

**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 31, 2016

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

95-1492269
(I.R.S. Employer Identification No.)

**207 Goode Avenue
Glendale, California**
*(Address of Principal Executive
Offices)*

91203
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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 2, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was \$6,414,034,778.

Number of shares of common stock, \$1 par value, outstanding as of January 28, 2017, the end of the registrant's most recent fiscal month: 88,123,603.

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 31, 2016

Parts I, II

Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 27,
2017

Parts III, IV

EVERY DENNISON CORPORATION
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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. Some pressure-sensitive materials are sold to label printers and converters that convert the materials into labels and other products through embossing, printing, stamping and die-cutting. Some materials are sold by us 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.

In the fourth quarter of 2016, we changed our operating structure to align with our overall business strategy, and our Chief Executive Officer, who is also our chief operating decision maker, requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. As a result of these events, our fiscal year 2016 results are reported based on our new reportable segments described below and in Note 15, "Segment Information." We have reclassified certain prior period amounts to reflect our new operating structure.

Our reportable segments for fiscal year 2016 were:

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

These segment changes resulted in the movement of performance tapes (previously part of the former Pressure-sensitive Materials segment) and fastener solutions (previously part of RBIS) into the IHM segment.

In 2016, the LGM, RBIS, and IHM segments made up approximately 69%, 24% and 7%, respectively, of our total sales.

In 2016, international operations constituted a substantial majority of our business, representing approximately 75% of our sales. As of December 31, 2016, we operated approximately 180 manufacturing and distribution facilities worldwide 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

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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 company-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 that 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.

Label and packaging materials are sold worldwide to label converters for labeling, decorating, and special 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 a variety of 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 Raflatrac, 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 on a global basis. 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 than in previous years.

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,

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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. The mechanical fasteners are primarily precision extruded and injection-molded plastic devices used in various applications in automotive, industrial, and retail applications.

These tapes and fasteners are sold worldwide to original equipment manufacturers, as well as converters, for use in various bonding and fastening applications in the automotive, electronics, building and construction, other industrial, and personal care segments. The tapes are available in roll form and in a wide range of face materials, sizes, thicknesses and adhesive properties.

Our Vancive-brand products include an array of PSA materials and products that address the needs of medical device manufacturers, clinicians, and patients for surgical, wound care, ostomy, and electromedical device applications.

For tapes and bonding solutions, our primary competitors include 3M, Tesa-SE, 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 positions.

Segment Financial Information

Certain financial information on our reporting segments for fiscal years 2016, 2015, and 2014 appears in Note 15, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2016 Annual Report to Shareholders (our "2016 Annual Report") and is incorporated herein by reference. Certain prior period amounts have been reclassified to reflect our new reportable segments, as described above.

Foreign Operations

Certain financial information about our sales by geographic area for fiscal years 2016, 2015, and 2014 appears in Note 15, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2016 Annual Report and is incorporated herein by reference.

Working Capital

Certain financial information about our working capital for fiscal years 2016, 2015, and 2014 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 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 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. Additionally, we focus on research projects related to RFID 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 \$89.7 million in 2016, \$91.9 million in 2015, and \$102.5 million in 2014.

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 our products 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. 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.

A portion of our manufacturing process for self-adhesive materials utilizes certain organic solvents which, unless controlled, could be emitted into the atmosphere or contaminate soil or groundwater. Emissions of and contamination by these substances are regulated by federal, state, local and foreign governments. 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 factors and risks discussed 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 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 2016, approximately 75% 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 continued slower growth in China and parts of South America, the ongoing restructuring efforts relating to European sovereign and other debt obligations, the weakening 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, such as the decline in 2016 in the value of the British pound and declines in the value of the euro and Chinese Yuan (renminbi) seen in recent years. These declines could 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.

Due to recent changes in the U.S. government, we face uncertainty with respect to trade relations between the U.S. and many of its trading partners. There is significant risk that tariffs or other restrictions could be imposed on products imported from China, Mexico or other countries, or that relations with these

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countries and U.S. trading parties 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 significant civil, political and economic disturbances in places like Russia, Ukraine, Syria, Iraq, Iran, Turkey 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.

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 and distributors, 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 the loss of a specific customer personal care program that had a negative impact on our business during the year.

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 pass on 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. In addition, to verify our products as "conflict-free" as required by SEC rules requiring disclosure concerning the use of certain minerals that are mined from the Democratic Republic of Congo and adjoining countries ("Conflict Mineral Rules"), we could make alternative sourcing and supply decisions for materials used in certain of our products, which could materially adversely affect our pricing terms. Our performance depends in part on our ability to pass on cost increases for raw materials to customers by raising the selling prices for our products and our ability to improve productivity. Depending on market dynamics and the terms of customer contracts, our ability to recover any increased costs of obtaining raw materials from third party suppliers due to the Conflict Mineral Rules or otherwise may be limited.

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.

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

Our products are sold not only by us, but also by third-party distributors as well. 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 for specialty jobs or capacity overflow. Outsourcing manufacturing reduces our ability to prevent product quality issues, late deliveries, customer dissatisfaction and noncompliance with customer requirements for labor standards. Because of possible quality issues and customer dissatisfaction, deficiencies in the performance of outsourced manufacturers 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 31, 2016, approximately 75% 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; challenges with respect to the repatriation of foreign earnings; challenges of complying with a wide variety of foreign laws and regulations, including those relating to sales, corporate governance, 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 of 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 United Kingdom ("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 uncertainty as to how Brexit will affect the legal and regulatory environment in the UK and European Union, as well as whether it may lead other countries in the European Union to 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 financial results or reputation.

There are occasions when we experience product quality issues resulting from defective materials, manufacturing, packaging or design. Many of these issues are discovered before shipping, causing delays in

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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-shipment and post-shipment 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 could be excluded 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. In 2015, we announced a multi-year transformation plan for our former 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 the fourth quarter of 2015, we made the decision to exit one of our anticipated growth platforms in our former Vancive segment in order 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. If we are unable to successfully expand our business in 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 developing and 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 result in decreased consumer purchasing power, reduced demand for our products or an impaired ability to achieve our long-term growth strategy, thereby having a material adverse effect on our business.

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

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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. Additionally, we focus on research projects related to RFID 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. For example, in September 2015, we completed an expansion of our manufacturing facility located in Kunshan, China and added a new coater to meet our projected demand for pressure-sensitive tapes in China. In 2016, we announced additional investments in capacity to support growth in our U.S. graphics business, in Asia and Luxembourg, and in RFID and heat transfer technology. These infrastructure investments are long-term in nature, and it is possible that these investments 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, in 2015, we announced a multi-year transformation plan for our former 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 75% of our sales for the fiscal year ending December 31, 2016 arising from foreign sales, we are subject to fluctuations in foreign currencies, such as the euro, the Chinese yuan (renminbi), and the British pound 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 exposure to changes in foreign currencies. 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 currency fluctuations.

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Additionally, 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.

We have acquired companies and may continue to acquire other companies. Acquisitions come with significant risks and uncertainties, including those related to integration, technology and personnel.

To grow our product lines and expand into new markets, we have made acquisitions in the past and may do so in the future. 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. We also announced our agreement to acquire Hanita Coatings, a pressure-sensitive materials manufacturer of specialty films and laminates, for \$75 million, subject to customary adjustments. In February 2017, we announced our agreement to acquire Yongle Tape Company Ltd., a manufacturer of specialty tapes and related products used in a variety of industrial markets, for \$190 million, which is subject to customary adjustments, with an additional earn-out opportunity of up to \$55 million to be paid based on the acquired business' achievement of certain performance targets over the next two years. Various risks, uncertainties, and costs are associated with acquisitions. Effective integration of systems, controls, objectives, personnel, 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, particularly given our geographically dispersed organization. In addition, we may not be able to retain key personnel 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.

Divestures of any of our businesses or product lines could have a material adverse effect on our business.

We continually evaluate the performance of our businesses and may determine to sell a business or product line. While we believe these divestitures are in the best interests of our long-term strategy, they may result in significant write-offs or impairments of assets, including goodwill and other intangible assets. For example, we completed the sale of certain of our assets and liabilities associated with a product line in our former RBIS segment in May 2015 at a loss and incurred impairment charges as well as exit costs, including costs associated with severance payments. Any future divestitures we undertake may also involve additional risks, including separation of operations, products and personnel, diversion of management attention, disruption to our other businesses and loss of key employees. We may not successfully manage these or other risks we may confront in divesting a business or product line, which could have a material adverse effect on our business.

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.

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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. There can be no assurance that these changes will not have a material adverse effect on our business.

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 recent actions by the European Commission related to disallowed 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.

Potential tax liabilities and proposed changes in U.S. tax legislation could materially impact our business.

In 2016, approximately 75% 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 not accrued U.S. income taxes or foreign withholding taxes on most of our unrepatriated earnings for non-U.S. subsidiaries because we intend to indefinitely reinvest in the operations of those subsidiaries. Our results of operations and cash flows from operating activities may be materially adversely affected if tax rules regarding unrepatriated earnings change, if changes in our domestic cash needs require us to repatriate foreign earnings for which no tax provisions have been made, or if the U.S. international tax rules change as part of comprehensive tax reform or other tax legislation. Due to recent changes in the U.S. government, the impact of future changes in tax laws and regulations and their application by regulators are uncertain.

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 a variety of causes such as obsolescence, natural disasters, power failures, human error, viruses, social engineering, phishing, 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

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customer orders, impede the manufacture or shipment of products, or disrupt the processing of transactions. For example, in 2016, we announced investment in information technology to upgrade the systems in our North American Label and Graphic Materials business and drive 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 a significant portion of our information technology support, development and implementation, 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.

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. Following these attacks, we have taken additional steps designed to improve the security of our networks and computer systems. Despite these defensive measures, 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.

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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 the appointments of a new Chief Financial Officer in 2015 and a new Chief Executive Officer in 2016. While we believe we have appropriate succession procedures 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 one U.S. collective bargaining unit and 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 to restructure our business 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.

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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 2016, our average variable-rate borrowings were approximately \$281 million. Increases in short-term interest rates would directly impact the amount of interest we pay. 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 on variable-rate borrowings in 2016. 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, in December 2015, the U.S. Federal Reserve raised its benchmark interest rate by a quarter of a percentage point for the first time since 2006. The U.S. Federal Reserve raised this rate by an additional quarter of a percentage point in December 2016 and indicated that additional increases would likely be forthcoming in 2017. While it is unclear whether these actions suggest a change in previous monetary policy positions, including but not limited to an elimination of quantitative easing over time, any such change or market expectation of such change may result in significantly higher long-term interest rates. Such a transition may be abrupt and 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.

Additional financings may dilute the holdings of our current shareholders.

In order to provide capital for the operation of our business, we may enter into additional financing arrangements. These arrangements may involve the issuance of new shares of preferred or common stock, convertible debt securities and/or warrants. Any of these issuances could result in a material increase in the number of shares of common stock outstanding, which would dilute the ownership interests of our existing common shareholders. In addition, any new securities could contain provisions, such as priorities on distributions and voting rights, that could materially adversely affect the value of our existing common stock.

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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 health care costs, 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. 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.

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).

In addition, the requirements set forth in the Conflict Mineral Rules required us to undertake due diligence efforts that are expected to continue into the future. We expect to continue incurring costs

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associated with complying with these disclosure requirements, including for conducting diligence procedures to determine the sources of conflict minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of these verification activities. Our reputation may be harmed if we are not able to sufficiently verify the origins for the minerals and metals used in our products.

There can be no assurance that any outcome of any litigation, investigation or other legal, environmental, compliance and regulatory matter will be favorable.

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 global environmental, health, and safety laws. 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. Compliance with existing and future environmental, health and safety laws could subject us to future 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 and change often. 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

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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.

Healthcare reform legislation could have a material adverse effect on our business.

During 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (together, the "ACA") were signed into law in the U.S. The complexities and ramifications of the ACA are significant and continue to be implemented through a phased approach that is expected to continue over the next several years. Recent changes in the U.S. government could lead to repeal of or changes in some or all of the ACA; complying with any new legislation and/or reversing changes implemented under the ACA could be time-intensive and expensive, resulting in a material adverse effect on our business.

As a result of political, economic and regulatory influences, scrutiny of the healthcare delivery system in the United States can be expected to continue at both the state and federal levels. For example, there have been several changes to the ACA since its enactment and the law is likely to continue to evolve to the

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extent it continues to be implemented in accordance with its current terms. In addition, the impact on our business of complying with the ACA or any replacement law and responding to the effects of health care reform more broadly are not fully known. Any changes to our healthcare cost structure could have a material adverse effect on our business.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of December 31, 2016, 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; Kunshan, China; Champ-sur-Drac, France; Gotha and Schwelm, Germany; Rodange, Luxembourg; Bangi, Malaysia; and Cramlington, United Kingdom

Retail Branding and Information Solutions Segment

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

Industrial and Healthcare Materials Segment

Domestic	Painesville, Ohio
Foreign	Turnhout, Belgium and Kunshan, 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 Westborough, 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; Nansha and Panyu, China; Westborough, 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 31, 2016, 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

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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 31, 2016, our accrued liability associated with environmental remediation was \$21.3 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 2016 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 2016 Annual Report and is incorporated herein by reference. We did not sell any unregistered securities during the fourth quarter of 2016.
- (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 2016 are listed in the following table.

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 2, 2016 – October 29, 2016	227.2	\$76.57	227.2	
October 30, 2016 – November 26, 2016	547.5	70.28	547.5	
November 27, 2016 – December 31, 2016	347.2	72.04	347.2	
Total	1,121.9	\$72.10	1,121.9	\$104.9

(1) The periods shown are our fiscal periods during the thirteen-week quarter ended December 31, 2016.

(2) Shares in thousands.

(3) On December 4, 2014, our Board of Directors authorized the repurchase of shares of our common stock in the aggregate amount of up to \$500 million (exclusive of any fees, commissions or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This is the only authorization currently in effect and it will remain in effect until shares in the amount authorized have been repurchased.

(4) Dollars in millions.

Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of our last five fiscal years appears under "Five-year Summary" in our 2016 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 2016 Annual Report and 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 2016 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 2016 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 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 31, 2016. (See Management's Report on Internal Control Over Financial Reporting contained in our 2016 Annual Report, which is incorporated herein by reference.)

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016 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 2016 Annual Report, which is also incorporated herein by reference.

Changes in Internal Control over Financial Reporting. We periodically assess our internal control environment. During 2014, we began a phased implementation of a new transactional system in our RBIS segment that is expected to continue through 2018. 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. Other than this implementation, 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 27, 2017 (our "2017 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 2017 Proxy Statement. The information concerning any late filings under Section 16(a) of the Exchange Act is incorporated by reference from our 2017 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 2017 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 President and Chief Executive Officer	45	March 2007	2015-2016 2014-2015 2010-2014 2007-2010 2004-2006	President and Chief Operating Officer President, Chief Operating Officer and Chief Financial Officer Senior Vice President and Chief Financial Officer Vice President, Global Finance and Chief Accounting Officer Vice President, Finance, Retail Branding and Information Solutions
Dean A. Scarborough Executive Chairman	61	August 1997	2014-2016 2010-2014 2005-2010 2000-2005	Chairman and Chief Executive Officer Chairman, President and Chief Executive Officer President and Chief Executive Officer President and Chief Operating Officer
Anne L. Bramman Senior Vice President and Chief Financial Officer	49	March 2015	2011-2015	Senior Vice President and Chief Financial Officer, Carnival Cruise Line
Lori J. Bondar Vice President, Controller and Chief Accounting Officer	56	June 2010	2008-2010	Vice President and Controller
Georges Gravanis President, Label and Graphic Materials	59	May 2015	2015-2016 2010-2015 2006-2010 2004-2006	President, Materials Group Vice President and General Manager, Materials Group Asia Pacific Vice President of Sales, Roll Materials Europe Vice President and General Manager, Roll Materials Europe Southern Region
Anne Hill Senior Vice President and Chief Human Resources Officer	57	May 2007		
Susan C. Miller Senior Vice President, General Counsel and Secretary	57	March 2008	2008-2009 2007-2008 1998-2006	Senior Vice President and General Counsel Vice President and General Counsel Assistant General Counsel
Deon Stander Vice President and General Manager, Retail Branding and Information Solutions ("RBIS")	48	August 2016	2013-2015 2010-2012	Vice President and General Manager, Global Commercial and Innovation, RBIS Vice President and General Manager, Global Commercial RBIS
Michael Johansen Vice President and General Manager, Industrial and Health Care Materials	51	December 2016	2015-2016 2010-2015	Vice President and General Manager, Performance Tapes 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.

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Item 11. EXECUTIVE COMPENSATION

The information called for by this Item is incorporated by reference from our 2017 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 2017 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 2017 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this Item is incorporated by reference from our 2017 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 accompanying Exhibit Index and incorporated herein by reference.

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/ Anne L. Bramman

Anne L. Bramman
Senior Vice President and Chief Financial Officer

Dated: February 23, 2017

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below does hereby constitute and appoint Anne L. Bramman 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Mitchell R. Butier</u> Mitchell R. Butier	President, Chief Executive Officer, and Director	February 23, 2017
<u>/s/ Anne L. Bramman</u> Anne L. Bramman	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2017
<u>/s/ Lori J. Bondar</u> Lori J. Bondar	Vice President, Controller, and Chief Accounting Officer (Principal Accounting Officer)	February 23, 2017
<u>/s/ Dean A. Scarborough</u> Dean A. Scarborough	Executive Chairman	February 23, 2017
<u>/s/ Bradley A. Alford</u> Bradley A. Alford	Director	February 23, 2017
<u>/s/ Anthony K. Anderson</u> Anthony K. Anderson	Director	February 23, 2017
<u>/s/ Peter K. Barker</u> Peter K. Barker	Director	February 23, 2017

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <i>/s/</i> Ken C. Hicks Ken C. Hicks	Director	February 23, 2017
<hr/> <i>/s/</i> Andres A. Lopez Andres A. Lopez	Director	February 23, 2017
<hr/> <i>/s/</i> David E. I. Pyott David E. I. Pyott	Director	February 23, 2017
<hr/> <i>/s/</i> Patrick T. Siewert Patrick T. Siewert	Director	February 23, 2017
<hr/> <i>/s/</i> Julia A. Stewart Julia A. Stewart	Director	February 23, 2017
<hr/> <i>/s/</i> Martha N. Sullivan Martha N. Sullivan	Director	February 23, 2017

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS

Data incorporated by reference from the attached portions of the 2016 Annual Report to Shareholders of Avery Dennison Corporation:

Consolidated Financial Statements:

- Consolidated Balance Sheets as of December 31, 2016 and January 2, 2016
- Consolidated Statements of Income for 2016, 2015 and 2014
- Consolidated Statements of Comprehensive Income for 2016, 2015 and 2014
- Consolidated Statements of Shareholders' Equity for 2016, 2015 and 2014
- Consolidated Statements of Cash Flows for 2016, 2015 and 2014
- Notes to Consolidated Financial Statements
- Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting
- Report of Independent Registered Public Accounting Firm

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 2016 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

EVERY DENNISON CORPORATION**EXHIBIT INDEX****For the Year Ended December 31, 2016**

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
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 October 22, 2015	3.1(ii)	Current Report on Form 10-Q, filed November 3, 2015
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

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
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	4.3	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	4.3	Current Report on Form 8-K, filed April 8, 2013
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
10.3	Third Amended and Restated Credit Agreement, dated as of October 3, 2014, 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 October 3, 2014
10.4*	Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
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
10.17*	First Amendment to Equity Plan	10.20	2014 Annual Report on Form 10-K, filed February 25, 2015
10.18*	Forms of NQSO Agreement under Equity Plan	10.19.5	2007 Annual Report on Form 10-K, filed February 27, 2008
10.19*	Forms of Equity Agreements under Equity Plan	10.19.6	Current Report on Form 8-K, filed April 30, 2008
10.20*	Forms of Equity Agreements under Equity Plan	10.10.19.9	Current Report on Form 8-K, filed December 11, 2008

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.21*	Additional Forms of Equity Agreements under Equity Plan	10.19.10	Current Report on Form 8-K/A, filed December 11, 2008
10.22*	Senior Executive Annual Incentive Plan	A	2014 Proxy Statement on Schedule 14A, filed March 7, 2014
10.23*	Annual Incentive Plan	10.26	2014 Annual Report on Form 10-K, filed February 25, 2015
10.24*	Complete Restatement and Amendment of Executive Deferred Retirement Plan ("EDRP")	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
10.25*	Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.26*	Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
10.27*	2005 Executive Variable Deferred Retirement Plan, amended and restated	10.1	Quarterly Report on Form 10-Q, filed May 7, 2013
10.28*	Benefit Restoration Plan, amended and restated ("BRP")	10.32.1	Current Report on Form 8-K/A, filed December 11, 2008
10.29*	First Amendment to BRP	10.32.1	2010 Annual Report on Form 10-K, filed February 28, 2011
10.30*	Amended and Restated Capital Accumulation Plan ("CAP")	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
10.31*	Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
10.32*	Key Executive Change of Control Severance Plan	10.35	Quarterly Report on Form 10-Q, filed May 10, 2011
10.33*	Executive Severance Plan	10.36	Quarterly Report on Form 10-Q, filed May 10, 2011
10.34*	Long-Term Incentive Unit Plan	10.43	2012 Annual Report on Form 10-K, filed February 27, 2013
10.35*	Form of Restricted Stock Unit Agreement	10.38	2013 Annual Report on Form 10-K, filed February 26, 2014
10.36*	Form of Performance Unit Agreement	10.39	2013 Annual Report on Form 10-K, filed February 26, 2014
10.37*	Form of Market-Leveraged Stock Unit Agreement	10.40	2013 Annual Report on Form 10-K, filed February 26, 2014
10.38*	Form of Long-Term Incentive Unit Agreement	10.41	2013 Annual Report on Form 10-K, filed February 26, 2014

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.39*	Form of Performance Long-Term Incentive Unit Agreement	10.42	2013 Annual Report on Form 10-K, filed February 26, 2014
10.40*	Form of Director Restricted Stock Unit Agreement	10.43	2013 Annual Report on Form 10-K, filed February 26, 2014
10.41*	Offer Letter to Anne Bramman	10.46	2014 Annual Report on Form 10-K, filed February 25, 2015
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
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 31, 2016	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
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

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
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.

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

	2016		2015		2014		2013		2012
Earnings:									
Income from continuing operations before taxes	\$ 477.1	\$	408.9	\$	360.8	\$	366.0	\$	235.6
Add: Fixed charges ⁽¹⁾	83.8		83.8		90.7		89.8		106.4
Amortization of capitalized interest	4.3		4.6		3.9		3.8		3.7
Less: Capitalized interest	(3.6)		(3.0)		(3.9)		(3.4)		(3.4)
	<u>\$ 561.6</u>	<u>\$</u>	<u>494.3</u>	<u>\$</u>	<u>451.5</u>	<u>\$</u>	<u>456.2</u>	<u>\$</u>	<u>342.3</u>
Fixed charges: ⁽¹⁾									
Interest expense	\$ 59.9	\$	60.5	\$	63.3	\$	60.8	\$	72.5
Capitalized interest	3.6		3.0		3.9		3.4		3.4
Interest portion of leases	20.3		20.3		23.5		25.6		30.5
	<u>\$ 83.8</u>	<u>\$</u>	<u>83.8</u>	<u>\$</u>	<u>90.7</u>	<u>\$</u>	<u>89.8</u>	<u>\$</u>	<u>106.4</u>
Ratio of Earnings to Fixed Charges	<u>6.7</u>		<u>5.9</u>		<u>5.0</u>		<u>5.1</u>		<u>3.2</u>

⁽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	Segment	Segment
	Label and Graphic Materials	Retail Branding and Information Solutions	Industrial and Healthcare Materials
BUSINESSES	Label and Packaging Materials Graphics Solutions Reflective Solutions	Retail Branding and Information Solutions Printer Solutions	Performance Tapes Fastener Solutions Vancive Medical Technologies
2016 SALES IN MILLIONS	\$4,187	\$1,445	\$454
% OF SALES	69%	24%	7%
GLOBAL BRAND	Avery Dennison® Fasson®	Avery Dennison® Monarch®	Avery Dennison® 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 provides 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 www.graphics.averydennison.com www.reflectives.averydennison.com	www.rbis.averydennison.com www.rfid.averydennison.com	www.tapes.averydennison.com www.vancive.averydennison.com
LEADERS	Georges Gravanis President Label and Graphic Materials	Deon Stander Vice President and General Manager Retail Branding and Information Solutions	Michael Johansen Vice President and General Manager Industrial and Healthcare Materials

Note: In the fourth quarter of 2016, we changed our operating structure to align with our overall business strategy. The reportable segments above reflect our new operating and reporting structure.

Avery Dennison Corporation

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 31, 2016 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 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 and completion of potential dispositions; 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, 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) competitors' actions, including pricing, expansion in key markets, and product offerings; (3) 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; 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.

Avery Dennison Corporation

Five-Year Summary

(Dollars in millions, except percentages and per share amounts)

	2016		2015		2014 ⁽¹⁾		2013		2012	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
For the Year										
Net sales	\$ 6,086.5	100.0	\$ 5,966.9	100.0	\$ 6,330.3	100.0	\$ 6,140.0	100.0	\$ 5,863.5	100.0
Gross profit	1,699.7	27.9	1,645.8	27.6	1,651.2	26.1	1,637.7	26.7	1,529.5	26.1
Marketing, general and administrative expense	1,097.5	18.0	1,108.1	18.6	1,158.9	18.3	1,174.2	19.1	1,152.6	19.7
Interest expense	59.9	1.0	60.5	1.0	63.3	1.0	60.9	1.0	72.5	1.2
Other expense, net ⁽²⁾	65.2	1.1	68.3	1.1	68.2	1.1	36.6	.6	68.8	1.2
Income from continuing operations before taxes	477.1	7.8	408.9	6.9	360.8	5.7	366.0	6.0	235.6	4.0
Provision for income taxes	156.4	2.6	134.5	2.3	113.5	1.8	124.3	2.0	76.1	1.3
Income from continuing operations	320.7	5.3	274.4	4.6	247.3	3.9	241.7	3.9	159.5	2.7
(Loss) income from discontinued operations, net of tax	–	N/A	(.1)	N/A	(2.2)	N/A	(28.5)	N/A	57.8	N/A
Net income	320.7	5.3	274.3	4.6	245.1	3.9	213.2	3.5	217.3	3.7
Per Share Information										
Income per common share from continuing operations	\$ 3.60		\$ 3.01		\$ 2.64		\$ 2.46		\$ 1.56	
(Loss) income per common share from discontinued operations	–		–		(.03)		(.29)		.56	
Net income per common share	3.60		3.01		2.61		2.17		2.12	
Income per common share from continuing operations, assuming dilution	3.54		2.95		2.58		2.41		1.54	
(Loss) income per common share from discontinued operations, assuming dilution	–		–		(.02)		(.28)		.56	
Net income per common share, assuming dilution	3.54		2.95		2.56		2.13		2.10	
Dividends per common share	1.60		1.46		1.34		1.14		1.08	
Weighted average number of common shares outstanding (in millions)	89.1		91.0		93.8		98.4		102.6	
Weighted average number of common shares outstanding, assuming dilution (in millions)	90.7		92.9		95.7		100.1		103.5	
Market price per share at fiscal year-end	\$ 70.22		\$ 62.66		\$ 51.79		\$ 50.48		\$ 34.40	
Market price per share range	58.16 to 78.84		51.07 to 66.18		41.28 to 52.67		34.92 to 50.65		26.38 to 34.97	
At End of Year										
Property, plant and equipment, net ⁽³⁾	\$ 915.2		\$ 847.9		\$ 875.3		\$ 922.5		\$ 1,015.5	
Total assets ⁽⁴⁾	4,396.4		4,133.7		4,356.9		4,608.3		5,113.2	
Long-term debt and capital leases	713.4		963.6		940.1		944.6		697.6	
Total debt	1,292.5		1,058.9		1,144.4		1,021.5		1,217.8	
Shareholders' equity ⁽⁴⁾	925.5		965.7		1,047.7		1,468.1		1,536.6	
Other Information										
Depreciation and amortization expense ⁽³⁾	\$ 180.1		\$ 188.3		\$ 201.6		\$ 204.3		\$ 211.0	
Research and development expense ⁽³⁾	89.7		91.9		102.5		96.0		98.6	
Effective tax rate ⁽³⁾	32.8%		32.9%		31.5%		34.0%		32.3%	

(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, and other items.

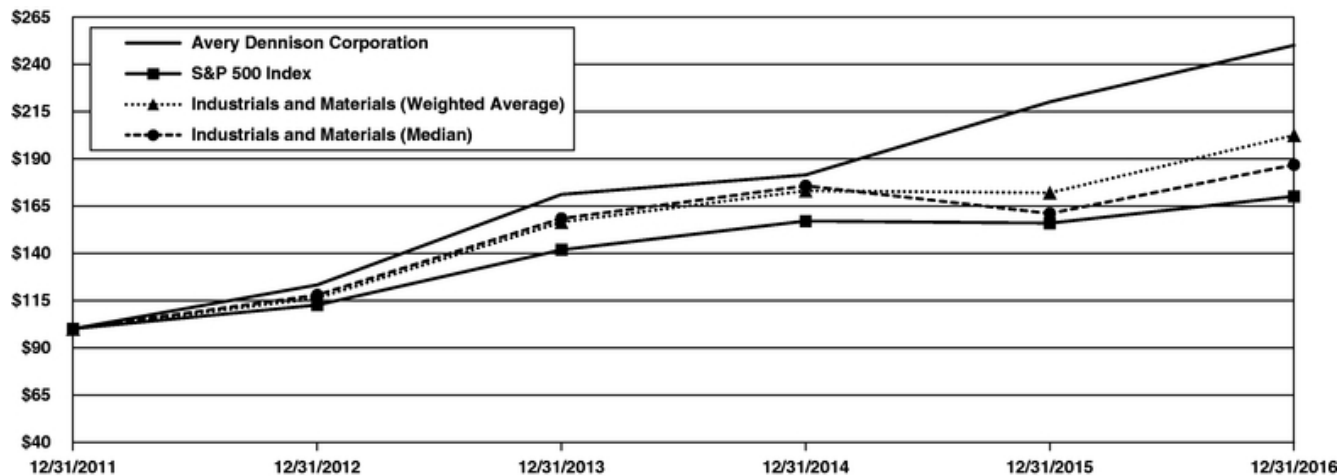
(3) Amounts are for continuing operations only.

(4) Amounts are for continuing and discontinued operations.

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, 2016.

Comparison of Five-Year Cumulative Total Return as of December 31, 2016



Total Return Analysis ⁽¹⁾

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Avery Dennison Corporation	\$ 100.00	\$ 123.24	\$ 171.14	\$ 181.46	\$ 220.14	\$ 250.10
S&P 500 Index	100.00	112.58	141.77	157.06	155.92	170.12
Market Basket (Weighted Average) ⁽²⁾	100.00	116.19	156.46	173.07	172.00	202.46
Market Basket (Median)	100.00	117.86	158.37	175.68	161.04	186.86

⁽¹⁾ Assumes \$100.00 invested on December 31, 2011 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	4
Overview and Outlook	4
Analysis of Results of Operations	6
Results of Operations by Reportable Segment	8
Financial Condition	9
Critical Accounting Estimates	13
Recent Accounting Requirements	16
Market-Sensitive Instruments and Risk Management	16

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 the presentation of our financial results that are prepared in accordance with GAAP. Based upon 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 to facilitate 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:

- *Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of currency translation, product line exits, acquisitions and divestitures, and, where applicable, the extra week in our fiscal year. The estimated impact of 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 currency fluctuations.
- *Sales change (ex. currency)* refers to the increase or decrease in sales excluding the estimated impact of currency translation.

We believe that organic sales change and sales change (ex. currency) assist investors in evaluating the sales growth from the ongoing activities of our businesses and better enable them 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 indicating 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 2016 and 2015 fiscal years consisted of 52-week periods ending December 31, 2016 and January 2, 2016, respectively. Our 2014 fiscal year consisted of a 53-week period ending January 3, 2015.

Segment Information

In the fourth quarter of 2016, we changed our operating structure to align with our overall business strategy, and our Chief Executive Officer, who is also our chief operating decision maker, requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. As a result of these events, our fiscal year 2016 results are reported based on our new reportable segments, as described in Note 15, "Segment Information," to the

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

Consolidated Financial Statements. We have reclassified certain prior period amounts to reflect our new operating structure.

Net Sales

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

	2016	2015
Reported sales change	2%	(6)%
Foreign currency translation	3	9
Sales change (ex. currency)	5%	3%
Extra week in 2014 fiscal year	–	1
Acquisitions/divestitures	(1)	1
Organic sales change	4%	5%

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

Income from Continuing Operations

Income from continuing operations increased from approximately \$274 million in 2015 to approximately \$321 million in 2016. Major factors affecting the change in income from continuing operations in 2016 compared to 2015 included:

Positive factors:

- Higher volume
- Benefits from productivity initiatives, including savings from restructuring actions, net of transition costs
- Lower restructuring charges

Offsetting factors:

- Loss from settlement of pension obligations
- Higher employee-related costs
- Net impact of pricing and raw material input costs
- Higher income taxes
- Geographic mix
- Foreign currency translation

Cost Reduction Actions

2015/2016 Actions

During fiscal year 2016, we recorded \$20.9 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 ("2015/2016 Actions") that we expect to continue through 2017. 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.

No employees impacted by our 2015/2016 Actions taken through December 31, 2016 remained employed by us as of such date.

2014/2015 Actions

During fiscal year 2015, we recorded \$33.4 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 that continued through the second quarter of 2015 ("2014/2015 Actions"). These charges consisted of severance and related costs for the reduction of approximately 605 positions, lease cancellation costs, and asset impairment charges.

No employees impacted by our 2014/2015 Actions remained employed by us as of December 31, 2016.

Impact of Cost Reduction Actions

During fiscal year 2016, we realized more than \$80 million in savings, net of transition costs, from our 2015/2016 Actions and 2014/2015 Actions.

We anticipate incremental savings, net of transition costs, from our 2015/2016 actions of approximately \$40 million to \$50 million in 2017. We estimate cash restructuring costs of approximately \$25 million in 2017.

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.

Acquisitions

On August 1, 2016, we completed the acquisition of the European business of Mactac ("Mactac") from Platinum Equity through the purchase of Evergreen Holding 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. Due to the allowable time required to complete our assessment, the valuation of certain acquired assets and liabilities, including environmental liabilities and taxes, is currently pending. This acquisition was not material to our Consolidated Financial Statements.

In December 2016, we announced our agreement to acquire Hanita Coatings, a pressure-sensitive manufacturer of specialty films and laminates, from Kibbutz Hanita Coatings and Tene Investment Funds for a purchase price of \$75 million, subject to customary adjustments. We expect to complete this acquisition in the first quarter of 2017.

In February 2017, we announced our agreement to acquire Yongle Tape Company Ltd. ("Yongle Tape"), a manufacturer of specialty tapes and related products used in a variety of industrial markets, from Yongle Tape's management and ShawKwei & Partners. The purchase price is \$190 million, which is subject to customary adjustments, with an additional earn-out opportunity of up to \$55 million to be paid based on the acquired business' achievement of certain performance targets over the next two years. We expect to complete this acquisition in mid-2017.

We expect to fund the acquisitions of Hanita Coatings and Yongle Tape with cash and credit facilities available at the time of closing.



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

Free Cash Flow

(In millions)	2016	2015	2014
Net cash provided by operating activities	\$ 585.3	\$ 473.7	\$ 354.9
Purchases of property, plant and equipment	(176.9)	(135.8)	(147.9)
Purchases of software and other deferred charges	(29.7)	(15.7)	(27.1)
Proceeds from sales of property, plant and equipment	8.5	7.6	4.3
(Purchases) sales of investments, net	(.1)	(.5)	.3
Plus: free cash outflow from discontinued operations	-	.1	.2
Free cash flow	\$ 387.1	\$ 329.4	\$ 184.7

In 2016, free cash flow 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 capital and software expenditures, higher incentive compensation paid in 2016 for the 2015 performance year, and higher pension plan contributions.

In 2015, free cash flow increased compared to 2014 primarily due to the timing of vendor payments, higher operating income, lower incentive compensation paid in 2015 for the 2014 performance year, and lower capital and software expenditures, partially offset by the timing of collections from customers and higher payments for taxes.

See "Analysis of Results of Operations" and "Liquidity" for more information.

Outlook

Certain factors that we believe may contribute to our 2017 results, including acquisitions announced in 2016, are described below:

- We expect net sales to increase by 1.5% to 3.5%.
- Assuming the continuation of currency rates in effect during January 2017, we expect currency translation to reduce pre-tax operating income by approximately \$22 million.
- We expect our full year effective tax rate to be in the low-thirty percent range.
- We anticipate capital and software expenditures of approximately \$215 million.
- We estimate cash restructuring costs of approximately \$25 million in 2017.

ANALYSIS OF RESULTS OF OPERATIONS

Income from Continuing Operations before Taxes

(In millions, except percentages)	2016	2015	2014
Net sales	\$ 6,086.5	\$ 5,966.9	\$ 6,330.3
Cost of products sold	4,386.8	4,321.1	4,679.1
Gross profit	1,699.7	1,645.8	1,651.2
Marketing, general and administrative expense	1,097.5	1,108.1	1,158.9
Interest expense	59.9	60.5	63.3
Other expense, net	65.2	68.3	68.2
Income from continuing operations before taxes	\$ 477.1	\$ 408.9	\$ 360.8
Gross profit margin	27.9%	27.6%	26.1%

Gross Profit Margin

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, and partially offset by higher employee-related costs, the net impact of pricing and raw material input costs, and unfavorable geographic mix.

Gross profit margin in 2015 improved compared to 2014 primarily reflecting benefits from productivity initiatives, including savings from restructuring, net of transition costs, higher volume, the impact of changes in foreign currency rates, and the net impact of pricing and raw material input costs, partially offset by higher employee-related costs and changes in product mix in our Retail Branding and Information Solutions ("RBIS") reportable segment.

Marketing, General and Administrative Expense

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.

Marketing, general and administrative expense decreased in 2015 compared to 2014 reflecting the impact of currency and benefits from productivity initiatives, including savings from restructuring, net of transition costs, partially offset by higher employee-related costs.

Interest Expense

Interest expense in 2016 was comparable to 2015.

Interest expense decreased approximately \$3 million in 2015 compared to 2014 reflecting a decrease in foreign short-term debt, the extra week in our 2014 fiscal year, and the maturity of a series of our medium-term notes, partially offset by an increase in commercial paper borrowings.

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

Other Expense, net

(In millions)	2016	2015	2014
Other expense, net by type			
Restructuring charges:			
Severance and related costs	\$ 14.7	\$ 52.5	\$ 54.7
Asset impairment charges and lease and other contract cancellation costs	5.2	7.0	11.4
Other items:			
Net loss from curtailment and settlement of pension obligations	41.4	.3	1.6
Net gains on sales of assets	(1.1)	(1.7)	(2.5)
Transaction costs	5.0	–	–
Legal settlements	–	(.3)	–
Loss on sale of a product line and related exit costs	–	10.5	–
Indefinite-lived intangible asset impairment charge	–	–	3.0
Other expense, net	\$ 65.2	\$ 68.3	\$ 68.2

Refer to Note 13, "Cost Reduction Actions," to the Consolidated Financial Statements for more information regarding charges associated with restructuring.

Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information regarding the net loss from curtailment and settlement of pension obligations.

Net Income and Earnings per Share

(In millions, except percentages and per share amounts)	2016	2015	2014
Income from continuing operations before taxes	\$ 477.1	\$ 408.9	\$ 360.8
Provision for income taxes	156.4	134.5	113.5
Income from continuing operations	320.7	274.4	247.3
Loss from discontinued operations, net of tax	–	(.1)	(2.2)
Net income	\$ 320.7	\$ 274.3	\$ 245.1
Net income per common share	\$ 3.60	\$ 3.01	\$ 2.61
Net income per common share, assuming dilution	3.54	2.95	2.56
Effective tax rate for continuing operations	32.8%	32.9%	31.5%

Provision for Income Taxes

The 2016 effective tax rate for continuing operations included a tax expense of \$7.6 million associated with the cost to repatriate non-permanently reinvested current earnings of certain foreign subsidiaries and a tax expense of \$46.3 million related to the U.S. income and foreign withholding taxes resulting from changes in indefinite reinvestment assertions on certain foreign earnings; 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 a tax expense of \$8.4 million from deferred tax adjustments resulting from enacted 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 this evaluation, we record valuation allowances only with respect to the portion of the deferred tax asset that is more likely than not to be realized. However, the amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income during the carryforward period changes or if objective negative evidence in the form of cumulative losses is no longer present. For example, if our U.S. profitability improves at a higher-than-expected rate, it is possible that the remaining valuation allowances on state deferred tax assets could be subject to further releases.

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 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 the 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. As a result, 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 a tax expense of \$20 million associated with the tax cost to repatriate non-permanently reinvested 2015 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.

The 2014 effective tax rate for continuing operations included tax benefits for changes in certain tax reserves, including interest and penalties, of \$10.2 million resulting from settlements of audits and \$18.1 million resulting from expirations of statutes of limitations; a repatriation tax benefit of \$9.8 million related to certain foreign losses; a tax expense of \$9.1 million from the taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans; a tax expense of \$10.6 million related to our change in estimate of the potential outcome of uncertain tax issues in China and Germany; and a state tax expense of \$2.5 million primarily related to gains arising as a result of certain foreign reorganizations.

On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 ("PATH Act") was enacted, 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. For periods during which the look-through rule was effective, U.S. federal income tax on certain dividends, interest, rents, and royalties received or accrued by a CFC of a U.S. multinational enterprise from a related CFC are deferred. The

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

retroactive effects of the extension of the CFC look-through rule did not have a material impact on our effective tax rate or operating results. The extension of the CFC look-through rule is currently scheduled to expire on December 31, 2019.

Due to recent changes in the U.S. government, U.S. tax reform may be enacted in the near future. Significant changes that could occur include a reduction of the corporate income tax rate, a one-time deemed repatriation of untaxed foreign earnings, border adjustability, territoriality, and various increases to the tax base. Due to the lack of clarity regarding if, how, and when any such tax reform will be enacted, the potential impact of U.S. tax reform is unclear. We continue to closely monitor these developments.

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)	2016	2015	2014
Net sales including intersegment sales	\$ 4,250.7	\$ 4,093.4	\$ 4,362.9
Less intersegment sales	(63.4)	(61.3)	(64.2)
Net sales	\$ 4,187.3	\$ 4,032.1	\$ 4,298.7
Operating income ⁽¹⁾	516.2	453.4	396.9
⁽¹⁾ Included charges associated with restructuring in all years, transaction costs in 2016, gain on sale of asset in 2015, and losses from curtailment and settlement of pension obligations in 2015 and 2014.	\$ 13.0	\$ 12.1	\$ 41.5

Net Sales

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

	2016	2015
Reported sales change	4%	(6)%
Foreign currency translation	3	10
Acquisitions	(1)	—
Extra week in 2014 fiscal year	—	1
Organic sales change ⁽¹⁾	5%	5%

⁽¹⁾ Totals may not sum due to rounding.

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

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.

In 2015, net sales increased on an organic basis at mid-single digit rates in both Western Europe and emerging markets and at a low-single digit rate in North America.

Operating Income

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 input costs, unfavorable geographic mix, the unfavorable impact of foreign currency translation, and higher employee-related costs.

Operating income increased in 2015 compared to 2014 due to benefits from productivity initiatives, including savings from restructuring, net of transition costs, higher volume, lower restructuring charges, and the net impact of pricing and raw material input costs, partially offset by higher employee-related costs and the unfavorable impact of foreign currency translation.

Retail Branding and Information Solutions

(In millions)	2016	2015	2014
Net sales including intersegment sales	\$ 1,448.3	\$ 1,446.3	\$ 1,518.5
Less intersegment sales	(2.9)	(2.9)	(2.5)
Net sales	\$ 1,445.4	\$ 1,443.4	\$ 1,516.0
Operating income ⁽¹⁾	102.6	51.6	68.5
⁽¹⁾ Included charges associated with restructuring in all years, loss on sale of a product line and related transaction and exit costs in 2016 and 2015, gains on sales of assets in 2016 and 2014, legal settlement in 2015, indefinite-lived intangible asset impairment charge in 2014, and loss from settlement of pension obligation in 2014.	\$ 9.8	\$ 45.7	\$ 22.0

Net Sales

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

	2016	2015
Reported sales change	—%	(5)%
Foreign currency translation	2	4
Product line divestiture	2	2
Extra week in 2014 fiscal year	—	1
Organic sales change ⁽¹⁾	3%	3%

⁽¹⁾ Totals may not sum due to rounding.

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

In 2015, net sales increased on an organic basis primarily due to higher volume.

Operating Income

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.

Operating income decreased in 2015 compared to 2014 due to higher employee-related costs, higher restructuring charges, the impact of strategic pricing actions, and the loss on sale of a product line and related exit costs, partially offset by benefits from productivity initiatives, including savings from restructuring, net of transition costs, as well as higher volume.

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Industrial and Healthcare Materials

(In millions)	2016	2015	2014
Net sales including intersegment sales	\$ 461.0	\$ 506.2	\$ 534.7
Less intersegment sales	(7.2)	(14.8)	(19.1)
Net sales	\$ 453.8	\$ 491.4	\$ 515.6
Operating income ⁽¹⁾	54.6	57.1	45.2
⁽¹⁾ Included charges associated with restructuring in all years and transaction costs in 2016.	\$ 1.9	\$ 8.0	\$ 4.3

Net Sales

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

	2016	2015
Reported sales change	(8)%	(5)%
Foreign currency translation	2	9
Acquisition	(2)	—
Extra week in 2014 fiscal year	—	1
Organic sales change	(8)%	5%

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 personal care program loss.

In 2015, net sales increased on an organic basis primarily due to higher volume. Net sales increased on an organic basis at a mid-teen digit rate for the Performance Tapes product group.

Operating Income

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

Operating income increased in 2015 compared to 2014 primarily due to benefits from productivity initiatives, including savings from restructuring, net of transition costs, the net impact of pricing and raw material input costs, and higher volume, partially offset by the impact of unfavorable product mix and higher restructuring charges.

FINANCIAL CONDITION

Liquidity

Operating Activities

(In millions)	2016	2015	2014
Net income	\$ 320.7	\$ 274.3	\$ 245.1
Depreciation and amortization	180.1	188.3	201.6
Provision for doubtful accounts and sales returns	54.4	46.5	45.2
Loss on sale of businesses	—	—	3.4
Indefinite-lived intangible asset impairment charge	—	—	3.0
Net losses from asset impairments and sales/disposals of assets	1.5	12.2	10.2
Stock-based compensation	27.2	26.3	28.3
Loss from settlement of pension obligations	41.4	—	—
Other non-cash expense and loss	46.2	50.1	44.2
Trade accounts receivable	(88.2)	(135.9)	(65.4)
Inventories	(19.6)	(34.4)	(33.0)
Other current assets	(7.6)	3.9	(33.7)
Accounts payable	31.6	65.5	(62.8)
Accrued liabilities	32.4	7.0	(18.2)
Income taxes (deferred and accrued)	38.2	(10.8)	(2.6)
Other assets	(1.2)	(.3)	(3.5)
Long-term retirement benefits and other liabilities	(71.8)	(19.0)	(6.9)
Net cash provided by operating activities	\$ 585.3	\$ 473.7	\$ 354.9

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 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.

In 2015, cash flow provided by operating activities increased compared to 2014 due to the timing of vendor payments, higher net income and lower incentive compensation paid in 2015 for the 2014 performance year, partially offset by the timing of collections from customers and higher payments for taxes.

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Investing Activities

(In millions)	2016	2015	2014
Purchases of property, plant and equipment	\$ (176.9)	\$ (135.8)	\$ (147.9)
Purchases of software and other deferred charges	(29.7)	(15.7)	(27.1)
Proceeds from sales of property, plant and equipment	8.5	7.6	4.3
(Purchases) sales of investments, net	(.1)	(.5)	.3
Payments for acquisitions and equity method investments, net of cash acquired	(237.2)	—	—
Other	—	1.5	—
Net cash used in investing activities	\$ (435.4)	\$ (142.9)	\$ (170.4)

Capital and Software Spending

In 2016, we invested in new equipment to support growth in Asia, North America, and Europe and to improve manufacturing productivity. In 2015 and 2014, we invested in new equipment to support growth, primarily in Asia and Europe, and to improve manufacturing productivity.

Information technology investments in 2016 and 2015 were primarily associated with standardization initiatives in Asia and North America. Information technology investments in 2014 were primarily associated with standardization initiatives in Europe and North America.

Payments for Acquisitions and Equity Method Investments, Net of Cash Acquired

In connection with the Mactac acquisition, we paid consideration, net of cash received, of approximately \$220 million, which we funded primarily through existing credit facilities. We also made payments for a small acquisition and an investment accounted for using the equity method.

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)	2016	2015	2014
Net change in borrowings and repayments of debt	\$ 232.2	\$ (105.8)	\$ 124.9
Dividends paid	(142.5)	(133.1)	(125.1)
Share repurchases	(262.4)	(232.3)	(355.5)
Proceeds from exercises of stock options, net	71.0	104.0	34.2
Other	(4.5)	(.1)	(2.0)
Net cash used in financing activities	\$ (106.2)	\$ (367.3)	\$ (323.5)

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. 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 31, 2016, \$209 million was outstanding under this program.

In 2016, our commercial paper borrowings were used primarily to fund share repurchase activity, the Mactac acquisition, capital expenditures, and dividend payments. In 2015, our U.S. commercial paper borrowings were used primarily to fund share repurchase activity, dividend payments, and capital and software expenditures.

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

Refer to "Capital Resources" below for further information on 2016 and 2015 borrowings and repayment of debt.

Dividend Payments

We paid dividends of \$1.60 per share in 2016 compared to \$1.46 per share in 2015. In April 2016, we increased our quarterly dividend to \$.41 per share, representing an 11% increase from our previous dividend rate of \$.37 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 stock option and incentive plan or used for other corporate purposes. In 2016, we repurchased approximately 3.8 million shares of our common stock at an aggregate cost of \$262.4 million. In 2015, we repurchased approximately 3.9 million shares of our common stock at an aggregate cost of \$232.3 million.

On December 4, 2014, our Board authorized the repurchase of shares of our common stock in the aggregate amount of up to \$500 million (exclusive of any fees, commissions or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This authorization is the only one currently in effect and it will remain in effect until shares in the amount authorized have been repurchased. As of December 31, 2016, shares of our common stock in the aggregate amount of approximately \$105 million remained authorized for repurchase under this Board authorization.

Proceeds from Exercises of Stock Options, net

The number of stock options exercised was approximately 1.4 million, 2.5 million, and 1 million in 2016, 2015, and 2014, respectively. Refer to Note 12, "Long-Term Incentive Compensation," to the Consolidated Financial Statements for more information.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill increased by approximately \$107 million to \$794 million at year-end 2016, which primarily reflected the preliminary valuation of goodwill associated with the Mactac acquisition, partially offset by the impact of foreign currency translation.

Other intangibles resulting from business acquisitions, net, increased by approximately \$21 million to \$67 million at year-end 2016,

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which primarily reflected the valuation of other intangibles resulting from the Mactac acquisition, partially offset by current year amortization expense and the impact of foreign currency translation.

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

Other assets decreased by approximately \$3 million to \$403 million at year-end 2016, which primarily reflected amortization expense related to software and other deferred charges, net of purchases, and the impact of foreign currency translation, partially offset by an increase in the cash surrender value of our corporate-owned life insurance policies.

Shareholders' Equity Accounts

The balance of our shareholders' equity decreased by approximately \$40 million to \$926 million at year-end 2016, which reflected the effect of share repurchases, dividend payments, and the net increase in "Accumulated other comprehensive loss." These decreases were partially offset by net income and 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.

The balance of our treasury stock increased by approximately \$185 million to \$1.77 billion at year-end 2016, 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 increased by approximately \$69 million to \$752 million at year-end 2016 primarily due to net actuarial losses in our pension and other postretirement plans as a result of lower discount rates and the unfavorable impact of foreign currency translation, partially offset by the effect of certain pension settlements related to our U.S. pension plan.

Refer to Note 6, "Pension and other postretirement benefits," to the Consolidated Financial Statements for more information.

Impact of Foreign Currency Translation

(In millions)	2016	2015
Change in net sales	\$ (147)	\$ (528)
Change in net income from continuing operations	(12)	(34)

In 2016, international operations generated approximately 75% 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 unfavorable impact of foreign currency translation on net sales in 2016 compared to 2015 was primarily related to sales in China and Argentina, as well as euro-denominated sales.

Operations are treated as being in a hyperinflationary economy based on the cumulative inflation rate over the past three years. We had no operations in hyperinflationary economies in fiscal years 2016, 2015, or 2014.

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.

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 (1.6)% in 2016 compared to 5.3% in 2015 primarily driven by an increase in short-term debt associated with the reclassification of senior notes due on October 1, 2017 to the current portion of long-term debt and an increase in commercial paper borrowings to fund the Mactac acquisition, partially offset by increases in inventory, trade accounts receivable, and cash and cash equivalents.

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)	2016	2015
(A) Working capital (deficit)	\$ (99.5)	\$ 316.3
Reconciling items:		
Cash and cash equivalents	(195.1)	(158.8)
Current refundable income taxes and other current assets	(182.8)	(170.7)
Assets held for sale	(6.8)	(2.5)
Short-term borrowings and current portion of long-term debt and capital leases	579.1	95.3
Current income taxes payable and other current accrued liabilities	583.3	549.2
(B) Operational working capital	\$ 678.2	\$ 628.8
(C) Net sales	\$ 6,086.5	\$ 5,966.9
Working capital (deficit), as a percentage of net sales (A) ÷ (C)	(1.6)%	5.3%
Operational working capital, as a percentage of net sales (B) ÷ (C)	11.1%	10.5%

Accounts Receivable Ratio

The average number of days sales outstanding was 62 days in 2016 compared to 60 days in 2015, calculated using the four-quarter average accounts receivable balance divided by the average daily sales in 2016 and 2015, respectively. The increase in the average number of days sales outstanding from the prior year reflected the timing of collections, partially offset by the impact of increased accounts receivable reserves.

Inventory Ratio

Average inventory turnover was 8.2 in 2016 compared to 8.6 in 2015, calculated using the annual cost of sales in 2016 and 2015, respectively, divided by the four-quarter average inventory balance. The decrease in the current year average inventory turnover primarily reflected the timing of inventory purchases.

Accounts Payable Ratio

The average number of days payable outstanding was 71 days in 2016 compared to 70 days in 2015, calculated using the four-quarter average accounts payable balance divided by the average daily cost of products sold in 2016 and 2015, respectively. The increase in average

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number of days payable outstanding from the prior year primarily reflected the timing of vendor payments and the impact of foreign currency translation.

Net Debt to EBITDA Ratio

(In millions, except ratios)	2016	2015	2014
Net income	\$ 320.7	\$ 274.3	\$ 245.1
Reconciling items:			
Interest expense	59.9	60.5	63.3
Provision for income taxes	156.4	134.5	113.5
Depreciation	117.5	125.2	135.5
Amortization	62.5	62.9	65.9
EBITDA	\$ 717.0	\$ 657.4	\$ 623.3
Total debt and capital leases	\$ 1,292.5	\$ 1,058.9	\$ 1,144.4
Less cash and cash equivalents	(195.1)	(158.8)	(207.2)
Net debt	\$ 1,097.4	\$ 900.1	\$ 937.2
Net debt to EBITDA ratio	1.5	1.4	1.5

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 net income.

The net debt to EBITDA ratio was lower in 2015 compared to 2014 primarily due to higher net income and lower net debt as a result of lower commercial paper borrowings.

Financial Covenants

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 31, 2016 and January 2, 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 fair value of our total debt was \$1.31 billion at December 31, 2016 and \$1.08 billion at January 2, 2016. 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 2016, we had cash and cash equivalents of \$195.1 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At year-end 2016, 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. However, if we were to repatriate incremental foreign earnings, we may be subject to additional taxes in the U.S.

In October 2014, we amended and restated the Revolver, increasing the amount available from certain domestic and foreign banks from \$675 million to \$700 million. The amendment also extended the Revolver's maturity date from December 22, 2016 to October 3, 2019 and adjusted pricing to reflect favorable market conditions. 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 \$325 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 to finance other corporate requirements.

No balances were outstanding under the Revolver as of year-end 2016 or 2015. Commitment fees associated with the Revolver in 2016, 2015, and 2014 were \$1.1 million, \$1.9 million, and \$1.3 million, respectively.

In addition to the Revolver, we have significant short-term lines of credit available in various countries totaling approximately \$300 million at December 31, 2016. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under our lines of credit were \$72.9 million and \$65 million at December 31, 2016 and January 2, 2016, respectively, with a weighted-average interest rate of 6.5% and 8.7%, 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 31, 2016, \$209 million was outstanding under this program.

We had \$44.5 million and \$28 million of borrowings from U.S. commercial paper issuances outstanding at year-end 2016 and 2015, respectively, with a weighted-average interest rate of .9% and .7%, respectively.

We had medium-term notes of \$45 million outstanding at each year-end 2016 and 2015. During the second quarter of 2015, we repaid \$5 million of medium-term notes.

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 \$234 million to \$1.29 billion at year-end 2016 compared to \$1.06 billion at year-end 2015, primarily reflecting an increase in commercial paper borrowings used to fund share repurchase activity, the Mactac acquisition, dividend payments, and capital expenditures, as well as an increase in short-term borrowings to support operational requirements. Refer to "Borrowings and Repayment of Debt" above for more information.

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,

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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.

During 2017, we are exploring the possible incurrence of long-term debt to refinance some of our outstanding commercial paper and other indebtedness and for general corporate purposes.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations at End of Year 2016

(In millions)	Payments Due by Period						
	Total	2017	2018	2019	2020	2021	Thereafter
Short-term borrowings	\$ 326.3	\$ 326.3	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	945.0	250.0	-	-	265.0	-	430.0
Payments related to long-term capital leases	41.1	5.4	5.4	5.3	5.0	4.8	15.2
Interest on long-term debt	276.6	46.6	34.2	34.2	24.0	19.6	118.0
Operating leases	137.8	40.0	29.6	20.0	13.9	8.8	25.5
Pension and postretirement benefit payments (unfunded plans)	126.2	16.0	36.1	10.6	9.2	9.8	44.5
Total contractual obligations	\$ 1,853.0	\$ 684.3	\$ 105.3	\$ 70.1	\$ 317.1	\$ 43.0	\$ 633.2

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 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 our plans.
- 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 further information on cash awards.
- 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 benefit reserves of \$89.5 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 further information on unrecognized tax benefits.
- Acquisition-related obligations – Obligations related to recently announced acquisitions, including Hanita Coatings and Yongle Tape. These acquisitions are subject to customary regulatory approvals.

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 those 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.

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Goodwill

Our reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. We have the following reporting units: materials; retail branding and information solutions; reflective solutions; performance tapes; fastener solutions; adhesives; and medical solutions. In performing the required impairment tests, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. 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 determine goodwill impairment using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step, if necessary, compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

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 differ from those estimates and projections, and those differences may be material. 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 first step impairment analysis in the fourth quarter of 2016 indicated that the fair values of our reporting units exceeded their respective carrying amounts, including goodwill. The fair value of the reporting units tested exceeded their carrying amounts by 79% to 442%.

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 cost.

Discount Rate

In consultation with our actuaries, we annually review and determine the discount rates to be used in connection with 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 31, 2016, a .25% increase in the discount rate in the U.S. would have decreased our year-end projected benefit obligation by approximately \$28 million and would have increased expected periodic benefit cost for the coming year by approximately \$.2 million. Conversely, a .25% decrease in the discount rate in the U.S. would have increased our year-end projected benefit obligation by approximately \$29 million and would have decreased expected periodic benefit cost for the coming year by approximately \$.3 million. As of December 31, 2016, a .25% increase in the discount rate associated with our international plans would have decreased our year-end projected benefit obligation by \$39 million and would have increased expected periodic benefit cost for the coming year by approximately \$3 million. Conversely, a .25% decrease in the discount rate associated with our foreign plans would have increased our year-end projected benefit obligation by approximately \$42 million and would have decreased expected periodic benefit cost for the coming year by approximately \$2 million.

In 2016, we used a 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

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

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 \$1 million.

Taxes Based on Income

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income 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. We use historical experience along with operating forecasts to evaluate expected taxable income for the future. 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." We also established valuation allowances associated with certain acquired net deferred tax assets. If, based on our estimates of future taxable income, it is later determined that it is more likely than not that a deferred tax asset will be realized, we would release the valuation allowance to current earnings.

Our income tax rate is significantly affected by the different tax rates applicable to our operations in the jurisdictions in which we do business. In addition to local country tax law and regulations, this rate depends on the extent earnings are indefinitely reinvested outside the United States. Indefinite reinvestment is determined in accordance with the Accounting Standards Codification ("ASC") 740-30-25-17 using management's judgment about and intentions concerning estimates of our future financial results, cash flows, capital investment plans and our actions to return cash to shareholders.

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 respective 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 in 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, in 2016, the European Commission concluded that certain tax benefits granted by certain countries, including the Netherlands, Luxembourg, Belgium, and Ireland, to other companies constituted illegal state aid. 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.

Further information is available in Note 14, "Taxes Based on Income," to the Consolidated Financial Statements.

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 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

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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. Cash-based awards 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.

Accounting for Income Taxes for Stock-Based Compensation

We use the short-cut method to calculate the historical pool of windfall tax benefits related to employee and non-employee director stock-based compensation awards. In addition, we follow the tax law ordering approach to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculate the amount of windfall or shortfall tax benefits.

Litigation Matters

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.

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. 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.

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 exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on our net income.

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 domestic 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 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 all of our debt as well as all interest rate and foreign exchange derivative contracts and market sensitive equity investments. 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 2016 and 2015, 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 \$1.6 million at year-end 2016 and \$1 million at year-end 2015.

The VAR model is a risk analysis tool and does not purport to 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 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.

In 2015, an assumed 40 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.

Consolidated Balance Sheets

(Dollars in millions, except per share amount)	December 31, 2016	January 2, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 195.1	\$ 158.8
Trade accounts receivable, less allowances of \$47.8 and \$31.5 at year-end 2016 and 2015, respectively	1,001.0	964.7
Inventories, net	519.1	478.7
Refundable income taxes	30.3	30.9
Assets held for sale	6.8	2.5
Other current assets	152.5	139.8
Total current assets	1,904.8	1,775.4
Property, plant and equipment, net	915.2	847.9
Goodwill	793.6	686.2
Other intangibles resulting from business acquisitions, net	66.7	45.8
Non-current deferred income taxes	313.2	372.2
Other assets	402.9	406.2
	\$ 4,396.4	\$ 4,133.7
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and capital leases	\$ 579.1	\$ 95.3
Accounts payable	841.9	814.6
Accrued payroll and employee benefits	217.4	194.6
Accrued trade rebates	95.2	85.4
Income taxes payable	37.9	45.1
Other accrued liabilities	232.8	224.1
Total current liabilities	2,004.3	1,459.1
Long-term debt and capital leases	713.4	963.6
Long-term retirement benefits and other liabilities	660.9	637.4
Non-current deferred and payable income taxes	92.3	107.9
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 2016 and 2015; issued – 124,126,624 shares at year-end 2016 and 2015; outstanding – 88,308,860 shares and 89,967,697 shares at year-end 2016 and 2015, respectively	124.1	124.1
Capital in excess of par value	852.0	834.0
Retained earnings	2,473.3	2,277.6
Treasury stock at cost, 35,817,764 shares and 34,158,927 shares at year-end 2016 and 2015, respectively	(1,772.0)	(1,587.0)
Accumulated other comprehensive loss	(751.9)	(683.0)
Total shareholders' equity	925.5	965.7
	\$ 4,396.4	\$ 4,133.7

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

(In millions, except per share amounts)	2016	2015	2014
Net sales	\$ 6,086.5	\$ 5,966.9	\$ 6,330.3
Cost of products sold	4,386.8	4,321.1	4,679.1
Gross profit	1,699.7	1,645.8	1,651.2
Marketing, general and administrative expense	1,097.5	1,108.1	1,158.9
Interest expense	59.9	60.5	63.3
Other expense, net	65.2	68.3	68.2
Income from continuing operations before taxes	477.1	408.9	360.8
Provision for income taxes	156.4	134.5	113.5
Income from continuing operations	320.7	274.4	247.3
Loss from discontinued operations, net of tax	-	(.1)	(2.2)
Net income	\$ 320.7	\$ 274.3	\$ 245.1
Per share amounts:			
Net income (loss) per common share:			
Continuing operations	\$ 3.60	\$ 3.01	\$ 2.64
Discontinued operations	-	-	(.03)
Net income per common share	\$ 3.60	\$ 3.01	\$ 2.61
Net income (loss) per common share, assuming dilution:			
Continuing operations	\$ 3.54	\$ 2.95	\$ 2.58
Discontinued operations	-	-	(.02)
Net income per common share, assuming dilution	\$ 3.54	\$ 2.95	\$ 2.56
Dividends per common share	\$ 1.60	\$ 1.46	\$ 1.34
Weighted average number of shares outstanding:			
Common shares	89.1	91.0	93.8
Common shares, assuming dilution	90.7	92.9	95.7

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(In millions)	2016	2015	2014
Net income	\$ 320.7	\$ 274.3	\$ 245.1
Other comprehensive (loss) income, net tax:			
Foreign currency translation:			
Translation loss	(53.7)	(139.0)	(149.8)
Pension and other postretirement benefits:			
Net loss recognized from actuarial gain/loss and prior service cost/credit	(62.9)	(18.9)	(125.2)
Reclassifications to net income	44.2	22.9	16.9
Cash flow hedges:			
Gains (losses) recognized on cash flow hedges	.7	(.5)	.1
Reclassifications to net income	2.8	(2.0)	.9
Other comprehensive loss, net of tax	(68.9)	(137.5)	(257.1)
Total comprehensive income (loss), net of tax	\$ 251.8	\$ 136.8	\$ (12.0)

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 December 28, 2013	\$ 124.1	\$ 812.3	\$ 1,992.3	\$ (1,172.2)	\$ (288.4)	\$ 1,468.1
Net income	-	-	245.1	-	-	245.1
Other comprehensive loss, net of tax	-	-	-	-	(257.1)	(257.1)
Repurchase of 7,416,167 shares for treasury	-	-	-	(355.5)	-	(355.5)
Issuance of 1,299,931 shares under stock-based compensation plans, including tax of \$(4.1)	-	11.6	(2.0)	43.2	-	52.8
Contribution of 396,781 shares to 401(k) Plan	-	-	6.2	13.2	-	19.4
Dividends: \$1.34 per share	-	-	(125.1)	-	-	(125.1)
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

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In millions)	2016	2015	2014
Operating Activities			
Net income	\$ 320.7	\$ 274.3	\$ 245.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	117.5	125.2	135.5
Amortization	62.6	63.1	66.1
Provision for doubtful accounts and sales returns	54.4	46.5	45.2
Loss on sale of businesses	-	-	3.4
Indefinite-lived intangible asset impairment charge	-	-	3.0
Net losses from asset impairments and sales/disposals of assets	1.5	12.2	10.2
Stock-based compensation	27.2	26.3	28.3
Loss from settlement of pension obligations	41.4	-	-
Other non-cash expense and loss	46.2	50.1	44.2
Changes in assets and liabilities and other adjustments:			
Trade accounts receivable	(88.2)	(135.9)	(65.4)
Inventories	(19.6)	(34.4)	(33.0)
Other current assets	(7.6)	3.9	(33.7)
Accounts payable	31.6	65.5	(62.8)
Accrued liabilities	32.4	7.0	(18.2)
Taxes on income	(14.1)	(23.7)	15.3
Deferred income taxes	52.3	12.9	(17.9)
Other assets	(1.2)	(.3)	(3.5)
Long-term retirement benefits and other liabilities	(71.8)	(19.0)	(6.9)
Net cash provided by operating activities	585.3	473.7	354.9
Investing Activities			
Purchases of property, plant and equipment	(176.9)	(135.8)	(147.9)
Purchases of software and other deferred charges	(29.7)	(15.7)	(27.1)
Proceeds from sales of property, plant and equipment	8.5	7.6	4.3
(Purchases) sales of investments, net	(.1)	(.5)	.3
Payments for acquisitions and equity method investments, net of cash acquired	(237.2)	-	-
Other	-	1.5	-
Net cash used in investing activities	(435.4)	(142.9)	(170.4)
Financing Activities			
Net increase (decrease) in borrowings (maturities of three months or less)	234.9	(98.4)	126.5
Repayments of debt (maturities greater than three months)	(2.7)	(7.4)	(1.6)
Dividends paid	(142.5)	(133.1)	(125.1)
Share repurchases	(262.4)	(232.3)	(355.5)
Proceeds from exercises of stock options, net	71.0	104.0	34.2
Other	(4.5)	(.1)	(2.0)
Net cash used in financing activities	(106.2)	(367.3)	(323.5)
Effect of foreign currency translation on cash balances	(7.4)	(11.9)	(4.9)
Increase (decrease) in cash and cash equivalents	36.3	(48.4)	(143.9)
Cash and cash equivalents, beginning of year	158.8	207.2	351.1
Cash and cash equivalents, end of year	\$ 195.1	\$ 158.8	\$ 207.2

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 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.

Segment Information

In the fourth quarter of 2016, we changed our operating structure to align with our overall business strategy, and our Chief Executive Officer, who is also our chief operating decision maker, requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. As a result of these events, our fiscal year 2016 results are reported based on our new reportable segments, as described in Note 15, "Segment Information." We have reclassified certain prior period amounts to reflect our new operating structure.

Fiscal Year

Normally, our fiscal years consist of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2016 and 2015 fiscal years consisted of 52-week periods ending December 31, 2016 and January 2, 2016, respectively. Our 2014 fiscal year consisted of a 53-week period ending January 3, 2015.

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 years 2015 and 2014. Unless otherwise noted, the results and financial condition of discontinued operations have been excluded from the notes to our Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

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 2016 or 2015. However, during 2016, 2015, and 2014, our ten largest customers by net sales represented approximately 14%, 15%, and 13% of our net sales, respectively. As of December 31, 2016 and January 2, 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 are 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 that are incurred during the application development stage of software development, including costs incurred for the design, coding, installation to hardware, testing, and upgrades and enhancements that provide the software or hardware with additional functionalities and capabilities. Internal and

Notes to Consolidated Financial Statements

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 by 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, trade names and trademarks, and other intangibles.

We have the following reporting units: materials; retail branding and information solutions; reflective solutions; performance tapes; fastener solutions; adhesives; and medical solutions. In performing the required impairment tests, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. 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 determine goodwill impairment using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step, if necessary, compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

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 differ from those estimates and projections, and those differences may be material. 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 hedge 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 not designated as hedges are recorded on the balance sheets at fair value, with changes in fair value recognized in earnings. 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). Our policy is not to

Notes to Consolidated Financial Statements

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.

See also Note 5, "Financial Instruments."

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 which are 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

No long-term incentive compensation expense was capitalized in 2016, 2015, or 2014.

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 performance objectives based on a 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. Cash-based awards are classified as liability awards and remeasured at each quarter-end over the applicable vesting or performance period. In addition to LTI Units

Notes to Consolidated Financial Statements

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.

Accounting for Income Taxes for Stock-Based Compensation

We use the short-cut method to calculate the historical pool of windfall tax benefits related to non-employee director and employee stock-based compensation awards. In addition, we follow the tax law ordering approach to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculate the amount of windfall or shortfall tax benefits.

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

Taxes Based on Income

Our provision for income taxes is determined using the asset and liability approach following the provisions of ASC 740, *Accounting for Income Taxes*. 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.

See also Note 14, "Taxes Based on Income."

Recent Accounting Requirements

In January 2017, the Financial Accounting Standards Board ("FASB") issued amended guidance that simplifies the subsequent measurement of goodwill. This amended guidance eliminates step two of the goodwill impairment test, and a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. While we are currently assessing the timing of our adoption of this guidance, we do not anticipate that its adoption will have a significant impact on our financial position, results of operations, cash flows, or 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 is a business. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2017 and early adoption is permitted. While we are currently assessing the timing of our adoption of this guidance, we do not anticipate that its adoption 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 the transfer occurs. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2017 and early adoption is permitted. The guidance requires modified retrospective adoption. We are currently assessing the timing of our adoption of this guidance and its impact 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 of certain cash receipts and cash payments presented and classified in the statement of cash flows. This guidance requires retrospective adoption and will be effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. We are currently assessing the impact of this guidance on our cash flows.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2016, and early adoption is permitted. Different components of the guidance require prospective, retrospective and/or modified retrospective adoption. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures.

In March 2016, the FASB issued guidance on accounting for leases that requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. This guidance also requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. 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. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, 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 will require 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"). Early adoption is permitted for fiscal periods beginning after December 15, 2016. We expect to adopt the new standard under the modified retrospective approach in the first quarter of 2018. 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.

Notes to Consolidated Financial Statements

NOTE 2. ACQUISITIONS

On August 1, 2016, we completed the acquisition of the European business of Mactac ("Mactac") from Platinum Equity through the purchase of Evergreen Holding 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. Due to the allowable time required to complete our assessment, the valuation of certain acquired assets and liabilities, including environmental liabilities and taxes, is currently pending. This acquisition was not material to our Consolidated Financial Statements.

In December 2016, we announced our agreement to acquire Hanita Coatings, a pressure-sensitive manufacturer of specialty films and laminates, from Kibbutz Hanita Coatings and Tene Investment Funds for a purchase price of \$75 million, subject to customary adjustments. We expect to complete this acquisition in the first quarter of 2017.

In February 2017, we announced our agreement to acquire Yongle Tape Company Ltd. ("Yongle Tape"), a manufacturer of specialty tapes and related products used in a variety of industrial markets, from Yongle Tape's management and ShawKwei & Partners. The purchase price is \$190 million, which is subject to customary adjustments, with an additional earn-out opportunity of up to \$55 million to be paid based on the acquired business' achievement of certain performance targets over the next two years. We expect to complete this acquisition in mid-2017.

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Goodwill

Results from our annual goodwill impairment test in the fourth quarter of 2016 indicated that no impairment occurred in 2016. The fair value of these assets was primarily based on Level 3 inputs.

Changes in the net carrying amount of goodwill for 2016 and 2015 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 3, 2015	\$ 306.6	\$ 415.0	\$ -	\$ 721.6
Acquisition adjustments	-	(.4)	-	(.4)
Translation adjustments	(28.7)	(6.3)	-	(35.0)
Goodwill as of January 2, 2016	277.9	408.3	-	686.2
Acquired during the current period ⁽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

(1) Goodwill acquired during the current period primarily related to the Mactac acquisition.

(2) In connection with our operating structure changes in 2016, we allocated goodwill associated with our fastener solutions reporting unit from Retail Branding and Information Solutions ("RBIS") to Industrial and Healthcare Materials ("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.

The carrying amounts of goodwill at December 31, 2016 and January 2, 2016 were net of accumulated impairment losses of \$820 million, which were included in our RBIS reportable segment.

In connection with the Mactac acquisition, we recognized goodwill based on our expectation of synergies and other benefits of combining our businesses. These synergies and benefits include the use of our existing commercial infrastructure to expand sales of products of the acquired business in a cost-efficient manner. The amount of goodwill recognized is not expected 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 of 2016 indicated that no impairment occurred in 2016.

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trade names and trademarks, was \$20.3 million and \$7.8 million at December 31, 2016 and January 2, 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.

Notes to Consolidated Financial Statements

Finite-Lived Intangible Assets

In connection with the Mactac acquisition in 2016, we acquired approximately \$29 million of identifiable intangible assets, which consist of customer relationships and patents and other acquired technology. 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

The following table sets forth our finite-lived intangible assets resulting from business acquisitions at December 31, 2016 and January 2, 2016, which continue to be amortized:

(In millions)	2016			2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships ⁽¹⁾	\$ 247.1	\$ 209.4	\$ 37.7	\$ 224.3	\$ 193.9	\$ 30.4
Patents and other acquired technology ⁽¹⁾	52.0	46.7	5.3	49.0	45.3	3.7
Trade names and trademarks	21.4	18.2	3.2	22.0	18.7	3.3
Other intangibles	11.7	11.5	.2	11.8	11.2	.6
Total	\$ 332.2	\$ 285.8	\$ 46.4	\$ 307.1	\$ 269.1	\$ 38.0

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

Amortization expense from continuing operations for finite-lived intangible assets resulting from business acquisitions was \$19.9 million for 2016, \$20.5 million for 2015, and \$24.4 million for 2014.

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
2017	\$ 12.2
2018	4.9
2019	4.0
2020	3.3
2021	3.0

NOTE 4. DEBT AND CAPITAL LEASES

Short-Term Borrowings

We had \$44.5 million and \$28 million of borrowings from U.S. commercial paper issuances outstanding at December 31, 2016 and January 2, 2016, respectively, with a weighted-average interest rate of .9% and .7%, 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 31, 2016, \$209 million was outstanding under this program.

Short-Term Credit Facilities

In October 2014, we amended and restated the Revolver, increasing the amount available from certain domestic and foreign banks from \$675 million to \$700 million. The amendment also extended the Revolver's maturity date from December 22, 2016 to October 3, 2019 and adjusted pricing to reflect favorable market conditions. 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 \$325 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 December 31, 2016 or January 2, 2016. Commitment fees associated with the Revolver in 2016, 2015, and 2014 were \$1.1 million, \$1.9 million, and \$1.3 million, respectively.

In addition to the Revolver, we have significant short-term lines of credit available in various countries totaling approximately \$300 million at December 31, 2016. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under our lines of credit were \$72.9 million and \$65 million at December 31, 2016 and January 2, 2016, respectively, with a weighted-average interest rate of 6.5% and 8.7%, respectively.

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

Notes to Consolidated Financial Statements

Long-Term Borrowings and Capital Leases

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

(In millions)	2016	2015
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	249.4
Senior notes due 2020 at 5.4%	249.3	249.0
Senior notes due 2023 at 3.4%	248.4	248.2
Senior notes due 2033 at 6.0%	148.6	148.6
Capital leases	25.2	26.0
Less amount classified as current ⁽¹⁾	(252.7)	(2.5)
Total long-term debt and capital leases ⁽²⁾	\$ 713.4	\$ 963.6

⁽¹⁾ In 2016, we reclassified approximately \$250 million of senior notes due on October 1, 2017 from long-term debt to current portion of long-term debt.

⁽²⁾ Includes unamortized debt issuance cost and debt discount of \$3.6 million and \$4.4 million as of year-end 2016 and \$4.4 million and \$5.5 million as of year-end 2015, respectively.

At year-end 2016, our medium-term notes had maturities from 2020 through 2025 and accrued interest at a weighted-average fixed rate of 7.5%.

Maturities of long-term debt and capital lease payments for each of the next five fiscal years and thereafter are expected to be as follows:

Year	(In millions)
2017 (classified as current)	\$ 254.1
2018	4.1
2019	4.0
2020	268.6
2021	3.5
2022 and thereafter	440.9

The maturities of capital lease payments in the table above include \$5 million of imputed interest, \$1.1 million of which is expected to be paid in 2017.

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, it was accounted for as a capital lease. The carrying value of the lease at December 31, 2016 was approximately \$22 million, of which approximately \$20 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 31, 2016.

Other

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 31, 2016 and January 2, 2016, we were in compliance with our financial covenants.

Our total interest costs from continuing operations in 2016, 2015, and 2014 were \$63.5 million, \$63.5 million, and \$67.2 million, respectively, of which \$3.6 million, \$3 million, and \$3.9 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 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 \$1.31 billion at December 31, 2016 and \$1.08 billion at January 2, 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 31, 2016, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was \$2.8 million and \$1.55 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 and designate foreign exchange contracts on existing balance sheet items as fair value hedges.

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

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 4.6	Other accrued liabilities	\$ 7.8
Commodity contracts	Other current assets	.5	Other accrued liabilities	-
Commodity contracts	Other assets	.1		
		\$ 5.2		\$ 7.8

Notes to Consolidated Financial Statements

The following table shows the fair value and balance sheet locations of derivatives as of January 2, 2016:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 5.6	Other accrued liabilities	\$ 4.5
Commodity contracts	Other current assets	–	Other accrued liabilities	.7
		\$ 5.6		\$ 5.2

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings, resulting in no material net impact to income.

The following table shows the components of the net gains (losses) recognized in income related to fair value hedge contracts. The corresponding gains or losses on the underlying hedged items approximated the net gains (losses) on these fair value hedge contracts.

(In millions)	Location of Net Gains (Losses) in Income	2016	2015	2014
Foreign exchange contracts	Cost of products sold	\$ 2.8	\$ 2.9	\$ (1.6)
Foreign exchange contracts	Marketing, general and administrative expense	4.1	2.9	(43.3)
		\$ 6.9	\$ 5.8	\$ (44.9)

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)	2016	2015	2014
Foreign exchange contracts	\$.2	\$ (.1)	\$ 1.3
Commodity contracts	.6	(.7)	(1.2)
	\$.8	\$ (.8)	\$.1

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 2016, 2015, and 2014.

As of December 31, 2016, we expected a net loss of approximately \$2.6 million to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months.

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, 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.

Employees who participated in the ADPP between December 1, 1986 and November 30, 1997 may also have had a benefit in a Stock Holding and Retirement Enhancement Account ("SHARE Account") associated with our defined contribution plan. The ADPP is a floor offset plan that coordinated the amount of projected benefit obligation to an eligible participant with his or her SHARE Account such that the total benefit payable to an eligible participant would equal the greater of the value of the participant's benefit from the ADPP or the value of the participant's SHARE Account. Lower than expected asset returns on the participant balances in the SHARE Account could have increased the projected benefit obligation under the ADPP. In the fourth quarter of 2013, we amended our plan documents to require participants to make an early election either to (a) receive their assets in the SHARE Account as a distribution, in which case their retirement benefit under the ADPP would be offset by the annuity equivalent of these assets or (b) transfer their SHARE Account assets to the ADPP and receive the full ADPP retirement benefit in annuity form, rather than wait to make such election upon termination of employment. These amendments resulted in an actuarial loss of approximately \$20 million to the ADPP in 2013. By October 2014, all participants with a SHARE Account completed their elections and the existing SHARE Accounts were terminated, which resulted in the recording of an additional actuarial loss of \$12 million. These actuarial losses are subject to future amortization.

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 is split into a growth portfolio and a liability hedging portfolio. 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 38% in equity securities, 49% in fixed income securities and cash, and 13% 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.

The methods described above 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:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
2016				
Cash	\$ -	\$ -	\$ -	\$ -
Pooled funds – liability hedging portfolio ⁽¹⁾	269.0			
Pooled funds – growth portfolio ⁽¹⁾	403.1			
Total U.S. plan assets	\$ 672.1			
2015				
Cash	\$ -	\$ -	\$ -	\$ -
Pooled funds – liability hedging portfolio ⁽¹⁾	335.9			
Pooled funds – growth portfolio ⁽¹⁾	368.9			
Other assets ⁽²⁾	.1			
Total U.S. plan assets	\$ 704.9			

(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.

(2) Includes accrued recoverable taxes.

Notes to Consolidated Financial Statements

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

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
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			
2015				
Cash	\$.8	\$.8	\$ –	\$ –
Insurance contracts	21.4	–	–	21.4
Pooled funds – fixed income securities ⁽¹⁾	275.7			
Pooled funds – equity securities ⁽¹⁾	218.1			
Pooled funds – other investments ⁽¹⁾	36.1			
Total international plan assets at fair value	\$ 552.1			

⁽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 international plan assets.

The following table presents a reconciliation of Level 3 international plan asset activity during the year ended December 31, 2016:

(In millions)	Level 3 Assets
	Insurance Contracts
Balance at January 2, 2016	\$ 21.4
Acquisition ⁽¹⁾	8.9
Net realized and unrealized gain	.5
Purchases	2.6
Settlements	(1.5)
Impact of changes in foreign currency exchange rates	(1.4)
Balance at December 31, 2016	\$ 30.5

⁽¹⁾ In connection with the Mactac acquisition completed in August 2016, we assumed plan assets associated with two defined benefit plans in Belgium.

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 a 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

Notes to Consolidated Financial Statements

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, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017. 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		(.3)

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

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2016		2015		2016	2015
	U.S.	Int'l	U.S.	Int'l		
Change in projected benefit obligations						
Projected benefit obligations at beginning of year	\$ 1,088.9	\$ 674.7	\$ 1,161.1	\$ 737.1	\$ 5.9	\$ 8.0
Service cost	.4	13.9	.4	13.8	-	-
Interest cost	34.4	16.4	45.8	17.3	.2	.2
Participant contribution	-	2.9	-	3.1	.5	.8
Amendments	-	(.6)	-	(.7)	-	-
Actuarial loss (gain)	39.1	123.8	(58.3)	(1.4)	(.2)	(1.4)
Plan transfers	-	-	-	2.5	-	-
Acquisition (1)	-	14.6	-	-	-	-
Benefits paid	(59.9)	(21.8)	(60.1)	(19.0)	(1.4)	(1.7)
Curtailments	-	(.3)	-	(2.7)	-	-
Settlements (2)	(69.2)	-	-	(13.3)	-	-
Foreign currency translation	-	(60.7)	-	(62.0)	-	-
Projected benefit obligations at end of year	\$ 1,033.7	\$ 762.9	\$ 1,088.9	\$ 674.7	\$ 5.0	\$ 5.9
Accumulated benefit obligations at end of year	\$ 1,033.7	\$ 704.8	\$ 1,088.9	\$ 625.4		

(1) In connection with the Mactac acquisition completed 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				U.S. Postretirement Health Benefits	
	2016		2015		2016	2015
	U.S.	Int'l	U.S.	Int'l		
Change in plan assets						
Plan assets at beginning of year	\$ 704.9	\$ 552.1	\$ 778.9	\$ 618.1	\$ -	\$ -
Actual return on plan assets	42.9	79.4	(28.3)	(7.4)	-	-
Plan transfers	-	-	-	(.3)	-	-
Acquisition ⁽¹⁾	-	8.9	-	-	-	-
Employer contributions	53.4	13.8	14.4	14.3	.9	.9
Participant contributions	-	2.9	-	3.1	.5	.8
Benefits paid	(59.9)	(21.8)	(60.1)	(19.0)	(1.4)	(1.7)
Settlements ⁽²⁾	(69.2)	-	-	(4.6)	-	-
Foreign currency translation	-	(51.1)	-	(52.1)	-	-
Plan assets at end of year	\$ 672.1	\$ 584.2	\$ 704.9	\$ 552.1	\$ -	\$ -

- (1) In connection with the Mactac acquisition completed 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				U.S. Postretirement Health Benefits	
	2016		2015		2016	2015
	U.S.	Int'l	U.S.	Int'l		
Funded status of the plans						
Other accrued liabilities	\$ (13.5)	\$ (2.0)	\$ (13.4)	\$ (2.2)	\$ (.8)	\$ (1.2)
Long-term retirement benefits and other liabilities ⁽¹⁾	(348.1)	(176.7)	(370.6)	(120.4)	(4.2)	(4.7)
Plan assets less than benefit obligations	\$ (361.6)	\$ (178.7)	\$ (384.0)	\$ (122.6)	\$ (5.0)	\$ (5.9)

- (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.

Weighted-average assumptions used to determine year-end benefit obligations	Pension Benefits						U.S. Postretirement Health Benefits		
	2016		2015		2014		2016	2015	2014
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Discount rate	4.25%	2.12%	4.55%	2.95%	4.00%	2.54%	3.95%	4.13%	3.50%
Compensation rate increase	-	2.27	-	2.21	-	2.22	-	-	-

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 \$1.80 billion and \$1.26 billion, respectively, at year-end 2016 and \$1.77 billion and \$1.26 billion, respectively, at year-end 2015.

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 \$1.74 billion and \$1.26 billion, respectively, at year-end 2016 and \$1.38 billion and \$910.9 million, respectively, at year-end 2015.

Notes to Consolidated Financial Statements

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				U.S. Postretirement Health Benefits	
	2016		2015		2016	2015
	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss	\$ 564.2	\$ 213.6	\$ 585.5	\$ 171.9	\$ 18.5	\$ 20.4
Prior service cost (credit)	17.5	(4.9)	18.7	(4.9)	(16.4)	(19.6)
Net transition obligation	—	.2	—	.3	—	—
Net amount recognized in accumulated other comprehensive loss	\$ 581.7	\$ 208.9	\$ 604.2	\$ 167.3	\$ 2.1	\$.8

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

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2016		2015		2014		2016	2015	2014
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Net actuarial loss (gain)	\$ 39.1	\$ 48.9	\$ 21.1	\$ 11.3	\$ 135.6	\$ 51.3	\$ (.2)	\$ (1.4)	\$.3
Prior service (cost) credit	—	(.6)	—	(.7)	—	(7.3)	—	—	—
Amortization of unrecognized:									
Net actuarial loss	(19.0)	(7.0)	(20.0)	(9.4)	(16.2)	(5.2)	(1.7)	(2.2)	(2.8)
Prior service (cost) credit	(1.2)	.4	(1.2)	.3	(1.2)	(.4)	3.2	3.3	3.3
Net transition obligation	—	(.1)	—	—	—	—	—	—	—
Curtailements	—	—	—	.2	—	(.6)	—	—	—
Settlements	(41.4)	—	—	(4.3)	(.6)	(.4)	—	—	—
Net amount recognized in other comprehensive (income) loss	\$ (22.5)	\$ 41.6	\$ (.1)	\$ (2.6)	\$ 117.6	\$ 37.4	\$ 1.3	\$ (.3)	\$.8

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:

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2016		2015		2014		2016	2015	2014
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Service cost	\$.4	\$ 13.9	\$.4	\$ 13.8	\$.4	\$ 12.9	\$ —	\$ —	\$ —
Interest cost	34.4	16.4	45.8	17.3	47.9	23.8	.1	.3	.3
Actuarial (gain) loss	(.2)	—	.4	—	4.0	—	—	—	—
Expected return on plan assets	(42.7)	(21.4)	(51.5)	(21.5)	(51.9)	(26.0)	—	—	—
Amortization of actuarial loss	19.0	7.0	20.0	9.4	16.2	5.2	1.7	2.2	2.8
Amortization of prior service cost (credit)	1.2	(.4)	1.2	(.3)	1.2	.4	(3.2)	(3.3)	(3.3)
Amortization of transition obligation	—	.1	—	—	—	—	—	—	—
Recognized (gain) loss on curtailments	—	(.2)	—	(.2)	—	.6	—	—	—
Recognized loss on settlements ⁽¹⁾	41.4	—	—	4.3	.6	.4	—	—	—
Net periodic benefit cost (credit)	\$ 53.5	\$ 15.4	\$ 16.3	\$ 22.8	\$ 18.4	\$ 17.3	\$ (1.4)	\$ (.8)	\$ (.2)

⁽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 for events in Switzerland in 2015 and 2014. These losses on settlements were recorded in "Other expense, net" in 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		
	2016		2015		2014		2016	2015	2014
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Discount rate	4.55%	2.95%	4.00%	2.54%	4.85%	3.88%	4.13%	3.50%	3.45%
Expected return on assets	7.25	4.14	7.50	4.27	7.75	4.82	—	—	—
Compensation rate increase	—	2.24	—	2.22	—	2.24	—	—	—

Notes to Consolidated Financial Statements

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 2017:

(In millions)	
U.S.	\$ 13.8
Int'l	13.0
U.S. postretirement health benefits	.8

Future Benefit Payments

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

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	U.S.	Int'l	
2017	\$ 61.6	\$ 16.0	\$.8
2018	83.2	16.7	.5
2019	58.9	20.1	.5
2020	59.1	19.2	.4
2021	60.7	19.5	.4
2022 - 2026	305.1	120.0	1.5

Estimated Amortization Amounts in Accumulated Other Comprehensive Loss

Our estimates of fiscal year 2017 amortization of amounts included in "Accumulated other comprehensive loss" were as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	U.S.	Int'l	
Net actuarial loss	\$ 18.4	\$ 10.1	\$ 1.6
Prior service cost (credit)	.9	(.4)	(3.3)
Net transition obligation	-	.1	-
Net loss (gain) to be recognized	\$ 19.3	\$ 9.8	\$ (1.7)

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 million, \$20.2 million, and \$19.4 million in 2016, 2015, and 2014, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

Other Retirement Plans

We have deferred compensation plans which 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 2016 and 2015, we had accrued \$78.7 million and \$77.9 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 stock option and incentive plan. 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 .1 million DSUs were outstanding as of year-end 2016 and 2015, with an aggregate value of \$10.2 million and \$8 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 \$230.6 million and \$227.1 million at year-end 2016 and 2015, 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)
2017	\$ 40.0
2018	29.6
2019	20.0
2020	13.9
2021	8.8
2022 and thereafter	25.5
Total minimum lease payments	\$ 137.8

Rent expense for operating leases from continuing operations was approximately \$58 million in both 2016 and 2015 and \$67 million in 2014. Operating leases primarily relate to office and warehouse space and equipment for information technology, machinery, and transportation. The terms of these leases do not impose significant restrictions or unusual obligations.

Refer to Note 4, "Debt and Capital Leases," for information on capital lease obligations.

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

Notes to Consolidated Financial Statements

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 31, 2016, 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 2016 and 2015 related to our environmental liabilities was as follows:

(In millions)	2016	2015
Balance at beginning of year	\$ 17.7	\$ 26.2
Charges (reversals), net	11.6	1.2
Payments	(8.0)	(9.7)
Balance at end of year	\$ 21.3	\$ 17.7

As of December 31, 2016 and January 2, 2016, approximately \$8 million and \$7 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 31, 2016:

(In millions)	Total	Fair Value Measurements Using		
		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	\$ –

Notes to Consolidated Financial Statements

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of January 2, 2016:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Trading securities	\$ 17.9	\$ 11.3	\$ 6.6	\$ –
Derivative assets	5.6	–	5.6	–
Bank drafts	24.8	24.8	–	–
Liabilities				
Derivative liabilities	\$ 5.2	\$.7	\$ 4.5	\$ –

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 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. As of January 2, 2016, trading securities of \$.3 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.

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%.

NOTE 10. NET INCOME PER COMMON SHARE

Net income per common share was computed as follows:

(In millions, except per share amounts)	2016	2015	2014
(A) Income from continuing operations	\$ 320.7	\$ 274.4	\$ 247.3
(B) Loss from discontinued operations, net of tax	–	(.1)	(2.2)
(C) Net income available to common shareholders	\$ 320.7	\$ 274.3	\$ 245.1
(D) Weighted average number of common shares outstanding	89.1	91.0	93.8
Dilutive shares (additional common shares issuable under stock-based awards)	1.6	1.9	1.9
(E) Weighted average number of common shares outstanding, assuming dilution	90.7	92.9	95.7
Net income (loss) per common share:			
Continuing operations (A) ÷ (D)	\$ 3.60	\$ 3.01	\$ 2.64
Discontinued operations (B) ÷ (D)	–	–	(.03)
Net income per common share (C) ÷ (D)	\$ 3.60	\$ 3.01	\$ 2.61
Net income (loss) per common share, assuming dilution:			
Continuing operations (A) ÷ (E)	\$ 3.54	\$ 2.95	\$ 2.58
Discontinued operations (B) ÷ (E)	–	–	(.02)
Net income per common share, assuming dilution (C) ÷ (E)	\$ 3.54	\$ 2.95	\$ 2.56

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 totaled approximately .2 million shares in 2016, 1 million shares in 2015, and 3 million shares in 2014.

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 of Directors ("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 stock option and incentive plan or used for other corporate purposes. In 2016, we repurchased approximately 3.8 million shares of our common stock at an aggregate cost of \$262.4 million.

On December 4, 2014, our Board authorized the repurchase of shares of our common stock in the aggregate amount of up to \$500 million (exclusive of any fees, commissions, or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This authorization is the only one currently in effect and it will remain in effect until shares in the amount authorized have been repurchased. As of December 31, 2016, shares of our common stock in the aggregate amount of approximately \$105 million remained authorized for repurchase under this 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 2016 and 2015 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of January 3, 2015	\$ (19.9)	\$ (525.6)	\$ -	\$ (545.5)
Other comprehensive loss before reclassifications, net of tax	(139.0)	(18.9)	(.5)	(158.4)
Reclassifications to net income, net of tax	-	22.9	(2.0)	20.9
Net current-period other comprehensive (loss) income, net of tax	(139.0)	4.0	(2.5)	(137.5)
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)

The amounts reclassified from "Accumulated other comprehensive loss" to increase (decrease) income from continuing operations were as follows:

(In millions)	2016	2015	2014	Affected Line Item in the Statements Where Net Income is Presented
Cash flow hedges:				
Foreign exchange contracts	\$ (3.0)	\$ 3.9	\$ (1.2)	Cost of products sold
Commodity contracts	(.7)	(1.3)	.1	Cost of products sold
Interest rate contracts	(.1)	(.1)	(.1)	Interest expense
	(3.8)	2.5	(1.2)	Total before tax
	1.0	(.5)	.3	Provision for income taxes
	(2.8)	2.0	(.9)	Net of tax
Pension and other postretirement benefits ⁽¹⁾				
	(66.8)	(33.3)	(24.1)	
	22.6	10.4	7.2	Provision for income taxes
	(44.2)	(22.9)	(16.9)	Net of tax
Total reclassifications for the period	\$ (47.0)	\$ (20.9)	\$ (17.8)	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)	2016	2015	2014
Pension and other postretirement benefits:			
Net loss recognized from actuarial gain/loss and prior service cost/credit	\$ (24.2)	\$ (11.4)	\$ (54.7)
Reclassifications to net income	22.6	10.4	7.2
Cash flow hedges:			
Gains (losses) recognized on cash flow hedges	.1	(.3)	.1
Reclassifications to net income	1.0	(.5)	.3
Income tax benefit related to items of other comprehensive loss	\$ (.5)	\$ (1.8)	\$ (47.1)

Notes to Consolidated Financial Statements

NOTE 12. LONG-TERM INCENTIVE COMPENSATION

Equity 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.

Stock-based compensation expense from continuing operations and the total related recognized tax benefit were as follows:

(In millions)	2016	2015	2014
Stock-based compensation expense	\$ 27.2	\$ 26.3	\$ 28.3
Tax benefit	8.5	8.2	10.5

This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income.

As of December 31, 2016, we had approximately \$37 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 non-employee directors and employees may be granted at no less than 100% of the fair market value of our common stock on the date of the grant. Options generally vest ratably over a three-year period for non-employee directors and over a four-year period for employees. 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 2015 and 2014.

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 2016:

	Number of options (in thousands)	Weighted- average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 2, 2016	2,369.9	\$ 45.30	3.68	\$ 43.8
Granted	141.1	73.96		
Exercised	(1,384.1)	51.35		
Forfeited or expired	(11.7)	58.16		
Outstanding at December 31, 2016	1,115.2	\$ 41.29	4.72	\$ 32.8
Options vested and expected to vest at December 31, 2016	1,091.3	40.57	4.62	32.8
Options exercisable at December 31, 2016	974.1	\$ 36.55	4.04	\$ 32.8

The total intrinsic value of stock options exercised was \$31.7 million in 2016, \$43.3 million in 2015, and \$15.4 million in 2014. We received approximately \$71 million in 2016, \$104 million in 2015, and \$34.2 million in 2014 from the exercise of stock options. The tax benefit associated with these exercised options was \$11.3 million in 2016, \$15.6 million in 2015, and \$5.3 million in 2014. 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 stock option and incentive plan. 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 \$68.04, \$51.37, and \$47.85 in 2016, 2015, and 2014, respectively.

Notes to Consolidated Financial Statements

The following table summarizes information related to awarded PUs:

	Number of PUs (in thousands)	Weighted- average grant- date fair value
Unvested at January 2, 2016	447.1	\$ 47.63
Granted at target	244.7	68.04
Adjustment for above-target performance ⁽¹⁾	155.6	43.91
Vested	(315.6)	43.82
Forfeited/cancelled	(41.0)	54.84
Unvested at December 31, 2016	490.8	\$ 58.47

⁽¹⁾ Reflects awards granted in excess of target as a result of our achieving above-target performance for the 2013-2015 performance period.

The fair value of vested PUs was \$13.8 million in 2016 and \$12.2 million in 2015. In 2014, the PUs granted in 2011 were cancelled as the performance objective was not met as of the end of the three-year performance period.

Market-Leveraged Stock Units ("MSUs")

MSUs are performance-based awards granted to eligible employees under our stock option and incentive plan. 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 \$72.93, \$56.46, and \$52.76 in 2016, 2015, and 2014, respectively.

The following table summarizes information related to awarded MSUs:

	Number of MSUs (in thousands)	Weighted- average grant- date fair value
Unvested at January 2, 2016	606.1	\$ 55.04
Granted at target	182.9	72.93
Adjustments for above-target performance ⁽¹⁾	67.4	51.58
Vested	(264.3)	46.88
Forfeited/cancelled	(61.4)	57.80
Unvested at December 31, 2016	530.7	\$ 62.09

⁽¹⁾ Reflects adjustments as a result of achieving above-target performance for each of the performance periods paid out in 2016.

The fair value of vested MSUs was \$12.4 million in 2016, \$9.8 million in 2015, and \$5.6 million in 2014.

Restricted Stock Units ("RSUs")

RSUs are service-based awards granted to eligible employees under our stock option and incentive plan, which generally vest ratably over a period of three years for non-employee directors and four years for employees provided that directorship or employment continues 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 \$67.66, \$53.29, and \$45.91 in 2016, 2015, and 2014, respectively.

The following table summarizes information related to awarded RSUs:

	Number of RSUs (in thousands)	Weighted- average grant- date fair value
Unvested at January 2, 2016	214.6	\$ 40.96
Granted	52.8	67.66
Vested	(147.3)	36.14
Forfeited/cancelled	(2.4)	38.74
Unvested at December 31, 2016	117.7	\$ 58.87

The fair value of vested RSUs was \$5.3 million, \$8.4 million, and \$9.5 million in 2016, 2015, and 2014, respectively.

Cash 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 \$23.8 million in 2016, \$27.1 million in 2015, and \$17.8 million in 2014. This expense was included in "Marketing, general

Notes to Consolidated Financial Statements

and administrative expense" in the Consolidated Statements of Income. The total recognized tax benefit related to LTI Units was \$7.8 million in 2016, \$8.6 million in 2015, and \$5.7 million in 2014.

NOTE 13. COST REDUCTION ACTIONS

Restructuring Charges

We have compensation plans that provide eligible employees with severance in the event of an involuntary termination due to qualifying cost reduction actions. We calculate severance using benefit formulas under the respective plans. Accordingly, we record provisions 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 2016, we recorded \$20.9 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 ("2015/2016 Actions") that we expect to continue through 2017. 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.

No employees impacted by our 2015/2016 Actions taken through December 31, 2016 remained employed by us as of such date.

2014/2015 Actions

During fiscal year 2015, we recorded \$33.4 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 that continued through the second quarter of 2015 ("2014/2015 Actions"). These charges consisted of severance and related costs for the reduction of approximately 605 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2014, we recorded \$66.5 million in restructuring charges, net of reversals, related to our 2014/2015 Actions. These charges consisted of severance and related costs for the reduction of approximately 1,420 positions, lease cancellation costs, and asset impairment charges.

No employees impacted by our 2014/2015 Actions remained employed by us as of December 31, 2016.

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 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
2014/2015 Actions						
Severance and related costs	4.8	(.9)	(3.2)	-	-	.7
Prior actions						
Severance and related costs	.7	(.1)	-	-	-	.6
Total	\$ 14.1	\$ 19.9	\$ (25.2)	\$ (4.1)	\$.1	\$ 4.8

During 2015, restructuring charges and payments were as follows:

(In millions)	Accrual at January 3, 2015	Charges (Reversals), net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at January 2, 2016
2015/2016 Actions						
Severance and related costs	\$ -	\$ 22.7	\$ (14.3)	\$ -	\$ -	\$ 8.4
Asset impairment charges	-	2.9	-	(2.9)	-	-
Lease cancellation costs	-	.5	(.3)	-	-	.2
2014/2015 Actions						
Severance and related costs	16.8	29.8	(40.9)	-	(.9)	4.8
Asset impairment charges	-	3.3	-	(3.3)	-	-
Lease cancellation costs	.1	.3	(.4)	-	-	-
Prior actions						
Severance and related costs	.8	-	-	-	(.1)	.7
Total	\$ 17.7	\$ 59.5	\$ (55.9)	\$ (6.2)	\$ (1.0)	\$ 14.1

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The table below shows the total amount of restructuring charges incurred by reportable segment and Corporate:

(In millions)	2016	2015	2014
Restructuring charges by reportable segment and Corporate			
Label and Graphic Materials	\$ 8.5	\$ 13.6	\$ 40.1
Retail Branding and Information Solutions	10.5	35.7	21.3
Industrial and Healthcare Materials	.9	8.0	4.3
Corporate	–	2.2	.4
Total	\$ 19.9	\$ 59.5	\$ 66.1

NOTE 14. TAXES BASED ON INCOME

Taxes based on income (loss) were as follows:

(In millions)	2016	2015	2014
Current:			
U.S. federal tax	\$ 10.1	\$ 26.4	\$ 14.5
State taxes	.6	(.1)	(.2)
International taxes	77.3	92.7	116.0
	88.0	119.0	130.3
Deferred:			
U.S. federal tax	64.4	6.3	(16.1)
State taxes	(3.0)	.5	1.9
International taxes	7.0	8.7	(2.6)
	68.4	15.5	(16.8)
Provision for income taxes	\$ 156.4	\$ 134.5	\$ 113.5

The principal items accounting for the difference between taxes computed at the U.S. statutory rate and taxes recorded were as follows:

(In millions)	2016	2015	2014
Computed tax at 35% of income before taxes	\$ 167.0	\$ 143.1	\$ 126.2
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	2.2	1.3	1.4
Foreign earnings taxed at different rates ⁽¹⁾	27.0	(7.5)	(14.9)
Valuation allowance	(11.9)	.9	9.9
Corporate-owned life insurance	(4.3)	(1.9)	(4.2)
U.S. federal research and development tax credits	(2.9)	(2.6)	(1.6)
Tax contingencies and audit settlements	(20.7)	5.1	(1.5)
Other items, net	–	(3.9)	(1.8)
Provision for income taxes	\$ 156.4	\$ 134.5	\$ 113.5

⁽¹⁾ Included foreign earnings taxed in the U.S., net of credits, in all years.

Income (loss) from continuing operations before taxes from our U.S. and international operations was as follows:

(In millions)	2016	2015	2014
U.S.	\$ 17.9	\$ 33.9	\$ (.1)
International	459.2	375.0	360.9
Income from continuing operations before taxes	\$ 477.1	\$ 408.9	\$ 360.8

The effective tax rate for continuing operations was 32.8%, 32.9%, and 31.5% for fiscal years 2016, 2015, and 2014, respectively.

The 2016 effective tax rate for continuing operations included a tax expense of \$7.6 million associated with the cost to repatriate non-permanently reinvested current earnings of certain foreign subsidiaries and a tax expense of \$46.3 million related to the U.S. income and foreign withholding taxes resulting from changes in indefinite reinvestment assertions on certain foreign earnings; 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 a tax expense of \$8.4 million from deferred tax adjustments resulting from enacted 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 this evaluation, we record valuation allowances only with respect to the portion of the deferred tax asset that is more likely than not to be realized. However, the amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income during the carryforward period changes or if objective negative evidence in the form of cumulative losses is no longer present. For example, if our U.S. profitability improves at a higher-than-expected rate, it is possible that the remaining valuation allowances on state deferred tax assets could be subject to further releases.

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 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 the 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. As a result, 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 non-permanently reinvested 2015 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

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a tax benefit of \$2.6 million from the extension of the federal research and development credit.

The 2014 effective tax rate for continuing operations included tax benefits for changes in certain tax reserves, including interest and penalties, of \$10.2 million resulting from settlements of audits and \$18.1 million resulting from expirations of statutes of limitations; a repatriation tax benefit of \$9.8 million related to certain foreign losses; a tax expense of \$9.1 million from the taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans; a tax expense of \$10.6 million related to our change in estimate of the potential outcome of uncertain tax issues in China and Germany; and a state tax expense of \$2.5 million primarily related to gains arising as a result of certain foreign reorganizations.

On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 ("PATH Act") was enacted, 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. For periods during which the look-through rule was effective, U.S. federal income tax on certain dividends, interest, rents, and royalties received or accrued by a CFC of a U.S. multinational enterprise from a related CFC are deferred. The retroactive effects of the extension of the CFC look-through rule did not have a material impact on our effective tax rate or operating results. The extension of the CFC look-through rule is currently scheduled to expire on December 31, 2019.

Due to recent changes in the U.S. government, U.S. tax reform may be enacted in the near future. Significant changes that could occur include a reduction of the corporate income tax rate, a one-time deemed repatriation of untaxed foreign earnings, border adjustability, territoriality, and various increases to the tax base. Due to the lack of clarity regarding if, how, and when any such tax reform will be enacted, the potential impact of U.S. tax reform is unclear. We continue to closely monitor these developments.

Deferred income taxes for approximately \$1.9 billion of undistributed earnings of foreign subsidiaries have not been provided as of December 31, 2016 since these amounts are intended to be indefinitely reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings because of the variability of multiple factors that would need to be assessed at the time of any assumed repatriation; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution. In making this assertion, we evaluate, 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 stock repurchases.

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)	2016	2015
Accrued expenses not currently deductible	\$ 42.1	\$ 35.1
Net operating losses	195.9	253.3
Tax credit carryforwards	111.3	114.4
Stock-based compensation	28.4	37.3
Pension and other postretirement benefits	207.7	204.6
Inventory reserves	7.1	6.9
Other assets	.9	8.9
Valuation allowance	(60.4)	(73.0)
Total deferred tax assets ⁽¹⁾	533.0	587.5
Depreciation and amortization	(86.1)	(101.0)
Repatriation accrual ⁽²⁾	(62.1)	(9.8)
Foreign operating loss recapture	(79.8)	(108.3)
Other liabilities	(2.3)	(2.9)
Total deferred tax liabilities ⁽¹⁾	(230.3)	(222.0)
Total net deferred tax assets	\$ 302.7	\$ 365.5

(1) Reflect gross amounts before jurisdictional netting of deferred tax assets and liabilities.

(2) Included in the repatriation accruals as of December 31, 2016 and January 2, 2016 was a net deferred tax liability of \$62.4 million and \$12.5 million, respectively, associated with the future tax cost to repatriate non-permanently reinvested earnings of our foreign subsidiaries, which is offset by a contra deferred tax liability of \$.3 million and \$2.7 million, respectively, related to unrealized foreign exchange losses associated with earnings of our foreign subsidiaries that can be repatriated to the U.S. in future periods without incurring any additional U.S. federal income tax.

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 31, 2016 and January 2, 2016 was \$60.4 million and \$73 million, respectively.

Net operating loss carryforwards of foreign subsidiaries at December 31, 2016 and January 2, 2016 were \$689.9 million and \$825.8 million, respectively. Tax credit carryforwards of both domestic and foreign subsidiaries at December 31, 2016 and January 2, 2016

Notes to Consolidated Financial Statements

totaled \$111.3 million and \$114.4 million, respectively. If unused, foreign net operating losses and tax credit carryforwards will expire as follows:

(In millions)	Net Operating Losses ⁽¹⁾	Tax Credits
Expires in 2017	\$ 10.0	\$.6
Expires in 2018	12.6	13.1
Expires in 2019	4.7	33.1
Expires in 2020	5.4	15.8
Expires in 2021	4.1	.4
Expires in 2022	9.6	9.6
Expires in 2023	6.7	5.1
Expires in 2024	11.2	.3
Expires in 2025	4.4	7.2
Expires in 2026	.5	3.7
Expires in 2027	.2	.2
Expires in 2028	.5	.1
Expires in 2029	–	.1
Expires in 2030	–	.1
Expires in 2031	–	.1
Expires in 2032	–	1.6
Expires in 2033	–	2.9
Expires in 2034	–	2.5
Expires in 2035	–	3.4
Expires in 2036	–	3.0
Indefinite life/no expiration	620.0	8.4
Total	\$ 689.9	\$ 111.3

(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 31, 2016, we had net operating loss carryforwards in certain state jurisdictions of \$516 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 \$513.7 million of the carryforwards.

We do not anticipate the expected expiration of our remaining tax holidays in Thailand and Vietnam in 2017 to have a material effect on our effective tax rate, operating results, or financial condition.

Unrecognized Tax Benefits

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. As of January 2, 2016, our unrecognized tax benefits totaled \$107.3 million, \$89 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 benefit of \$3.1 million, tax expense of \$1.3 million, and tax benefit of \$1.3 million in the Consolidated Statements of Income in 2016, 2015, and 2014, respectively. We have accrued \$22.3 million and \$26.1 million for interest and penalties, net of tax benefit, in the Consolidated Balance Sheets at December 31, 2016 and January 2, 2016, respectively.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is set forth below:

(In millions)	2016	2015
Balance at beginning of year	\$ 107.3	\$ 122.6
Additions for tax positions of the current year	6.9	11.1
Reductions for tax positions of prior years	(15.7)	(4.0)
Settlements with tax authorities	(2.1)	(4.5)
Expirations of statutes of limitations	(4.2)	(8.6)
Changes due to translation of foreign currencies	(2.7)	(9.3)
Balance at end of year	\$ 89.5	\$ 107.3

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 2016 financial statements are being issued, we and our U.S. subsidiaries have completed the Internal Revenue Service's Compliance Assurance Process Program through 2015. We also expect the current German tax audit for tax years 2006-2010 to be completed in 2017. 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 \$16 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 not organized or reviewed internally by country, results by individual country are not provided.

Notes to Consolidated Financial Statements

Financial information from continuing operations by reportable segment is set forth below:

(In millions)	2016	2015	2014
Net sales to unaffiliated customers			
Label and Graphic Materials	\$ 4,187.3	\$ 4,032.1	\$ 4,298.7
Retail Branding and Information Solutions	1,445.4	1,443.4	1,516.0
Industrial and Healthcare Materials	453.8	491.4	515.6
Net sales to unaffiliated customers	\$ 6,086.5	\$ 5,966.9	\$ 6,330.3
Intersegment sales			
Label and Graphic Materials	\$ 63.4	\$ 61.3	\$ 64.2
Retail Branding and Information Solutions	2.9	2.9	2.5
Industrial and Healthcare Materials	7.2	14.8	19.1
Intersegment sales	\$ 73.5	\$ 79.0	\$ 85.8
Income from continuing operations before taxes			
Label and Graphic Materials	\$ 516.2	\$ 453.4	\$ 396.9
Retail Branding and Information Solutions	102.6	51.6	68.5
Industrial and Healthcare Materials	54.6	57.1	45.2
Corporate expense	(136.4)	(92.7)	(86.5)
Interest expense	(59.9)	(60.5)	(63.3)
Income from continuing operations before taxes	\$ 477.1	\$ 408.9	\$ 360.8
Capital expenditures			
Label and Graphic Materials	\$ 118.8	\$ 68.3	\$ 100.6
Retail Branding and Information Solutions	50.9	51.0	37.3
Industrial and Healthcare Materials	7.2	19.6	14.3
Capital expenditures	\$ 176.9	\$ 138.9	\$ 152.2
Depreciation and amortization expense			
Label and Graphic Materials	\$ 103.1	\$ 104.9	\$ 108.2
Retail Branding and Information Solutions	64.3	70.6	79.2
Industrial and Healthcare Materials	12.7	12.8	14.2
Depreciation and amortization expense	\$ 180.1	\$ 188.3	\$ 201.6
Other expense, net by reportable segment			
Label and Graphic Materials	\$ 13.0	\$ 12.1	\$ 41.5
Retail Branding and Information Solutions	9.8	45.7	22.0
Industrial and Healthcare Materials	1.9	8.0	4.3
Corporate	40.5	2.5	.4
Other expense, net	\$ 65.2	\$ 68.3	\$ 68.2
Other expense, net by type			
Restructuring charges:			
Severance and related costs	\$ 14.7	\$ 52.5	\$ 54.7
Asset impairment charges and lease and other contract cancellation costs	5.2	7.0	11.4
Other items:			
Net loss from curtailment and settlement of pension obligations	41.4	.3	1.6
Net gains on sales of assets	(1.1)	(1.7)	(2.5)
Transaction costs	5.0	-	-
Legal settlements	-	(.3)	-
Loss on sale of product line and related exit costs	-	10.5	-
Indefinite-lived intangible asset impairment charge	-	-	3.0
Other expense, net	\$ 65.2	\$ 68.3	\$ 68.2

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 \$377.4 million, \$414.6 million, and \$440 million in 2016, 2015, and 2014, 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)	2016	2015	2014
Net sales to unaffiliated customers			
U.S.	\$ 1,525.6	\$ 1,546.8	\$ 1,529.4
Europe	1,838.8	1,753.0	2,074.4
Asia	1,996.1	1,924.0	1,914.2
Latin America	450.5	466.3	522.9
Other international	275.5	276.8	289.4
Net sales to unaffiliated customers	\$ 6,086.5	\$ 5,966.9	\$ 6,330.3

Net sales to unaffiliated customers in Asia included sales in China (including Hong Kong) of \$1.14 billion in both 2016 and 2015 and \$1.11 billion in 2014.

Notes to Consolidated Financial Statements

Property, plant and equipment, net, in our U.S. and international operations was as follows:

(In millions)	2016	2015	2014
Property, plant and equipment, net			
U.S.	\$ 278.5	\$ 263.4	\$ 261.5
International	636.7	584.5	613.8
Property, plant and equipment, net	\$ 915.2	\$ 847.9	\$ 875.3

NOTE 16. SUPPLEMENTAL FINANCIAL INFORMATION

Inventories

Net inventories at year-end were as follows:

(In millions)	2016	2015
Raw materials	\$ 185.0	\$ 180.5
Work-in-progress	156.8	143.0
Finished goods	177.3	155.2
Inventories, net	\$ 519.1	\$ 478.7

Property, Plant and Equipment

Major classes of property, plant and equipment, stated at cost, at year-end were as follows:

(In millions)	2016	2015
Land	\$ 29.3	\$ 30.4
Buildings and improvements	565.3	579.3
Machinery and equipment	1,949.5	1,922.3
Construction-in-progress	117.3	67.9
Property, plant and equipment	2,661.4	2,599.9
Accumulated depreciation	(1,746.2)	(1,752.0)
Property, plant and equipment, net	\$ 915.2	\$ 847.9

Software

Capitalized software costs at year-end were as follows:

(In millions)	2016	2015
Cost	\$ 415.5	\$ 398.2
Accumulated amortization	(297.9)	(270.8)
Software, net	\$ 117.6	\$ 127.4

Software amortization expense from continuing operations was \$37.9 million in 2016, \$37.6 million in 2015, and \$36.4 million in 2014.

Equity Method Investment

In October 2016, we acquired a 22.6% interest in PragmatlC Printing Limited ("PragmatlC"), a company that develops flexible electronics technology. PragmatlC's primary assets are intangible assets related to its technology. We used the equity method to account for this investment. The carrying value of this investment was \$9.5 million as of December 31, 2016 and was 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)	2016	2015	2014
Research and development expense	\$ 89.7	\$ 91.9	\$ 102.5

Supplemental Cash Flow Information

Cash paid for interest and income taxes, including amounts paid for discontinued operations, was as follows:

(In millions)	2016	2015	2014
Interest, net of capitalized amounts	\$ 58.9	\$ 60.1	\$ 61.6
Income taxes, net of refunds	106.1	129.9	108.8

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 \$1.6 million, \$6.1 million, and \$8.7 million in 2016, 2015, and 2014, respectively.

We had no operations in hyperinflationary economies in fiscal years 2016, 2015, or 2014.

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. The loss from discontinued operations, net of tax, for 2014 reflected costs related to the resolution of certain post-closing adjustments in the third quarter of 2014. We continue to be subject to certain indemnification obligations under the terms of the purchase agreement. In addition, the tax liability associated with the sale is subject to the completion of tax return filings in certain foreign jurisdictions in which we operated the OCP and DES businesses.

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.

Notes to Consolidated Financial Statements

NOTE 17. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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
2015				
Net sales	\$ 1,528.0	\$ 1,516.0	\$ 1,468.1	\$ 1,454.8
Gross profit	430.0	417.6	405.9	392.3
Income from continuing operations	71.9	64.7	81.3	56.5
(Loss) income from discontinued operations, net of tax	-	(1.0)	.4	.5
Net income	71.9	63.7	81.7	57.0
Net income (loss) per common share:				
Continuing operations	.79	.71	.89	.62
Discontinued operations	-	(.01)	-	.01
Net income per common share	.79	.70	.89	.63
Net income (loss) per common share, assuming dilution:				
Continuing operations	.78	.69	.87	.61
Discontinued operations	-	(.01)	.01	.01
Net income per common share, assuming dilution	.78	.68	.88	.62

"Other expense, net" is presented by type for each quarter below:

(In millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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
2015				
Restructuring charges:				
Severance and related costs	\$ 13.5	\$ 16.8	\$ 4.7	\$ 17.5
Asset impairment charges and lease cancellation costs	.4	3.2	1.9	1.5
Other items:				
Net loss from curtailment and settlement of pension obligations	-	-	-	.3
Loss on sale of product line and related exit costs	2.6	7.7	.2	-
Legal settlements	(.5)	-	.2	-
Gain on sale of assets	(1.7)	-	-	-
Other expense, net	\$ 14.3	\$ 27.7	\$ 7.0	\$ 19.3

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 31, 2016. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein.

/s/ Mitchell R. Butier

Mitchell R. Butier
President and
Chief Executive Officer

/s/ Anne L. Bramman

Anne L. Bramman
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:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries (the Company) at December 31, 2016 and January 2, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these 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 accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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

PricewaterhouseCoopers LLP

Los Angeles, California
February 23, 2017

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 27, 2017 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 2016 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 29, 2016.

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

	2016		2015	
	High	Low	High	Low
Market Price				
First Quarter	\$ 72.86	\$ 58.16	\$ 54.64	\$ 51.15
Second Quarter	77.12	71.11	63.18	51.07
Third Quarter	78.84	71.13	64.65	55.59
Fourth Quarter	78.04	68.61	66.18	58.61

	2016	2015
	Dividends per Common Share	
First Quarter	\$.37	\$.35
Second Quarter	.41	.37
Third Quarter	.41	.37
Fourth Quarter	.41	.37
	\$ 1.60	\$ 1.46
Number of shareholders of record as of year-end	5,106	5,357

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 BENELUX BVBA	BELGIUM
AVERY DENNISON BULGARIA EOOD	BULGARIA
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.	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 GMBH	SWITZERLAND
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 111 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

AVERY DENNISON INVESTMENTS LUXEMBOURG IV SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG V SCA	LUXEMBOURG
AVERY DENNISON ISRAEL	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 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 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 OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
AVERY DENNISON OVERSEAS CORPORATION	MASSACHUSETTS
AVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
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 SINGAPORE PTE. LTD.	SINGAPORE
AVERY DENNISON RBIS (CAMBODIA) TRADING CO., LTD	CAMBODIA
AVERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A.	COLOMBIA
AVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
AVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
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 DENNISON 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.ZO.O	POLAND
AVERY DENNISON SCANDINAVIA AB	SWEDEN
AVERY DENNISON SCANDINAVIA APS	DENMARK
AVERY DENNISON SCHWEIZ AG	SWITZERLAND
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 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 (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.
AVERY LLC
AVERY OFFICE PRODUCTS PUERTO RICO L.L.C.
AVERY PACIFIC LLC
AVERY PROPERTIES PTY. LIMITED
BEST COURAGE INTERNATIONAL LIMITED
CREATERO GMBH
DENNISON INTERNATIONAL COMPANY
DENNISON MANUFACTURING COMPANY
EUSTON FINANCIAL LIMITED
EVERGREEN HOLDING SARL
EVERGREEN HOLDINGS V LLC
INFODRAGON MANAGEMENT LIMITED
INK MILL CORP.
JAC ASIA PACIFIC SDN BHD
JAC CARIBE C.S.Z.
JAC DO BRASIL - LOCAÇÃO DE EQUIPAMENTOS INDUSTRIAIS LTDA
JAC NEW ZEALAND LIMITED
JACKSTADT FRANCE S.N.C.
JACKSTADT SOUTH AFRICA (PTY) LTD.
JINTEX LIMITED
L&E AMERICAS SERVICIOS, S. A. DE C.V.
MACTAC ASIA-PACIFIC SELF-ADHESIVE PRODUCTS PTE LTD
MACTAC COORDINATION CENTER SPRL
MACTAC DEUTSCHLAND GMBH
MACTAC EUROPE SPRL
MACTAC FRANCE SARL
MACTAC POLSKA SP. Z O. O.
MACTAC SCANDINAVIA A.B.
MACTAC U.K. HOLDINGS LIMITED
MACTAC U.K. LIMITED
MACTAC (SHANGHAI) TRADING CO., LTD.
MARKSTAR INTERNATIONAL LIMITED
MODERN MARK INTERNATIONAL LIMITED
MONARCH MARKING SYSTEMS HOLDINGS LTD
MULTI-FIX BVBA
NAPERVILLE GLOBAL LIMITED
NEW WALES FINANCE LIMITED
NINGBO AVERY DENNISON SHENZHOU EMBELLISHMENT CO. LTD.
PAXAR BANGLADESH LIMITED
PAXAR B. V.
PAXAR CANADA CORPORATION
PAXAR CORPORATION
PAXAR CORPORATION (MALAYSIA) SDN. BHD.
PAXAR DE EL SALVADOR S. A. DE C. V.
PAXAR DE GUATEMALA, S. A.
PAXAR DE MEXICO S. A. DE C. V.
PAXAR DE NICARAGUA. S.A.
PAXAR DO BRASIL LTDA
PAXAR FAR EAST LIMITED
PAXAR KOREA LIMITED
PAXAR PACKAGING (GUANGZHOU) LTD.
PAXAR PAKISTAN (PRIVATE) LIMITED
PAXAR (CHINA) LTD.
PAXAR (THAILAND) LIMITED
PT AVERY DENNISON INDONESIA

FRANCE
DELAWARE
PUERTO RICO
CALIFORNIA
AUSTRALIA
BRITISH VIRGIN ISLANDS
GERMANY
MASSACHUSETTS
NEVADA
BRITISH VIRGIN ISLANDS
LUXEMBOURG
U.S.A.
BRITISH VIRGIN ISLANDS
U.S.A.
MALAYSIA
DOMINICAN REPUBLIC
BRAZIL
NEW ZEALAND
FRANCE
SOUTH AFRICA
JERSEY, CHANNEL ISLANDS
MEXICO
SINGAPORE
BELGIUM
GERMANY
BELGIUM
FRANCE
POLAND
SWEDEN
UNITED KINGDOM
UNITED KINGDOM
CHINA
HONG KONG
HONG KONG
UNITED KINGDOM
BELGIUM
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
CHINA
BANGLADESH
NETHERLANDS
CANADA
NEW YORK
MALAYSIA
EL SALVADOR
GUATEMALA
MEXICO
NICARAGUA
BRAZIL
HONG KONG
SOUTH KOREA
CHINA
PAKISTAN
HONG KONG
THAILAND
INDONESIA

PT AVERY DENNISON PACKAGING INDONESIA
P. T. PACIFIC LABEL INDONESIA
P. T. PAXAR INDONESIA
RVL AMERICAS, S DE R.L. DE C.V.
RVL CENTRAL AMERICA, S. A.
RVL PACKAGING FAR EAST LIMITED
RVL SERVICE, S. DE R. L. DE C. V.
SECURITY PRINTING DIVISION, INC.
SKILLFIELD INVESTMENTS LIMITED
SUZHOU FENG YI HENG YE DYE CO., LTD.
TIGER EIGHT GROUP LIMITED
WORLDWIDE RISK INSURANCE, INC.

INDONESIA
INDONESIA
INDONESIA
MEXICO
GUATEMALA
HONG KONG
MEXICO
DELAWARE
BRITISH VIRGIN ISLANDS
CHINA
BRITISH VIRGIN ISLANDS
HAWAII

(1) Each subsidiary listed on this Exhibit 21 is a Consolidated Subsidiary

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, 333-107371, 333-107372, 333-109814, 333-124495, 333-143897, 333-152508, 333-166832, 333-166836, 333-166837, 333-181221, and 333-197631) of Avery Dennison Corporation of our report dated February 23, 2017 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

PricewaterhouseCoopers LLP

Los Angeles, California

February 23, 2017

**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 23, 2017

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Anne L. Bramman, 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/ Anne L. Bramman

Anne L. Bramman
Senior Vice President and
Chief Financial Officer

February 23, 2017

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 31, 2016 (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 23, 2017

/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.

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 31, 2016 (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 23 2017

/s/ Anne L. Bramman
Anne L. Bramman
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.
