reportable segment. We generally do not require our customers to provide collateral.

**Inventories**

Inventories are stated at the lower of cost or net realizable value and categorized as raw materials, work-in-progress, or finished goods. Cost is determined using the first-in, first-out method. Inventory reserves are recorded to cost of products sold for damaged, obsolete, excess and slow-moving inventory and we establish a lower cost basis for the inventory. We use estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product, level of usage, and the length of time the product has been included in inventory.

**Property, Plant and Equipment**

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets, ranging from ten to forty-five years for buildings and improvements and three to fifteen years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the term of the associated leases. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in net income.

**Software**

We capitalize internal and external software costs incurred during the application development stage of software development, including costs incurred for design, coding, installation to hardware, testing, and upgrades and enhancements that provide the software or hardware with additional functionalities and capabilities. Internal and external software costs during the preliminary project stage are expensed, as are those costs during the post-implementation and/or operation stage, including internal and external training costs and maintenance costs. Capitalized software, which is included in "Other assets" in the Consolidated Balance Sheets, is amortized on a straight-line basis over the estimated useful life of the software, which is generally between five and ten years.

**Impairment of Long-lived Assets**

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Recoverability is measured by comparing the undiscounted cash flows expected from their use and eventual disposition to the carrying value of the related asset or asset group. The amount of impairment loss is calculated as the excess of the carrying value over the fair value. Historically, changes in market conditions and management strategy have caused us to reassess the carrying amount of our long-lived assets.

**Goodwill and Other Intangibles Resulting from Business Acquisitions**

Business combinations are accounted for using the acquisition method, with the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired considered goodwill. As a result, we disclose goodwill separately from other intangible assets. Other identifiable intangibles include customer relationships, patents and other acquired technology, and trade names and trademarks.

In performing the required impairment tests, we perform a quantitative assessment, primarily consisting of a present value (discounted cash flow) method, to determine the fair value of the reporting units with goodwill. For certain reporting units the goodwill of which was acquired in the current period, we perform a qualitative assessment to determine whether a quantitative assessment is necessary. We perform our annual impairment test of goodwill during the fourth quarter.

Certain factors may result in the need to perform an impairment test prior to the fourth quarter, including significant underperformance of a business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, or a decision to divest a portion of a reporting unit.

We compare the fair value of each reporting unit to its carrying amount, and, to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill of that reporting unit.

In consultation with outside specialists, we estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about the reporting units, including sales, operating margins, growth rates, and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows, and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We base our fair value estimates on projected financial information and assumptions that we believe are reasonable. However, actual future results may materially differ from these estimates and projections. The valuation methodology used to estimate the fair value of reporting units requires inputs and assumptions that reflect current market conditions, as well as the impact of planned business and operational strategies that require management judgment. The estimated fair value could increase or decrease depending on changes in the inputs and assumptions.

We test indefinite-lived intangible assets, consisting of trade names and trademarks, for impairment in the fourth quarter or whenever events or circumstances indicate that it is more likely than not that their carrying amounts exceed their fair values. Fair value is estimated as the discounted value of future revenues using a royalty rate that a third party would pay for use of the asset. Variation in the royalty rates could impact the estimate of fair value. If the carrying amount of an asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

See also Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions."

**Foreign Currency**

Asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenues and expenses are translated at the weighted-average currency rate for the fiscal year. Gains and losses resulting from hedging the value of investments in certain international operations and from the translation of balance sheet accounts are recorded directly as a component of other comprehensive income.

**Financial Instruments**

We enter into foreign exchange derivative contracts to reduce our risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of our operations outside the U.S. We enter into interest rate contracts to help manage our exposure to certain interest rate fluctuations. We also enter into futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases of natural gas. The maximum length of time for which we hedge our exposure to the variability in future cash flows for forecasted transactions is 36 months.

On the date we enter into a derivative contract, we determine whether the derivative will be designated as a hedge. Derivatives designated as hedges are classified as either (1) hedges of the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value" hedges) or (2) hedges of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognized asset or liability ("cash flow" hedges). Other derivatives not designated as hedges are recorded on the balance sheets at fair value, with changes in fair value recognized in earnings. Our policy is not to purchase or hold any foreign currency, interest rate or commodity contracts for trading purposes.

We assess, both at the inception of the hedge and on an ongoing basis, whether hedges are highly effective. If it is determined that a hedge is not highly effective, we prospectively discontinue hedge accounting. For cash flow hedges, the effective portion of the related gains and losses is recorded as a component of other comprehensive income, and the ineffective portion is reported in earnings. Amounts in accumulated other comprehensive income (loss) are reclassified into earnings in the same period during which the hedged transaction affects earnings. In the event that the anticipated transaction is no longer likely to occur, we recognize the change in fair value of the instrument in current period earnings. Changes in fair value hedges are recognized in current period earnings. Changes in the fair value of underlying hedged items (such as recognized assets or liabilities) are also recognized in current period earnings and offset the changes in the fair value of the derivative.

In the Consolidated Statements of Cash Flows, hedges are classified in the same category as the item hedged, primarily in operating activities.

We also utilize certain foreign-currency-denominated debt to mitigate our foreign currency translation exposure from our net investment in foreign operations.

See also Note 5, "Financial Instruments," for more information.

**Fair Value Measurements**

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

We determine fair value based on a three-tier fair value hierarchy, which we use to prioritize the inputs used in measuring fair value. These tiers consist of Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring us to develop our own assumptions to determine the best estimate of fair value.

**Revenue Recognition**

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, delivery has occurred based on applicable sales terms, and collection is reasonably assured. Sale terms are free on board (f.o.b.) shipping point or f.o.b. destination, depending upon local business customs. In regions where f.o.b. shipping point terms are utilized, sales are recorded at the time of shipment because this is when title and risk of loss are transferred. In regions where f.o.b. destination terms are utilized, sales are recorded when the products are delivered to the customer's delivery site, because this is when title and risk of loss are transferred. Furthermore, sales, provisions for estimated returns, and the cost of products sold are recorded at the time title transfers to customers and when the customers assume the risks and rewards of ownership. Actual product returns are charged against estimated sales return allowances.

Sales rebates and discounts are common practices in the industries in which we operate. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales. Rebates and discounts are recorded based upon estimates at the time products are sold. These estimates are based on our historical experience for similar programs and products. We review these rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

**Research and Development**

Research and development costs are related to research, design, and testing of new products and applications and are expensed as incurred.

**Long-Term Incentive Compensation**

The accounting guidance update that simplifies several aspects of the accounting for stock-based payment transactions provided an accounting policy election in accounting for forfeitures of stock-based awards. We elected to continue our current practice of estimating expected forfeitures in determining the compensation cost to be recognized each period, rather than accounting for forfeitures as they occur.

No long-term incentive compensation expense was capitalized in 2017, 2016, or 2015.

Changes in estimated forfeiture rates are recorded as cumulative adjustments in the period that the estimates are revised.

*Valuation of Stock-Based Awards*

Our stock-based compensation expense is based on the fair value of awards, adjusted for estimated forfeitures, and amortized on a straight-line basis over the requisite service period for stock options and restricted stock units ("RSUs"). Compensation expense for performance units ("PUs") is based on the fair value of awards, adjusted for estimated forfeitures, and amortized on a straight-line basis as these awards cliff-vest at the end of the requisite service period. The compensation expense related to market-leveraged stock units ("MSUs") is based on the fair value of awards, adjusted for estimated forfeitures, and amortized on a graded-vesting basis over their respective performance periods.

Compensation expense for awards with a market condition as a performance objective, which includes PUs and MSUs, is not adjusted if the condition is not met, as long as the requisite service period is met.

The fair value of stock options is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate, and the expected option term.

The fair value of RSUs and the component of PUs that is subject to the achievement of a performance objective based on a financial performance condition is determined based on the fair market value of our common stock as of the date of grant, adjusted for foregone dividends.

The fair value of stock-based awards that are subject to achievement of performance objectives based on a market condition, which includes MSUs and the other component of PUs, is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected stock price volatility and other assumptions appropriate for determining fair value, to estimate the probability of satisfying the target performance objectives established for the award.

Certain of these assumptions are based on management's estimates, in consultation with outside specialists. Significant changes in assumptions for future awards and actual forfeiture rates could materially impact stock-based compensation expense and our results of operations.

*Valuation of Cash-Based Awards*

Cash-based awards consist of long-term incentive units ("LTI Units") granted to eligible employees. LTI Units are classified as liability awards and remeasured at each quarter-end over the applicable vesting or performance period. In addition to LTI Units with terms and conditions that mirror those of RSUs, we also grant certain employees LTI Units with terms and conditions that mirror those of PUs and MSUs.

See also Note 12, "Long-term Incentive Compensation," for more information.

**Taxes Based on Income**

Our provision for income taxes is determined using the asset and liability approach in accordance with GAAP. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. We recognize and measure our uncertain tax positions following the more likely than not threshold for financial statement recognition and measurement for tax positions taken or expected to be taken in a tax return.

Our income tax provision for fiscal year 2017 includes the estimated impact of the TCJA enacted in the U.S. on December 22, 2017. The TCJA significantly revises U.S. corporate income taxation, among other changes, lowering corporate income tax rates, implementing a modified territorial tax regime, and imposing a one-time transition tax through a deemed repatriation of accumulated untaxed earnings and profits of foreign subsidiaries. We include a reasonable estimate ("provisional amount") of the impact of the TCJA on our tax provision following the guidance of SAB 118. The final impact of the TCJA may differ from the provisional amount as included, possibly materially, due to, among other things, further refinement of our calculations, changes in interpretations and assumptions we have made, regulatory and administrative guidance that may be issued, and actions we may take as a result of the TCJA.

See also Note 14, "Taxes Based on Income," for more information.

**Recent Accounting Requirements**

In February 2018, the Financial Accounting Standards Board ("FASB") issued guidance that provides entities with the option to reclassify certain tax effects of the TCJA in accumulated other comprehensive income to retained earnings. This guidance can be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal income tax rate pursuant to the TCJA is recognized. The guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted for reporting periods for which financial statements have yet to be issued or made available for issuance. We are currently assessing the impact of this guidance on our financial position and disclosures.

In August 2017, the FASB issued amended guidance to improve the financial reporting of hedging relationships to better reflect the economic results of an entity's risk management activities in its financial statements, as well as to simplify the application of hedge accounting. The amended presentation and disclosure guidance is required prospectively. The guidance will be effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures.

In May 2017, the FASB issued amended guidance that provides clarity on which changes to share-based awards are considered substantive and require modification accounting to be applied. This guidance is effective for interim and annual periods beginning after December 15, 2017. We do not regularly modify the terms and conditions of share-based awards and do not believe our adoption of this amended guidance will have a significant effect on our financial position, results of operations, cash flows, and disclosures.

In March 2017, the FASB issued guidance that requires employers with defined benefit plans to present only the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Employers are required to present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. Components other than the service cost component will not be eligible for capitalization in assets. Employers are required to apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively, while the guidance that limits the capitalization of net periodic benefit cost in assets to the service cost component must be applied prospectively. This guidance is effective for interim and annual periods beginning after December 15, 2017. The non-service cost components of net periodic pension cost totaled approximately $18 million and $53 million for the years ended 2017 and 2016, respectively. The amount in 2016 included a recognized loss on settlement of pension obligations of approximately $41 million. We do not expect this guidance to have a significant impact on the presentation of our results of operations and disclosures.

In January 2017, the FASB issued guidance that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities qualifies as a business. This guidance is for fiscal years and interim periods beginning after December 15, 2017 and early adoption is permitted. We do not anticipate that our adoption of this guidance will have a significant impact on our financial position, results of operations, cash flows, and disclosures.

In October 2016, the FASB issued guidance that requires companies to recognize the income tax effects of intra-entity sales and transfers of assets other than inventory in the period in which they occur. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017. The guidance requires modified retrospective adoption. Upon adoption, we expect to derecognize tax-related deferred charges, including tax-related deferred charges recorded in 2017, and recognize deferred taxes related to certain intra-entity asset transfers as a net reduction to retained earnings. Refer to Note 14, "Taxes Based on Income," for more information. We do not believe adoption of this guidance will have a significant effect on our financial position, results of operations, cash flows, and disclosures.

In August 2016, the FASB issued guidance to reduce the diversity in the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance requires retrospective adoption and is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. Based on the information we have to date, we do not anticipate that the adoption of this guidance will have a significant impact on our cash flows.

In March 2016, and in subsequent updates, the FASB issued revised guidance on accounting for leases that requires lessees to recognize the rights and obligations created by leases on their balance sheets. This guidance, which will be effective for interim and annual periods beginning after December 15, 2018, also requires enhanced disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. Early adoption is permitted. We expect to adopt this guidance as of the effective date. A modified retrospective approach is required for adoption with respect to all leases that exist at or commence after the date of initial application, with an option to use certain practical expedients. The guidance provides an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under the current guidance. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures, and expect its adoption to have a significant impact on our financial position and disclosures.

In May 2014, and in subsequent updates, the FASB issued revised guidance on revenue recognition. This revised guidance provides a single comprehensive model for accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This revised guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. This revised guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This revised guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and can be applied retrospectively either to each prior reporting period presented ("full retrospective") or with the cumulative effect of adoption recognized at the date of initial application ("modified retrospective"). We will adopt the new standard under the modified retrospective approach in the first quarter of 2018. To prepare for this adoption, we established a project plan and cross-functional team to manage the assessment, design, and implementation of this new guidance. Based on the information we have evaluated to date, we do not anticipate that the adoption of this revised guidance will have a significant impact on our financial position, results of operations, or cash flows. However, our evaluation of the impact could change if we enter into new revenue arrangements in the future or interpretations of the new guidance evolve. Upon adoption of this revised guidance, allowances for customer returns, currently presented as a reduction of trade accounts receivable, will be classified as a returns liability. Our allowance for customer returns was $11.1 million and $10 million as of December 30, 2017 and December 31, 2016, respectively. The value of return assets is not expected to be significant. Effective beginning on the first day of our 2018 fiscal year, we have implemented appropriate changes to processes, policies, systems, and controls to support revenue recognition and disclosures in accordance with the revised guidance.

## NOTE 2. ACQUISITIONS

On June 23, 2017, we completed the stock acquisition of Yongle Tape Ltd. ("Yongle Tape"), a China-based manufacturer of specialty tapes and related products used in a variety of industrial markets, from Yongle Tape's management and Shaw Kwei & Partners.

On May 19, 2017, we completed the stock acquisition of Finesse Medical Limited ("Finesse Medical"), an Ireland-based manufacturer of healthcare products used in the management of wound care and skin conditions, from Finesse Medical's management.

On March 1, 2017, we completed the net asset acquisition of Hanita Coatings Rural Cooperative Association Limited and stock acquisition of certain of its subsidiaries ("Hanita"), an Israel-based pressure-sensitive manufacturer of specialty films and laminates, from Kibbutz Hanita Coatings and Tene Investment Funds.

We expect the acquisitions of Yongle Tape, Finesse Medical, and Hanita (collectively, the "2017 Acquisitions") to expand our product portfolio and provide new growth opportunities.

The aggregate purchase consideration for these acquisitions, which is subject to customary post-closing adjustments, was approximately $360 million. This included $15 million of payments based on Yongle Tape's achievement of certain pre-acquisition performance targets. The 2017 Acquisitions were funded through cash and existing credit facilities. In addition to the cash paid at the closing of the 2017 Acquisitions, certain sellers are eligible for earn-out payments of up to approximately $45 million related to the achievement of certain performance targets for 2017 and 2018. Based on our current estimates, we have accrued approximately $45 million for these additional earn-out payments, which has been included in the $360 million of aggregate purchase consideration.

Consistent with the allowable time to complete our assessment, the valuations of certain acquired assets and liabilities, including environmental liabilities and income taxes, are currently pending.

The 2017 Acquisitions were not material, individually or in the aggregate, to our Consolidated Financial Statements.

On August 1, 2016, we completed the acquisition of the European business of Mactac ("Mactac") from Platinum Equity through the purchase of Evergreen Holdings V, LLC. Mactac manufactures pressure-sensitive materials that primarily complement our existing graphics portfolio. The total consideration for this acquisition, net of cash received, was approximately $220 million, which we funded primarily through existing credit facilities. This acquisition was not material to our Consolidated Financial Statements.

## NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

### Goodwill

Results from our annual goodwill impairment test in the fourth quarter of 2017 indicated that no impairment occurred during 2017. The fair value of these assets was primarily based on Level 3 inputs.

Changes in the net carrying amount of goodwill for 2017 and 2016 by reportable segment were as follows:

| (In millions) | Label and Graphic Materials | Retail Branding and Information Solutions | Industrial and Healthcare Materials | Total |
|---|---|---|---|---|
| Goodwill as of January 2, 2016 | $ 277.9 | $ 408.3 | $ – | $ 686.2 |
| Acquisitions (1) | 107.8 | – | 14.3 | 122.1 |
| Transfer (2) | – | (53.1) | 53.1 | – |
| Translation adjustments | (12.4) | (1.3) | (1.0) | (14.7) |
| Goodwill as of December 31, 2016 | 373.3 | 353.9 | 66.4 | 793.6 |
| 2017 Acquisitions (1) | 17.5 | – | 125.5 | 143.0 |
| Acquisition adjustments (3) | 4.8 | – | .7 | 5.5 |
| Translation adjustments | 33.9 | 1.5 | 7.6 | 43.0 |
| Goodwill as of December 30, 2017 | $ 429.5 | $ 355.4 | $ 200.2 | $ 985.1 |

(1) Goodwill acquired in 2016 primarily related to the Mactac acquisition. Goodwill acquired in 2017 related to the acquisitions of Hanita, which is included in our Label and Graphic Materials ("LGM") reportable segment, and Finesse Medical and Yongle Tape, which are included in our Industrial and Healthcare Materials ("IHM") reportable segment.

(2) In connection with our 2016 change in operating structure, we allocated goodwill associated with our fastener solutions reporting unit from our Retail Branding and Information Solutions ("RBIS") reportable segment to IHM based on the relative fair values of our fastener solutions and RBIS reporting units. Prior to 2016, no reporting units within IHM had allocated goodwill. Refer to Note 1, "Summary of Significant Accounting Policies," for more information.

(3) Goodwill purchase price allocation adjustments related to the acquisition of Mactac in August 2016.

The carrying amounts of goodwill at December 30, 2017 and December 31, 2016 were net of accumulated impairment losses of $820 million recognized in fiscal year 2009 by our RBIS reportable segment.

In connection with the 2017 Acquisitions, we recognized goodwill based on our expectation of synergies and other benefits from acquiring these businesses. We expect the majority of the recognized goodwill related to the Hanita acquisition to be deductible for income tax purposes.

**Indefinite-Lived Intangible Assets**

Results from our annual indefinite-lived intangible assets impairment test in the fourth quarter indicated that no impairment occurred in 2017.

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trade names and trademarks, was $21.2 million and $20.3 million at December 30, 2017 and December 31, 2016, respectively. In connection with the Mactac acquisition in 2016, we acquired approximately $13 million of indefinite-lived intangible assets, which consist of trade names. These intangible assets were not subject to amortization as they were classified as indefinite-lived assets.

**Finite-Lived Intangible Assets**

In connection with the 2017 Acquisitions, we acquired approximately $110 million of identifiable intangible assets, which consisted of customer relationships, trade names and trademarks, and patents and other acquired technology. We utilized the income approach to estimate the fair values of the identifiable intangibles associated with the 2017 Acquisitions, using primarily Level 3 inputs. The discount rates we used to value these assets were between 11% and 16.5%.

The table below summarizes the preliminary amounts and weighted useful lives of these intangible assets:

| | Amount (in millions) | Weighted-average amortization period (in years) |
|---|---|---|
| Customer relationships | $ 71.5 | 16 |
| Patents and other acquired technology | 34.0 | 8 |
| Trade names and trademarks | 4.2 | 6 |

In connection with the Mactac acquisition in 2016, we acquired approximately $29 million of identifiable intangible assets, which consisted of customer relationships and patents and other acquired technology. We utilized an income approach to estimate the fair values of the identifiable intangibles acquired from Mactac, using primarily Level 3 inputs. The discount rates we used to value these assets were between 10.5% and 12.5%.

The table below summarizes the amounts and weighted useful lives of these intangible assets:

| | Amount (in millions) | Weighted-average amortization period (in years) |
|---|---|---|
| Customer relationships | $ 26.1 | 15 |
| Patents and other acquired technology | 2.5 | 4 |

Refer to Note 2, "Acquisitions," for more information.

The following table sets forth our finite-lived intangible assets resulting from business acquisitions at December 30, 2017 and December 31, 2016, which continue to be amortized:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| (In millions) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships (1) | $ 329.2 | $ 226.4 | $ 102.8 | $ 247.1 | $ 209.4 | $ 37.7 |
| Patents and other acquired technology (1) | 86.9 | 51.3 | 35.6 | 52.0 | 46.7 | 5.3 |
| Trade names and trademarks (2) | 27.7 | 21.0 | 6.7 | 21.4 | 18.2 | 3.2 |
| Other intangibles | 12.0 | 12.0 | – | 11.7 | 11.5 | .2 |
| Total | $ 455.8 | $ 310.7 | $ 145.1 | $ 332.2 | $ 285.8 | $ 46.4 |

(1) Includes respective finite-lived intangible assets acquired from the 2017 Acquisitions and the Mactac acquisition.
(2) Includes respective finite-lived intangible assets acquired from the 2017 Acquisitions.

Amortization expense for finite-lived intangible assets resulting from business acquisitions was $18.6 million for 2017, $19.9 million for 2016, and $20.5 million for 2015.

The estimated amortization expense for finite-lived intangible assets resulting from business acquisitions for each of the next five fiscal years is expected to be as follows:

| (In millions) | Estimated Amortization Expense |
|---|---|
| 2018 | $ 14.7 |
| 2019 | 13.9 |
| 2020 | 12.0 |
| 2021 | 11.8 |
| 2022 | 10.8 |

## NOTE 4. DEBT AND CAPITAL LEASES

### Short-Term Borrowings

We had $183.8 million and $44.5 million of borrowings from U.S. commercial paper issuances outstanding at December 30, 2017 and December 31, 2016, respectively, with a weighted-average interest rate of 1.79% and .9%, respectively.

In March 2016, we entered into an agreement to establish a Euro-Commercial Paper Program pursuant to which we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding of $500 million. Proceeds from issuances under this program may be used for general corporate purposes. The maturities of the notes may vary, but may not exceed 364 days from the date of issuance. Our payment obligations with respect to any notes issued under this program are backed by our revolving credit facility (the "Revolver"). There are no financial covenants under this program. As of December 30, 2017, there was no balance outstanding under this program.

### Short-Term Credit Facilities

In November 2017, we amended and restated the Revolver, increasing the amount available from certain domestic and foreign banks from $700 million to $800 million. The amendment also extended the Revolver's maturity date to November 8, 2022. The maturity date may be extended for additional one-year periods under certain circumstances. The commitments under the Revolver may be increased by up to $300 million, subject to lender approval and customary requirements. The Revolver is used as a back-up facility for our commercial paper program and can be used for other corporate purposes.

No balance was outstanding under the Revolver as of December 30, 2017 or December 31, 2016. Commitment fees associated with the Revolver in 2017, 2016, and 2015 were $1.1 million, $1.1 million, and $1.9 million, respectively.

In addition to the Revolver, we have significant short-term lines of credit available in various countries totaling approximately $330 million at December 30, 2017. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under our lines of credit were $76.1 million and $72.9 million at December 30, 2017 and December 31, 2016, respectively, with a weighted-average interest rate of 6.2% and 6.5%, respectively.

From time to time, certain of our subsidiaries provide guarantees on certain arrangements with banks. Our exposure to these guarantees is not material.

### Long-Term Borrowings and Capital Leases

In March 2017, we issued €500 million of senior notes, due March 2025. The senior notes bear an interest rate of 1.25% per year, payable annually in arrears. The net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses, were

$526.6 million (€495.5 million), a portion of which we used to repay commercial paper borrowings used to finance a portion of our acquisition of Mactac, and the remainder of which we used for general corporate purposes and the 2017 Acquisitions. We designated the senior notes as a net investment hedge of our investment in foreign operations. Refer to Note 5, "Financial Instruments," for more information.

In October 2017, we repaid $250 million of senior notes at maturity using U.S. commercial paper borrowings.

Long-term debt, including its respective interest rates, and capital lease obligations at year-end consisted of the following:

| (In millions) | 2017 | 2016 |
|---|---|---|
| **Long-term debt and capital leases** | | |
| Medium-term notes: | | |
| Series 1995 due 2020 through 2025 | $ 44.9 | $ 44.9 |
| Long-term notes: | | |
| Senior notes due 2017 at 6.6% | – | 249.7 |
| Senior notes due 2020 at 5.4% | 249.5 | 249.3 |
| Senior notes due 2023 at 3.4% | 248.7 | 248.4 |
| Senior notes due 2025 at 1.25% | 588.4 | – |
| Senior notes due 2033 at 6.0% | 148.7 | 148.6 |
| Capital leases | 25.0 | 25.2 |
| Other borrowings (1) | 16.6 | – |
| Less amount classified as current | (5.5) | (252.7) |
| Total long-term debt and capital leases (2) | $ 1,316.3 | $ 713.4 |

(1) Other borrowings consisted of long-term bank borrowings by foreign subsidiaries.
(2) Includes unamortized debt issuance cost and debt discount of $7.1 million and $.7 million as of year-end 2017, respectively, and $3.6 million and $.4 million as of year-end 2016, respectively.

At year-end 2017, our medium-term notes had maturities from 2020 through 2025 and accrued interest at a weighted-average fixed rate of 7.5%.

We expect maturities of long-term debt and capital lease payments for each of the next five fiscal years and thereafter to be as follows:

| Year | (In millions) |
|---|---|
| 2018 (classified as current) | $ 6.4 |
| 2019 | 19.9 |
| 2020 | 269.3 |
| 2021 | 3.9 |
| 2022 | 3.4 |
| 2023 and thereafter | 1,030.6 |

The maturities of capital lease payments in the table above include $3.9 million of imputed interest, $1 million of which is expected to be paid in 2018.

In May 2015, we extended and amended the lease on our Mentor, Ohio facility for an additional ten years. This facility is used primarily as the North American headquarters and research center of our Label and Graphic Materials business. Because ownership of the facility transfers to us at the end of the lease term, we accounted for it as a capital lease. The carrying value of the lease at December 30, 2017 was approximately $20 million, of which approximately $18 million was included in "Long-term debt and capital leases" and approximately $2 million was included in "Short-term borrowings and current portion of long-term debt and capital leases" in the Consolidated Balance Sheets at December 30, 2017.

### Other

Our Revolver contains financial covenants requiring that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. As of December 30, 2017 and December 31, 2016, we were in compliance with our financial covenants.

Our total interest costs from continuing operations in 2017, 2016, and 2015 were $67.9 million, $63.5 million, and $63.5 million, respectively, of which $4.9 million, $3.6 million, and $3 million, respectively, were capitalized as part of the cost of assets.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities or euro government bond securities, as applicable, on notes with similar rates, credit ratings, and remaining maturities. The fair value of short-term borrowings, which includes commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations. The fair value of our total debt was $1.6 billion at December 30, 2017 and $1.31 billion at December 31, 2016. Fair value amounts were determined based primarily on Level 2 inputs, which are inputs other than quoted prices in active markets that are either directly or indirectly observable. Refer to Note 1, "Summary of Significant Accounting Policies," for more information.

## NOTE 5. FINANCIAL INSTRUMENTS

As of December 30, 2017, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was $3.8 million and $1.37 billion, respectively.

We recognize derivative instruments as either assets or liabilities at fair value in the Consolidated Balance Sheets. We designate commodity forward contracts on forecasted purchases of commodities and foreign exchange contracts on forecasted transactions as cash flow hedges. We also enter into foreign exchange contracts to offset risks arising from foreign exchange rate fluctuations.

The following table shows the fair value and balance sheet locations of cash flow hedges as of December 30, 2017 and December 31, 2016:

| | Asset | | | Liability | | |
|---|---|---|---|---|---|---|
| (In millions) | Balance Sheet Location | 2017 | 2016 | Balance Sheet Location | 2017 | 2016 |
| Foreign exchange contracts | Other current assets | $ .4 | $ 3.0 | Other accrued liabilities | $ .6 | $ 1.0 |
| Commodity contracts | Other current assets | – | .5 | Other accrued liabilities | – | – |
| Commodity contracts | Other assets | – | .1 | | | |
| | | $ .4 | $ 3.6 | | $ .6 | $ 1.0 |

## Notes to Consolidated Financial Statements

The following table shows the fair value and balance sheet locations of other derivatives as of December 30, 2017 and December 31, 2016:

| | Asset | | | Liability | | |
|---|---|---|---|---|---|---|
| (In millions) | Balance Sheet Location | 2017 | 2016 | Balance Sheet Location | 2017 | 2016 |
| Foreign exchange contracts | Other current assets | $ 3.5 | $ 1.6 | Other accrued liabilities | $ 5.6 | $ 6.8 |

### Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of "Accumulated other comprehensive loss" and reclassified into earnings in the same period(s) during which the hedged transaction impacts earnings. Gains and losses on the derivatives, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

Gains (losses), before taxes, recognized in "Accumulated other comprehensive loss" (effective portion) on derivatives related to cash flow hedge contracts were as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Foreign exchange contracts | $ (2.2) | $ .2 | $ (.1) |
| Commodity contracts | (.6) | .6 | (.7) |
| | $ (2.8) | $ .8 | $ (.8) |

The amounts recognized in income related to the ineffective portion of, and the amount excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments were immaterial in 2017, 2016, and 2015.

As of December 30, 2017, we expected a net loss of approximately $.3 million to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months.

### Other Derivatives

For other derivative instruments, which are not designated as hedging instruments, the gain or loss is recognized in current earnings. These derivatives are intended to offset certain of our economic exposures. The following table shows the components of the net gains (losses) recognized in income related to these derivative instruments.

| (In millions) | Location of Net Gains (Losses) in Income | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Foreign exchange contracts | Cost of products sold | $ (1.2) | $ 2.8 | $ 2.9 |
| Foreign exchange contracts | Marketing, general and administrative expense | (42.9) | 4.1 | 2.9 |
| | | $ (44.1) | $ 6.9 | $ 5.8 |

### Net Investment Hedge

In March 2017, we designated our €500 million of euro-denominated 1.25% senior notes due 2025 as a net investment hedge of our investment in foreign operations. The net assets from the investment in foreign operations were greater than the senior notes, and as such, the net investment hedge was effective. Refer to Note 4, "Debt and Capital Leases," for more information.

Gain (loss), before tax, recognized in "Accumulated other comprehensive loss" (effective portion) related to the net investment hedge was as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Foreign currency denominated debt | $ (63.7) | $ N/A | $ N/A |

We recorded no ineffectiveness from our net investment hedge in earnings during 2017.

### NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

### Defined Benefit Plans

We sponsor a number of defined benefit plans, the accrual of benefits under some of which has been frozen, covering eligible employees in the U.S. and certain other countries. Benefits payable to an employee are based primarily on years of service and the employee's compensation during the course of his or her employment with us.

We are also obligated to pay unfunded termination indemnity benefits to certain employees outside of the U.S., which are subject to applicable agreements, laws and regulations. We have not incurred significant costs related to these benefits, and, therefore, no related costs are included in the disclosures below.

In December 2015, we offered eligible former employees who were vested participants in the Avery Dennison Pension Plan (the "ADPP"), our U.S. pension plan, the opportunity to receive their benefits immediately as either a lump-sum payment or an annuity, rather than waiting until they are retirement eligible under the terms of the plan. In the second quarter of 2016, approximately $70 million of pension obligations related to this plan were settled from existing plan assets and a non-cash pre-tax settlement charge of $41.4 million was recorded in "Other expense, net" in the Consolidated Statements of Income. This settlement required us to remeasure the remaining net pension obligations of the ADPP. As a result, in 2016, we recognized approximately $72 million of additional net pension obligations with a corresponding increase in actuarial losses recorded in "Accumulated other comprehensive loss," primarily due to lower discount rates in effect when the plan was remeasured.

## Notes to Consolidated Financial Statements

### Plan Assets

Our investment management of the ADPP assets utilizes a liability driven investment (LDI) strategy. Under an LDI strategy, the assets are invested in a diversified portfolio that includes both risk-seeking ("growth portfolio") and liability-hedging components. The growth portfolio consists primarily of equity and high-yield fixed income securities. The liability-hedging portfolio consists primarily of investment grade fixed income securities and cash and is intended, over time, to more closely match the liabilities of the plan. The investment objective of the portfolio is to improve the funded status of the plan; as funded status reaches certain trigger points, the portfolio moves to a more conservative asset allocation by increasing the allocation to the liability-hedging portfolio. The current target allocation is 65% in the growth portfolio and 35% in the liability-hedging portfolio, subject to periodic fluctuations due to market movements. The plan assets are diversified across asset classes, striving to balance risk and return within the limits of prudent risk-taking and Section 404 of the Employee Retirement Income Security Act of 1974, as amended. Because many of the pension liabilities are long-term, the investment horizon is also long-term, but the investment plan must also ensure adequate near-term liquidity to fund benefit payments.

Assets in our international plans are invested in accordance with locally accepted practices and primarily include equity securities, fixed income securities, insurance contracts and cash. Asset allocations and investments vary by country and plan. Our target plan asset investment allocation for our international plans combined is 39% in equity securities, 43% in fixed income securities and cash, and 18% in insurance contracts and other investments, subject to periodic fluctuations in these respective asset classes.

### Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Cash is valued at nominal value. Mutual funds are valued at fair value as determined by quoted market prices, based upon the net asset value ("NAV") of shares held at year-end. Pooled funds are structured as collective trusts, not publicly traded, and valued by calculating NAV per unit based on the NAV of the underlying funds/trusts as a practical expedient for the fair value of the pooled funds. Insurance contracts are valued at book value, which approximates fair value and is calculated using the prior year balance plus or minus investment returns and changes in cash flows.

These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the fair value hierarchy (as applicable), U.S. plan assets (all in the ADPP) at fair value:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **2017** | | | | |
| Cash | $ – | $ – | $ – | $ – |
| Pooled funds – liability-hedging portfolio (1) | 275.6 | | | |
| Pooled funds – growth portfolio (1) | 464.6 | | | |
| Total U.S. plan assets | $ 740.2 | | | |
| **2016** | | | | |
| Cash | $ – | $ – | $ – | $ – |
| Pooled funds – liability-hedging portfolio (1) | 269.0 | | | |
| Pooled funds – growth portfolio (1) | 403.1 | | | |
| Total U.S. plan assets | $ 672.1 | | | |

(1) Pooled funds that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to reconcile to total U.S. plan assets.

The following table sets forth, by level within the fair value hierarchy (as applicable), international plan assets at fair value:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **(In millions)** | **Total** | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Other Unobservable Inputs (Level 3)** |
| **2017** | | | | |
| Cash | $ 1.7 | $ 1.7 | $ – | $ – |
| Insurance contracts | 35.7 | – | – | 35.7 |
| Pooled funds – fixed income securities (1) | 278.5 | | | |
| Pooled funds – equity securities (1) | 277.3 | | | |
| Pooled funds – other investments (1) | 90.5 | | | |
| Total international plan assets at fair value | $ 683.7 | | | |
| **2016** | | | | |
| Cash | $ 3.0 | $ 3.0 | $ – | $ – |
| Insurance contracts | 30.5 | – | – | 30.5 |
| Pooled funds – fixed income securities (1) | 284.2 | | | |
| Pooled funds – equity securities (1) | 223.4 | | | |
| Pooled funds – other investments (1) | 43.1 | | | |
| Total international plan assets at fair value | $ 584.2 | | | |

(1) Pooled funds that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to reconcile to total international plan assets.

The following table presents a reconciliation of Level 3 international plan asset activity during the year ended December 30, 2017:

| | Level 3 Assets |
|---|---|
| **(In millions)** | **Insurance Contracts** |
| Balance at December 31, 2016 | $ 30.5 |
| Net realized and unrealized gain | .7 |
| Purchases | 2.8 |
| Settlements | (1.4) |
| Impact of changes in foreign currency exchange rates | 3.1 |
| Balance at December 30, 2017 | $ 35.7 |

**Postretirement Health Benefits**

We provide postretirement health benefits to certain retired U.S. employees up to the age of 65 under a cost-sharing arrangement and provide supplemental Medicare benefits to certain U.S. retirees over the age of 65. Our policy is to fund the cost of the postretirement benefits from operating cash flows. While we have not expressed any intent to terminate postretirement health benefits, we may do so at any time, subject to applicable laws and regulations.

**Plan Assumptions**

*Discount Rate*

In consultation with our actuaries, we annually review and determine the discount rates used to value our postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. Our discount rate is determined by evaluating yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams are then matched with bond portfolios to determine a rate that reflects the liability duration unique to our plans.

In 2016, we began using the full yield curve approach to estimate the service and interest cost components of net periodic benefit cost for our pension and other postretirement benefit plans. Under this approach, we applied multiple discount rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. We believe this approach provides a more precise measurement of service and interest cost by aligning the timing of the plans' liability cash flows to the corresponding rates on the yield curve. Historically, we estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period.

*Long-term Return on Assets*

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between returns in our asset classes, and the mix of active and passive investments. Additionally, current market conditions, including interest rates, are evaluated and market data is reviewed for reasonableness and appropriateness.

*Healthcare Cost Trend Rate*

Our practice is to fund the cost of postretirement benefits from operating cash flows. For measurement purposes, we assumed a 7% annual rate of increase in the per capita cost of covered health care benefits for 2018. This rate is expected to decrease to 5% by 2024.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| (In millions) | One-percentage-point Increase | One-percentage-point Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ .01 | $ (.01) |
| Effect on postretirement benefit obligations | .3 | (.2) |

*Measurement Date*

We measure the actuarial value of our benefit obligations and plan assets using the calendar month-end closest to our fiscal year-end and adjust for any contributions or other significant events between the measurement date and our fiscal year-end.

**Plan Balance Sheet Reconciliations**

The following table provides a reconciliation of benefit obligations, plan assets, funded status of the plans and accumulated other comprehensive loss for our defined benefit plans:

*Plan Benefit Obligations*

| | Pension Benefits | | | | U.S. Postretirement Health Benefits | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | 2016 |
| (In millions) | U.S. | Int'l | U.S. | Int'l | | |
| **Change in projected benefit obligations** | | | | | | |
| Projected benefit obligations at beginning of year | $ 1,033.7 | $ 762.9 | $ 1,088.9 | $ 674.7 | $ 5.0 | $ 5.9 |
| Service cost | .5 | 18.2 | .4 | 13.9 | – | – |
| Interest cost | 35.3 | 14.3 | 34.4 | 16.4 | .1 | .2 |
| Participant contribution | – | 3.4 | – | 2.9 | .5 | .5 |
| Amendments | – | (2.1) | – | (.6) | – | – |
| Actuarial loss (gain) | 73.1 | (26.4) | 39.1 | 123.8 | (.1) | (.2) |
| Plan transfers | – | (1.3) | – | – | – | – |
| Acquisition (1) | – | – | – | 14.6 | – | – |
| Benefits paid | (60.5) | (22.5) | (59.9) | (21.8) | (1.4) | (1.4) |
| Curtailments | – | – | – | (.3) | – | – |
| Settlements (2) | – | – | (69.2) | – | – | – |
| Foreign currency translation | – | 90.2 | – | (60.7) | – | – |
| Projected benefit obligations at end of year | $ 1,082.1 | $ 836.7 | $ 1,033.7 | $ 762.9 | $ 4.1 | $ 5.0 |
| Accumulated benefit obligations at end of year | $ 1,082.1 | $ 355.6 | $ 1,033.7 | $ 704.8 | | |

(1) In connection with the Mactac acquisition in August 2016, we assumed benefit obligations associated with two defined benefit plans in Belgium.
(2) In 2016, settlements were related to the lump-sum pension payments associated with the ADPP.

## Notes to Consolidated Financial Statements

*Plan Assets*

| (In millions) | Pension Benefits 2017 U.S. | Pension Benefits 2017 Int'l | Pension Benefits 2016 U.S. | Pension Benefits 2016 Int'l | U.S. Postretirement Health Benefits 2017 | U.S. Postretirement Health Benefits 2016 |
|---|---|---|---|---|---|---|
| **Change in plan assets** | | | | | | |
| Plan assets at beginning of year | $ 672.1 | $ 584.2 | $ 704.9 | $ 552.1 | $ – | $ – |
| Actual return on plan assets | 90.1 | 34.2 | 42.9 | 79.4 | – | – |
| Plan transfers | – | (.7) | – | – | – | – |
| Acquisition (1) | – | – | – | 8.9 | – | – |
| Employer contributions | 38.5 | 14.0 | 53.4 | 13.8 | .9 | .9 |
| Participant contributions | – | 3.4 | – | 2.9 | .5 | .5 |
| Benefits paid | (60.5) | (22.5) | (59.9) | (21.8) | (1.4) | (1.4) |
| Settlements (2) | – | – | (69.2) | – | – | – |
| Foreign currency translation | – | 71.1 | – | (51.1) | – | – |
| Plan assets at end of year | $ 740.2 | $ 683.7 | $ 672.1 | $ 584.2 | $ – | $ – |

(1) In connection with the Mactac acquisition in August 2016, we assumed plan assets associated with two defined benefit plans in Belgium.
(2) In 2016, settlements were related to the lump-sum pension payments associated with the ADPP.

*Funded Status*

| (In millions) | Pension Benefits 2017 U.S. | Pension Benefits 2017 Int'l | Pension Benefits 2016 U.S. | Pension Benefits 2016 Int'l | U.S. Postretirement Health Benefits 2017 | U.S. Postretirement Health Benefits 2016 |
|---|---|---|---|---|---|---|
| **Funded status of the plans** | | | | | | |
| Other accrued liabilities | $ (33.4) | $ (2.4) | $ (13.5) | $ (2.0) | $ (.5) | $ (.8) |
| Long-term retirement benefits and other liabilities (1) | (308.5) | (150.6) | (348.1) | (176.7) | (3.6) | (4.2) |
| Plan assets less than benefit obligations | $ (341.9) | $ (153.0) | $ (361.6) | $ (178.7) | $ (4.1) | $ (5.0) |

(1) In accordance with our funding strategy, we have the option to fund certain of these liabilities with proceeds from our corporate-owned life insurance policies.

| | Pension Benefits 2017 U.S. | Pension Benefits 2017 Int'l | Pension Benefits 2016 U.S. | Pension Benefits 2016 Int'l | U.S. Postretirement Health Benefits 2017 | U.S. Postretirement Health Benefits 2016 |
|---|---|---|---|---|---|---|
| **Weighted-average assumptions used to determine year-end benefit obligations** | | | | | | |
| Discount rate | 3.71% | 2.25% | 4.25% | 2.12% | 3.55% | 3.95% |
| Compensation rate increase | – | 2.29 | – | 2.27 | – | – |

For U.S. and international plans combined, the projected benefit obligations and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $1.92 billion and $1.42 billion, respectively, at year-end 2017 and $1.80 billion and $1.26 billion, respectively, at year-end 2016.

For U.S. and international plans combined, the accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $1.44 billion and $994 million, respectively, at year-end 2017 and $1.74 billion and $1.26 billion, respectively, at year-end 2016.

*Accumulated Other Comprehensive Loss*

The following table sets forth the pre-tax amounts recognized in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets:

| (In millions) | Pension Benefits 2017 U.S. | Pension Benefits 2017 Int'l | Pension Benefits 2016 U.S. | Pension Benefits 2016 Int'l | U.S. Postretirement Health Benefits 2017 | U.S. Postretirement Health Benefits 2016 |
|---|---|---|---|---|---|---|
| Net actuarial loss | $ 567.2 | $ 186.5 | $ 564.2 | $ 213.6 | $ 17.0 | $ 18.5 |
| Prior service cost (credit) | 16.7 | (7.4) | 17.5 | (4.9) | (13.1) | (16.4) |
| Net transition obligation | – | .1 | – | .2 | – | – |
| Net amount recognized in accumulated other comprehensive loss | $ 583.9 | $ 179.2 | $ 581.7 | $ 208.9 | $ 3.9 | $ 2.1 |

The following table sets forth the pre-tax amounts, including those of discontinued operations, recognized in "Other comprehensive loss (income)":

| | Pension Benefits | | | | | | U.S. Postretirement Health Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2017 | 2016 | 2015 |
| (In millions) | U.S. | Int'l | U.S. | Int'l | U.S. | Int'l | | | |
| Net actuarial loss (gain) | $ 21.8 | $ (17.2) | $ 39.1 | $ 48.9 | $ 21.1 | $ 11.3 | $ – | $ (.2) | $ (1.4) |
| Prior service (credit) cost | – | (2.1) | – | (.6) | – | (.7) | – | – | – |
| Amortization of unrecognized: | | | | | | | | | |
| Net actuarial loss | (18.7) | (10.8) | (19.0) | (7.0) | (20.0) | (9.4) | (1.5) | (1.7) | (2.2) |
| Prior service (cost) credit | (.9) | .4 | (1.2) | .4 | (1.2) | .3 | 3.3 | 3.2 | 3.3 |
| Net transition obligation | – | – | – | (.1) | – | – | – | – | – |
| Curtailments | – | – | – | – | – | .2 | – | – | – |
| Settlements | – | – | (41.4) | – | – | (4.3) | – | – | – |
| Net amount recognized in other comprehensive (income) loss | $ 2.2 | $ (29.7) | $ (22.5) | $ 41.6 | $ (.1) | $ (2.6) | $ 1.8 | $ 1.3 | $ (.3) |

**Plan Income Statement Reconciliations**

The following table sets forth the components of net periodic benefit cost, which are recorded in income from continuing operations, for our defined benefit plans:

| | Pension Benefits | | | | | | U.S. Postretirement Health Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2017 | 2016 | 2015 |
| (In millions) | U.S. | Int'l | U.S. | Int'l | U.S. | Int'l | | | |
| Service cost | $ .5 | $ 18.2 | $ .4 | $ 13.9 | $ .4 | $ 13.8 | $ – | $ – | $ – |
| Interest cost | 35.3 | 14.3 | 34.4 | 16.4 | 45.8 | 17.3 | .1 | .1 | .3 |
| Actuarial (gain) loss | 1.7 | – | (.2) | – | .4 | – | – | – | – |
| Expected return on plan assets | (40.5) | (21.1) | (42.7) | (21.4) | (51.5) | (21.5) | – | – | – |
| Amortization of actuarial loss | 18.7 | 10.8 | 19.0 | 7.0 | 20.0 | 9.4 | 1.5 | 1.7 | 2.2 |
| Amortization of prior service cost (credit) | .9 | (.4) | 1.2 | (.4) | 1.2 | (.3) | (3.3) | (3.2) | (3.3) |
| Amortization of transition obligation | – | – | – | .1 | – | – | – | – | – |
| Recognized net (gain) loss on curtailments | – | – | – | (.2) | – | (.2) | – | – | – |
| Recognized loss on settlements (1) | – | – | 41.4 | – | – | 4.3 | – | – | – |
| Net periodic benefit cost (credit) | $ 16.6 | $ 21.8 | $ 53.5 | $ 15.4 | $ 16.3 | $ 22.8 | $ (1.7) | $ (1.4) | $ (.8) |

(1) In 2016, we recognized a loss on settlements related to the ADPP as a result of making the lump-sum pension payments described above. In 2015, we recognized a loss on settlements related to pension plans in Germany and France as a result of the sale of a product line in our RBIS reportable segment. We also recognized a loss on settlements in Switzerland in 2015. These losses on settlements were recorded in "Other expense, net" in the Consolidated Statements of Income.

The following table sets forth the weighted-average assumptions used to determine net periodic cost:

| | Pension Benefits | | | | | | U.S. Postretirement Health Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2017 | 2016 | 2015 |
| | U.S. | Int'l | U.S. | Int'l | U.S. | Int'l | | | |
| Discount rate | 4.18% | 2.12% | 4.55% | 2.95% | 4.00% | 2.54% | 3.95% | 4.13% | 3.50% |
| Expected return on assets | 7.00 | 3.77 | 7.25 | 4.14 | 7.50 | 4.27 | – | – | – |
| Compensation rate increase | – | 2.27 | – | 2.24 | – | 2.22 | – | – | – |

### Plan Contributions

We make contributions to our defined benefit plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, we determine to be appropriate. The following table sets forth our expected contributions in 2018:

| (In millions) | |
|---|---|
| U.S. | $ 34.0 |
| Int'l | 14.9 |
| U.S. postretirement health benefits | .5 |

### Future Benefit Payments

Anticipated future benefit payments, which reflect expected service periods for eligible participants, were as follows:

| | Pension Benefits | | U.S. Postretirement Health Benefits |
|---|---|---|---|
| (In millions) | U.S. | Int'l | |
| 2018 | $ 83.0 | $ 20.4 | $ .5 |
| 2019 | 58.9 | 21.8 | .4 |
| 2020 | 59.0 | 21.3 | .3 |
| 2021 | 60.6 | 23.0 | .3 |
| 2022 | 60.5 | 25.9 | .3 |
| 2023 - 2027 | 305.9 | 145.5 | 1.3 |

### Estimated Amortization Amounts in Accumulated Other Comprehensive Loss

Our estimates of fiscal year 2018 amortization of amounts included in "Accumulated other comprehensive loss" were as follows:

| | Pension Benefits | | U.S. Postretirement Health Benefits |
|---|---|---|---|
| (In millions) | U.S. | Int'l | |
| Net actuarial loss | $ 20.8 | $ 8.1 | $ 1.4 |
| Prior service cost (credit) | .8 | (.5) | (3.3) |
| Net transition obligation | – | .1 | – |
| Net loss (gain) to be recognized | $ 21.6 | $ 7.7 | $ (1.9) |

### Defined Contribution Plans

We sponsor various defined contribution plans worldwide, the largest of which is the Avery Dennison Corporation Employee Savings Plan ("Savings Plan"), a 401(k) plan for our U.S. employees.

We recognized expense from continuing operations of $20.2 million, $20 million, and $20.2 million in 2017, 2016, and 2015, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

### Other Retirement Plans

We have deferred compensation plans that permit eligible employees and directors to defer a portion of their compensation. The compensation voluntarily deferred by the participant, together with certain employer contributions, earns specified and variable rates of return. As of year-end 2017 and 2016, we had accrued $86.9 million and $78.7 million, respectively, for our obligations under these plans. A portion of the interest on certain of our contributions may be forfeited by participants if their employment terminates before age 55 other than by reason of death or disability.

Our Directors Deferred Equity Compensation Plan allows our non-employee directors to elect to receive their cash compensation in deferred stock units ("DSUs") issued under our equity plans. Dividend equivalents, representing the value of dividends per share paid on shares of our common stock and calculated with reference to the number of DSUs held as of a quarterly dividend record date, are credited in the form of additional DSUs on the applicable payable date. A director's DSUs are converted into shares of our common stock upon his or her resignation or retirement. Approximately .2 million and .1 million DSUs were outstanding as of year-end 2017 and 2016, respectively, with an aggregate value of $17.8 million and $10.2 million, respectively.

We hold corporate-owned life insurance policies, the proceeds from which are payable to us upon the death of covered participants. The cash surrender values of these policies, net of outstanding loans, which are included in "Other assets" in the Consolidated Balance Sheets, were $243.5 million and $230.6 million at year-end 2017 and 2016, respectively.

## NOTE 7. COMMITMENTS

Minimum annual rental commitments on operating leases having initial or remaining non-cancelable lease terms of one year or more are as follows:

| Year | (In millions) |
|---|---|
| 2018 | $ 48.2 |
| 2019 | 35.8 |
| 2020 | 26.3 |
| 2021 | 18.2 |
| 2022 | 13.6 |
| 2023 and thereafter | 47.6 |
| Total minimum lease payments | $ 189.7 |

Rent expense for operating leases from continuing operations was approximately $64 million in 2017 and approximately $58 million in both 2016 and 2015. Operating leases primarily relate to office and warehouse space and equipment for information technology, machinery, and transportation. These leases do not impose significant restrictions or unusual obligations.

Refer to Note 4, "Debt and Capital Leases," for more information.

## NOTE 8. CONTINGENCIES

### Legal Proceedings

We are involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities.

Because of the uncertainties associated with claims resolution and litigation, future expenses to resolve these matters could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our accrued liabilities accordingly. Additional lawsuits, claims, inquiries, and other regulatory and compliance matters could arise in the future. The range of expenses for resolving any future matters would be assessed as they arise; until then, a range of potential expenses for such resolution cannot be determined. Based upon current information, we believe that the impact of the resolution of these matters would not be, individually or in the aggregate, material to our financial position, results of operations or cash flows.

### Environmental Expenditures

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the shorter of the estimated useful life of the acquired asset or the remaining life of the existing asset. We review our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us as a potentially responsible party ("PRP"). When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities.

As of December 30, 2017, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a PRP at thirteen waste disposal or waste recycling sites that are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination. No settlement of our liability related to any of the sites has been agreed upon. We are participating with other PRPs at these sites and anticipate that our share of remediation costs will be determined pursuant to agreements that we negotiate with the EPA or other governmental authorities.

These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, future expenses to remediate these sites could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our environmental liabilities accordingly. In addition, we may be identified as a PRP at additional sites in the future. The range of expenses for remediation of any future-identified sites would be addressed as they arise; until then, a range of expenses for such remediation cannot be determined.

The activity in 2017 and 2016 related to our environmental liabilities was as follows:

| (In millions) | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | $ 21.3 | $ 17.7 |
| Acquisitions | 3.0 | – |
| Charges (reversals), net | 2.8 | 11.6 |
| Payments | (6.0) | (8.0) |
| Balance at end of year | $ 21.1 | $ 21.3 |

As of December 30, 2017 and December 31, 2016, approximately $5 million and $8 million, respectively, of the balance was classified as short-term and included in "Other accrued liabilities" in the Consolidated Balance Sheets.

### NOTE 9. FAIR VALUE MEASUREMENTS

#### Recurring Fair Value Measurements

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of December 30, 2017:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Trading securities | $ 22.7 | $ 17.7 | $ 5.0 | $ – |
| Derivative assets | 3.9 | – | 3.9 | – |
| Bank drafts | 18.4 | 18.4 | – | – |
| **Liabilities** | | | | |
| Derivative liabilities | $ 6.2 | $ .1 | $ 6.1 | $ – |
| Contingent consideration liabilities | 45.0 | – | – | 45.0 |

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of December 31, 2016:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Trading securities | $ 18.1 | $ 11.7 | $ 6.4 | $ – |
| Derivative assets | 5.2 | .6 | 4.6 | – |
| Bank drafts | 14.3 | 14.3 | – | – |
| **Liabilities** | | | | |
| Derivative liabilities | $ 7.8 | $ – | $ 7.8 | $ – |

Trading securities include fixed income securities (primarily U.S. government and corporate debt securities) measured at fair value using quoted prices/bids and a money market fund measured at fair value using NAV. As of December 30, 2017, trading securities of $.4 million and $22.3 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the Consolidated Balance Sheets. As of December 31, 2016, trading securities of $.5 million and $17.6 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the Consolidated Balance Sheets. Derivatives that are exchange-traded are measured at fair value using quoted market prices and classified within Level 1 of the valuation hierarchy. Derivatives measured based on foreign exchange rate inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy. Bank drafts (maturities greater than three months) are valued at face value due to their short-term nature and were included in "Other current assets" in the Consolidated Balance Sheets. Contingent consideration liabilities relate to estimated earn-out payments associated with certain of the 2017 Acquisitions. These payments are based on the achievement of certain performance targets in 2017 and 2018 based on the applicable terms of the purchase agreements, and our estimates are based on the expected payments related to these targets under the terms of their respective agreements. We have classified these liabilities as Level 3. As of December 30, 2017, contingent consideration liabilities of approximately $18 million and $27 million were included in "Other accrued liabilities" and "Long-term retirement benefits and other liabilities," respectively, in the Consolidated Balance Sheets.

## NOTE 10. NET INCOME PER COMMON SHARE

Net income per common share was computed as follows:

| (In millions, except per share amounts) | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| (A) | Income from continuing operations | $ 281.8 | $ 320.7 | $ 274.4 |
| (B) | Loss from discontinued operations, net of tax | – | – | (.1) |
| (C) | Net income available to common shareholders | $ 281.8 | $ 320.7 | $ 274.3 |
| (D) | Weighted average number of common shares outstanding | 88.3 | 89.1 | 91.0 |
| | Dilutive shares (additional common shares issuable under stock-based awards) | 1.8 | 1.6 | 1.9 |
| (E) | Weighted average number of common shares outstanding, assuming dilution | 90.1 | 90.7 | 92.9 |
| Net income per common share: | | | | |
| Continuing operations (A) ÷ (D) | | $ 3.19 | $ 3.60 | $ 3.01 |
| Discontinued operations (B) ÷ (D) | | – | – | – |
| Net income per common share (C) ÷ (D) | | $ 3.19 | $ 3.60 | $ 3.01 |
| Net income per common share, assuming dilution: | | | | |
| Continuing operations (A) ÷ (E) | | $ 3.13 | $ 3.54 | $ 2.95 |
| Discontinued operations (B) ÷ (E) | | – | – | – |
| Net income per common share, assuming dilution (C) ÷ (E) | | $ 3.13 | $ 3.54 | $ 2.95 |

Certain stock-based compensation awards were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Stock-based compensation awards excluded from the computation were not significant in 2017. Stock-based compensation awards excluded from the computation totaled approximately .2 million shares in 2016 and 1 million shares in 2015.

## Notes to Consolidated Financial Statements

**NOTE 11. SUPPLEMENTAL EQUITY AND COMPREHENSIVE INCOME INFORMATION**

**Common Stock and Share Repurchase Program**

Our Certificate of Incorporation authorizes five million shares of $1 par value preferred stock (of which none are outstanding), with respect to which our Board may fix the series and terms of issuance, and 400 million shares of $1 par value voting common stock.

From time to time, our Board authorizes the repurchase of shares of our outstanding common stock. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes. In 2017, we repurchased approximately 1.5 million shares of our common stock at an aggregate cost of $129.7 million. In 2016, we repurchased approximately 3.8 million shares of our common stock at an aggregate cost of $262.4 million.

In April 2017, our Board authorized the repurchase of shares of our common stock with a fair market value of up to $650 million, exclusive of any fees, commissions or other expenses related to such purchases, in addition to the amount outstanding under our previous Board authorization. Board authorizations remain in effect until shares in the amount authorized thereunder have been repurchased. As of December 30, 2017, shares of our common stock in the aggregate amount of $625.2 million remained authorized for repurchase under this Board authorization. As of December 31, 2016, shares of our common stock in the aggregate amount of $104.9 million remained authorized under our previous Board authorization.

**Treasury Shares Reissuance**

We fund a portion of our employee-related expenses using shares of our common stock held in treasury. We record net gains or losses associated with our use of treasury shares to retained earnings.

**Other Comprehensive Income**

The changes in "Accumulated other comprehensive loss" (net of tax) for 2017 and 2016 were as follows:

| (In millions) | Foreign Currency Translation | Pension and Other Postretirement Benefits | Cash Flow Hedges | Total |
|---|---|---|---|---|
| Balance as of January 2, 2016 | $ (158.9) | $ (521.6) | $ (2.5) | $ (683.0) |
| Other comprehensive (loss) income before reclassifications, net of tax | (53.7) | (62.9) | .7 | (115.9) |
| Reclassifications to net income, net of tax | – | 44.2 | 2.8 | 47.0 |
| Net current-period other comprehensive (loss) income, net of tax | (53.7) | (18.7) | 3.5 | (68.9) |
| Balance as of December 31, 2016 | $ (212.6) | $ (540.3) | $ 1.0 | $ (751.9) |
| Other comprehensive income (loss) before reclassifications, net of tax | 56.4 | (3.0) | (2.2) | 51.2 |
| Reclassifications to net income, net of tax | – | 19.3 | .9 | 20.2 |
| Net current-period other comprehensive income (loss), net of tax | 56.4 | 16.3 | (1.3) | 71.4 |
| Balance as of December 30, 2017 | $ (156.2) | $ (524.0) | $ (.3) | $ (680.5) |

The amounts reclassified from "Accumulated other comprehensive loss" to increase (decrease) income from continuing operations were as follows:

| (In millions) | 2017 | 2016 | 2015 | Affected Line Item in the Statements Where Net Income is Presented |
|---|---|---|---|---|
| Cash flow hedges: | | | | |
| Foreign exchange contracts | $ .2 | $ (3.0) | $ 3.9 | Cost of products sold |
| Commodity contracts | .2 | (.7) | (1.3) | Cost of products sold |
| Interest rate contracts | (1.8) | (.1) | (.1) | Interest expense |
| | (1.4) | (3.8) | 2.5 | Total before tax |
| | .5 | 1.0 | (.5) | Provision for income taxes |
| | (.9) | (2.8) | 2.0 | Net of tax |
| Pension and other postretirement benefits (1) | (28.2) | (66.8) | (33.3) | |
| | 8.9 | 22.6 | 10.4 | Provision for income taxes |
| | (19.3) | (44.2) | (22.9) | Net of tax |
| Total reclassifications for the period | $ (20.2) | $ (47.0) | $ (20.9) | Total, net of tax |

(1) See Note 6, "Pension and Other Postretirement Benefits," for more information.

The following table sets forth the income tax (benefit) expense allocated to each component of other comprehensive loss:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Foreign currency translation: | | | |
| Translation gain (loss) | $ (25.1) | $ (3.3) | $ (2.2) |
| Pension and other postretirement benefits: | | | |
| Net loss recognized from actuarial gain/loss and prior service cost/credit | .5 | (24.2) | (11.4) |
| Reclassifications to net income | 8.9 | 22.6 | 10.4 |
| Cash flow hedges: | | | |
| (Losses) gains recognized on cash flow hedges | (.6) | .1 | (.3) |
| Reclassifications to net income | .5 | 1.0 | (.5) |
| Income tax benefit related to items of other comprehensive loss | $ (15.8) | $ (3.8) | $ (4.0) |

**NOTE 12. LONG-TERM INCENTIVE COMPENSATION**

**Stock-Based Awards**

*Stock-Based Compensation*

We maintain various stock option and incentive plans and grant our annual stock-based compensation awards to eligible employees in February and non-employee directors in May. Certain awards granted to retirement-eligible employees vest in full upon retirement; awards to these employees are accounted for as fully vested on the date of grant.

In April 2017, our shareholders approved our 2017 Incentive Award Plan (the "Equity Plan") to replace our Amended and Restated Stock Option and Incentive Plan. The Equity Plan, a long-term incentive plan for eligible employees and non-employee directors, allows us to grant stock-based compensation awards – including stock options, restricted stock units, performance units, and market-leveraged stock units – or a

combination of these and other awards. Under the Equity Plan, the aggregate number of shares available for issuance is 5.4 million shares and each full value award is counted as 1.5 shares for purposes of the number of shares authorized for issuance. Full value awards include restricted stock units, performance units, and market-leveraged stock units.

Stock-based compensation expense from continuing operations and the related recognized tax benefit were as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Stock-based compensation expense | $ 30.2 | $ 27.2 | $ 26.3 |
| Tax benefit | 4.3 | 8.5 | 8.2 |

This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income.

As of December 30, 2017, we had approximately $38 million of unrecognized compensation expense from continuing operations related to unvested stock-based awards, which is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

*Stock Options*

Stock options granted to employees may be granted at no less than 100% of the fair market value of our common stock on the date of the grant and generally vest ratably over a four-year period. Options expire ten years from the date of grant.

The fair value of stock options is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate and the expected option term. The following assumptions are used in estimating the fair value of granted stock options:

*Risk-free interest rate* is based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term.

*Expected stock price volatility* represents an average of the implied and historical volatility.

*Expected dividend yield* is based on the current annual dividend divided by the 12-month average of our monthly stock price prior to grant.

*Expected option term* is determined based on historical experience under our stock option and incentive plans.

The weighted-average grant date fair value per share for stock options granted in 2016 was $14.17. No stock options were granted in fiscal years 2017 and 2015.

The underlying weighted-average assumptions used were as follows:

| | 2016 |
|---|---|
| Risk-free interest rate | 1.75% |
| Expected stock price volatility | 24.58% |
| Expected dividend yield | 2.58% |
| Expected option term | 6.5 years |

The following table sets forth stock option information during 2017:

| | Number of options (in thousands) | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic value (in millions) |
|---|---|---|---|---|
| Outstanding at December 31, 2016 | 1,115.2 | $ 41.29 | 4.72 | $ 32.8 |
| Exercised | (571.6) | 38.50 | | |
| Outstanding at December 30, 2017 | 543.6 | $ 44.22 | 4.94 | $ 38.4 |
| Options vested and expected to vest at December 30, 2017 | 527.4 | 43.30 | 4.83 | 37.7 |
| Options exercisable at December 30, 2017 | 402.5 | $ 33.79 | 3.72 | $ 32.6 |

The total intrinsic value of stock options exercised was $26.8 million in 2017, $31.7 million in 2016, and $43.3 million in 2015. We received approximately $22 million in 2017, $71 million in 2016, and $104 million in 2015 from the exercise of stock options. The tax benefit associated with these exercised options was $10.1 million in 2017, $11.3 million in 2016, and $15.6 million in 2015. The intrinsic value of a stock option is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

*Performance Units ("PUs")*

PUs are performance-based awards granted to eligible employees under our equity plans. PUs are payable in shares of our common stock at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the period. Over the performance period, the estimated number of shares of our common stock issuable upon vesting is adjusted upward or downward based upon the probability of the achievement of the performance objectives established for the award. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant. The weighted-average grant date fair value for PUs was $82.15, $68.04, and $51.37 in 2017, 2016, and 2015, respectively.

The following table summarizes information related to awarded PUs:

| | Number of PUs (in thousands) | Weighted-average grant-date fair value |
|---|---|---|
| Unvested at December 31, 2016 | 490.8 | $ 58.47 |
| Granted at target | 164.4 | 82.15 |
| Adjustment for above-target performance (1) | 114.2 | 48.59 |
| Vested | (231.5) | 48.26 |
| Forfeited/cancelled | (52.8) | 66.08 |
| Unvested at December 30, 2017 | 485.1 | $ 68.15 |

(1) Reflects adjustments for awards vesting based on above-target performance for the 2014-2016 performance period.

The fair value of vested PUs was $11.2 million in 2017, $13.8 million in 2016, and $12.2 million in 2015.

## Notes to Consolidated Financial Statements

*Market-Leveraged Stock Units ("MSUs")*

MSUs are performance-based awards granted to eligible employees under our equity plans. MSUs are payable in shares of our common stock over a four-year period provided that the performance objective is achieved as of the end of each vesting period. MSUs accrue dividend equivalents during the vesting period, which are earned and paid only at vesting provided that, at a minimum, threshold performance is achieved. The number of shares earned is based upon our absolute total shareholder return at each vesting date and can range from 0% to 200% of the target amount of MSUs subject to vesting. Each of the four vesting periods represents one tranche of MSUs and the fair value of each of these four tranches was determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected stock price volatility and other assumptions, to estimate the probability of achieving the performance objective established for the award. The weighted-average grant date fair value for MSUs was $91.40, $72.93, and $56.46 in 2017, 2016, and 2015, respectively.

The following table summarizes information related to awarded MSUs:

| | Number of MSUs (in thousands) | Weighted-average grant-date fair value |
|---|---|---|
| Unvested at December 31, 2016 | 530.7 | $ 62.09 |
| Granted at target | 123.7 | 91.40 |
| Adjustments for above-target performance (1) | 126.0 | 55.24 |
| Vested | (342.0) | 56.33 |
| Forfeited/cancelled | (34.8) | 71.15 |
| Unvested at December 30, 2017 | 403.6 | $ 70.07 |

(1) Reflects adjustments for awards vesting based on above-target performance for each of the performance periods vesting in 2017.

The fair value of vested MSUs was $19.3 million in 2017, $12.4 million in 2016, and $9.8 million in 2015.

*Restricted Stock Units ("RSUs")*

RSUs are service-based awards granted to eligible employees under our equity plans, which generally vest ratably over a period of four years for employees. Prior to 2017, RSUs granted to non-employee directors under our equity plans vested ratably over a period of three years. Beginning in 2017, RSUs granted to non-employee directors generally vest over a period of one year. The vesting of RSUs is subject to continued service through the applicable vesting date. If that condition is not met, unvested RSUs are generally forfeited. The weighted-average grant date fair value for RSUs was $82.77, $67.66, and $53.29 in 2017, 2016, and 2015, respectively.

The following table summarizes information related to awarded RSUs:

| | Number of RSUs (in thousands) | Weighted-average grant-date fair value |
|---|---|---|
| Unvested at December 31, 2016 | 117.7 | $ 58.87 |
| Granted | 74.5 | 82.77 |
| Vested | (47.6) | 55.72 |
| Forfeited/cancelled | (4.2) | 59.53 |
| Unvested at December 30, 2017 | 140.4 | $ 72.62 |

The fair value of vested RSUs was $2.7 million, $5.3 million, and $8.4 million in 2017, 2016, and 2015, respectively.

**Cash-Based Awards**

*Long-Term Incentive Units ("LTI Units")*

LTI Units are granted to eligible employees under our long-term incentive unit plan. LTI Units are service-based awards that generally vest ratably over a four-year period. The settlement value equals the number of vested LTI Units multiplied by the average of the high and low market prices of our common stock on the vesting date. The compensation expense related to these awards is amortized on a straight-line basis and the fair value is remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end.

We also grant cash-based awards in the form of performance and market-leveraged LTI Units to eligible employees. Performance LTI Units are payable in cash at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the performance period. Market-leveraged LTI Units are payable in cash and vest ratably over a period of four years. The number of performance and market-leveraged LTI Units earned at vesting is adjusted upward or downward based upon the probability of achieving the performance objectives established for the respective award and the actual number of units issued can range from 0% to 200% of the target units subject to vesting. The performance and market-leveraged LTI Units are remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end over their respective performance periods. The compensation expense related to performance LTI Units is amortized on a straight-line basis over their respective performance periods. The compensation expense related to market-leveraged LTI Units is amortized on a graded-vesting basis over their respective performance periods.

The compensation expense from continuing operations related to LTI Units was $36.6 million in 2017, $23.8 million in 2016, and $27.1 million in 2015. This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income. The total recognized tax benefit related to LTI Units was $8.3 million in 2017, $7.8 million in 2016, and $8.6 million in 2015.

**NOTE 13. COST REDUCTION ACTIONS**

**Restructuring Charges**

We have compensation plans that provide eligible employees with severance in the event of an involuntary termination. We calculate severance using benefit formulas under the respective plans. Accordingly, we record restructuring charges from qualifying cost reduction actions for severance and other exit costs (including asset impairment charges and lease and other contract cancellation costs) when they are probable and estimable. In the absence of a plan or established local practice in overseas jurisdictions, liabilities for restructuring charges are recognized when incurred.

**2015/2016 Actions**

During fiscal year 2017, we recorded $34.1 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 ("2015/2016 Actions"). These charges consisted of severance and related costs for the reduction of

approximately 920 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2016, we recorded $20.9 million in restructuring charges, net of reversals, related to our 2015/2016 Actions. These charges consisted of severance and related costs for the reduction of approximately 440 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2015, we recorded $26.1 million in restructuring charges, net of reversals, related to our 2015/2016 Actions. These charges consisted of severance and related costs for the reduction of approximately 430 positions, lease cancellation costs, and asset impairment charges.

**Prior Actions**

During fiscal year 2015, we recorded $33.4 million in restructuring charges, net of reversals, related to prior restructuring actions. These charges consisted of severance and related costs for the reduction of approximately 605 positions, lease cancellation costs, and asset impairment charges.

Accruals for severance and related costs and lease cancellation costs were included in "Other accrued liabilities" in the Consolidated Balance Sheets. Asset impairment charges were based on the estimated market value of the assets, less selling costs, if applicable. Restructuring charges in continuing operations were included in "Other expense, net" in the Consolidated Statements of Income.

During 2017, restructuring charges and payments were as follows:

| (In millions) | Accrual at December 31, 2016 | Charges (Reversals), net | Cash Payments | Non-cash Impairment | Foreign Currency Translation | Accrual at December 30, 2017 |
|---|---|---|---|---|---|---|
| **2015/2016 Actions** | | | | | | |
| Severance and related costs | $ 3.3 | $ 31.9 | $ (30.8) | $ – | $ (.1) | $ 4.3 |
| Lease cancellation costs | .2 | 1.2 | (.8) | – | – | .6 |
| Asset impairment charges | – | 1.0 | – | (1.0) | – | – |
| **Prior actions** | | | | | | |
| Severance and related costs | 1.3 | (.7) | (.6) | – | – | – |
| Total | $ 4.8 | $ 33.4 | $ (32.2) | $ (1.0) | $ (.1) | $ 4.9 |

During 2016, restructuring charges and payments were as follows:

| (In millions) | Accrual at January 2, 2016 | Charges (Reversals), net | Cash Payments | Non-cash Impairment | Foreign Currency Translation | Accrual at December 31, 2016 |
|---|---|---|---|---|---|---|
| **2015/2016 Actions** | | | | | | |
| Severance and related costs | $ 8.4 | $ 15.7 | $ (20.9) | $ – | $ .1 | $ 3.3 |
| Asset impairment charges | – | 4.1 | – | (4.1) | – | – |
| Lease cancellation costs | .2 | 1.1 | (1.1) | – | – | .2 |
| **Prior actions** | | | | | | |
| Severance and related costs | 5.5 | (1.0) | (3.2) | – | – | 1.3 |
| Total | $ 14.1 | $ 19.9 | $ (25.2) | $ (4.1) | $ .1 | $ 4.8 |

The table below shows the total amount of restructuring charges incurred by reportable segment and Corporate:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Restructuring charges by reportable segment and Corporate** | | | |
| Label and Graphic Materials | $ 14.8 | $ 8.5 | $ 13.6 |
| Retail Branding and Information Solutions | 18.4 | 10.5 | 35.7 |
| Industrial and Healthcare Materials | .2 | .9 | 8.0 |
| Corporate | – | – | 2.2 |
| Total | $ 33.4 | $ 19.9 | $ 59.5 |

**NOTE 14. TAXES BASED ON INCOME**

Taxes based on income were as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current: | | | |
| U.S. federal tax | $ 47.0 | $ 10.1 | $ 26.4 |
| State taxes | .2 | .6 | (.1) |
| International taxes | 111.0 | 77.3 | 92.7 |
| | 158.2 | 88.0 | 119.0 |
| Deferred: | | | |
| U.S. federal tax | 134.8 | 64.4 | 6.3 |
| State taxes | (3.7) | (3.0) | .5 |
| International taxes | 18.4 | 7.0 | 8.7 |
| | 149.5 | 68.4 | 15.5 |
| Provision for income taxes | $ 307.7 | $ 156.4 | $ 134.5 |

The principal items accounting for the difference between taxes computed at the U.S. statutory rate and taxes recorded were as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Computed tax at 35% of income before taxes | $ 206.7 | $ 167.0 | $ 143.1 |
| Increase (decrease) in taxes resulting from: | | | |
| State taxes, net of federal tax benefit | (3.2) | 2.2 | 1.3 |
| Tax Cuts and Jobs Act (1) | 172.0 | – | – |
| Foreign earnings taxed at different rates (2) | (40.2) | 27.0 | (7.5) |
| Excess tax benefits associated with stock-based payments (3) | (16.0) | – | – |
| Valuation allowance | (1.4) | (11.9) | .9 |
| Corporate-owned life insurance | (6.7) | (4.3) | (1.9) |
| U.S. federal research and development tax credits | (4.9) | (2.9) | (2.6) |
| Tax contingencies and audit settlements | (1.9) | (20.7) | 5.1 |
| Other items, net | 3.3 | – | (3.9) |
| Provision for income taxes | $ 307.7 | $ 156.4 | $ 134.5 |

(1) During 2017, we recognized a net tax charge of $172 million as a result of the TCJA. This amount includes the direct impacts of the TCJA, including items that would otherwise be separately disclosed as tax effects of foreign earnings taxed at different rates, tax contingencies and audit settlements, and other items.

(2) Included foreign earnings taxed in the U.S., net of credits, in all years.

(3) During 2017, we recognized a tax benefit of $16 million as a result of our adoption of the accounting guidance update related to stock-based payments.

Income from continuing operations before taxes from our U.S. and international operations was as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| U.S. | $ 49.0 | $ 17.9 | $ 33.9 |
| International | 540.5 | 459.2 | 375.0 |
| Income from continuing operations before taxes | $ 589.5 | $ 477.1 | $ 408.9 |

The effective tax rate for continuing operations was 52.2%, 32.8%, and 32.9% for fiscal years 2017, 2016, and 2015, respectively.

The 2017 effective tax rate for continuing operations included a net tax charge of $172 million related to the enactment of the TCJA, $5.1 million of tax benefit from the release of valuation allowance on certain state deferred tax assets, $4.2 million of tax benefit, including previously accrued interest and penalties, from effective settlements and changes in our judgment about tax filing positions as a result of new information, and $4.4 million of tax benefit from decreases in certain tax reserves, including interest and penalties, as a result of closing tax years.

The 2017 effective tax rate also included a net benefit of $16 million related to our adoption of the accounting guidance update related to stock-based payments described in Note 1, "Summary of Significant Accounting Policies." This accounting guidance update required that the effect of excess tax benefits associated with stock-based payments to be recognized in the income statement instead of in capital in excess of par value as was the case prior to our adoption of this update. Excess tax benefits are the effects of tax deductions in excess of compensation expense recognized for financial accounting purposes. These benefits related to stock-based awards generally are generated as a result of stock price appreciation during the vesting period or between the time of grant and the time of exercise. We expect future excess tax benefits to vary depending on our stock-based payments in future reporting periods. These excess tax benefits may cause variability in our future effective tax rate as they can fluctuate based on vesting and exercise activity, as well as our future stock price.

In 2017, as a result of intra-entity sales and transfers of assets other than inventory related to the recent integration of an acquisition, we recognized a total of approximately $14 million of tax-related deferred charges in "Other current assets" and "Other assets." However, we expect the tax-related deferred charges to be derecognized as an adjustment to retained earnings upon our adoption of the accounting guidance update described in Note 1, "Summary of Significant Accounting Policies."

The 2016 effective tax rate for continuing operations included $7.6 million of tax expense associated with the cost to repatriate current earnings of certain foreign subsidiaries and $46.3 million of tax expense related to U.S. income and foreign withholding taxes resulting from changes in indefinite reinvestment assertions on certain foreign earnings and profits; benefits from changes in certain tax reserves, including interest and penalties, of $16.8 million resulting from settlements of certain foreign audits and $5.4 million resulting from expirations of statutes of limitations; benefits of $6.7 million from the release of valuation allowances against certain deferred tax assets in a foreign jurisdiction associated with a structural simplification approved by the tax authority and $3.6 million from the release of valuation allowances on certain state deferred tax assets; and $8.4 million of tax expense from deferred tax adjustments resulting from tax rate changes in certain foreign jurisdictions.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use existing deferred tax assets. On the basis of our assessment, we record valuation allowances only with respect to the portion of the deferred tax asset that is more likely than not to be realized. Our assessment of the future realizability of our deferred tax assets relies heavily on our forecasted earnings in certain jurisdictions, and such forecasted earnings are determined by the manner in which we operate our business. Any changes to our operations may affect our assessment of deferred tax assets considered realizable if the positive evidence no longer outweighs the negative evidence.

In connection with our initiatives to simplify our corporate legal entity and intercompany financing structures, we evaluated the facts and circumstances surrounding the indefinite reinvestment assertions on certain foreign earnings and profits that would be affected as a result of our actions to improve structural and operational efficiency. Our evaluation considered working capital, long-term liquidity, capitalization improvement, acquisition plans, and alignment of our existing structure with long-term strategic plans. As a result of this evaluation, we determined that the excess of the amount for financial reporting over the tax basis of investments in certain foreign subsidiaries is subject to reversal in the foreseeable future and we recorded a tax provision for the effects of changes in indefinite reinvestment assertions in 2016.

The 2015 effective tax rate for continuing operations included tax expense of $20 million associated with the tax cost to repatriate current earnings of certain foreign subsidiaries; benefits from changes in certain tax reserves, including interest and penalties, of $5.8 million resulting from settlements of audits and $8.2 million resulting from expirations of statutes of limitations; and a tax benefit of $2.6 million from the extension of the federal research and development credit, as a result of the enactment of the Protecting Americans from Tax Hikes Act of 2015 ("PATH Act"), which included a provision making permanent the federal research and development tax credit for the tax years 2015 and beyond. The PATH Act also retroactively extended the controlled foreign corporation ("CFC") look-through rule that had expired on December 31, 2014.

**U.S. Tax Reform**

On December 22, 2017, the TCJA was enacted in the U.S. The TCJA significantly revises U.S. corporate income taxation by, among other changes, lowering corporate income tax rates to 21%, implementing a modified territorial tax regime and imposing a one-time transition tax through a deemed repatriation of accumulated untaxed earnings and profits of foreign subsidiaries.

Based on currently available information, we included a provisional amount of $172 million as the estimated impact resulting from the TCJA in our results for the fourth quarter and full year 2017. This provisional amount includes expenses of $147 million related to the estimated transition tax, $49.2 million resulting from the estimated remeasurement of net U.S. deferred tax assets at the lower corporate income tax rate, a $9.3 million reserve related to potential uncertainties of our accumulated tax attributes that were used in our estimated transition tax calculation, $5.3 million from the estimated reduction of previously recognized U.S. deferred tax assets that we no longer anticipate to benefit from due to changes in the future deductibility of executive compensation, partially offset by a net benefit of $38.8 million, primarily from the reversal of the deferred tax liability that we previously recorded for future tax costs associated with repatriations of certain foreign earnings and profits that we consider not to be indefinitely reinvested.

We have not finalized the accounting for income tax effects of the TCJA and we are relying on the guidance in SAB 118 to include our provisional amount of the accounting impact of the TCJA in our financial statements for the fourth quarter and full year 2017. Specifically, the provisional amount recorded includes the transition tax, the remeasurement of deferred taxes and uncertain tax positions as they related to the TCJA, changes to certain estimates and amounts related to earnings and profits of and taxes paid by certain foreign subsidiaries, changes in limitations governing the future deductibility of our previously recorded deferred tax assets on executive compensation, and an accrual for foreign withholding taxes associated with our previous indefinite reinvestment assertions. Furthermore, we are still in the process of analyzing the effects of new tax provisions related to certain types of foreign incomes, such as Global Intangible Low-taxed Income ("GILTI"), Base Erosion Antiabuse Tax ("BEAT"), and Foreign Derived Intangible Income ("FDII"), as well as other domestic provisions that are effective starting in 2018. Additionally, we are reevaluating our previous indefinite reinvestment assertions and, should we decide to change such assertions, we will adjust our income tax provision in the period in which such determination is made. We have not made a determination on our accounting policy choice of whether to treat taxes on our GILTI as period costs or to recognize deferred taxes for basis differences expected to reverse as GILTI. The final impact of the TCJA may materially differ from our provisional amount, due to, among other things, further refinement of our data, calculations and analysis, changes in interpretations and assumptions, regulatory and administrative guidance, and actions we may take as a result of the TCJA.

The TCJA implements a modified territorial tax regime that provides a full exemption for foreign dividends received by a U.S. corporation from a foreign corporation in which the U.S. corporation owns at least a 10% stake. In connection with the full dividend exemption, the TCJA also eliminates future foreign tax credits for foreign income taxes or withholding taxes paid or accrued with respect to any dividend to which the new exemption applies. Absent the availability of foreign tax credits to offset against potential foreign withholding taxes related to future repatriation of certain foreign earnings and profits that we consider not to be indefinitely reinvested, we reflected a net incremental impact of $11.5 million as an increase to our deferred tax liability. This tax expense was included in our provisional amount of $172 million referenced above. For the remaining undistributed earnings of our foreign subsidiaries, we continue to consider such earnings to be indefinitely reinvested according to our current operating plans and no deferred tax liability has been recorded for potential future taxes related to such earnings. The imposition of the transition tax by the TCJA significantly reduced the largest component of potential future tax liabilities associated with future repatriation of our foreign earnings and profits. As a result, we continue to evaluate our previous indefinite reinvestment assertions and, should we decide to change such assertions, we will adjust our income tax provision in the period in which such determination is made.

SAB 118 provides for a measurement period up to one year from the enactment of the TCJA within which we may complete our final assessment of the legislation's impact. We will reflect and disclose in subsequent reporting periods any material adjustments to our provisional amount.

As a result of the transition tax imposed by the TCJA, we expect to fully utilize all of our U.S. federal tax credit carryforwards of $101.2 million, causing a reduction in our non-current deferred tax assets at the end of 2017. The estimated cash tax impact of the transition tax is $27.8 million, net of tax credit carryforwards and expected tax credits estimated to be generated in 2017. We will elect to pay the transition cash tax over an eight-year period, interest free, with the first installment due in 2018. Accordingly, we classified the first installment of $2.2 million in our current income taxes payable and the remaining $25.6 million in our non-current income taxes payable. We did not discount the cash tax related to the transition tax pursuant to the exposure draft issued by the FASB in January 2018. We neither expect our future cash tax rate to be materially impacted by the transition tax nor our future cash tax rate to benefit significantly from the reduction in the U.S. corporate income tax rate.

**Undistributed Foreign Earnings and Profits**

As of December 30, 2017, we have accumulated undistributed earnings and profits of foreign subsidiaries of approximately $2.9 billion, $2.5 billion of which was subject to the transition tax associated with the TCJA and $.4 billion of which was otherwise previously taxed. Deferred income taxes for approximately $2.3 billion of these accumulated undistributed earnings and profits of foreign subsidiaries have not been provided as of December 30, 2017 since they are intended to be indefinitely reinvested in foreign operations. Notwithstanding the fact that the TCJA reduced the significance of the U.S. federal income tax consequences of future repatriation, we continue to face uncertainties that significantly limit our ability to determine the amount of potential unrecognized deferred tax liabilities related to our indefinite reinvestment in our foreign subsidiaries. These uncertainties include, but are not limited to, the timing, amount, and sequence of repatriation transactions; future foreign currency fluctuations; local country tax laws or applicable treaty exemptions; entity classification and ownership status; and the corporate actions we ultimately take to reverse our investment basis differences at the time of assumed repatriation. As a result, we believe it continues to be not practicable to calculate the deferred taxes associated with these indefinitely reinvested earnings and profits. In making this assertion, we evaluated, among other factors, the profitability of our U.S. and foreign operations and the need for cash within and outside the U.S., including cash requirements for capital improvements, acquisitions, market expansion, dividends, and share repurchases.

**Deferred Income Taxes**

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that gave rise to our deferred tax assets and liabilities were as follows:

| (In millions) | 2017 | 2016 |
|---|---|---|
| Accrued expenses not currently deductible | $ 19.9 | $ 42.1 |
| Net operating losses | 185.9 | 195.9 |
| Tax credit carryforwards | 14.0 | 111.3 |
| Stock-based compensation | 18.0 | 28.4 |
| Pension and other postretirement benefits | 140.9 | 207.7 |
| Inventory reserves | 6.5 | 7.1 |
| Unrealized foreign currency losses (1) | 14.9 | – |
| Other assets | 6.3 | .9 |
| Valuation allowance | (63.4) | (60.4) |
| Total deferred tax assets (2) | 343.0 | 533.0 |
| Depreciation and amortization | (95.3) | (86.1) |
| Repatriation accrual (3) | (27.7) | (62.1) |
| Foreign operating loss recapture | (54.9) | (79.8) |
| Other liabilities | (8.8) | (2.3) |
| Total deferred tax liabilities (2) | (186.7) | (230.3) |
| Total net deferred tax assets | $ 156.3 | $ 302.7 |

(1) Primarily reflect the unrealized foreign currency losses in 2017 related to our net investment hedge described in Note 5, "Financial Instruments."
(2) Reflect gross amounts before jurisdictional netting of deferred tax assets and liabilities.
(3) The repatriation accruals as of December 30, 2017 and December 31, 2016 primarily include net deferred tax liabilities of $27.7 million and $62.4 million, respectively, associated with the future tax cost to repatriate earnings of our foreign subsidiaries that are not indefinitely reinvested.

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. The valuation allowance at December 30, 2017 and December 31, 2016 was $63.4 million and $60.4 million, respectively.

Net operating loss carryforwards of foreign subsidiaries at December 30, 2017 and December 31, 2016 were $633.7 million and $689.9 million, respectively. Tax credit carryforwards of both domestic and foreign subsidiaries at December 30, 2017 and December 31, 2016 totaled $14 million and $111.3 million, respectively. If unused, foreign net operating losses and tax credit carryforwards will expire as follows:

| (In millions)<br>Year of Expiry | Net Operating Losses (1) | Tax Credits |
|---|---|---|
| 2018 | $ 14.3 | $ .1 |
| 2019 | 4.8 | .1 |
| 2020 | 5.5 | .2 |
| 2021 | 3.5 | .4 |
| 2022 | 9.8 | .5 |
| 2023 | 5.0 | .5 |
| 2024 | .4 | .3 |
| 2025 | 2.3 | .3 |
| 2026 | .9 | 1.6 |
| 2027 | .8 | .3 |
| 2028 | – | .1 |
| 2029 | – | .1 |
| 2030 | – | .2 |
| 2031 | – | .3 |
| 2032 | – | .4 |
| 2033 | – | – |
| 2034 | .7 | – |
| 2035 | – | – |
| 2036 | – | – |
| 2037 | – | – |
| Indefinite life/no expiry | 585.7 | 8.6 |
| Total | $ 633.7 | $ 14.0 |

(1) Net operating losses are presented before tax effect and valuation allowance.

Based on current projections, certain indefinite-lived foreign net operating losses may take up to 50 years to be fully utilized.

At December 30, 2017, we had net operating loss carryforwards in certain state jurisdictions of $523 million before tax effect. Based on our current ability to generate state taxable income, it is more likely than not that the majority of these carryforwards will not be realized before they expire. Accordingly, a valuation allowance has been recorded on $521.1 million of the carryforwards.

As of December 30, 2017, our provision for income taxes does not reflect any material benefits from applicable tax holidays in foreign jurisdictions.

**Unrecognized Tax Benefits**

As of December 30, 2017, our unrecognized tax benefits totaled $108.7 million, $83.9 million of which, if recognized, would reduce our annual effective income tax rate. As of December 31, 2016, our unrecognized tax benefits totaled $89.5 million, $71.5 million of which, if recognized, would reduce our annual effective income tax rate.

Where applicable, we record potential accrued interest and penalties related to unrecognized tax benefits from our global operations in income tax expense. As a result, we recognized tax expense of $1.5 million, tax expense of $3.1 million, and tax benefit of $1.3 million in the Consolidated Statements of Income in 2017, 2016, and 2015, respectively. We have accrued $25.8 million and $22.3 million for interest and penalties, net of tax benefit, in the Consolidated Balance Sheets at December 30, 2017 and December 31, 2016, respectively.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is set forth below:

| (In millions) | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | $ 89.5 | $ 107.3 |
| Additions for tax positions of the current year | 14.1 | 6.9 |
| Additions (reductions) for tax positions of prior years | 3.0 | (15.7) |
| Settlements with tax authorities | (1.6) | (2.1) |
| Expirations of statutes of limitations | (2.7) | (4.2) |
| Changes due to translation of foreign currencies | 6.4 | (2.7) |
| Balance at end of year | $ 108.7 | $ 89.5 |

The amount of income taxes we pay is subject to ongoing audits by taxing jurisdictions around the world. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of the relevant risks, facts, and circumstances existing at the time. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate. As of the date the 2017 Consolidated Financial Statements are being issued, we and our U.S. subsidiaries have completed the Internal Revenue Service's Compliance Assurance Process Program through 2016. We also expect a German tax audit for tax years 2006-2010 to be completed in 2018. We are subject to routine tax examinations in other jurisdictions. With some exceptions, we and our subsidiaries are no longer subject to income tax examinations by tax authorities for years prior to 2006.

It is reasonably possible that, during the next 12 months, we may realize a decrease in our uncertain tax positions, including interest and penalties, of approximately $22 million, primarily as a result of audit settlements and closing tax years.

## NOTE 15. SEGMENT INFORMATION

### Segment Reporting

We have the following reportable segments:

- Label and Graphic Materials – manufactures and sells pressure-sensitive labeling technology and materials and films for graphic and reflective applications;
- Retail Branding and Information Solutions – designs, manufactures and sells a wide variety of branding and information products and services, including brand and price tickets, tags and labels (including RFID inlays), and related services, supplies and equipment; and
- Industrial and Healthcare Materials – manufactures performance tapes, fastener solutions, and an array of pressure-sensitive adhesive products for various medical applications.

Intersegment sales are recorded at or near market prices and are eliminated in determining consolidated sales. We evaluate performance based on income from operations before interest expense and taxes. General corporate expenses are also excluded from the computation of income from operations for the segments.

We do not disclose total assets by reportable segment since we neither generate nor review such information internally. As our reporting structure is neither organized nor reviewed internally by country, results by individual country are not provided.

Financial information from continuing operations by reportable segment is set forth below:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Net sales to unaffiliated customers** | | | |
| Label and Graphic Materials | $ 4,511.7 | $ 4,187.3 | $ 4,032.1 |
| Retail Branding and Information Solutions | 1,511.2 | 1,445.4 | 1,443.4 |
| Industrial and Healthcare Materials | 590.9 | 453.8 | 491.4 |
| Net sales to unaffiliated customers | $ 6,613.8 | $ 6,086.5 | $ 5,966.9 |
| **Intersegment sales** | | | |
| Label and Graphic Materials | $ 64.1 | $ 63.4 | $ 61.3 |
| Retail Branding and Information Solutions | 3.2 | 2.9 | 2.9 |
| Industrial and Healthcare Materials | 7.7 | 7.2 | 14.8 |
| Intersegment sales | $ 75.0 | $ 73.5 | $ 79.0 |
| **Income from continuing operations before taxes** | | | |
| Label and Graphic Materials | $ 567.3 | $ 516.2 | $ 453.4 |
| Retail Branding and Information Solutions | 122.9 | 102.6 | 51.6 |
| Industrial and Healthcare Materials | 50.5 | 54.6 | 57.1 |
| Corporate expense | (88.2) | (136.4) | (92.7) |
| Interest expense | (63.0) | (59.9) | (60.5) |
| Income from continuing operations before taxes | $ 589.5 | $ 477.1 | $ 408.9 |
| **Capital expenditures** | | | |
| Label and Graphic Materials | $ 125.5 | $ 118.8 | $ 68.3 |
| Retail Branding and Information Solutions | 48.8 | 50.9 | 51.0 |
| Industrial and Healthcare Materials | 19.5 | 7.2 | 19.6 |
| Capital expenditures | $ 193.8 | $ 176.9 | $ 138.9 |
| **Depreciation and amortization expense** | | | |
| Label and Graphic Materials | $ 102.3 | $ 103.1 | $ 104.9 |
| Retail Branding and Information Solutions | 56.4 | 64.3 | 70.6 |
| Industrial and Healthcare Materials | 20.0 | 12.7 | 12.8 |
| Depreciation and amortization expense | $ 178.7 | $ 180.1 | $ 188.3 |
| **Other expense, net by reportable segment** | | | |
| Label and Graphic Materials | $ 14.5 | $ 13.0 | $ 12.1 |
| Retail Branding and Information Solutions | 18.1 | 9.8 | 45.7 |
| Industrial and Healthcare Materials | 3.7 | 1.9 | 8.0 |
| Corporate | .2 | 40.5 | 2.5 |
| Other expense, net | $ 36.5 | $ 65.2 | $ 68.3 |

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Other expense, net by type** | | | |
| Restructuring charges: | | | |
| Severance and related costs | $ 31.2 | $ 14.7 | $ 52.5 |
| Asset impairment charges and lease cancellation costs | 2.2 | 5.2 | 7.0 |
| Other items: | | | |
| Transaction costs | 5.2 | 5.0 | – |
| Net gains on sales of assets | (2.1) | (1.1) | (1.7) |
| Net loss from curtailment and settlement of pension obligations | – | 41.4 | .3 |
| Legal settlements | – | – | (.3) |
| Loss on sale of product line and related exit costs | – | – | 10.5 |
| Other expense, net | $ 36.5 | $ 65.2 | $ 68.3 |

Within our Industrial and Healthcare Materials reportable segment, net sales to unaffiliated customers for the combined Performance Tapes and Vancive Medical Technologies product groups were $515.1 million, $377.4 million, and $414.6 million in 2017, 2016, and 2015, respectively.

Revenues from continuing operations by geographic area are set forth below. Revenues are attributed to geographic areas based on the location from which the product is shipped.

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Net sales to unaffiliated customers** | | | |
| U.S. | $ 1,557.8 | $ 1,525.6 | $ 1,546.8 |
| Europe | 2,041.6 | 1,838.8 | 1,753.0 |
| Asia | 2,250.5 | 1,996.1 | 1,924.0 |
| Latin America | 476.4 | 450.5 | 466.3 |
| Other international | 287.5 | 275.5 | 276.8 |
| Net sales to unaffiliated customers | $ 6,613.8 | $ 6,086.5 | $ 5,966.9 |

Net sales to unaffiliated customers in Asia included sales in China (including Hong Kong) of $1.3 billion in 2017, and $1.14 billion in both 2016 and 2015.

Property, plant and equipment, net, in our U.S. and international operations was as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Property, plant and equipment, net** | | | |
| U.S. | $ 286.4 | $ 278.5 | $ 263.4 |
| International | 811.5 | 636.7 | 584.5 |
| Property, plant and equipment, net | $ 1,097.9 | $ 915.2 | $ 847.9 |

## NOTE 16. SUPPLEMENTAL FINANCIAL INFORMATION

### Inventories

Net inventories at year-end were as follows:

| (In millions) | 2017 | 2016 |
|---|---|---|
| Raw materials | $ 214.6 | $ 185.0 |
| Work-in-progress | 179.8 | 156.8 |
| Finished goods | 215.2 | 177.3 |
| Inventories, net | $ 609.6 | $ 519.1 |

### Property, Plant and Equipment

Major classes of property, plant and equipment, stated at cost, at year-end were as follows:

| (In millions) | 2017 | 2016 |
|---|---|---|
| Land | $ 31.1 | $ 29.3 |
| Buildings and improvements | 638.9 | 565.3 |
| Machinery and equipment | 2,188.2 | 1,949.5 |
| Construction-in-progress | 142.7 | 117.3 |
| Property, plant and equipment | 3,000.9 | 2,661.4 |
| Accumulated depreciation | (1,903.0) | (1,746.2) |
| Property, plant and equipment, net | $ 1,097.9 | $ 915.2 |

### Software

Capitalized software costs at year-end were as follows:

| (In millions) | 2017 | 2016 |
|---|---|---|
| Cost | $ 428.9 | $ 415.5 |
| Accumulated amortization | (301.8) | (297.9) |
| Software, net | $ 127.1 | $ 117.6 |

Software amortization expense from continuing operations was $29.3 million in 2017, $37.9 million in 2016, and $37.6 million in 2015.

### Equity Method Investment

In October 2016, we acquired a 22.6% interest in PragmatIC Printing Limited ("PragmatIC"), a company that develops flexible electronics technology. PragmatIC's primary assets are intangible assets related to its technology. We used the equity method to account for this investment. The carrying values of this investment were $9.1 million and $9.5 million as of December 30, 2017 and December 31, 2016, respectively, and were included in "Other assets" in the Consolidated Balance Sheets.

### Research and Development

Research and development expense from continuing operations, which is included in "Marketing, general and administrative expense" in the Consolidated Statements of Income, was as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Research and development expense | $ 93.4 | $ 89.7 | $ 91.9 |

**Supplemental Cash Flow Information**

Cash paid for interest and income taxes, including amounts paid for discontinued operations, were as follows:

| (In millions) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest, net of capitalized amounts | $ 57.7 | $ 58.9 | $ 60.1 |
| Income taxes, net of refunds | 125.6 | 106.1 | 129.9 |

**Foreign Currency Effects**

Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency), including hedging impacts, decreased net income by $4.1 million, $1.6 million, and $6.1 million in 2017, 2016, and 2015, respectively.

We had no operations in hyperinflationary economies in fiscal years 2017, 2016, or 2015.

**Discontinued Operations**

Loss from discontinued operations, net of tax, for 2015 included tax expense related to the completion of certain tax returns related to the sale of our former OCP and DES businesses. We continue to be subject to certain indemnification obligations under the terms of the purchase agreement.

**Sale of Product Line**

In May 2015, we sold certain assets and transferred certain liabilities associated with a product line in our RBIS reportable segment for $1.5 million. The pre-tax loss from the sale, when combined with exit costs related to the sale, totaled $8.5 million. The exit costs included $3.4 million of severance costs. In the first quarter of 2015, we recorded an impairment charge of approximately $2 million related to certain long-lived assets in this product line. This loss and these costs were included in "Other expense, net" in the Consolidated Statements of Income.

## NOTE 17. QUARTERLY FINANCIAL INFORMATION (Unaudited)

| (In millions, except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2017** | | | | |
| Net sales | $ 1,572.1 | $ 1,626.9 | $ 1,679.5 | $ 1,735.3 |
| Gross profit | 442.4 | 452.6 | 451.6 | 465.6 |
| Net income (loss) (1) | 112.2 | 120.9 | 108.3 | (59.6) |
| Net income (loss) per common share | 1.27 | 1.37 | 1.23 | (.68) |
| Net income (loss) per common share, assuming dilution | 1.25 | 1.34 | 1.20 | (.66) |
| **2016** | | | | |
| Net sales | $ 1,485.5 | $ 1,541.5 | $ 1,508.7 | $ 1,550.8 |
| Gross profit | 422.6 | 434.1 | 417.6 | 425.4 |
| Net income | 89.6 | 80.0 | 89.1 | 62.0 |
| Net income per common share | 1.00 | .90 | 1.00 | .70 |
| Net income per common share, assuming dilution | .98 | .88 | .98 | .69 |

(1) During the fourth quarter of 2017, we recognized a net tax charge of $172 million as a result of the TCJA.

"Other expense, net" is presented by type for each quarter below:

| (In millions) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2017** | | | | |
| Restructuring charges: | | | | |
| Severance and related costs | $ 5.7 | $ 7.3 | $ 8.7 | $ 9.5 |
| Asset impairment charges and lease cancellation costs | – | .3 | 1.8 | .1 |
| Other items: | | | | |
| Net gains on sales of assets | – | – | – | (2.1) |
| Transaction costs | .8 | 2.6 | .3 | 1.5 |
| Other expense, net | $ 6.5 | $ 10.2 | $ 10.8 | $ 9.0 |
| **2016** | | | | |
| Restructuring charges: | | | | |
| Severance and related costs | $ 5.2 | $ 3.6 | $ 1.9 | $ 4.0 |
| Asset impairment charges and lease cancellation costs | .4 | 2.8 | .7 | 1.3 |
| Other items: | | | | |
| Loss from settlement of pension obligations | – | 41.4 | – | – |
| Loss (gain) on sales of assets | – | .3 | – | (1.4) |
| Transaction costs | – | 2.1 | 2.0 | .9 |
| Other expense, net | $ 5.6 | $ 50.2 | $ 4.6 | $ 4.8 |

**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The consolidated financial statements and accompanying information are the responsibility of and were prepared by management. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts that are based on management's best estimates and judgments.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by our Board of Directors, through its Audit and Finance Committee, which is comprised solely of independent directors. The Committee meets periodically with financial management, internal auditors and our independent registered public accounting firm to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent registered public accounting firm and our internal audit department have free access to, and periodically meet with, the Audit and Finance Committee without management present.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rule 13a-15(f) or 15(d)-15(f). Under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, management has concluded that internal control over financial reporting was effective as of December 30, 2017. Management's assessment of the effectiveness of internal control over financial reporting as of December 30, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein.

We have excluded Yongle Tape Ltd. ("Yongle") from our assessment of internal control over financial reporting as of December 30, 2017 because we acquired the company in a purchase business combination during fiscal year 2017. Yongle is a wholly-owned subsidiary whose total assets and total revenues excluded from our assessment of internal control over financial reporting represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2017.

/s/ Mitchell R. Butier

**Mitchell R. Butier**
President and
Chief Executive Officer

/s/ Gregory S. Lovins

**Gregory S. Lovins**
Senior Vice President and
Chief Financial Officer

# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Avery Dennison Corporation

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Avery Dennison Corporation and its subsidiaries (the "Company") as of December 30, 2017 and December 31, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 30, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the COSO.

**Basis for Opinions**

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Yongle Tape Ltd. ("Yongle") from its assessment of internal control over financial reporting as of December 30, 2017 because it was acquired by the Company in a purchase business combination during fiscal year 2017. We have also excluded Yongle from our audit of internal control over financial reporting. Yongle is a wholly-owned subsidiary whose total assets and total net sales excluded from management's assessment and our audit of internal control over financial reporting represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2017.

**Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
February 21, 2018

We have served as the Company's auditor since at least 1960, which were the Company's first financial statements subject to SEC reporting requirements. We have not determined the specific year we began serving as auditor of the Company or a predecessor company.

# Corporate Information

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP
Los Angeles, California

**Registrar and Transfer Agent**

Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717
(888) 682-5999
(720) 864-4993 (international)
(855) 627-5080 (hearing impaired)
https://investor.broadridge.com

**Annual Meeting**

Our Annual Meeting of Stockholders will be held at 1:30 p.m. Pacific Time on April 26, 2018 at the Embassy Suites, 800 North Central Avenue, Glendale, California 91203.

**The Direct Share Purchase and Sale Program**

Shareholders of record may reinvest their cash dividends in additional shares of our common stock at market price. Investors may also invest optional cash payments of up to $12,500 per month in our common stock at market price. Investors not yet participating in the program, as well as brokers and custodians who hold our common stock on behalf of clients, may obtain a copy of the program by contacting Broadridge Corporate Issuer Solutions, Inc.

**Direct Deposit of Dividends**

Shareholders may receive their quarterly dividend payments by direct deposit into their checking or savings accounts. For more information, contact Broadridge Corporate Issuer Solutions, Inc.

**Other Information**

We are including, as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for fiscal year 2017 filed with the Securities and Exchange Commission ("SEC"), certificates of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. We submitted to the New York Stock Exchange ("NYSE") an unqualified annual written affirmation, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's corporate governance listing standards, on April 28, 2017.

A copy of our Annual Report on Form 10-K, as filed with the SEC, will be furnished to shareholders and interested investors free of charge upon written request to our Corporate Secretary. Copies may also be downloaded from our investor website at www.investors.averydennison.com.

**Corporate Headquarters**

Avery Dennison Corporation
207 Goode Avenue
Glendale, California 91203
Phone: (626) 304-2000

**Stock and Dividend Data**

Our common stock is listed on the NYSE.
Ticker symbol: AVY

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| **Market Price** | | | | |
| First Quarter | $ 81.85 | $ 70.14 | $ 72.86 | $ 58.16 |
| Second Quarter | 88.78 | 79.48 | 77.12 | 71.11 |
| Third Quarter | 99.93 | 88.82 | 78.84 | 71.13 |
| Fourth Quarter | 117.10 | 98.79 | 78.04 | 68.61 |

| | 2017 | 2016 |
|---|---|---|
| **Dividends per Common Share** | | |
| First Quarter | $ .41 | $ .37 |
| Second Quarter | .45 | .41 |
| Third Quarter | .45 | .41 |
| Fourth Quarter | .45 | .41 |
| | $ 1.76 | $ 1.60 |
| Number of shareholders of record as of year-end | 4,854 | 5,106 |

**EXHIBIT 21**

| SUBSIDIARY[(1)] | U.S. STATE OR COUNTRY IN WHICH ORGANIZED |
|---|---|
| ADC PHILIPPINES, INC. | PHILIPPINES |
| ADESPAN S.R.L. | ITALY |
| ADHIPRESS BANGLADESH LTD. | BANGLADESH |
| ADHIPRESS (HONG KONG) LTD. | HONG KONG |
| AVERY CORP. | DELAWARE |
| AVERY DE MEXICO SRL DE CV | MEXICO |
| AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED | AUSTRALIA |
| AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD. | AUSTRALIA |
| AVERY DENNISON AUSTRALIA PTY LTD. | AUSTRALIA |
| AVERY DENNISON BELGIE BVBA | BELGIUM |
| AVERY DENNISON BELGIUM MANAGEMENT SERVICES SPRL | BELGIUM |
| AVERY DENNISON BENELUX BVBA | BELGIUM |
| AVERY DENNISON BV | NETHERLANDS |
| AVERY DENNISON CANADA CORPORATION | CANADA |
| AVERY DENNISON CENTRAL EUROPE GMBH | GERMANY |
| AVERY DENNISON CHILE S.A. | CHILE |
| AVERY DENNISON COLOMBIA S. A. S. | COLOMBIA |
| AVERY DENNISON COMMERCIAL EL SALVADOR, S.A. DE C.V. | EL SALVADOR |
| AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V. | MEXICO |
| AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V. | EL SALVADOR |
| AVERY DENNISON, C.A. | VENEZUELA |
| AVERY DENNISON DE ARGENTINA S.R.L. | ARGENTINA |
| AVERY DENNISON DEUTSCHLAND GMBH | GERMANY |
| AVERY DENNISON DO BRASIL LTDA. | BRAZIL |
| AVERY DENNISON DOMINICAN REPUBLIC, S.R.L. | DOMINICAN REPUBLIC |
| AVERY DENNISON EGYPT LLC | EGYPT |
| AVERY DENNISON ETIKET TICARET LIMITED SIRKETI | TURKEY |
| AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG | GERMANY |
| AVERY DENNISON FINANCE GERMANY GMBH | GERMANY |
| AVERY DENNISON G HOLDINGS I LLC | NEVADA |
| AVERY DENNISON G HOLDINGS III LLC | DELAWARE |
| AVERY DENNISON G INVESTMENTS III LIMITED | GIBRALTAR |
| AVERY DENNISON G INVESTMENTS V LIMITED | GIBRALTAR |
| AVERY DENNISON GROUP DANMARK APS | DENMARK |
| AVERY DENNISON GROUP SINGAPORE PTE LTD | SINGAPORE |
| AVERY DENNISON GULF FZCO | UNITED ARAB EMIRATES |
| AVERY DENNISON HOLDING GMBH | GERMANY |
| AVERY DENNISON HOLDING LIMITED | UNITED KINGDOM |
| AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L. | LUXEMBOURG |
| AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV | NETHERLANDS |
| AVERY DENNISON HOLDINGS LLC | DELAWARE |
| AVERY DENNISON HOLDINGS NEW ZEALAND LIMITED | NEW ZEALAND |
| AVERY DENNISON HONG KONG B.V. | NETHERLANDS |
| AVERY DENNISON HONG KONG HOLDING I B.V. | NETHERLANDS |
| AVERY DENNISON IBERICA, S.A. | SPAIN |
| AVERY DENNISON INNOVATIONS LLC | DELAWARE |
| AVERY DENNISON INTELLIGENT HEALTHCARE SOLUTIONS LLC | DELAWARE |
| AVERY DENNISON INVESTMENT LUXEMBOURG II SARL | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L. | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG III SARL | LUXEMBOURG |

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| AVERY DENNISON INVESTMENTS LUXEMBOURG IV SARL | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG V SCA | LUXEMBOURG |
| AVERY DENNISON ISRAEL LTD. | ISRAEL |
| AVERY DENNISON ITALIA S.R.L. | ITALY |
| AVERY DENNISON JAPAN KK | JAPAN |
| AVERY DENNISON JAPAN MATERIALS COMPANY LTD. | JAPAN |
| AVERY DENNISON KOREA LIMITED | SOUTH KOREA |
| AVERY DENNISON LABEL LIMITED | HONG KONG |
| AVERY DENNISON LANKA (PRIVATE) LIMITED | SRI LANKA |
| AVERY DENNISON LUXEMBOURG SALES SARL | LUXEMBOURG |
| AVERY DENNISON LUXEMBOURG S.A.R.L. | LUXEMBOURG |
| AVERY DENNISON MANAGEMENT GMBH | GERMANY |
| AVERY DENNISON MANAGEMENT KGAA | LUXEMBOURG |
| AVERY DENNISON MANAGEMENT LUXEMBOURG S.A.R.L. | LUXEMBOURG |
| AVERY DENNISON MATERIALS BELGIUM SPRL | BELGIUM |
| AVERY DENNISON MATERIALS EUROPE B.V. | NETHERLANDS |
| AVERY DENNISON MATERIALS EUROPE GMBH | SWITZERLAND |
| AVERY DENNISON MATERIALS FRANCE S.A.R.L. | FRANCE |
| AVERY DENNISON MATERIALS GMBH | GERMANY |
| AVERY DENNISON MATERIALS IRELAND LIMITED | IRELAND |
| AVERY DENNISON MATERIALS NEDERLAND BV | NETHERLANDS |
| AVERY DENNISON MATERIALS NEW ZEALAND LIMITED | NEW ZEALAND |
| AVERY DENNISON MATERIALS PTY LIMITED | AUSTRALIA |
| AVERY DENNISON MATERIALS ROM SRL | ROMANIA |
| AVERY DENNISON MATERIALS RUSSIA LLC | RUSSIA |
| AVERY DENNISON MATERIALS SALES BELGIUM SPRL | BELGIUM |
| AVERY DENNISON MATERIALS SALES FRANCE S. A. S. | FRANCE |
| AVERY DENNISON MATERIALS SALES GERMANY GMBH | GERMANY |
| AVERY DENNISON MATERIALS SDN BHD | MALAYSIA |
| AVERY DENNISON MATERIALS UKRAINE LLC | UKRAINE |
| AVERY DENNISON MATERIALS U.K. LIMITED | UNITED KINGDOM |
| AVERY DENNISON MAURITIUS LTD. | MAURITIUS |
| AVERY DENNISON MOROCCO SARL | MOROCCO |
| AVERY DENNISON NETHERLANDS INVESTMENT 0 BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT I BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT II B. V. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT III BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT IX BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT NORTH AMERICA BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT VI BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT VII B.V. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT VIII BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT X B V | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT XI COOPERATIEF U.A. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT XII BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT XIII B.V. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT XIV C.V. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT XV B.V. | NETHERLANDS |
| AVERY DENNISON NORDIC APS | DENMARK |
| AVERY DENNISON NTP A. S. | NORWAY |
| AVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED | UNITED KINGDOM |
| AVERY DENNISON OFFICE PRODUCTS COMPANY | NEVADA |
| AVERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY | NEVADA |
| AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD. | UNITED KINGDOM |
| AVERY DENNISON OVERSEAS CORPORATION | MASSACHUSETTS |
| AVERY DENNISON PENSION TRUSTEE LIMITED | UNITED KINGDOM |

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|---|---|
| AVERY DENNISON PERU S. R. L. | PERU |
| AVERY DENNISON POLSKA SP. Z O.O. | POLAND |
| AVERY DENNISON PRAHA SPOL. S R. O. | CZECH REPUBLIC |
| AVERY DENNISON RBIS PTY LTD | AUSTRALIA |
| AVERY DENNISON RBIS (CAMBODIA) TRADING CO., LTD | CAMBODIA |
| AVERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A. S. | COLOMBIA |
| AVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V. | MEXICO |
| AVERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR LTDA. DE C. V. | EL SALVADOR |
| AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A. | GUATEMALA |
| AVERY DENNISON RETAIL INFORMATION SERVICES HONDURAS, S. DE R.L. | HONDURAS |
| AVERY DENNISON RETAIL INFORMATION SERVICES LLC | NEVADA |
| AVERY DENNSION RETAIL INFORMATION SERVICES PERÚ SAC | PERU |
| AVERY DENNISON RETAIL INFORMATION SERVICES UK LTD. | UNITED KINGDOM |
| AVERY DENNISON RETAIL INFORMATION SERVICES (PTY) LTD | SOUTH AFRICA |
| AVERY DENNISON RFID COMPANY | DELAWARE |
| AVERY DENNISON RIS KOREA LTD. | KOREA |
| AVERY DENNISON RIS TAIWAN LTD. | TAIWAN |
| AVERY DENNISON RIS VIETNAM CO., LIMITED | VIETNAM |
| AVERY DENNISON R.I.S. FRANCE S. A. S. | FRANCE |
| AVERY DENNISON R.I.S. IBERIA S.L. | SPAIN |
| AVERY DENNISON R.I.S. ITALIA S.R.L. | ITALY |
| AVERY DENNISON R.I.S. POLSKA SP. Z O.O. | POLAND |
| AVERY DENNISON SCANDINAVIA AB | SWEDEN |
| AVERY DENNISON SCANDINAVIA APS | DENMARK |
| AVERY DENNISON SECURITY PRINTING EUROPE APS | DENMARK |
| AVERY DENNISON SHARED SERVICES, INC. | NEVADA |
| AVERY DENNISON SINGAPORE INVESTMENTS B.V. | NETHERLANDS |
| AVERY DENNISON SINGAPORE (PTE) LTD | SINGAPORE |
| AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED | SOUTH AFRICA |
| AVERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S. | FRANCE |
| AVERY DENNISON S.R.L. | ROMANIA |
| AVERY DENNISON TRADING COMPANY LTD | BANGLADESH |
| AVERY DENNISON TREASURY MANAGEMENT BV | NETHERLANDS |
| AVERY DENNISON TEKSTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI | TURKEY |
| AVERY DENNISON U.K. II LIMITED | UNITED KINGDOM |
| AVERY DENNISON U.K. LIMITED | UNITED KINGDOM |
| AVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G. | GERMANY |
| AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH | GERMANY |
| AVERY DENNISON (ASIA) HOLDINGS LIMITED | MAURITIUS |
| AVERY DENNISON (CHANGZHOU) FILMS TECHNOLOGY CO., LTD | CHINA |
| AVERY DENNISON (CHINA) COMPANY LIMITED | CHINA |
| AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED | CHINA |
| AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED | CHINA |
| AVERY DENNISON (GUANGZHOU) CO., LTD. | CHINA |
| AVERY DENNISON (HONG KONG) LIMITED | HONG KONG |
| AVERY DENNISON (INDIA) PRIVATE LIMITED | INDIA |
| AVERY DENNISON (IRELAND) LIMITED | IRELAND |
| AVERY DENNISON (KENYA) PRIVATE LIMITED | KENYA |
| AVERY DENNISON (KUNSHAN) COMPANY LIMITED | CHINA |
| AVERY DENNISON (MALAYSIA) SDN. BHD. | MALAYSIA |
| AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED | CHINA |
| AVERY DENNISON (SUZHOU) CO. LIMITED | CHINA |
| AVERY DENNISON (THAILAND) LTD. | THAILAND |
| AVERY DENNISON (VIETNAM) LIMITED | VIETNAM |
| AVERY DENNISON, S.A. DE C.V. | MEXICO |

| | |
|---|---|
| AVERY GRAPHIC SYSTEMS, INC. | DELAWARE |
| AVERY HOLDING S.A.S. | FRANCE |
| AVERY LLC | DELAWARE |
| AVERY OFFICE PRODUCTS PUERTO RICO L.L.C. | PUERTO RICO |
| AVERY PACIFIC LLC | CALIFORNIA |
| AVERY PROPERTIES PTY. LIMITED | AUSTRALIA |
| AWESOME PROFITS LTD | BVI |
| BEST COURAGE INTERNATIONAL LIMITED | BRITISH VIRGIN ISLANDS |
| CHOICE CLEVER PROFITS LTD | BVI |
| CREATERO GMBH | GERMANY |
| DENNISON INTERNATIONAL COMPANY | MASSACHUSETTS |
| DENNISON MANUFACTURING COMPANY | NEVADA |
| EUSTON FINANCIAL LIMITED | BRITISH VIRGIN ISLANDS |
| EVERGREEN HOLDING SARL | LUXEMBOURG |
| EVERGREEN HOLDINGS V LLC | U.S.A. |
| FINESSE MEDICAL LTD. | IRELAND |
| HANITA COATINGS (KUNSHAN) CO. LTD | CHINA |
| HANITA COATINGS EUROPE B.V. | NETHERLANDS |
| HANITA COATINGS USA, INC. | U.S.A. |
| HANITA EUROPA GMBH | GERMANY |
| HANITA PACIFIC PTY LTD. | AUSTRALIA |
| HANITATEK, LLC | U.S.A. |
| HEBEI YONGLE TAPE CO., LTD. | CHINA |
| INFODRAGON MANAGEMENT LIMITED | BRITISH VIRGIN ISLANDS |
| INK MILL CORP. | U.S.A. |
| JAC ASIA PACIFIC SDN BHD | MALAYSIA |
| JAC CARIBE C.S.Z. | DOMINICAN REPUBLIC |
| JAC DO BRASIL - LOCAÇÃO DE EQUIPAMENTOS INDUSTRIAIS LTDA | BRAZIL |
| JAC NEW ZEALAND LIMITED | NEW ZEALAND |
| JACKSTADT FRANCE S.N.C. | FRANCE |
| JINTEX LIMITED | JERSEY, CHANNEL ISLANDS |
| L&E AMERICAS SERVICIOS, S. A. DE C.V. | MEXICO |
| MACTAC ASIA-PACIFIC SELF-ADHESIVE PRODUCTS PTE LTD | SINGAPORE |
| MACTAC POLSKA SP. Z O. O. | POLAND |
| MACTAC SCANDINAVIA A.B. | SWEDEN |
| MACTAC U.K. HOLDINGS LIMITED | UNITED KINGDOM |
| MACTAC U.K. LIMITED | UNITED KINGDOM |
| MACTAC (SHANGHAI) TRADING CO., LTD. | CHINA |
| MARKSTAR INTERNATIONAL LIMITED | HONG KONG |
| MODERN MARK INTERNATIONAL LIMITED | HONG KONG |
| MULTI-FIX BVBA | BELGIUM |
| NAPERVILLE GLOBAL LIMITED | BRITISH VIRGIN ISLANDS |
| NEW WALES FINANCE LIMITED | BRITISH VIRGIN ISLANDS |
| NINGBO AVERY DENNISON SHENZHOU EMBELLISHMENT CO. LTD. | CHINA |
| PAXAR BANGLADESH LIMITED | BANGLADESH |
| PAXAR B.V. | NETHERLANDS |
| PAXAR CANADA CORPORATION | CANADA |
| PAXAR CORPORATION | NEW YORK |
| PAXAR CORPORATION (MALAYSIA) SDN. BHD. | MALAYSIA |
| PAXAR DE EL SALVADOR S. A. DE C. V. | EL SALVADOR |
| PAXAR DE GUATEMALA, S. A. | GUATEMALA |
| PAXAR DE MEXICO S. A. DE C. V. | MEXICO |
| PAXAR DE NICARAGUA, S.A. | NICARAGUA |
| PAXAR DO BRASIL LTDA | BRAZIL |
| PAXAR FAR EAST LIMITED | HONG KONG |
| PAXAR KOREA LIMITED | SOUTH KOREA |

| | |
|---|---|
| PAXAR PACKAGING (GUANGZHOU) LTD. | CHINA |
| PAXAR PAKISTAN (PRIVATE) LIMITED | PAKISTAN |
| PLYMOUTH YONGLE TAPE (SHANGHAI) CO., LTD | CHINA |
| PAXAR (CHINA) LTD. | HONG KONG |
| PAXAR (THAILAND) LIMITED | THAILAND |
| PT AVERY DENNISON INDONESIA | INDONESIA |
| PT AVERY DENNISON PACKAGING INDONESIA | INDONESIA |
| P. T. PACIFIC LABEL INDONESIA | INDONESIA |
| P. T. PAXAR INDONESIA | INDONESIA |
| RVL AMERICAS, S DE R.L. DE C.V. | MEXICO |
| RVL CENTRAL AMERICA, S. A. | GUATEMALA |
| RVL PACKAGING FAR EAST LIMITED | HONG KONG |
| RVL SERVICE, S. DE R. L. DE C. V. | MEXICO |
| SECURITY PRINTING DIVISION, INC. | DELAWARE |
| SKILLFIELD INVESTMENTS LIMITED | BRITISH VIRGIN ISLANDS |
| SUZHOU FENG YI HENG YE DYE CO., LTD. | CHINA |
| TIGER EIGHT GROUP LIMITED | BRITISH VIRGIN ISLANDS |
| WORLDWIDE RISK INSURANCE, INC. | HAWAII |
| YONGLE TAPE LTD | BERMUDA |

(1) Each subsidiary listed on this Exhibit 21 is a Consolidated Subsidiary

**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-211029) and Form S-8 (File Nos. 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 33-107371, 333-107372, 333-109814, 333-124495, 333-143897, 333-152508, 333-166832, 333-166836, 333-166837, 333-181221, 333-197631 and 333-217534) of Avery Dennison Corporation of our report dated February 21, 2018 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
February 21, 2018

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION**

I, Mitchell R. Butier, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mitchell R. Butier
Mitchell R. Butier
President and Chief Executive Officer

February 21, 2018

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION**

I, Gregory S. Lovins, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and
Chief Financial Officer

February 21, 2018

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER***
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

(i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 21, 2018

/s/ Mitchell R. Butier
Mitchell R. Butier
President and Chief Executive Officer

* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER***
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

(i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 21, 2018

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and
Chief Financial Officer

* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.