

Number of shares of common stock, \$1 par value, outstanding as of February 23, 2019, the end of the registrant's most recent fiscal month: 83,980,757.

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

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended December 29, 2018 (filed as Exhibit 13 hereto)	Parts I, II
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 25, 2019	Parts III, IV

AVERY DENNISON CORPORATION
FISCAL YEAR 2018 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. BUSINESS

Company Background

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

Business Overview and Reportable Segments

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

Our reportable segments for fiscal year 2018 were:

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

In 2018, the LGM, RBIS, and IHM segments made up approximately 68%, 22% and 10%, respectively, of our total sales.

In 2018, international operations constituted a substantial majority of our business, representing approximately 77% of our sales. As of December 29, 2018, we operated approximately 180 manufacturing and distribution facilities worldwide with approximately 30,000 employees and operations in over 50 countries.

LGM Segment

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

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

A pressure-sensitive, or self-adhesive, material is one that adheres to a surface by press-on contact. It generally consists of four layers: a face material, which may be paper, metal foil, plastic film or fabric; an

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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 and offer aesthetic and other advantages over alternative technologies.

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

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

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

RBIS Segment

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

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

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

IHM Segment

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

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

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

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

Raw Materials

In 2018, we experienced raw material inflation in most of our markets worldwide. In response, we continued to re-engineer our products and drive savings through our procurement function, as well as raise prices. These actions largely offset the raw material inflation we experienced during the year. While we have received sufficient quantities of raw materials to meet our production requirements to date, it is difficult to predict future shortages of raw materials or the impact any such shortages would have. We have avoided disruption to our manufacturing operations through carefully managing our existing raw material inventories and maintaining strategic relationships with our suppliers and additional supply sources.

Research and Development

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

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Patents, Trademarks and Licenses

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

Manufacturing and Environmental Matters

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

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

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

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

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

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge on our investor website at www.investors.averydennison.com as soon as reasonably practicable after they are electronically filed with or furnished 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 upon written request to our Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

Reports filed with or furnished to the SEC may be viewed at www.sec.gov.

Item 1A. RISK FACTORS

The risk factors described in this section, 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. This list of risks is not exhaustive. Our ability to attain our goals and objectives is dependent on numerous factors and risks, including, but not limited to, the primary ones described in this section.

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 2018, approximately 77% of our sales were from international operations. We have operations in over 50 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in political, social, economic and labor conditions, tax laws (including U.S. taxes on foreign earnings), and international trade regulations (including tariffs), as well as the impact of these changes on the underlying demand for our products.

Macroeconomic developments such as slower growth in the geographic regions in which we operate, the restructuring of European sovereign and other debt obligations, the continuing uncertainty surrounding the exit of the United Kingdom ("UK") from the European Union (commonly known as "Brexit"), and uncertainty in the global credit or financial markets leading to a loss of consumer confidence could result in a material adverse effect on our business as a result of, among other things, reduced consumer spending, declines in asset valuations, diminished liquidity and credit availability, volatility in securities prices, credit rating downgrades, and fluctuations in foreign currency exchange rates. Fluctuations in currencies, such as the value of the euro, Chinese renminbi, and Argentine peso in 2018, can result in a variety of negative effects, including lower revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, and required recognition of impairments of capitalized assets, including goodwill and other intangibles.

We continue to face uncertainty with respect to trade relations between the U.S. and many of its trading partners. During 2018, the U.S. government imposed tariffs on products imported into the U.S. This resulted in reciprocal tariffs on goods imported from the U.S. into China, the European Union, Mexico, Canada, and a few other countries. The impacts on our operations to date have been insignificant. There remains a significant risk that additional tariffs or other restrictions could be imposed on products imported from these or other countries, or that relations with these countries could more broadly deteriorate. These countries could retaliate by imposing similar tariffs or restrictions on products exported from the U.S. Any of these actions or further developments in U.S. trade relations could have a material adverse effect on our business.

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

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

The environment for raw materials used in our businesses could become challenging and volatile, impacting availability and pricing. Additionally, energy costs can be volatile and unpredictable. Shortages

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and inflationary or other increases in the costs of raw materials, labor and energy have occurred in the past, and could recur. In 2018, we announced targeted price increases in our LGM segment in all regions to address raw material inflation. Our performance depends in part on our ability to offset cost increases for raw materials by raising the selling prices for our products and improving productivity.

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

We are affected by changes in our markets due to competitive conditions, technological developments, laws and regulations, and customer preferences. If we do not compete effectively or respond appropriately to these market changes, it could reduce market demand, or we could lose market share or be forced to reduce selling prices to maintain market share, which could materially adversely affect our business.

We are at risk that existing or new competitors, which include some of our customers, distributors, and suppliers, will expand in our key market segments or develop 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 or new technologies.

We are also at risk that changes in consumer preferences or laws and regulations related to the use of plastics could reduce demand for our products. We have developed new products to address the need for increased recyclability of plastic packaging, and are developing new solutions to address this challenge in collaboration with our customers and the businesses in our supply chain. There can be no assurance that these efforts will be successful, and a significant reduction in the use of plastic packaging could materially adversely affect demand for our products.

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 demand for our products and a decline in demand for our products could have a material adverse effect on our business. For example, in 2016, we announced a program loss in personal care tapes that had a significant negative impact on the results of our IHM segment in 2016 and 2017.

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

To grow existing businesses and expand into new areas, we have made acquisitions and are likely to continue doing so. In 2016, we completed the acquisition of the European business of Mactac, a leading manufacturer of high-quality pressure-sensitive materials serving several graphics, specialty labels and industrial tapes segments, for \$220 million. In 2017, we completed the following acquisitions for an aggregate of approximately \$340 million: Yongle Tape Ltd., a China-based manufacturer of specialty tapes and related products used in a variety of industrial markets; Finesse Medical Ltd., an Ireland-based manufacturer of healthcare products used in the management of wound care and skin conditions; and the net assets of Hanita Coatings Rural Cooperative Association Limited, an Israel-based pressure-sensitive manufacturer of specialty films and laminates, and stock of certain of its subsidiaries. Although we did not make any acquisitions in 2018, we continued to evaluate potential targets and ensure we have a robust pipeline of acquisition opportunities.

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Various risks, uncertainties, and costs are associated with acquisitions. Effective integration of systems, controls, employees, product lines, market segments, customers, suppliers, and production facilities and cost savings can be difficult to achieve and the results of integration actions are uncertain. In addition, we may not be able to retain key employees of an acquired company or successfully execute integration strategies and achieve projected performance targets for the business segment into which an acquired company is integrated. Both before and after the closing of an acquisition, our business and those of the acquired company or companies may suffer due to uncertainty or diversion of management attention. There can be no assurance that any acquisitions will be successful and contribute to our profitability and we may not be able to identify value-accretive targets or execute additional acquisitions in the future.

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

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

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

We manufacture most of our products, but we also occasionally use third-party manufacturers to optimize production efficiencies, manage capacity overflow, and produce specialty jobs, particularly in our RBIS segment. Outsourcing manufacturing reduces our ability to prevent product quality issues, late deliveries, customer dissatisfaction and noncompliance with customer requirements. While we have stringent onboarding processes and continuous performance assessments for these outsourced manufacturers, we may experience quality issues and customer dissatisfaction that 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, in 2018, the substantial majority of our sales was generated from customers located outside of the U.S. International operations and activities involve risks that are different from and potentially greater than the risks we face with respect to our domestic operations, including our less extensive knowledge of and relationships with contractors, suppliers, distributors and customers in certain of these markets; changes in foreign political, regulatory and economic conditions, including nationally, regionally and locally; materially adverse effects of changes in exchange rates for foreign currencies; laws and regulations impacting the ability to repatriate foreign earnings; challenges of complying with a wide variety of foreign laws and regulations, including those relating to sales, operations, taxes, employment and legal proceedings; establishing effective controls and procedures to regulate our international operations and monitor compliance with U.S. laws and regulations such as the Foreign Corrupt Practices Act and similar foreign laws and regulations, such as the UK's Bribery Act of 2010; differences in lending practices; challenges with complying with applicable export and import control laws and regulations; and differences in languages, cultures and time zones.

There is also continued uncertainty as to how Brexit will affect the legal and regulatory environment in the European Union and the UK, as well as whether other countries in the European Union may approve similar measures and cause further uncertainty in the region. While our operations in the UK are relatively small, the realization of any of these risks or the failure to comply with any laws or regulations in the European Union or the UK could expose us to liabilities and have a material adverse effect on our business.

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

There are occasions when we experience product quality issues resulting from defective materials, manufacturing, packaging or design. These issues are often discovered before shipping, causing delays in shipping, delays in the manufacturing process, and occasionally cancelled orders. When issues are discovered after shipment, they may result in additional shipping costs, discounts, refunds, or loss of future sales. Both pre-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 may not be covered under the terms of the policy.

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

As our business environment changes, we may need to adjust our business strategies or restructure our operations or particular businesses. We undertook a multi-year transformation of our RBIS segment focused on accelerating growth through a more regionally driven business model intended to simplify our go-to-market strategy, optimize management efficiencies and consolidate our manufacturing footprint. In addition, we have initiated restructuring and investment actions across our businesses designed to increase profitability, such as the restructuring of the European footprint of our LGM business, which began in 2018 and continues in 2019. 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 could prove unprofitable. 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, including China, 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. For example, while China and other emerging markets continued to contribute positively to our results in 2018, we believe that local economic conditions negatively impacted our results in China for the year. Our business operations may be adversely affected by the current and future political environment in China, including as a result of its response to recent tariffs instituted by the U.S. government on goods imported from China. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations or the interpretation thereof, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property, foreign currency conversion, the regulation of private enterprises and other matters.

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

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

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

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

We may not be able to recoup the costs of our infrastructure investments if actual demand is not as we anticipate. In recent years, we expanded our manufacturing facility located in Kunshan, China; moved our RBIS Vietnam business into a new, expanded facility; are in the process of closing an LGM facility in Germany and consolidating those operations with operations in Luxembourg and Belgium; added a new coater to meet our projected demand for pressure-sensitive tapes in China; and made additional investments in capacity to support growth in our U.S. graphics business, our label and packaging materials businesses in Asia and Luxembourg, and in RFID and heat transfer technology. We are also in the process of adding additional LGM coating capacity in Ohio and transferring our European IHM medical capacity from Belgium to Ireland. In addition, we added capacity through our recent acquisitions of Mactac Europe, Yongle Tapes, Hanita Coatings and Finesse Medical. Infrastructure investments, which are long-term in nature, may not generate the expected return due to changes in the marketplace, failures in execution, and other factors. Significant changes from our expected need for and/or returns on our infrastructure investments could materially adversely affect our business.

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

We engage in restructuring actions intended to reduce our costs and increase efficiencies across our business segments. For example, we undertook a multi-year transformation of our RBIS segment focused on accelerating growth through a more regionally driven business model intended to simplify our go-to-market strategy, optimize management efficiencies and consolidate our manufacturing footprint. In addition, we intend to continue efforts to reduce costs in all our businesses, 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 restructuring of the European footprint of our LGM business, which began in 2018 and continues in 2019,

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is an example. 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.

The substantial majority of our sales in 2018 was in foreign currencies. We are subject to fluctuations in foreign currencies, such as the euro and the Chinese Yuan (renminbi), which can cause transaction, translation and other losses, and could negatively impact our sales and profitability. Margins on sales of our products in foreign countries could be materially adversely affected by foreign currency exchange rate fluctuations.

We monitor our foreign currency exposures and may, from time to time, use hedging instruments to mitigate transactional and translational exposure to changes in foreign currencies. For example, as of December 29, 2018, €255 million of our €500 million in senior notes was designated as a net investment hedge of our investment in foreign operations to mitigate our foreign currency translation exposure. The effectiveness of our hedges in part depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. Further, hedging activities may offset only a portion, or none at all, of the material adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and we may incur significant losses from hedging activities due to factors such as demand volatility and foreign currency fluctuations.

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

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

Although we have processes to administer credit granted to customers and believe our allowance for doubtful accounts is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect some of our 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 were to occur, our inability to collect on our accounts receivable from major customers could substantially reduce our cash flows and income and have a material adverse effect on our business.

Changes in our tax rates could affect our earnings.

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

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The TCJA may materially adversely affect our business.

The TCJA significantly changed the income taxation of U.S. corporations by, among other things, reducing the federal corporate income tax rate, eliminating domestic manufacturing deductions, limiting deductions of interest expense and executive compensation, adopting elements of a modified territorial tax system by providing a dividend received deduction for certain distributions from foreign subsidiaries, imposing a one-time transition tax on a deemed repatriation of all undistributed earnings and profits of certain U.S.-owned foreign corporations ("transition tax"), revising the rules governing foreign tax credits, and introducing anti-base erosion provisions. The provisions of the TCJA are subject to further amendments, interpretations, regulations, as well as the results of pending or future litigation, any of which could increase or decrease one or more impacts of the legislation. The full impact of these changes on our state and local corporate taxes, which often use federal taxable income as a starting point for computing state and local tax liabilities, continues to develop.

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

Corporate tax reform, prevention of base-erosion and tax transparency continue to be high priorities of many tax jurisdictions in which we do business. As a result, policies regarding corporate income and other taxes are under heightened scrutiny globally, while tax reform legislation has been proposed or enacted in a number of jurisdictions.

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

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

Our inability to secure or sustain certain tax benefits in a foreign jurisdiction could materially adversely affect our business.

Our effective tax rate reflected benefits from concessionary tax rates in foreign jurisdictions. Due to a foreign tax law change, one of the concessionary tax rates that historically provided a 5% to 6% effective tax rate benefit is in a phase-out period. To mitigate the permanent loss of this benefit, we executed a discrete foreign tax planning action in the fourth quarter of 2018 that ended this historical benefit, but enabled our pursuit of other potential tax planning opportunities. If successful, this action may substantially replace the expiring benefits once fully implemented. We are unable to determine the ultimate success of this action, and our inability to effectuate this tax planning strategy could materially adversely affect 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

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determine the adequacy of our provision for taxes. In addition, tax enforcement has become increasingly aggressive in recent years, including continued actions by the European Commission related to illegal state aid, with increased focus on transfer pricing and intercompany documentation. Our estimate of the potential outcome of uncertain tax issues requires significant judgment and 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 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 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 financial 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. A significant portion of our net operating loss carryforwards is concentrated in Luxembourg; decreases in the statutory tax rate in Luxembourg could materially adversely affect our effective tax rate. The computation and assessment of the realizability of our deferred tax assets may also be materially impacted by new legislation or regulations.

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

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

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

We maintain information necessary to conduct our business in digital form, which is stored in data centers and on our networks and third-party cloud services, including confidential and proprietary information as well as personal information regarding our customers and employees. The secure maintenance of this information is critical to our operations. Data maintained in digital form is subject to the risk of intrusion, tampering and theft. We develop and maintain systems to prevent this from occurring, but the development and maintenance of these systems is costly and requires ongoing monitoring and

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updating as technologies change and efforts to overcome security measures become increasingly 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 decline in morale, and we could incur costs to compensate our customers or employees or pay damages or fines as a result of litigation or regulatory actions arising out of any such incident. Data privacy legislation and regulation have been increasing in recent years – including, for example, the General Data Protection Regulation in the EU, the Cyber Security Law in China, the General Data Protection Law in Brazil and the state of California's Consumer Privacy Act of 2018 – and although we take reasonable efforts to comply with all applicable laws and regulations, there can be no assurance that we will not be subject to regulatory action in the event of an incident.

From time to time, we have experienced unauthorized intrusions into our network, and although these intrusions did not have a material adverse effect on our business, this may not be the case in the future. We have taken many steps to improve the security of our networks and computer systems, including conducting user education and phishing exercises to protect against social engineering and inadvertent or intentional disclosure of data; implementing multi-factor authentication and advanced malware detection measures; upgrading legacy information technology systems; establishing a data loss prevention framework to better identify and protect our critical data; conducting third party penetration testing to assess the effectiveness of our cybersecurity, network and site access controls; and improving our capabilities based on publicized incidents experienced by other companies, as well as ones that we have experienced despite their minimal operational or financial impact to date. We regularly review the effectiveness of our cybersecurity preparedness program using a dashboard of key performance indicators. Despite these and other mitigation efforts, there can be no assurance that we are adequately protecting our information, that third parties to whom we have disclosed such information or with whom we have stored such information (in data centers and on the cloud) are taking similar precautions, or that we will not continue to experience future intrusions.

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

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

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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. We experienced several recent key management changes, including promotions of long-serving and experienced leaders to the positions of Chief Executive Officer in 2016 and Chief Financial Officer in 2017, as well as the departure of the Vice President/General Manager of our IHM segment in 2018. While we believe we have appropriate leadership development programs and succession plans in place, any failure to ensure effective transfer of knowledge and smooth transitions involving our key management or other highly-skilled employees could hinder our strategic planning and execution.

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

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

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

Our stock price may be volatile, which, among other things, could cause our tax rate to vary significantly.

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 experienced a decline in 2018, 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 performance, the level of perceived growth of our industries, and other company-specific factors, can also materially adversely affect our stock price. There can be no assurance that our stock price will not be volatile in the future.

In any period in which our stock price is higher than the grant price of the stock-based compensation vesting or being exercised in that period, we are required to recognize excess tax benefits that would decrease our effective tax rate. Conversely, if our stock price is lower than the grant price of the stock-based compensation vesting or being exercised in that period, we are required to recognize tax charges that would increase our effective tax rate. Our effective tax rate for fiscal year 2018 reflected an approximately 1.4% decrease as a result of the excess tax benefits we recognized on stock-based compensation during the year. This tax effect is dependent on our stock price and there can be no assurance that we will recognize similar levels of excess tax benefits in future years.

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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.

At December 29, 2018, we had approximately \$1.97 billion of debt, including the \$500 million of senior notes we issued in December 2018. 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 2018, our average variable-rate borrowings were approximately \$453 million. Increases in short-term interest rates would directly impact the amount of interest we pay. Fluctuations in interest rates can increase borrowing costs and have a material adverse effect on our business.

In response to the last global economic recession, extraordinary monetary policy actions of the U.S. Federal Reserve and other central banking institutions, including the utilization of quantitative easing, were taken to create and maintain a low interest rate environment. However, over the past few years, the U.S. Federal Reserve has raised its benchmark interest rate, now between 2.25% and 2.5%, at times indicating that additional increases in 2019 could occur, which may result in significantly higher long-term interest rates. Such a transition may, among other things, reduce the availability and/or increase the costs of obtaining new debt and refinancing existing indebtedness, and negatively impact our stock price.

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.

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. In September 2018, we terminated our U.S. pension plan. In connection with the termination, we contributed \$200 million to the plan in August 2018 using U.S. commercial paper borrowings. During the fourth quarter of 2018, we settled approximately \$152 million of our U.S. pension plan liability through lump-sum payments from existing plan assets to eligible participants who elected to receive them and recorded approximately \$85 million of non-cash charges associated with these settlements. We expect to settle the remaining liability of approximately \$792 million through the purchase

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of a group annuity contract(s) from one or more yet-to-be-identified highly rated insurance companies in the first half of 2019. See Note 6, "Pension and Other Postretirement Benefits," in the Notes to the Consolidated Financial Statements contained in our 2018 Annual Report.

Our investment management of our U.S. pension plan assets utilizes a liability driven investment (LDI) strategy. Under an LDI strategy, the assets are invested in a diversified portfolio that consists primarily of investment grade fixed income securities and cash. This strategy is intended 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, hedging more of the interest rate risk of the plan's liabilities. The investment portfolio is designed to hedge the plan's liabilities and 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.

We continue to evaluate options to better manage the volatility associated with our pension liabilities. Although we mitigate these risks by investing in high quality securities, ensuring adequate diversification of our investment portfolio and monitoring our portfolio's overall risk profile, the value of our investments may nevertheless decline.

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

We evaluate the assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans in consultation with outside actuaries. In the event that we were to determine that changes were warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or mortality rates, our 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. Our pension funding requirements, and the timing of funding payments, could also be affected by future legislation or regulation.

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). As of December 29, 2018, the carrying value of our goodwill was \$941.8 million. 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.

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

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

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

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

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

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

We have accrued liabilities for the environmental clean-up of certain sites, including the thirteen sites for which U.S. governmental agencies have designated us as a potentially responsible party as of our 2018 fiscal year-end, 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, the actual 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 the jurisdictions in which we do business that could subject us to liability or impair our ability to compete in these markets.

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

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Some 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.

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 governmental 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 and excess liability, and environmental liability. Insurance costs can be unpredictable and may materially adversely impact our business. We retain some portion of our insurable risks, and therefore, unforeseen or catastrophic losses in excess of insured limits could have a material adverse effect on our business.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

As of December 29, 2018, we operated manufacturing facilities in excess of 100,000 square feet in the locations listed below.

LGM Segment

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

RBIS Segment

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

IHM Segment

Domestic	Painesville, Ohio
Foreign	Turnhout, Belgium and Kunshan, Shanghai and Zhuozhou, 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 Mentor, Ohio; Hong Kong and Kunshan, China; and Oegstgeest, the Netherlands.

We own all of the principal properties identified above, except for the facilities in the following locations, which are leased: Glendale, California; Hong Kong, Panyu and Zhuozhou, China; Bufalo, Honduras; Kibbutz Hanita, Israel; 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 29, 2018, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at thirteen waste disposal or waste recycling sites that are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination. No settlement of our liability related to any of the sites has been agreed upon. We are participating with other PRPs at these sites and anticipate that our share of remediation costs will be determined pursuant to agreements that we negotiate with the EPA or other governmental authorities.

We have accrued liabilities for sites where it is probable that a loss or cost will be incurred and the amount of loss or cost can be reasonably estimated. These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties

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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 29, 2018, our accrued liability associated with environmental remediation was \$20 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 Note 8, "Contingencies," in the Notes to Consolidated Financial Statements contained in our 2018 Annual Report for more information, 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) Our common stock is listed under the ticker symbol "AVY" on the New York Stock Exchange. We did not sell any unregistered securities during the fourth quarter of 2018.
- (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 2018 are listed in the table below. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes.

Period ⁽¹⁾	Total number of shares purchased ⁽²⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans ⁽²⁾⁽³⁾	Approximate dollar value of shares that may yet be purchased under the plans ⁽⁴⁾
September 30, 2018 – October 27, 2018	318.9	\$100.72	318.9	
October 28, 2018 – November 24, 2018	1,023.2	91.62	1,023.2	
November 25, 2018 – December 29, 2018	1,004.0	91.61	1,004.0	
Total	2,346.1	\$92.85	2,346.1	\$232.4

(1) The periods shown are our fiscal periods during the thirteen-week quarter ended December 29, 2018.

(2) Shares in thousands.

(3) In April 2017, our Board authorized the repurchase of additional shares of our common stock with a fair market value of up to \$650 million, exclusive of any fees, commissions or other expenses related to such purchases. The Board authorization will remain in effect until shares in the amount authorized thereunder have been repurchased.

(4) Dollars in millions.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of our last five fiscal years appears under "Five-year Summary" in our 2018 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 2018 Annual Report and is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item is contained under "Market-Sensitive Instruments and Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 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 2018 Annual Report (including the Consolidated Financial Statements and the Notes thereto, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting, and the Report of Independent Registered Public Accounting Firm) and incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

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

Management's Report on Internal Control Over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 29, 2018. (See Management's Report on Internal Control Over Financial Reporting contained in our 2018 Annual Report, which is incorporated herein by reference.)

Management's assessment of the effectiveness of our internal control over financial reporting as of December 29, 2018 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 2018 Annual Report, which is also incorporated herein by reference.

Changes in Internal Control over Financial Reporting. We periodically assess our internal control environment. We are in the process of investing in information technology to upgrade the systems in our RBIS and LGM segments. Processes affected by these implementations 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 the system implementation referenced above, there have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information concerning directors and corporate governance called for by this Item is incorporated herein by reference from the definitive proxy statement for our Annual Meeting of Stockholders to be held on April 25, 2019 (our "2018 Proxy Statement"), which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. The information concerning executive officers called for by this Item appears, in part, on the next page of this report, and is also incorporated by reference from our 2019 Proxy Statement. The information concerning any late filings under Section 16(a) of the Exchange Act is incorporated by reference from our 2019 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 2019 Proxy Statement.

EXECUTIVE OFFICERS OF AVERY DENNISON⁽¹⁾

Name and Position	Age	Served as Executive Officer since		Former Positions within Past Five Years/ Officer Positions with Avery Dennison
Mitchell R. Butier President and Chief Executive Officer	47	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
Gregory S. Lovins Senior Vice President and Chief Financial Officer	46	March 2017	2017 2016-2017 2011-2016	Vice President and Interim Chief Financial Officer Vice President and Treasurer Vice President, Global Finance, Materials Group
Lori J. Bondar Vice President, Controller and Chief Accounting Officer	58	June 2010	2008-2010	Vice President and Controller
Georges Gravanis President, Label and Graphic Materials	61	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	59	May 2007	N/A	N/A
Susan C. Miller Senior Vice President, General Counsel and Secretary	59	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	50	August 2016	2013-2015 2010-2012	Vice President and General Manager, Global Commercial and Innovation, RBIS Vice President and General Manager, Global Commercial RBIS

(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 2019 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 2019 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 2019 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this Item is incorporated by reference from our 2019 Proxy Statement.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedule and Exhibits

- (1) Financial statements filed as part of this report are listed on the accompanying Index to Financial Statements.
- (2) All financial statement schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.
- (3) Exhibits filed as a part of this report are listed on the accompanying Exhibit Index. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K is identified as such on the Exhibit Index and incorporated herein by reference.

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

Item 16. FORM 10-K SUMMARY

None.

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS

Data incorporated by reference from the attached portions of the 2018 Annual Report to Shareholders of Avery Dennison Corporation:

Consolidated Financial Statements:

Consolidated Balance Sheets as of December 29, 2018 and December 30, 2017

Consolidated Statements of Income for 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income for 2018, 2017 and 2016

Consolidated Statements of Shareholders' Equity for 2018, 2017 and 2016

Consolidated Statements of Cash Flows for 2018, 2017 and 2016

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 2018 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

AVERY DENNISON CORPORATION

EXHIBIT INDEX

For the Year Ended December 29, 2018

<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 December 7, 2017	3.1(ii)	Current Report on Form 8-K, filed December 8, 2017
4.1	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "1991 Indenture")	4.1	Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991
4.2	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture")	4.4	Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993
4.3	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the 1991 Indenture, as amended by the Supplemental Indenture	4.1	Current Report on Form 8-K, filed May 12, 1995
4.4	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the 1991 Indenture, as amended by the Supplemental Indenture	4.1	Current Report on Form 8-K, filed December 16, 1996
4.5	Indenture, dated as of July 3, 2001, between Registrant and Chase Manhattan Bank and Trust Company, National Association, as trustee ("2001 Indenture")	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
4.6	Officers' Certificate establishing Securities entitled "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	4.2	Current Report on Form 8-K, filed April 13, 2010
4.14	Third Supplemental Indenture, dated as of April 8, 2013, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed April 8, 2013
4.15	Form of 3.35% Senior Notes due 2023	4.2	Current Report on Form 8-K, filed April 8, 2013
4.16	Fourth Supplemental Indenture, dated as of March 3, 2017, between Registrant and The Bank of New York Mellon Trust Company, N.A. ("BNY Mellon") as Trustee (including Form of 1.250% Senior Notes due 2025 on Exhibit A thereto)	4.2	Current Report on Form 8-K, filed March 3, 2017
4.17	Fifth Supplemental Indenture, dated as of December 6, 2018, between Registrant and BNY Mellon, as Trustee (including Form of 4.875% Senior Notes due 2028 on Exhibit A thereto)	4.2	Current report on Form 8-K, filed December 6, 2018
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

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

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
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*	2017 Incentive Award Plan ("2017 Plan")	B	2018 Proxy Statement on Schedule 14A, filed March 10, 2017
10.19*	Senior Executive Annual Incentive Plan	A	2014 Proxy Statement on Schedule 14A, filed March 7, 2014
10.20*	Annual Incentive Plan	10.26	2014 Annual Report on Form 10-K, filed February 25, 2015
10.21*	Complete Restatement and Amendment of Executive Deferred Retirement Plan ("EDRP")	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
10.22*	Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.23*	Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
10.24*	2005 Executive Variable Deferred Retirement Plan, amended and restated	10.1	Quarterly Report on Form 10-Q, filed May 7, 2013
10.25*	Benefit Restoration Plan, amended and restated ("BRP")	10.32.1	Current Report on Form 8-K/A, filed December 11, 2008
10.26*	First Amendment to BRP	10.32.1	2010 Annual Report on Form 10-K, filed February 28, 2011
10.27*	Amended and Restated Capital Accumulation Plan ("CAP")	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
10.28*	Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
10.29*	Amended and Restated Key Executive Change of Control Severance Plan	10.29	2017 Annual Report on Form 10-K, filed February 21, 2018
10.30*	Amended and Restated Executive Severance Plan	10.30	2017 Annual Report on Form 10-K, filed February 21, 2018
10.31*	Form of Executive Severance Agreement	10.31	2017 Annual Report on Form 10-K, filed February 21, 2018
10.32*	Long-Term Incentive Unit Plan ("LTI Unit Plan")	10.43	2012 Annual Report on Form 10-K, filed February 27, 2013
10.33*	Form of Restricted Stock Unit Agreement under Equity Plan	10.38	2013 Annual Report on Form 10-K, filed February 26, 2014
10.34*	Form of Performance Unit Agreement under Equity Plan	10.39	2013 Annual Report on Form 10-K, filed February 26, 2014

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<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.35*	Form of Market-Leveraged Stock Unit Agreement under Equity Plan	10.40	2013 Annual Report on Form 10-K, filed February 26, 2014
10.36*	Form of Long-Term Incentive Unit Agreement under LTI Unit Plan	10.41	2013 Annual Report on Form 10-K, filed February 26, 2014
10.37*	Form of Director Restricted Stock Unit Agreement under 2017 Plan	10.2	Quarterly Report on Form 10-Q, filed August 1, 2017
10.38*	Form of Employee Market-Leveraged Stock Unit Agreement under 2017 Plan	10.3	Quarterly Report on Form 10-Q, filed August 1, 2017
10.39*	Form of Employee Performance Unit Agreement under 2017 Plan	10.4	Quarterly Report on Form 10-Q, filed August 1, 2017
10.40*	Form of Employee Restricted Stock Unit Agreement under 2017 Plan	10.5	Quarterly Report on Form 10-Q, filed August 1, 2017
10.41*	Form of Employee Non-Qualified Stock Option Agreement under 2017 Plan	10.6	Quarterly Report on Form 10-Q, filed August 1, 2017
10.42*	Offer Letter to Georges Gravanis	10.1	Quarterly Report on Form 10-Q, filed May 5, 2015
10.43*	Offer Letter to Mitchell R. Butier	10.2	Quarterly Report on Form 10-Q, filed May 3, 2016
10.44*	Localization Letter to Georges Gravanis	10.1	Quarterly Report on Form 10-Q, filed August 2, 2016
10.45*	Offer Letter to Gregory S. Lovins	10.1	Quarterly Report on Form 10-Q, filed May 2, 2017
10.46*	Offer Letter to Gregory S. Lovins	10.1	Quarterly Report on Form 10-Q, filed August 1, 2017
13†	Portions of Annual Report to Shareholders for fiscal year ended December 29, 2018	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

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

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

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

† Filed herewith.

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

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

SIGNATURES

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

AVERY DENNISON CORPORATION

By: /s/ Gregory S. Lovins

Gregory S. Lovins
Senior Vice President and Chief Financial Officer

Dated: February 27, 2019

POWER OF ATTORNEY

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

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

<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 27, 2019
<u>/s/ Gregory S. Lovins</u> Gregory S. Lovins	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2019
<u>/s/ Lori J. Bondar</u> Lori J. Bondar	Vice President, Controller, and Chief Accounting Officer (Principal Accounting Officer)	February 27, 2019
<u>/s/ Dean A. Scarborough</u> Dean A. Scarborough	Chairman	February 27, 2019
<u>/s/ Bradley A. Alford</u> Bradley A. Alford	Director	February 27, 2019
<u>/s/ Anthony K. Anderson</u> Anthony K. Anderson	Director	February 27, 2019
<u>/s/ Peter K. Barker</u> Peter K. Barker	Director	February 27, 2019
<u>/s/ Mark J. Barrenechea</u> Mark J. Barrenechea	Director	February 27, 2019

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ken C. Hicks</u> Ken C. Hicks	Director	February 27, 2019
<u>/s/ Andres A. Lopez</u> Andres A. Lopez	Director	February 27, 2019
<u>/s/ David E. I. Pyott</u> David E. I. Pyott	Director	February 27, 2019
<u>/s/ Patrick T. Siewert</u> Patrick T. Siewert	Director	February 27, 2019
<u>/s/ Julia A. Stewart</u> Julia A. Stewart	Director	February 27, 2019
<u>/s/ Martha N. Sullivan</u> Martha N. Sullivan	Director	February 27, 2019

Businesses at a Glance

	Reportable Segment Label and Graphic Materials	Reportable Segment Retail Branding and Information Solutions	Reportable Segment 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
2018 SALES IN MILLIONS	\$4,851	\$1,613	\$695
% OF SALES	68%	22%	10%
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 businesses provide intelligent, creative, and sustainable solutions that elevate brands and accelerate performance primarily through the global retail supply chain.	Our Industrial and Healthcare Materials businesses provide tape products, including coated and adhesive transfer tapes; fasteners, primarily precision-extruded and injection-molded plastic devices; and wound care, ostomy, surgical, and electromedical device products for manufacturers, clinicians, and patients.
PRODUCTS/SOLUTIONS	Pressure-sensitive labeling materials; packaging materials and solutions; roll-fed sleeves; 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; brand protection and security solutions; intelligent labeling solutions with unique digital identities including RFID and sensor technologies	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; food and beauty brands and retailers' supply chain to customers; aviation asset tracking	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; airlines and airports	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	Greg Lovins Senior Vice President and Chief Financial Officer; Interim General Manager, Industrial and Healthcare Materials

Safe Harbor Statement

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

Certain risks and uncertainties are discussed in more detail under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; worldwide and local economic conditions; changes in political conditions; changes in governmental laws and regulations; fluctuations in foreign currency exchange rates and other risks associated with foreign operations, including in emerging markets; the financial condition and inventory strategies of customers; changes in our markets due to competitive conditions, technological developments, laws and regulations, and customer preferences; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; the impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; execution and integration of acquisitions; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems, including cyber-attacks or other intrusions to network security; successful installation of new or upgraded information technology systems; data security breaches; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; changes in tax laws and regulations including the U.S. Tax Cuts and Jobs Act, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; fluctuations in pension, insurance, and employee benefit costs, including risks related to the termination of our U.S. pension plan; the impact of legal and regulatory proceedings, including with respect to environmental, health and safety; protection and infringement of intellectual property; the impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

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

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

Five-Year Summary

(Dollars in millions, except percentages and per share amounts)	2018		2017		2016		2015		2014 ⁽¹⁾	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
For the Year										
Net sales	\$ 7,159.0	100.0	\$ 6,613.8	100.0	\$ 6,086.5	100.0	\$ 5,966.9	100.0	\$ 6,330.3	100.0
Gross profit	1,915.5	26.8	1,812.2	27.4	1,699.7	27.9	1,645.8	27.6	1,651.2	26.1
Marketing, general and administrative expense	1,127.5	15.7	1,105.2	16.7	1,085.7	17.8	1,087.8	18.2	1,138.3	18.0
Other expense, net ⁽²⁾⁽³⁾	69.9	1.0	36.5	.6	23.8	.4	64.5	1.1	66.6	1.1
Interest expense	58.5	.8	63.0	1.0	59.9	1.0	60.5	1.0	63.3	1.0
Other non-operating expense ⁽³⁾	104.8	1.5	18.0	.3	53.2	.9	24.1	.4	22.2	.4
Income from continuing operations before taxes	554.8	7.7	589.5	8.9	477.1	7.8	408.9	6.9	360.8	5.7
Provision for income taxes ⁽⁴⁾	85.4	1.2	307.7	4.7	156.4	2.6	134.5	2.3	113.5	1.8
Equity method investment net losses	(2.0)	N/A	—	N/A	—	N/A	—	N/A	—	N/A
Income from continuing operations	467.4	6.5	281.8	4.3	320.7	5.3	274.4	4.6	247.3	3.9
Loss from discontinued operations, net of tax	—	N/A	—	N/A	—	N/A	(.1)	N/A	(2.2)	N/A
Net income	467.4	6.5	281.8	4.3	320.7	5.3	274.3	4.6	245.1	3.9
Per Share Information										
Income per common share from continuing operations	\$ 5.35		\$ 3.19		\$ 3.60		\$ 3.01		\$ 2.64	
Loss per common share from discontinued operations	—		—		—		—		(.03)	
Net income per common share	5.35		3.19		3.60		3.01		2.61	
Income per common share from continuing operations, assuming dilution	5.28		3.13		3.54		2.95		2.58	
Loss per common share from discontinued operations, assuming dilution	—		—		—		—		(.02)	
Net income per common share, assuming dilution	5.28		3.13		3.54		2.95		2.56	
Dividends per common share	2.01		1.76		1.60		1.46		1.34	
Weighted average number of common shares outstanding (in millions)	87.3		88.3		89.1		91.0		93.8	
Weighted average number of common shares outstanding, assuming dilution (in millions)	88.6		90.1		90.7		92.9		95.7	
At End of Year										
Property, plant and equipment, net	\$ 1,137.4		\$ 1,097.9		\$ 915.2		\$ 847.9		\$ 875.3	
Total assets	5,177.5		5,136.9		4,396.4		4,133.7		4,356.9	
Long-term debt and capital leases	1,771.6		1,316.3		713.4		963.6		940.1	
Total debt	1,966.2		1,581.7		1,292.5		1,058.9		1,144.4	
Shareholders' equity ⁽⁵⁾	955.1		1,046.2		925.5		965.7		1,047.7	
Other Information										
Depreciation and amortization expense	\$ 181.0		\$ 178.7		\$ 180.1		\$ 188.3		\$ 201.6	
Research and development expense	98.2		93.4		89.7		91.9		102.5	
Effective tax rate ⁽⁴⁾⁽⁶⁾	15.4%		52.2%		32.8%		32.9%		31.5%	

(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, Argentine peso remeasurement transition loss, reversal of acquisition-related contingent consideration, and other items.

(3) In the first quarter of 2018, we adopted Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, on a retrospective basis. This ASU requires employers with defined benefit plans to present the components of net periodic benefit cost, other than service cost, outside of operating income. Prior year results have been reclassified as required by the ASU.

(4) In the fourth quarter of 2018, we finalized our provisional estimate as defined under SEC Staff Accounting Bulletin No. 118 related to the U.S. Tax Cuts and Jobs Act ("TCJA") of 2017.

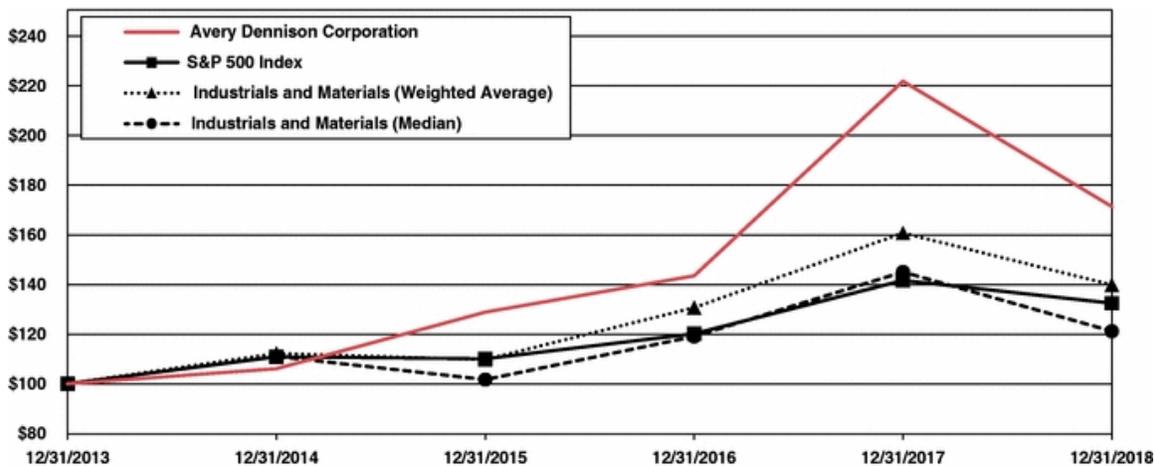
(5) Amounts in 2014 and 2015 included continuing and discontinued operations.

(6) Amounts in 2014 and 2015 included continuing operations only.

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, 2018.

Comparison of Five-Year Cumulative Total Return as of December 31, 2018



Total Return Analysis⁽¹⁾

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Avery Dennison Corporation	\$ 100.00	\$ 106.03	\$ 128.63	\$ 143.13	\$ 220.86	\$ 170.81
S&P 500 Index	100.00	110.79	109.98	120.00	141.29	132.19
Market Basket (Weighted Average) ⁽²⁾	100.00	112.10	109.65	130.43	160.25	139.53
Market Basket (Median)	100.00	110.93	101.68	118.90	144.67	121.00

(1) Assumes \$100.00 invested on December 31, 2013 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	15
Market-Sensitive Instruments and Risk Management	15

NON-GAAP FINANCIAL MEASURES

We report our financial results in conformity with accounting principles generally accepted in the United States of America, or GAAP, and also communicate with investors using certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement presentation of our financial results that are prepared in accordance with GAAP. Based 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, positive or negative, of certain items (e.g., restructuring charges, legal settlements, certain effects of strategic transactions and related costs, losses from debt extinguishments, gains or losses from curtailment or settlement of pension obligations, gains or losses on sales of certain assets, and other items), we believe that we are providing meaningful supplemental information that facilitates an understanding of our core operating results and liquidity measures. These non-GAAP financial measures are used internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for a single period. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency, or timing.

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

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

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

- *Free cash flow* refers to cash flow provided by operating activities, 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 and proceeds from insurance. Free cash flow is also adjusted for the cash contributions related to the termination of our U.S. pension plan. We believe that free cash flow assists investors by showing the amount of cash we have available for debt reductions, dividends, share repurchases, and acquisitions.
- *Operational working capital as a percentage of annualized current quarter net sales* 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 divided by annualized current quarter net sales. We believe that operational working capital as a percentage of annualized current quarter net sales 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.

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 2018, 2017, and 2016 fiscal years consisted of 52-week periods ending December 29, 2018, December 30, 2017, and December 31, 2016, respectively.

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

Net Sales

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

	2018	2017
Reported sales change	8%	9%
Foreign currency translation	(1)	(1)
Sales change ex. currency	7%	8%
Acquisitions	(1)	(4)
Organic sales change	6%	4%

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

Net Income

Net income increased from approximately \$282 million in 2017 to approximately \$467 million in 2018. The major factors affecting the change in net income in 2018 compared to 2017 were:

Positive factors:

- Lower income taxes due to the combined effects of the 2017 tax charges related to the enactment of the U.S. Tax Cuts and Jobs Act ("TCJA") and a net tax benefit from a discrete foreign tax planning action
- The combined effect of volume and mix
- Benefits from productivity initiatives, including savings from restructuring actions, net of transition costs

Offsetting factors:

- Pension plan settlement charges
- Higher restructuring charges
- Higher employee-related costs
- Growth investments
- Net impact of pricing and raw material inflation

U.S. Pension Plan Termination

In July 2018, our Board of Directors ("Board") approved the termination of the Avery Dennison Pension Plan (the "ADPP"), a U.S. defined benefit plan, effective as of September 28, 2018. In connection with the termination, we contributed \$200 million to the ADPP in August 2018 using U.S. commercial paper borrowings. During the fourth quarter of 2018, we settled approximately \$152 million of the ADPP liability through lump-sum payments from existing plan assets to eligible participants who elected to receive them and recorded approximately \$85 million of non-cash charges associated with these settlements. We expect to settle the remaining liability of approximately \$792 million through the purchase of group annuity contract(s) from one or more yet-to-be-identified highly rated insurance companies in the first half of 2019. Upon transfer of this remaining liability, we expect to recognize an additional \$490 million of non-cash pre-tax charges and related tax benefits of \$190 million. As of December 29, 2018, the ADPP was underfunded by approximately \$57 million.

Cost Reduction Actions

2018/2019 Actions

In April 2018, we approved a restructuring plan (the "2018 Plan") associated with the consolidation of the European footprint of our Label and Graphic Materials ("LGM") reportable segment that is expected to result in a headcount reduction of approximately 400 positions related to the closure of a manufacturing facility. This reduction is expected to be partially offset by headcount additions in other locations, resulting in a net reduction of approximately 150 positions. During fiscal year 2018, we recorded \$55.2 million in restructuring charges, net of reversals, related to the 2018 Plan. These charges consisted of severance and related costs for the reduction of approximately 345 positions to date, as well as asset impairment charges. The vast majority of the cash payments associated with these charges is expected to be made in 2019. We anticipate annualized savings from the 2018 Plan of approximately \$25 million, beginning in the second half of 2019, and expect the 2018 Plan to be substantially complete by the end of 2019.

In addition to restructuring charges recorded under the 2018 Plan, we recorded \$4.2 million in restructuring charges in the fourth quarter 2018 related to our 2018/2019 Actions. These charges consisted of severance and related costs for the reduction of approximately 85 positions, as well as asset impairment charges.

2015/2016 Actions

During fiscal year 2018, we recorded \$14.3 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015. These charges consisted of severance and related costs for the reduction of approximately 625 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2017, we recorded \$34.1 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 920 positions, lease cancellation costs, and asset impairment charges.

The activities and related charges and payments for our 2015/2016 Actions were substantially completed in 2018.

Impact of Cost Reduction Actions

During fiscal year 2018, we realized approximately \$30 million in savings, net of transition costs, primarily from our 2015/2016 Actions.

We anticipate incremental savings from restructuring, net of transition costs, of approximately \$35 million in 2019, primarily related to our 2018/2019 Actions. We estimate cash restructuring costs of at least \$20 million in 2019.

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

During 2017, we completed the stock acquisitions of Yongle Tape Ltd. ("Yongle Tape") and Finesse Medical Limited, and the net asset acquisition of Hanita Coatings Rural Cooperative Association Limited and stock acquisition of certain of its subsidiaries (collectively, the "2017 Acquisitions"), which were not material, individually or in the aggregate, to the Consolidated Financial Statements.

In 2016, we completed the acquisition of the European business of Mactac ("Mactac"), which was not material to the Consolidated Financial Statements. Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for more information.

Accounting Guidance Updates

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

5 Avery Dennison Corporation 2018 Annual Report

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

Cash Flow

(In millions)	2018	2017	2016
Net cash provided by operating activities	\$ 457.9	\$ 645.7	\$ 582.1
Purchases of property, plant and equipment	(226.7)	(190.5)	(176.9)
Purchases of software and other deferred charges	(29.9)	(35.6)	(29.7)
Proceeds from sales of property, plant and equipment	9.4	6.0	8.5
Proceeds from insurance and sales (purchases) of investments, net	18.5	(3.9)	3.1
Plus: Pension plan contribution for plan termination	200.0	—	—
Free cash flow	\$ 429.2	\$ 421.7	\$ 387.1

In 2018, net cash provided by operating activities decreased compared to 2017 primarily due to our \$200 million contribution to the ADPP in connection with its termination, as well as higher income tax payments, net of refunds, changes in operational working capital, and higher incentive compensation payments, partially offset by higher net income. In 2018, free cash flow increased compared to 2017 primarily due to higher cash provided by operating activities adjusted for the ADPP contribution and higher net proceeds from insurance and sales of investments and proceeds from sales of property, plant and equipment, partially offset by higher capital expenditures.

In 2017, net cash provided by operating activities increased compared to 2016 primarily due to higher income before taxes, as well as lower pension plan contributions, partially offset by higher income tax payments, net of refunds. Net cash provided by operating activities in 2017 reflected the impact of our adoption of the accounting guidance update related to stock-based payments. Free cash flow increased due to higher net cash flow provided by operating activities, partially offset by higher net capital and software expenditures.

Outlook

Certain factors that we believe may contribute to our 2019 results are described below:

- We expect our net sales, including the effects of foreign currency translation, to increase by approximately 1.5%.
- Assuming the continuation of foreign currency rates in effect at year-end 2018, currency translation will reduce our net sales by approximately 2.5% and our pre-tax operating income by approximately \$25 million compared to 2018.
- We expect our full year effective tax rate to be in the single-digit range.
- We anticipate capital and software expenditures of \$275 million to \$285 million.
- We estimate cash restructuring costs of at least \$20 million.
- We estimate the net effect of non-cash charges and the tax impact related to the ADPP termination to reduce net income by approximately \$300 million.

ANALYSIS OF RESULTS OF OPERATIONS

Income before Taxes

(In millions, except percentages)	2018	2017	2016
Net sales	\$ 7,159.0	\$ 6,613.8	\$ 6,086.5
Cost of products sold	5,243.5	4,801.6	4,386.8
Gross profit	1,915.5	1,812.2	1,699.7
Marketing, general and administrative expense	1,127.5	1,105.2	1,085.7
Other expense, net	69.9	36.5	23.8
Interest expense	58.5	63.0	59.9
Other non-operating expense	104.8	18.0	53.2
Income before taxes	\$ 554.8	\$ 589.5	\$ 477.1
Gross profit margin	26.8%	27.4%	27.9%

Gross Profit Margin

Gross profit margin in 2018 decreased compared to 2017 reflecting the net impact of pricing and raw material inflation and higher employee-related costs, as well as growth investments, partially offset by the benefits from productivity initiatives, including savings from restructuring, net of transition costs.

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

Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in 2018 compared to 2017 reflecting the impact of acquisitions and other growth investments and the negative impact of changes in foreign currency, partially offset by the benefits from productivity initiatives, including savings from restructuring, net of transition costs.

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

Other Expense, net

(In millions)	2018	2017	2016
Other expense, net by type			
Restructuring charges:			
Severance and related costs	\$ 63.0	\$ 31.2	\$ 14.7
Asset impairment charges and lease cancellation costs	10.7	2.2	5.2
Other items:			
Argentine peso remeasurement transition loss	3.4	—	—
Other restructuring-related charge	.5	—	—
Transaction costs	—	5.2	5.0
Reversal of acquisition-related contingent consideration	(5.0)	—	—
Net gains on sales of assets	(2.7)	(2.1)	(1.1)
Other expense, net	\$ 69.9	\$ 36.5	\$ 23.8

Refer to Note 13, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

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

Interest Expense

Interest expense decreased approximately \$4.5 million in 2018 compared to 2017, reflecting the repayment of senior notes in October 2017, which was financed by commercial paper borrowed at a lower interest rate.

Interest expense increased approximately \$3 million in 2017 compared to 2016, primarily due to additional long-term debt borrowed in 2017.

We expect our interest expense in 2019 to be higher than in 2018 due to our issuance of \$500 million of senior notes in the fourth quarter of 2018.

Other Non-Operating Expense

In the first quarter of 2018, we adopted an accounting guidance update that requires employers with defined benefit plans to present the components of net periodic benefit cost other than service cost, outside of operating income. Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information. Other non-operating expense increased in 2018 compared to 2017 due to settlement losses associated with the ADPP and two U.S. nonqualified benefit plans and two of our international benefit plans, partially offset by a higher expected return on plan assets in certain of our international defined benefit pension plans.

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

Net Income and Earnings per Share

(In millions, except percentages and per share amounts)	2018	2017	2016
Income before taxes	\$ 554.8	\$ 589.5	\$ 477.1
Provision for income taxes	85.4	307.7	156.4
Equity method investment net losses	(2.0)	—	—
Net income	\$ 467.4	\$ 281.8	\$ 320.7
Net income per common share	\$ 5.35	\$ 3.19	\$ 3.60
Net income per common share, assuming dilution	5.28	3.13	3.54
Effective tax rate	15.4%	52.2%	32.8%

Provision for Income Taxes

The 2018 effective tax rate included measurement period adjustments to our 2017 provisional amount related to the TCJA in accordance with guidance provided under SEC Staff Accounting Bulletin No. 118 ("SAB 118"). In 2018, we adjusted our 2017 provisional amount by recognizing a net tax benefit of \$34.7 million. This amount primarily reflected: (i) \$39.6 million of tax benefit related to the remeasurement of the net deferred tax asset from cash contributions to the ADPP and realized foreign currency loss, both of which resulted from our decision to accelerate the related deductions on our 2017 U.S. federal income tax return; (ii) \$3.6 million of tax charges for changes in our indefinite reinvestment assertions related to our investments in certain foreign subsidiaries after information required to make such determinations was obtained; (iii) \$9.5 million of tax charge for adjustments made to the one-time transition tax, primarily due to a change in our filing position and to reflect regulatory and administrative guidance subsequently issued by the Internal Revenue Service and certain state taxing authorities; and (iv) \$9.4 million of tax benefit from releasing a previously recorded uncertain tax position after the position was not taken on our 2017 U.S. federal income tax return.

The 2018 effective tax rate also included net tax charges related to: (i) the effects of certain U.S. international tax provisions imposed by the TCJA, including \$16 million of tax charge on Global Intangible Low-taxed Income ("GILTI") and \$9 million of tax charge on Base Erosion Antiabuse Tax ("BEAT"), partially offset by \$2 million of tax benefit on Foreign Derived Intangible Income ("FDII"); (ii) \$7.9 million of tax charges for foreign withholding taxes on our current year earnings; (iii) \$8.8 million of tax benefit, including previously accrued interest and penalties, primarily from changes in our judgment about tax filing positions due to the effective settlement of our German tax audit for tax years 2006-2010; and (iv) \$8 million of tax benefit from decreases in certain tax reserves, including interest and penalties, as a result of closing tax years.

During 2018, after our adoption of the accounting guidance update related to intra-entity transfers of assets other than inventory, certain foreign owned intellectual property was transferred between our foreign subsidiaries. Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information. Accordingly, we recognized a net discrete tax benefit of \$31 million primarily due to the recognition of a deferred tax asset in a higher tax rate jurisdiction, partially offset by a taxable gain recognized in a lower tax rate jurisdiction.

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

The 2016 effective tax rate included: (i) \$7.6 million of tax charge associated with the cost to repatriate current earnings of certain foreign subsidiaries; (ii) \$46.3 million of tax charge related to U.S. income and foreign withholding taxes resulting from changes in indefinite reinvestment assertions on certain foreign earnings and profits; (iii) \$16.8 million of tax benefit resulting from settlements of certain foreign audits; (iv) \$5.4 million of tax benefit resulting from expirations of statutes of limitations; (v) \$6.7 million of tax benefit 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; (vi) \$3.6 million of tax benefit from the release of valuation allowances on certain state deferred tax assets; and (vii) \$8.4 million of tax charge from deferred tax adjustments resulting from tax rate changes in certain foreign jurisdictions.

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

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

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT

Operating income refers to income before interest and taxes.

Label and Graphic Materials

(In millions)	2018	2017	2016
Net sales including intersegment sales	\$ 4,929.8	\$ 4,575.8	\$ 4,250.7
Less intersegment sales	(78.7)	(64.1)	(63.4)
Net sales	\$ 4,851.1	\$ 4,511.7	\$ 4,187.3
Operating income ⁽¹⁾	568.2	577.4	522.0
⁽¹⁾ Included charges associated with restructuring in all years, Argentine peso remeasurement transition loss, other restructuring-related charge and loss on sale of assets in 2018, gains on sales of assets in 2017, and transaction costs in 2017 and 2016.	\$ 61.8	\$ 14.5	\$ 13.0

Net Sales

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

	2018	2017
Reported sales change	8%	8%
Foreign currency translation	(2)	(1)
Sales change ex. currency	6	7
Acquisitions	–	(3)
Organic sales change	6%	4%

In 2018, net sales increased on an organic basis due to higher volume and pricing actions. Net sales increased on an organic basis at mid-single digit rates in emerging markets and North America and at a low-single digit rate in Western Europe.

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

Operating Income

Operating income decreased in 2018 compared to 2017 reflecting higher restructuring charges, employee-related costs and the net impact of pricing and raw material costs, excluding the effects of foreign currency, partially offset by the combined effect of volume and mix, as well as a net benefit from changes in foreign currency.

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

Retail Branding and Information Solutions

(In millions)	2018	2017	2016
Net sales including intersegment sales	\$ 1,617.9	\$ 1,514.4	\$ 1,448.3
Less intersegment sales	(4.7)	(3.2)	(2.9)
Net sales	\$ 1,613.2	\$ 1,511.2	\$ 1,445.4
Operating income ⁽¹⁾	170.4	126.7	105.0
⁽¹⁾ Included charges associated with restructuring and net gains on sales of assets in all years and transaction costs related to sale of product line in 2017 and 2016.	\$ 11.4	\$ 18.1	\$ 9.8

Net Sales

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

	2018	2017
Reported sales change	7%	5%
Foreign currency translation	–	–
Organic sales change	7%	5%

In 2018, net sales increased on an organic basis driven by strength in both radio-frequency identification solutions and the base business.

In 2017, net sales increased on an organic basis due to higher volume, reflecting growth in both the base business and radio-frequency identification solutions.

Operating Income

Operating income increased in 2018 compared to 2017 reflecting higher volume, the benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, and lower amortization of other intangibles resulting from business acquisitions, partially offset by higher employee-related costs and growth investments.

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

Industrial and Healthcare Materials

(In millions)	2018	2017	2016
Net sales including intersegment sales	\$ 703.5	\$ 598.6	\$ 461.0
Less intersegment sales	(8.8)	(7.7)	(7.2)
Net sales	\$ 694.7	\$ 590.9	\$ 453.8
Operating income ⁽¹⁾	62.9	52.6	56.1
⁽¹⁾ Included charges associated with restructuring in all years, transaction costs in 2017 and 2016, and reversal of acquisition-related contingent consideration in 2018.	\$ (1.0)	\$ 3.7	\$ 1.9

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Net Sales

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

	2018	2017
Reported sales change	18%	30%
Foreign currency translation	(2)	—
Sales change ex. currency	16	30
Acquisitions	(15)	(28)
Organic sales change	1%	2%

In 2018, net sales increased on an organic basis primarily due to higher volume in industrial categories.

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

Operating Income

Operating income increased in 2018 compared to 2017 driven by the net impact of acquisitions and organic growth, partially offset by growth investments.

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

FINANCIAL CONDITION

Liquidity

Operating Activities

(In millions)	2018	2017	2016
Net income	\$ 467.4	\$ 281.8	\$ 320.7
Depreciation and amortization	181.0	178.7	180.1
Provision for doubtful accounts and sales returns	45.6	37.6	54.4
Net losses (gains) from impairments, sale of assets and investment settlements	6.8	(.4)	(.6)
Stock-based compensation	34.3	30.2	27.2
Losses from settlements of pension obligations	93.7	—	41.4
Deferred income taxes and other non-cash taxes	(32.7)	151.6	52.3
Other non-cash expense and loss	53.6	53.9	46.2
Trade accounts receivable	(62.5)	(141.2)	(88.2)
Inventories	(70.5)	(14.9)	(19.6)
Other current assets	(5.6)	(7.9)	(7.6)
Accounts payable	43.6	83.4	31.6
Accrued liabilities	(29.8)	(.6)	32.4
Taxes on income	(35.5)	29.6	(14.1)
Other assets	(6.0)	(13.0)	(2.3)
Long-term retirement benefits and other liabilities	(225.5)	(23.1)	(71.8)
Net cash provided by operating activities	\$ 457.9	\$ 645.7	\$ 582.1

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 2018, cash flow provided by operating activities decreased compared to 2017 primarily due to our \$200 million contribution to the ADPP in connection with its termination, higher income tax payments, net of refunds, changes in operational working capital, and higher incentive compensation payments, partially offset by higher net income.

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

Investing Activities

(In millions)	2018	2017	2016
Purchases of property, plant and equipment	\$ (226.7)	\$ (190.5)	\$ (176.9)
Purchases of software and other deferred charges	(29.9)	(35.6)	(29.7)
Proceeds from sales of property, plant and equipment	9.4	6.0	8.5
Proceeds from insurance and sales (purchases) of investments, net	18.5	(3.9)	3.1
Payments for acquisitions, net of cash acquired, and investments in businesses	(3.8)	(319.3)	(237.2)
Net cash used in investing activities	\$ (232.5)	\$ (543.3)	\$ (432.2)

Purchases of Property, Plant and Equipment

In 2018, we invested in equipment to support growth primarily in Asia, North America and Europe and to improve manufacturing productivity. In 2017 and 2016, we invested in new equipment to support growth in Asia, Europe and North America and to improve manufacturing productivity.

Purchases of Software and Other Deferred Charges

In 2018, we invested in information technology primarily associated with enterprise resource planning system implementations in North America and Asia. In 2017, we invested in information technology primarily associated with enterprise resource planning system implementations in North America, Asia, and Europe. Information technology investments in 2016 were primarily associated with standardization initiatives in Asia and North America.

Proceeds from Insurance and Sales (Purchases) of Investments, Net

In 2018, proceeds from insurance were associated with our corporate-owned life insurance policies. We also had higher proceeds from net sales of investments in 2018.

Payments for Acquisitions and Investments in Businesses

In 2018, we paid \$3.8 million for investments in unconsolidated businesses. In 2017 and 2016, the aggregate payments for acquisitions, net of cash acquired, and investments in businesses were approximately \$319 million and \$237 million, respectively, which we

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funded through cash and commercial paper borrowings. The 2017 Acquisitions were also partially funded through proceeds from the senior notes we issued in 2017.

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

Financing Activities

(In millions)	2018	2017	2016
Net change in borrowings and repayments of debt and capital leases	\$ (84.0)	\$ (343.0)	\$ 232.2
Additional long-term borrowings	493.3	542.9	—
Dividends paid	(175.0)	(155.5)	(142.5)
Share repurchases	(392.9)	(129.7)	(262.4)
Net (tax withholding) proceeds related to stock-based compensation	(32.2)	1.4	66.5
Payments of contingent consideration	(17.3)	—	—
Net cash used in financing activities	\$ (208.1)	\$ (83.9)	\$ (106.2)

Borrowings and Repayment of Debt

In December 2018, we issued \$500 million of senior notes, due December 2028. The senior notes bear an interest rate of 4.875% per year, payable semi-annually in arrears. The net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses, were \$493.3 million, which we used to repay commercial paper borrowings. Prior to the issuance of these senior notes, we used commercial paper borrowings in the third quarter to fund our \$200 million contribution to the ADPP in connection with its termination.

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

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. Borrowings from this program were used to fund a portion of the purchase price for our acquisition of the European business of Mactac in 2016.

Given the seasonality of our cash flow from operating activities, during 2018, 2017, and 2016, our commercial paper borrowings were used to fund share repurchase activity, dividend payments, and capital expenditures, and for other general corporate purposes.

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

Dividends Paid

We paid dividends of \$2.01 per share in 2018 compared to \$1.76 per share in 2017. In April 2018, we increased our quarterly dividend to \$.52 per share, representing an increase of approximately 16% from our previous dividend rate of \$.45 per share.

Share Repurchases

From time to time, our Board authorizes the repurchase of shares of our outstanding common stock. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes. In 2018, we repurchased approximately 4 million shares of our common stock at an aggregate cost of \$392.9 million. In 2017, we repurchased approximately 1.5 million shares of our common stock at an aggregate cost of \$129.7 million.

In April 2017, our Board authorized the repurchase of additional shares of our common stock with a fair market value of up to \$650 million, exclusive of any fees, commissions or other expenses related to such purchases, in addition to the amount outstanding under our previous Board authorization. Board authorizations remain in effect until shares in the amount authorized thereunder have been repurchased. As of December 29, 2018, shares of our common stock in the aggregate amount of \$232.4 million remained authorized for repurchase under this Board authorization.

Net (Tax Withholding) Proceeds Related to Stock-Based Compensation

In 2018, tax withholding for stock-based compensation increased compared to 2017 as a result of higher vesting-date share prices for equity awards vested during the year. In 2017, tax withholding for stock-based compensation, reflected the impact of our adoption of the accounting guidance update related to stock-based payments.

The number of stock options exercised was approximately .03 million, .6 million, and 1.4 million in 2018, 2017, and 2016, 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

Property, plant and equipment, net, increased by approximately \$40 million to \$1.1 billion at year-end 2018, which primarily reflected purchases of property, plant and equipment and the impact of foreign currency translation, partially offset by depreciation expense.

Goodwill decreased by approximately \$43 million to \$941.8 million at year-end 2018 due to purchase price adjustments related to the acquisition of Yongle Tape and the impact of foreign currency translation.

Other intangibles resulting from business acquisitions, net, decreased by approximately \$22 million to \$144 million at year-end 2018, which primarily reflected amortization expense.

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

Long-term retirement benefits and other liabilities decreased by approximately \$295 million to \$334.7 million, primarily reflecting our pension plan contribution and the reclassification of the remaining obligations to other current liabilities as a result of the termination of the ADPP, a reduction in contingent consideration liabilities, and lower net obligation for our international pension plans as a result of higher returns on plan assets and discount rates.

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Shareholders' Equity Accounts

The balance of our shareholders' equity decreased by approximately \$91 million to \$955 million at year-end 2018, which reflected share repurchases, dividend payments and foreign currency translation, partially offset by current year net income, the net decrease in "accumulated other comprehensive loss," and the use of treasury shares to settle the exercise of stock options and vesting of stock-based awards, as well as to fund contributions to our U.S. defined contribution plan.

Refer to Note 6, "Pension and Other Postretirement Benefits," and Note 11, "Supplemental Equity and Comprehensive Income Information," to the Consolidated Financial Statements for more information.

Impact of Foreign Currency Translation

(In millions)	2018	2017
Change in net sales	\$ 86	\$ 29

In 2018, international operations generated approximately 77% of our net sales. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The favorable impact of foreign currency translation on net sales in 2018 compared to 2017 was primarily related to euro-denominated sales and sales in China, partially offset by the unfavorable impact of foreign currency translation on sales in Brazil and Turkey.

On July 1, 2018, we began accounting for our operations in Argentina as highly inflationary, as the country's three-year cumulative inflation rate exceeded 100%. As a result, the functional currency of our Argentine subsidiary became the U.S. dollar.

Effect of Foreign Currency Transactions

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

Analysis of Selected Financial Ratios

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

Operational Working Capital Ratio

Operational working capital, as a percentage of annualized current-quarter net sales, is reconciled to working capital below. Our objective is to minimize our investment in operational working capital, as a percentage of annualized current-quarter net sales, to maximize our cash flow and return on investment. Operational working capital, as a percentage of annualized current-quarter net sales in 2018 was comparable to 2017.

(In millions, except percentages)	2018	2017
(A) Working capital	\$ 304.0	\$ 266.1
Reconciling items:		
Cash and cash equivalents	(232.0)	(224.4)
Current refundable income taxes and other current assets	(221.3)	(217.3)
Assets held for sale	(3.6)	(6.3)
Short-term borrowings and current portion of long-term debt and capital leases	194.6	265.4
Current income taxes payable and other current accrued liabilities	768.9	699.2
(B) Operational working capital	\$ 810.6	\$ 782.7
(C) Fourth-quarter net sales, annualized	\$ 7,074.8	\$ 6,941.2
Operational working capital, as a percentage of annualized current-quarter net sales (B) ÷ (C)	11.5%	11.3%

Accounts Receivable Ratio

The average number of days sales outstanding was 62 days in 2018 compared to 63 days in 2017, calculated using the four-quarter average accounts receivable balance divided by the average daily sales in 2018 and 2017, respectively. The decrease in the average number of days sales outstanding primarily reflected the impact of foreign currency translation.

Inventory Ratio

Average inventory turnover was 7.8 in 2018 compared to 7.9 in 2017, calculated using the annual cost of sales in 2018 and 2017, respectively, and divided by the four-quarter average inventory balance. The decrease in the average inventory turnover primarily reflected the timing of inventory purchases.

Accounts Payable Ratio

The average number of days payable outstanding was 73 days in 2018 compared to 72 days in 2017, calculated using the four-quarter average accounts payable balance divided by the average daily cost of products sold in 2018 and 2017, respectively. The increase in average number of days payable outstanding primarily reflected the timing of vendor payments, partially offset by the impact of the 2017 Acquisitions and foreign currency translation.

Financial Covenants

Our revolving credit facility (the "Revolver") contains financial covenants requiring that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. As of December 29, 2018 and December 30, 2017, we were in compliance with our financial covenants.

Fair Value of Debt

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit rating, and remaining maturities. The fair value of short-term borrowings, which includes commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations. The increase in the fair value of our total debt from \$1.6 billion at December 30, 2017 to \$2 billion at

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December 29, 2018 primarily reflected our issuance of \$500 million of senior notes in 2018. 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," to the Consolidated Financial Statements for more information.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing, including ready access to commercial paper. We plan to use these resources to fund operational needs, including payments related to the ADPP termination and cost reduction actions.

At year-end 2018, we had cash and cash equivalents of \$232 million held in accounts at third-party financial institutions. Our cash balances are held in numerous locations throughout the world. At year-end 2018, the majority of our cash and cash equivalents was held by our foreign subsidiaries.

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

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

No balances were outstanding under the Revolver as of year-end 2018 or 2017. Commitment fees associated with the Revolver in 2018, 2017, and 2016 were \$1.2 million, \$1.1 million, and \$1.1 million, respectively.

In addition to the Revolver, we have significant short-term lines of credit available in various countries totaling approximately \$330 million at December 29, 2018. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under our lines of credit were \$45.5 million and \$76.1 million at December 29, 2018 and December 30, 2017, respectively, with a weighted-average interest rate of 7% and 6.2%, 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 29, 2018, no balance was outstanding under this program.

We had \$131 million and \$183.8 million of U.S. commercial paper borrowings outstanding at year-end 2018 and 2017, respectively, with a weighted-average interest rate of 2.75% and 1.79%, respectively.

We had medium-term notes of \$45 million outstanding at year-end 2018 and 2017.

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 \$385 million to \$1.97 billion at year-end 2018 compared to \$1.58 billion at year-end 2017, primarily reflecting our issuance of \$500 million of senior notes, a portion of which we used to repay commercial paper borrowings.

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

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations at End of Year 2018

(In millions)	Payments Due by Period						
	Total	2019	2020	2021	2022	2023	Thereafter
Short-term borrowings	\$ 176.5	\$ 176.5	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	1,782.3	14.4	265.0	—	—	250.0	1,252.9
Payments related to long-term capital leases	30.5	5.9	5.4	5.2	4.8	4.7	4.5
Interest on long-term debt	482.2	65.7	55.6	51.1	51.1	45.2	213.5
Operating leases	184.8	47.7	38.9	29.4	18.8	12.9	37.1
Total contractual obligations	\$ 2,656.3	\$ 310.2	\$ 364.9	\$ 85.7	\$ 74.7	\$ 312.8	\$ 1,508.0

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

The table above does not include:

- Purchase obligations or open purchase orders at year-end – It is impracticable for us to obtain this information or provide a reasonable estimate thereof due to the decentralized nature of our purchasing systems. In addition, purchase orders are generally entered into at fair value and cancelable without penalty.
- Cash funding requirements for pension benefits payable to certain eligible current and future retirees under our funded plans – Benefits under our funded pension plans are paid through trusts or trust equivalents. 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 trusts or trust equivalents. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for information regarding expected contributions to these plans and plan terminations and settlements.
- Pension and postretirement benefit payments – As of December 29, 2018, we had unfunded benefit obligations from certain defined benefit plans. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information, including expected benefit payments over the next 10 years.
- Deferred compensation plan benefit payments – It is impracticable for us to obtain a reasonable estimate for 2019 and beyond due to the volatility of the payment amounts and certain events that could trigger immediate payment of benefits to participants. In addition, participant account balances are marked-to-market monthly and benefit payments are adjusted annually. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.
- Cash awards to employees under incentive compensation plans – The amounts to be paid to employees under these awards are based on our stock price and, if applicable, achievement of certain performance objectives as of the end of their respective performance periods, and, therefore, we cannot reasonably estimate the amounts to be paid on the vesting dates. Refer to Note 12, "Long-term Incentive Compensation," to the Consolidated Financial Statements for more information.
- Unfunded termination indemnity benefits to certain employees outside of the U.S. – These benefits are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to these arrangements.
- Unrecognized tax benefits of \$80.8 million – The resolution of the balance, including the timing of payments, is contingent upon various unknown factors and cannot be reasonably estimated. Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for more information.
- Payments related to cost reduction actions – The payments for severance and other contract terminations are subject to applicable agreements, local laws and practices. Refer to Note 13, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

CRITICAL ACCOUNTING ESTIMATES

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

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

Goodwill

Our reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. In performing the required impairment tests, we have the option to first assess qualitative factors before performing a quantitative assessment for goodwill impairment. If the qualitative assessment indicates that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value, a quantitative assessment is performed. A quantitative assessment primarily consists of a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. For certain reporting units the goodwill of which is acquired in the current period, we perform a qualitative assessment to determine whether a quantitative assessment is necessary. We perform our annual impairment test of goodwill during the fourth quarter.

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

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

In consultation with outside specialists, we estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about the reporting units, including sales, operating margins, growth rates, and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the

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long-term business plan period. We base our fair value estimates on projected financial information and assumptions that we believe are reasonable. However, actual future results may materially differ from these estimates and projections. The valuation methodology used to estimate the fair value of reporting units requires inputs and assumptions that reflect current market conditions, as well as the impact of planned business and operational strategies that require management judgment. The estimated fair value could increase or decrease depending on changes in the inputs and assumptions.

In our annual impairment analysis in the fourth quarter of 2018, the goodwill of reporting units in our Label and Graphic Materials and Retail Branding and Information Solutions reportable segments were tested utilizing a qualitative assessment. Based on this assessment we determined that the fair values of the reporting units in both reportable segments were greater than their carrying values. Therefore, the goodwill in these reporting units was not impaired.

Additionally, in our annual impairment analysis, the goodwill of reporting units in our Industrial and Healthcare Materials reportable segment were tested utilizing a quantitative assessment. This assessment indicated that the fair values of these reporting units exceeded their respective carrying amounts, including goodwill. Except for our Yongle Tape reporting unit acquired in 2017, the fair values of these reporting units exceeded their carrying amounts by 100% or more. Yongle Tape's fair value exceeded its carrying value by 22%, assuming a discount rate of 12% and a perpetual growth rate of 3.5%. As of December 29, 2018, the carrying value of Yongle Tape's goodwill was \$81.7 million.

Pension and Postretirement Benefits

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

Discount Rate

In consultation with our actuaries, we annually review and determine the discount rates to be used in valuing our postretirement obligations. With the exception of the ADPP, 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 29, 2018, the discount rate for the ADPP after reflecting plan termination was set based on estimated insurer pricing. As of December 29, 2018, a .25% increase in the discount rate in the U.S. would have decreased our year-end projected benefit obligation by approximately \$23 million and increased expected periodic benefit cost for the coming year by approximately \$.04 million. Conversely, a .25% decrease in the discount rate in the U.S. would have increased our year-end projected benefit obligation by approximately \$24 million and decreased expected periodic benefit cost for the coming year by approximately \$.1 million. As of December 29, 2018, a .25% increase in the discount rate associated with our international plans would have decreased our year-end projected benefit obligation by \$34 million and increased expected periodic benefit cost for the coming year by approximately \$2 million. Conversely, a .25% decrease in the discount rate associated with our international plans would have increased our year-end projected benefit obligation by approximately \$37 million and decreased expected periodic benefit cost for the coming year by approximately \$2 million.

We use the full yield curve approach to estimate the service and interest cost components of net periodic benefit cost for our pension and other postretirement benefit plans. Under this approach, we applied multiple discount rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. We believe this approach provides a more precise measurement of service and interest cost by aligning the timing of the plans' liability cash flows to the corresponding rates on the yield curve.

Long-term Return on Assets

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between returns in our asset classes, and our mix of active and passive investments. Additionally, current market conditions, including interest rates, are evaluated and market data is reviewed for reasonableness and appropriateness. An increase or decrease of .25% on the long-term return on assets in the U.S. would have decreased or increased, respectively, our periodic benefit cost for the coming year by approximately \$.5 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 periodic benefit cost for the coming year by approximately \$2 million.

Taxes Based on Income

Deferred income tax assets represent amounts available to reduce income taxes payable in future years. These assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating losses and tax credit carryforwards. These amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. Our assessment of these sources of income relies heavily on estimates. Our forecasted earnings by jurisdiction are determined by the manner in which we operate our business and any changes to our operations may affect our effective tax rate. For example, our future income tax rate could be adversely affected by earnings being lower than anticipated in jurisdictions in which we have significant deferred tax assets that are dependent on such earnings to be realized. We use historical experience along with operating forecasts to evaluate expected future taxable income. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a

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

valuation allowance is established in the period we make such a determination. A tax planning strategy is defined as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets."

Our income tax rate is significantly affected by the different tax rates applicable in the jurisdictions in which we do business. For example, the TCJA had a significant impact on our effective tax rate for the fourth quarter of 2017.

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

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

Our income tax provision for fiscal year 2018 included measurement period adjustments to our 2017 provisional amount related to the TCJA in accordance with guidance provided under SAB 118. We completed our analysis based on our interpretation of available U.S. Treasury regulations and administrative interpretations. However, the provisions of the TCJA are subject to further amendments, interpretations, regulations, and court cases, any of which could increase or decrease one or more impacts of the legislation.

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

Long-Term Incentive Compensation

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

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

Valuation of Stock-Based Awards

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

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

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

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

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

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

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

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

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

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

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

Valuation of Cash-Based Awards

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

RECENT ACCOUNTING REQUIREMENTS

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

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management

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

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

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

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

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

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

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

Foreign Exchange Value-At-Risk

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

In both 2018 and 2017, 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 \$0.5 million at year-end 2018 and \$1.1 million at year-end 2017.

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

Interest Rate Sensitivity

In 2018, an assumed 30 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have increased interest expense by approximately \$1.3 million.

In 2017, an assumed 30 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have increased interest expense by approximately \$0.7 million.

Consolidated Balance Sheets

(Dollars in millions, except per share amount)	December 29, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 232.0	\$ 224.4
Trade accounts receivable, less allowances of \$21.1 and \$36.2 at year-end 2018 and 2017, respectively	1,189.7	1,180.3
Inventories, net	651.4	609.6
Refundable income taxes	27.0	28.9
Assets held for sale	3.6	6.3
Other current assets	194.3	188.4
Total current assets	2,298.0	2,237.9
Property, plant and equipment, net	1,137.4	1,097.9
Goodwill	941.8	985.1
Other intangibles resulting from business acquisitions, net	144.0	166.3
Non-current deferred income taxes	205.3	196.3
Other assets	451.0	453.4
	\$ 5,177.5	\$ 5,136.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and capital leases	\$ 194.6	\$ 265.4
Accounts payable	1,030.5	1,007.2
Accrued payroll and employee benefits	217.9	248.5
Accrued trade rebates	129.8	112.3
Income taxes payable	58.1	49.2
Other accrued liabilities	363.1	289.2
Total current liabilities	1,994.0	1,971.8
Long-term debt and capital leases	1,771.6	1,316.3
Long-term retirement benefits and other liabilities	334.7	629.3
Non-current deferred and payable income taxes	122.1	173.3
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value per share, authorized – 400,000,000 shares at year-end 2018 and 2017; issued – 124,126,624 shares at year-end 2018 and 2017; outstanding – 84,723,655 shares and 88,011,541 shares at year-end 2018 and 2017, respectively	124.1	124.1
Capital in excess of par value	872.0	862.6
Retained earnings	2,864.9	2,596.7
Treasury stock at cost, 39,402,969 shares and 36,115,083 shares at year-end 2018 and 2017, respectively	(2,223.9)	(1,856.7)
Accumulated other comprehensive loss	(682.0)	(680.5)
Total shareholders' equity	955.1	1,046.2
	\$ 5,177.5	\$ 5,136.9

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

(In millions, except per share amounts)	2018	2017	2016
Net sales	\$ 7,159.0	\$ 6,613.8	\$ 6,086.5
Cost of products sold	5,243.5	4,801.6	4,386.8
Gross profit	1,915.5	1,812.2	1,699.7
Marketing, general and administrative expense	1,127.5	1,105.2	1,085.7
Other expense, net	69.9	36.5	23.8
Interest expense	58.5	63.0	59.9
Other non-operating expense	104.8	18.0	53.2
Income before taxes	554.8	589.5	477.1
Provision for income taxes	85.4	307.7	156.4
Equity method investment net losses	(2.0)	—	—
Net income	\$ 467.4	\$ 281.8	\$ 320.7
Per share amounts:			
Net income per common share	\$ 5.35	\$ 3.19	\$ 3.60
Net income per common share, assuming dilution	\$ 5.28	\$ 3.13	\$ 3.54
Weighted average number of shares outstanding:			
Common shares	87.3	88.3	89.1
Common shares, assuming dilution	88.6	90.1	90.7

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(In millions)	2018	2017	2016
Net income	\$ 467.4	\$ 281.8	\$ 320.7
Other comprehensive (loss) income, net of tax:			
Foreign currency translation:			
Translation (loss) gain	(91.2)	56.4	(53.7)
Pension and other postretirement benefits:			
Net loss recognized from actuarial gain/loss and prior service cost/credit	(4.1)	(3.0)	(62.9)
Reclassifications to net income	93.8	19.3	44.2
Cash flow hedges:			
Gains (losses) recognized on cash flow hedges	1.1	(2.2)	.7
Reclassifications to net income	(1.1)	.9	2.8
Other comprehensive (loss) income, net of tax	(1.5)	71.4	(68.9)
Total comprehensive income, net of tax	\$ 465.9	\$ 353.2	\$ 251.8

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(Dollars in millions, except per share amounts)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
Balance as of January 2, 2016	\$ 124.1	\$ 834.0	\$ 2,277.6	\$ (1,587.0)	\$ (683.0)	\$ 965.7
Net income	—	—	320.7	—	—	320.7
Other comprehensive loss, net of tax	—	—	—	—	(68.9)	(68.9)
Repurchase of 3,781,528 shares for treasury	—	—	—	(262.4)	—	(262.4)
Issuance of 1,842,165 shares under stock-based compensation plans, including tax of \$12.3	—	18.0	7.7	67.2	—	92.9
Contribution of 280,526 shares to 401(k) Plan	—	—	9.8	10.2	—	20.0
Dividends: \$1.60 per share	—	—	(142.5)	—	—	(142.5)
Balance as of December 31, 2016	\$ 124.1	\$ 852.0	\$ 2,473.3	\$ (1,772.0)	\$ (751.9)	\$ 925.5
Net income	—	—	281.8	—	—	281.8
Other comprehensive income, net of tax	—	—	—	—	71.4	71.4
Repurchase of 1,488,890 shares for treasury	—	—	—	(129.7)	—	(129.7)
Issuance of 960,656 shares under stock-based compensation plans	—	10.6	(14.4)	36.2	—	32.4
Contribution of 230,915 shares to 401(k) Plan	—	—	11.5	8.8	—	20.3
Dividends: \$1.76 per share	—	—	(155.5)	—	—	(155.5)
Balance as of December 30, 2017	\$ 124.1	\$ 862.6	\$ 2,596.7	\$ (1,856.7)	\$ (680.5)	\$ 1,046.2
Tax accounting for intra-entity asset transfers ⁽¹⁾	—	—	(13.8)	—	—	(13.8)
Balance as of December 31, 2017	\$ 124.1	\$ 862.6	\$ 2,582.9	\$ (1,856.7)	\$ (680.5)	\$ 1,032.4
Net income	—	—	467.4	—	—	467.4
Other comprehensive loss, net of tax	—	—	—	—	(1.5)	(1.5)
Repurchase of 3,951,215 shares for treasury	—	—	—	(392.9)	—	(392.9)
Issuance of 458,506 shares under stock-based compensation plans	—	9.4	(24.1)	17.6	—	2.9
Contribution of 204,823 shares to 401(k) Plan	—	—	13.7	8.1	—	21.8
Dividends: \$2.01 per share	—	—	(175.0)	—	—	(175.0)
Balance as of December 29, 2018	\$ 124.1	\$ 872.0	\$ 2,864.9	\$ (2,223.9)	\$ (682.0)	\$ 955.1

⁽¹⁾ In the first quarter of 2018, we adopted an accounting guidance update that requires recognition of the income tax effects of intra-entity sales and transfers of assets other than inventory in the period in which they occur. Refer to Note 1, "Summary of Significant Accounting Policies," for more information.

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In millions)	2018	2017	2016
Operating Activities			
Net income	\$ 467.4	\$ 281.8	\$ 320.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	141.5	126.6	117.5
Amortization	39.5	52.1	62.6
Provision for doubtful accounts and sales returns	45.6	37.6	54.4
Net losses (gains) from impairments, sale of assets and investment settlements	6.8	(.4)	(.6)
Stock-based compensation	34.3	30.2	27.2
Losses from settlements of pension obligations	93.7	-	41.4
Deferred income taxes and other non-cash taxes	(32.7)	151.6	52.3
Other non-cash expense and loss	53.6	53.9	46.2
Changes in assets and liabilities and other adjustments:			
Trade accounts receivable	(62.5)	(141.2)	(88.2)
Inventories	(70.5)	(14.9)	(19.6)
Other current assets	(5.6)	(7.9)	(7.6)
Accounts payable	43.6	83.4	31.6
Accrued liabilities	(29.8)	(.6)	32.4
Taxes on income	(35.5)	29.6	(14.1)
Other assets	(6.0)	(13.0)	(2.3)
Long-term retirement benefits and other liabilities	(225.5)	(23.1)	(71.8)
Net cash provided by operating activities	457.9	645.7	582.1
Investing Activities			
Purchases of property, plant and equipment	(226.7)	(190.5)	(176.9)
Purchases of software and other deferred charges	(29.9)	(35.6)	(29.7)
Proceeds from sales of property, plant and equipment	9.4	6.0	8.5
Proceeds from insurance and sales (purchases) of investments, net	18.5	(3.9)	3.1
Payments for acquisitions, net of cash acquired, and investments in businesses	(3.8)	(319.3)	(237.2)
Net cash used in investing activities	(232.5)	(543.3)	(432.2)
Financing Activities			
Net (decrease) increase in borrowings (maturities of three months or less)	(77.6)	(89.2)	234.9
Additional long-term borrowings	493.3	542.9	-
Repayments of long-term debt and capital leases	(6.4)	(253.8)	(2.7)
Dividends paid	(175.0)	(155.5)	(142.5)
Share repurchases	(392.9)	(129.7)	(262.4)
Net (tax withholding) proceeds related to stock-based compensation	(32.2)	1.4	66.5
Payments of contingent consideration	(17.3)	-	-
Net cash used in financing activities	(208.1)	(83.9)	(106.2)
Effect of foreign currency translation on cash balances	(9.7)	10.8	(7.4)
Increase in cash and cash equivalents	7.6	29.3	36.3
Cash and cash equivalents, beginning of year	224.4	195.1	158.8
Cash and cash equivalents, end of year	\$ 232.0	\$ 224.4	\$ 195.1

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Principles of Consolidation

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

Reclassifications

Certain amounts in the prior year's Consolidated Financial Statements have been reclassified to conform to the current year presentation.

Fiscal Year

Normally, our fiscal years consist of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2018, 2017, and 2016 fiscal years consisted of 52-week periods ending December 29, 2018, December 30, 2017, and December 31, 2016, respectively.

Accounting Guidance Updates

Revenue Recognition

In the first quarter of 2018, we adopted an accounting guidance update that provides a single comprehensive model on accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. We adopted this guidance using the modified retrospective method, which means that reporting periods beginning in 2018 are presented in accordance with this guidance, while prior period amounts continue to be reported in accordance with the previous guidance. As allowed by this guidance, we began to apply it to contracts with customers that were not completed as of the beginning of 2018. As a result of the adoption of this guidance, our allowance for customer returns, presented as a reduction of trade accounts receivable in prior years, is now presented as a returns liability in "Other accrued liabilities." As of December 29, 2018, the returns liability was \$11.7 million. Our adoption of this guidance did not have a material impact on our financial position, results of operations, or cash flows. The disclosures required by this guidance are included in Note 15, "Segment and Disaggregated Revenue Information," and Note 16, "Supplemental Financial Information."

Presentation of Net Periodic Pension and Postretirement Benefit Costs

In the first quarter of 2018, we adopted an accounting guidance update that requires employers with defined benefit plans to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Employers are required to present the other components of net periodic benefit cost, including gains or losses from settlements or terminations, separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. Components other than the service cost component are no longer eligible for capitalization in assets. Employers are required to apply the portion of this guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively, while the portion of this guidance that limits the capitalization of net periodic benefit cost in assets to the service cost component must be applied prospectively.

Prior year results have been reclassified as required by this guidance. The effects of our adoption of this guidance on our Consolidated Statements of Income for the prior years were as follows:

(In millions)	2017			2016		
	As Previously Reported	Reclassification	As Reclassified	As Previously Reported	Reclassification	As Reclassified
Marketing, general and administrative expense	\$ 1,123.2	\$ (18.0)	\$ 1,105.2	\$ 1,097.5	\$ (11.8)	\$ 1,085.7
Other expense, net	36.5	—	36.5	65.2	(41.4)	23.8
Other non-operating expense	—	18.0	18.0	—	53.2	53.2

Classification of Certain Cash Payments

In the first quarter of 2018, we adopted an accounting guidance update that reduces the diversity in the presentation and classification of certain cash receipts and cash payments in statements of cash flows.

Notes to Consolidated Financial Statements

Prior year results have been reclassified as required by this guidance. The effects of our adoption of this guidance, which primarily relate to the classification of corporate-owned life insurance cash flows, on our Consolidated Statements of Cash Flows for the prior years were as follows:

(In millions)	2017			2016		
	As Previously Reported	Reclassification	As Reclassified	As Previously Reported	Reclassification	As Reclassified
Net cash provided by operating activities	\$ 650.1	\$ (4.4)	\$ 645.7	\$ 585.3	\$ (3.2)	\$ 582.1
Net cash used in investing activities	(547.7)	4.4	(543.3)	(435.4)	3.2	(432.2)

Intra-Entity Transfers of Assets Other Than Inventory

In the first quarter of 2018, we adopted an accounting guidance update that requires recognition of the income tax effects of intra-entity sales and transfers of assets other than inventory in the period in which they occur. Upon adoption, we derecognized tax-related deferred charges and recognized deferred tax assets related to certain intra-entity asset transfers as a \$13.8 million net reduction to retained earnings.

Implementation Costs Incurred in a Cloud Computing Arrangement

In the third quarter of 2018, we adopted an accounting guidance update that requires companies to capitalize implementation costs incurred in a hosting arrangement that is a service contract. We adopted this guidance early and on a prospective basis. Our adoption of this guidance did not have a material impact on our financial position, results of operations, or cash flows.

Defined Benefit Plan Disclosures

In the fourth quarter of 2018, we adopted an accounting update to improve the effectiveness of disclosures by removing and adding certain disclosures related to defined benefit plans. Refer to Note 6, "Pension and Other Postretirement Benefits," for more information.

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.

Trade 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. 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 2018 or 2017. However, during 2018, 2017, and 2016, our ten largest customers by net sales in the aggregate represented approximately 15%, 15%, and 14% of our net sales, respectively. As of December 29, 2018 and December 30, 2017, our ten largest customers by trade accounts receivable in the aggregate represented approximately 14% of our trade accounts receivable. These customers were concentrated primarily in our Label and Graphic Materials reportable segment. We generally do not require our customers to provide collateral.

Inventories

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

Property, Plant and Equipment

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

Software

We capitalize internal and external software costs incurred during the application development stage of software development, including costs incurred for design, coding, installation to hardware, testing, and upgrades and enhancements that provide the software or hardware with additional functionalities and capabilities. Internal and external software costs during the preliminary project stage are expensed, as are those costs during the post-implementation and/or operation stage, including internal and external training costs and maintenance costs. In addition, we capitalize implementation costs incurred under a hosting arrangement that is a service contract. 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.

Notes to Consolidated Financial Statements

Impairment of Long-lived Assets

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

Goodwill and Other Intangibles Resulting from Business Acquisitions

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

In performing the required impairment tests, we have the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative assessment for goodwill impairment. If the qualitative assessment indicates that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value, a quantitative assessment is performed. A quantitative assessment primarily consists of 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 compare the fair value of each reporting unit to its carrying amount, and, to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill of that reporting unit.

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

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

We amortize finite-lived intangible assets, consisting of customer relationships, patents and other acquired technology, trade names and trademarks, and other intangibles, on a straight-line basis over the estimated useful life of the assets.

See Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions," for more information.

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.

On July 1, 2018, we began accounting for our operations in Argentina as highly inflationary, as the country's three-year cumulative inflation rate exceeded 100%. As a result, the functional currency of our Argentine subsidiary became the U.S. dollar.

Financial Instruments

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

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

We assess, both at the inception of the hedge and on an ongoing basis, whether our 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

Notes to Consolidated Financial Statements

affects earnings. In the event that the anticipated transaction is no longer likely to occur, we recognize the change in fair value of the instrument in current period earnings. Changes in fair value hedges are recognized in current period earnings. Changes in the fair value of underlying hedged items (such as recognized assets or liabilities) are also recognized in current period earnings and offset the changes in the fair value of the derivative.

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

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

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

Fair Value Measurements

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

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

Revenue Recognition

Sales are recognized when or as we satisfy a performance obligation by transferring control of a product or service to a customer, in an amount that reflects the consideration to which we expect to be entitled in exchange for the product or service. We consider a number of factors in determining when we have transferred control to a customer, including the following: (i) our present right to payment; (ii) the customer's legal title to the asset; (iii) physical possession of the asset; (iv) the customer's significant risks and rewards of ownership of the asset; and (v) the customer's acceptance of the asset.

Generally, payment terms with our customers are consistent with those used in our industries and the regions in which we operate.

Sales returns are accepted in certain limited circumstances. We record an estimate for returns liabilities and a corresponding reduction to sales, in the amount we expect to repay or credit customers, which we base on historical returns and outstanding customer claims. Changes in estimates are updated each reporting period.

Sales rebates, discounts, and other customer concessions are common in the industries and regions in which we operate and are accounted for as a reduction to sales based on estimates at the time at which products are sold. These estimates are based on our historical experience, as well as current information such as sales forecasts. We review our estimates regularly and, as additional information becomes available, we adjust our sales and the respective accruals, if necessary.

Sales tax, value-added tax, and other taxes we collect from customers are excluded from sales. Shipping and handling activities after control of a product is transferred to a customer are accounted for as fulfillment costs and not as separate performance obligations. As a practical expedient, we have elected not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of less than one year. We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded in "Marketing, general and administrative expense" in the Consolidated Statements of Income.

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

We estimate expected forfeitures in determining the compensation cost to be recognized each period, rather than accounting for forfeitures as they occur.

No long-term incentive compensation expense was capitalized in 2018, 2017, or 2016.

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

Valuation of Stock-Based Awards

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

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

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

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

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

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

Notes to Consolidated Financial Statements

Valuation of Cash-Based Awards

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

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

Taxes Based on Income

Our provision for income taxes is determined using the asset and liability approach in accordance with GAAP. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases 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 Note 14, "Taxes Based on Income," for more information.

Recent Accounting Requirements

In November 2018, the Financial Accounting Standards Board ("FASB") issued guidance that clarifies the interaction between guidance regarding collaborative arrangements and revenue from contracts with customers. This guidance is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. We are currently assessing the impact of this guidance on our financial position, results of operations, cash flows, and disclosures.

In February 2018, the FASB issued guidance that provides entities with the option to reclassify certain tax effects of the TCJA in accumulated other comprehensive income to retained earnings. This guidance can be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal income tax rate pursuant to the TCJA is recognized. The guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted for reporting periods for which financial statements have yet to be issued or made available for issuance. We do not expect to reclassify the tax benefits included in accumulated other comprehensive income to retained earnings upon adoption. We also do not anticipate that our adoption will have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In August 2017, the FASB issued amended guidance to improve the financial reporting of hedging relationships to better reflect the economic results of an entity's risk management activities in its financial statements, as well as to simplify the application of hedge accounting. Adoption of this amended guidance is required prospectively. This guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We do not anticipate that our adoption will have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In June 2016, the FASB issued revised guidance on the measurement of credit losses on financial instruments. Credit losses on loans, trade and other receivables, held-to-maturity debt securities, and other instruments will reflect the current estimate of the expected credit losses. This guidance is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. We do not anticipate that the adoption of this guidance will have a significant impact on our financial position, results of operations, cash flows, and disclosures.

In March 2016, and in subsequent updates, the FASB issued guidance on accounting for leases that requires lessees to recognize the rights and obligations created by leases on their balance sheets. This guidance also requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and is effective for interim and annual periods beginning after December 15, 2018. As allowed under this guidance, we have elected to apply the guidance under a modified retrospective approach, under which this guidance applies to all leases that exist at or commence after the date of initial application, with the option to use certain practical expedients. We plan to elect the transition practical expedients allowed under this guidance. As discussed in Note 7, "Commitments," we have operating leases with remaining minimum lease payments totaling approximately \$185 million, and, upon transition, we will record right of use assets and lease liabilities related to these leases. We established a cross-functional team to manage the assessment, design, and implementation of this new guidance. We are continuing to implement processes and information technology tools and to evaluate our accounting policies and controls to address this guidance and are in the process of coordinating our transition to the revised guidance. We anticipate the adoption of this guidance will have a significant impact on our financial position and disclosures and are in the process of assessing its impact on our results of operations and cash flows.

NOTE 2. ACQUISITIONS

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

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

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

The aggregate purchase consideration for these acquisitions (the "2017 Acquisitions") was approximately \$340 million. The 2017 Acquisitions were funded through cash and existing credit facilities.

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

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

Notes to Consolidated Financial Statements

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Goodwill

Results from our annual goodwill impairment test in the fourth quarter of 2018 indicated that no impairment occurred during 2018. The assumptions used in the assessment of these assets were primarily based on Level 3 inputs.

Changes in the net carrying amount of goodwill for 2018 and 2017 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 December 31, 2016	\$ 373.3	\$ 353.9	\$ 66.4	\$ 793.6
2017 Acquisitions ⁽¹⁾	17.5	—	125.5	143.0
Acquisition adjustments ⁽²⁾	4.8	—	.7	5.5
Translation adjustments	33.9	1.5	7.6	43.0
Goodwill as of December 30, 2017	429.5	355.4	200.2	985.1
Acquisition adjustments ⁽³⁾	—	—	(17.7)	(17.7)
Translation adjustments	(14.0)	(5.7)	(5.9)	(25.6)
Goodwill as of December 29, 2018	\$ 415.5	\$ 349.7	\$ 176.6	\$ 941.8

- (1) Goodwill acquired in 2017 related to the acquisitions of Hanita, which is included in our Label and Graphic Materials reportable segment, and Finesse Medical and Yongle Tape, which are included in our Industrial and Healthcare Materials reportable segment.
- (2) Goodwill purchase price allocation adjustments related to the acquisition of Mactac.
- (3) Goodwill purchase price allocation adjustments and measurement period adjustments for contingent consideration liabilities related to the acquisition of Yongle Tape.

The carrying amounts of goodwill at December 29, 2018 and December 30, 2017 were net of accumulated impairment losses of \$820 million recognized in fiscal year 2009 by our Retail Branding and Information Solutions ("RBIS") reportable segment.

Indefinite-Lived Intangible Assets

Results from our annual indefinite-lived intangible assets impairment test in the fourth quarter indicated that no impairment occurred in 2018.

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trade names and trademarks, was \$21.1 million and \$21.2 million at December 29, 2018 and December 30, 2017, respectively. In connection with the Mactac acquisition, we acquired approximately \$13 million of indefinite-lived intangible assets in 2016, which consist of trade names. These intangible assets were not subject to amortization as they were classified as indefinite-lived assets.

Finite-Lived Intangible Assets

In connection with the 2017 Acquisitions, we acquired approximately \$107 million of identifiable intangible assets, which consisted of customer relationships, trade names and trademarks, and patents and other acquired technology. We utilized the income approach to estimate the fair values of the identifiable intangibles associated with the 2017 Acquisitions, using primarily Level 3 inputs. The discount rates we used to value these assets were between 11% and 16.5%.

The table below summarizes the amounts and weighted useful lives of these intangible assets at acquisition.

	Amount (in millions)	Weighted-average amortization period (in years)
Customer relationships	\$ 70.9	16
Patents and other acquired technology	31.9	9
Trade names and trademarks	4.2	6

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

The table below summarizes the amounts and weighted useful lives of these intangible assets at acquisition.

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

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

The following table sets forth our finite-lived intangible assets resulting from business acquisitions at December 29, 2018 and December 30, 2017, which continue to be amortized:

(In millions)	2018			2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 322.2	\$ 231.8	\$ 90.4	\$ 329.2	\$ 226.4	\$ 102.8
Patents and other acquired technology	84.0	56.8	27.2	86.9	51.3	35.6
Trade names and trademarks	27.0	21.7	5.3	27.7	21.0	6.7
Other intangibles	11.9	11.9	—	12.0	12.0	—
Total	\$ 445.1	\$ 322.2	\$ 122.9	\$ 455.8	\$ 310.7	\$ 145.1

Amortization expense for finite-lived intangible assets resulting from business acquisitions was \$15.2 million for 2018, \$18.6 million for 2017, and \$19.9 million for 2016.

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
2019	\$ 13.4
2020	12.3
2021	12.1
2022	11.0
2023	10.0

NOTE 4. DEBT AND CAPITAL LEASES

Short-Term Borrowings

We had \$131 million and \$183.8 million of borrowings from U.S. commercial paper issuances outstanding at December 29, 2018 and December 30, 2017, respectively, with a weighted-average interest rate of 2.75% and 1.79%, 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 29, 2018, there was no balance outstanding under this program.

Short-Term Credit Facilities

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

No balance was outstanding under the Revolver as of December 29, 2018 or December 30, 2017. Commitment fees associated with the Revolver in 2018, 2017, and 2016 were \$1.2 million, \$1.1 million, and \$1.1 million, respectively.

In addition to the Revolver, we have significant short-term lines of credit available in various countries totaling approximately \$330 million at December 29, 2018. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under our lines of credit were \$45.5 million and \$76.1 million at December 29, 2018 and December 30, 2017, respectively, with a weighted-average interest rate of 7% and 6.2%, respectively.

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

Long-Term Borrowings and Capital Leases

In December 2018, we issued \$500 million of senior notes, due December 2028. The senior notes bear an interest rate of 4.875% per year, payable semiannually in arrears. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, were \$493.3 million, which we used to repay commercial paper borrowings. Prior to the issuance of these senior notes, we used commercial paper borrowings in the third quarter to fund our \$200 million contribution to the Avery Dennison Pension Plan ("ADPP") in connection with its termination. Refer to Note 6, "Pension and Other Postretirement Benefits."

In March 2017, we issued €500 million of senior notes, due March 2025. The senior notes bear an interest rate of 1.25% per year, payable annually in arrears. The net proceeds from the offering, after deducting underwriting discounts and estimated offering expenses, were \$526.6 million (€495.5 million), a portion of which we used to repay commercial paper borrowings used to finance a portion of our purchase price for the acquisition of Mactac, and the remainder of which we used for general corporate purposes and the 2017 Acquisitions. We designated a portion of these senior notes as a net investment hedge of our investment in foreign operations. Refer to Note 5, "Financial Instruments," for more information.

Notes to Consolidated Financial Statements

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

(In millions)	2018	2017
Long-term debt and capital leases		
Medium-term notes:		
Series 1995 due 2020 through 2025	\$ 45.0	\$ 44.9
Long-term notes:		
Senior notes due 2020 at 5.4%	249.7	249.5
Senior notes due 2023 at 3.4%	248.9	248.7
Senior notes due 2025 at 1.25% ⁽¹⁾	569.0	588.4
Senior notes due 2028 at 4.875%	493.3	–
Senior notes due 2033 at 6.0%	148.8	148.7
Capital leases	20.7	25.0
Other borrowings ⁽²⁾	14.4	16.6
Less amount classified as current	(18.2)	(5.5)
Total long-term debt and capital leases⁽³⁾	\$ 1,771.6	\$ 1,316.3

(1) These senior notes are euro-denominated

(2) Other borrowings consisted of long-term bank borrowings by foreign subsidiaries.

(3) Includes unamortized debt issuance cost and debt discount of \$6.8 million and \$6.3 million as of year-end 2018, respectively, and \$7.1 million and \$7.7 million as of year-end 2017, respectively.

At year-end 2018 and 2017, our medium-term notes had maturities from 2020 through 2025 and accrued interest at a weighted-average fixed rate of 7.5%.

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

Year	(In millions)
2019 (classified as current)	\$ 19.0
2020	269.0
2021	3.9
2022	3.5
2023	253.3
2024 and thereafter	1,257.1

The maturities of capital lease payments in the table above include \$3 million of imputed interest, \$1 million of which is expected to be paid in 2019.

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 29, 2018 and December 30, 2017, we were in compliance with our financial covenants.

Our total interest costs in 2018, 2017, and 2016 were \$63.8 million, \$67.9 million, and \$63.5 million, respectively, of which \$5.3 million, \$4.9 million, and \$3.6 million, respectively, was capitalized as part of the cost of assets.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities or euro government bond securities, as applicable, on notes with similar rates, credit ratings, and remaining maturities. The fair value of short-term borrowings, which includes commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations. The fair value of our total debt was \$2 billion at December 29, 2018 and \$1.6 billion at December 30, 2017. 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 29, 2018, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was \$3.2 million and \$1.33 billion, respectively.

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

The following table shows the fair value and balance sheet locations of cash flow hedges as of December 29, 2018 and December 30, 2017:

(In millions)	Asset		Liability			
	Balance Sheet Location	2018	2017	Balance Sheet Location	2018	2017
Foreign exchange contracts	Other current assets	\$.5	\$.4	Other accrued liabilities	\$.8	\$.6
Commodity contracts	Other current assets	.1	–			
		\$.6	\$.4		\$.8	\$.6

The following table shows the fair value and balance sheet locations of other derivatives as of December 29, 2018 and December 30, 2017:

(In millions)	Asset		Liability			
	Balance Sheet Location	2018	2017	Balance Sheet Location	2018	2017
Foreign exchange contracts	Other current assets	\$ 3.0	\$ 3.5	Other accrued liabilities	\$ 7.9	\$ 5.6

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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)	2018	2017	2016
Foreign exchange contracts	\$ 1.0	\$ (2.2)	\$.2
Commodity contracts	.4	(.6)	.6
	\$ 1.4	\$ (2.8)	\$.8

The amounts recognized in income related to the ineffective portion of, and the amount excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments were immaterial in 2018, 2017, and 2016.

As of December 29, 2018, we expected a net loss of approximately \$.4 million to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months.

Other Derivatives

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

(In millions)	Location of Net Gains (Losses) in Income	2018	2017	2016
Foreign exchange contracts	Cost of products sold	\$ 4.5	\$ (1.2)	\$ 2.8
Foreign exchange contracts	Marketing, general and administrative expense	(27.0)	(42.9)	4.1
		\$ (22.5)	\$ (44.1)	\$ 6.9

Net Investment Hedge

In March 2017, we designated €500 million of our 1.25% senior notes due 2025 as a net investment hedge of our investment in foreign operations. In January 2018, we reduced the amount we designate as a net investment hedge to €255 million. The net assets from the investment in foreign operations were greater than the senior notes, and as such, the net investment hedge was effective.

Refer to Note 4, "Debt and Capital Leases," for more information.

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

(In millions)	2018	2017	2016
Foreign currency denominated debt	\$ 1.3	\$ (63.7)	\$ N/A

We recorded no ineffectiveness from our net investment hedge in earnings during 2018 or 2017.

NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

Defined Benefit Plans

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

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

In July 2018, our Board of Directors ("Board") approved the termination of the ADPP, a U.S. defined benefit plan, effective as of September 28, 2018. In connection with the termination, we contributed \$200 million to the ADPP in August 2018 using U.S. commercial paper borrowings. During the fourth quarter of 2018, we settled approximately \$152 million of the ADPP liability through lump-sum payments from existing plan assets to eligible participants who elected to receive them and recorded approximately \$85 million of non-cash charges associated with these settlements. We expect to settle the remaining liability of approximately \$792 million through the purchase of a group annuity contract(s) from one or more yet-to-be-identified highly rated insurance companies in the first half of 2019. Upon transfer of this remaining liability, we expect to recognize an additional \$490 million of non-cash pretax charges and related tax benefits of \$190 million. As of December 29, 2018, the ADPP was underfunded by approximately \$57 million.

In December 2015, we offered eligible former employees who were vested participants in the ADPP 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 the ADPP were settled from existing plan assets and a non-cash pre-tax settlement charge of \$41.4 million was recorded in "Other expense, net" in the Consolidated Statements of Income. This settlement required us to remeasure the remaining net pension obligations of the ADPP. As a result, in 2016, we recognized approximately \$72 million of additional net pension obligations with a corresponding increase in actuarial losses recorded in "Accumulated other comprehensive loss," primarily due to lower discount rates in effect when the plan was remeasured.

Plan Assets

Our investment management of our ADPP assets utilizes a liability driven investment (LDI) strategy. Under an LDI strategy, the assets are invested in a diversified portfolio that consists primarily of investment grade fixed income securities and cash. This strategy is intended to more closely match the short-term 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, hedging more of the interest rate risk of the plan's liabilities. The investment portfolio is designed to hedge the plan's liabilities and balance risk and return within the limits of

Notes to Consolidated Financial Statements

prudent risk-taking and Section 404 of the Employee Retirement Income Security Act of 1974, as amended.

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 32% in equity securities, 44% in fixed income securities and cash, and 24% in insurance contracts and other investments, subject to periodic fluctuations in these respective asset classes.

Fair Value Measurements

The valuation methodologies we use for assets measured at fair value are described below.

Cash is valued at nominal value. Cash equivalents and 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. Fixed income treasury securities are valued at fair value as determined by quoted prices in active markets. The fixed income municipal and corporate bonds are valued at fair value based on quoted prices for similar instruments in active markets or other inputs that are observable or can be corroborated by observable market data. 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 (minus) investment returns and changes in cash flows.

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

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

(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)
2018				
Cash and cash equivalents	\$ 27.1	\$ 27.1	\$ -	\$ -
Equity securities	.3	-	.3	-
Fixed income securities – government and municipal bonds	113.0	66.3	46.7	-
Fixed income securities – corporate bonds	592.8	-	592.8	-
Other	2.4	-	2.4	-
Total U.S. plan assets	\$ 735.6			
2017				
Cash	\$ -	\$ -	\$ -	\$ -
Pooled funds – liability-hedging portfolio ⁽¹⁾	275.6			
Pooled funds – growth portfolio ⁽¹⁾	464.6			
Total U.S. plan assets	\$ 740.2			

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

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)
2018				
Cash	\$ 4.1	\$ 4.1	\$ –	\$ –
Insurance contracts	36.9	–	–	36.9
Pooled funds – fixed income securities ⁽¹⁾	300.4			
Pooled funds – equity securities ⁽¹⁾	185.0			
Pooled funds – other investments ⁽¹⁾	105.4			
Total international plan assets at fair value	\$ 631.8			
2017				
Cash	\$ 1.7	\$ 1.7	\$ –	\$ –
Insurance contracts	35.7	–	–	35.7
Pooled funds – fixed income securities ⁽¹⁾	278.5			
Pooled funds – equity securities ⁽¹⁾	277.3			
Pooled funds – other investments ⁽¹⁾	90.5			
Total international plan assets at fair value	\$ 683.7			

(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 29, 2018:

(In millions)	Level 3 Assets
	Insurance Contracts
Balance at December 30, 2017	\$ 35.7
Net realized and unrealized gain	1.0
Purchases	5.9
Settlements	(5.0)
Transfer	.1
Impact of changes in foreign currency exchange rates	(.8)
Balance at December 29, 2018	\$ 36.9

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. With the exception of the ADPP, 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. As of December 29, 2018, the discount rate for the ADPP, after reflecting the plan's termination, was based on estimated insurer pricing.

We use the full yield curve approach to estimate the service and interest cost components of net periodic benefit cost for our pension and other postretirement benefit plans. Under this approach, we applied multiple discount rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. We believe this approach provides a more precise measurement of service and interest cost by aligning the timing of the plans' liability cash flows to the corresponding rates on the yield curve.

Long-term Return on Assets

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

Notes to Consolidated Financial Statements

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	
	2018		2017		2018	2017
	U.S.	Int'l	U.S.	Int'l		
Change in projected benefit obligations						
Projected benefit obligations at beginning of year	\$ 1,082.1	\$ 836.7	\$ 1,033.7	\$ 762.9	\$ 4.1	\$ 5.0
Service cost	–	19.2	.5	18.2	–	–
Interest cost	34.5	15.7	35.3	14.3	.1	.1
Participant contribution	–	3.8	–	3.4	.5	.5
Amendments	–	–	–	(2.1)	–	–
Actuarial (gain) loss	(13.2)	(58.8)	73.1	(26.4)	.2	(.1)
Plan transfers	–	–	–	(1.3)	–	–
Benefits paid	(61.8)	(22.3)	(60.5)	(22.5)	(1.1)	(1.4)
Settlements ⁽¹⁾	(173.1)	(9.5)	–	–	–	–
Foreign currency translation	–	(29.0)	–	90.2	–	–
Projected benefit obligations at end of year	\$ 868.5	\$ 755.8	\$ 1,082.1	\$ 836.7	\$ 3.8	\$ 4.1
Accumulated benefit obligations at end of year	\$ 868.5	\$ 696.7	\$ 1,082.1	\$ 775.6		

- (1) In 2018, settlements in the U.S. related to lump-sum payments associated with the ADPP and two nonqualified benefit plans. Settlements in our international plans related to lump-sum payments in the UK and France.

Plan Assets

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2018		2017		2018	2017
	U.S.	Int'l	U.S.	Int'l		
Change in plan assets						
Plan assets at beginning of year	\$ 740.2	\$ 683.7	\$ 672.1	\$ 584.2	\$ –	\$ –
Actual return on plan assets	(3.6)	(13.3)	90.1	34.2	–	–
Plan transfers	–	–	–	(.7)	–	–
Employer contributions ⁽¹⁾	233.9	14.7	38.5	14.0	.6	.9
Participant contributions	–	3.8	–	3.4	.5	.5
Benefits paid	(61.8)	(22.3)	(60.5)	(22.5)	(1.1)	(1.4)
Settlements ⁽²⁾	(173.1)	(9.5)	–	–	–	–
Foreign currency translation	–	(25.3)	–	71.1	–	–
Plan assets at end of year	\$ 735.6	\$ 631.8	\$ 740.2	\$ 683.7	\$ –	\$ –

- (1) In connection with ADPP's termination in the U.S., a contribution of \$200 million was made in August 2018 using commercial paper borrowings.

- (2) In 2018, settlements in the U.S. related to lump-sum payments associated with the ADPP and two nonqualified benefit plans. Settlements in our international plans related to lump-sum payments in the UK and France.

Notes to Consolidated Financial Statements

Funded Status

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2018		2017		2018	2017
	U.S.	Int'l	U.S.	Int'l		
Funded status of the plans						
Other assets	\$ -	\$ 12.6	\$ -	\$ -	\$ -	\$ -
Other accrued liabilities ⁽¹⁾	(65.1)	(2.0)	(33.4)	(2.4)	(.4)	(.5)
Long-term retirement benefits and other liabilities ⁽²⁾	(67.8)	(134.6)	(308.5)	(150.6)	(3.4)	(3.6)
Plan assets less than benefit obligations	\$ (132.9)	\$ (124.0)	\$ (341.9)	\$ (153.0)	\$ (3.8)	\$ (4.1)

(1) In connection with its termination, we reclassified the ADPP's underfunded benefit obligation in the U.S. of approximately \$57 million to other accrued liabilities

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

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2018		2017		2018	2017
	U.S.	Int'l	U.S.	Int'l		
Weighted-average assumptions used to determine year-end benefit obligations						
Discount rate		3.72%	2.39%	3.71%	2.25%	4.21%
Compensation rate increase		-	2.23	-	2.26	-

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 \$1.47 billion and \$1.20 billion, respectively, at year-end 2018 and \$1.92 billion and \$1.42 billion, respectively, at year-end 2017.

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 \$1.02 billion and \$792 million, respectively, at year-end 2018 and \$1.44 billion and \$994 million, respectively, at year-end 2017.

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	
	2018		2017		2018	2017
	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss	\$ 487.5	\$ 149.3	\$ 567.2	\$ 186.5	\$ 15.8	\$ 17.0
Prior service cost (credit)	15.9	(6.7)	16.7	(7.4)	(9.8)	(13.1)
Net transition obligation	-	.1	-	.1	-	-
Net amount recognized in accumulated other comprehensive loss	\$ 503.4	\$ 142.7	\$ 583.9	\$ 179.2	\$ 6.0	\$ 3.9

The following table sets forth the pre-tax amounts recognized in "Other comprehensive loss (income)":

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2018		2017		2016		2018	2017	2016
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Net actuarial loss (gain)	\$ 33.5	\$ (27.2)	\$ 21.8	\$ (17.2)	\$ 39.1	\$ 48.9	\$.2	\$ -	\$ (.2)
Prior service credit	-	-	-	(2.1)	-	(.6)	-	-	-
Amortization of unrecognized:									
Net actuarial loss	(21.2)	(8.1)	(18.7)	(10.8)	(19.0)	(7.0)	(1.4)	(1.5)	(1.7)
Prior service (cost) credit	(.8)	.5	(.9)	.4	(1.2)	.4	3.3	3.3	3.2
Net transition obligation	-	-	-	-	-	(.1)	-	-	-
Settlements	(92.0)	(1.7)	-	-	(41.4)	-	-	-	-
Net amount recognized in other comprehensive (income) loss	\$ (80.5)	\$ (36.5)	\$ 2.2	\$ (29.7)	\$ (22.5)	\$ 41.6	\$ 2.1	\$ 1.8	\$ 1.3

Notes to Consolidated Financial Statements

Plan Income Statement Reconciliations

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

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2018		2017		2016		2018	2017	2016
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Service cost	\$ —	\$ 19.2	\$.5	\$ 18.2	\$.4	\$ 13.9	\$ —	\$ —	\$ —
Interest cost	34.5	15.7	35.3	14.3	34.4	16.4	.1	.1	.1
Actuarial (gain) loss	(.6)	—	1.7	—	(.2)	—	—	—	—
Expected return on plan assets	(42.5)	(23.8)	(40.5)	(21.1)	(42.7)	(21.4)	—	—	—
Amortization of actuarial loss	21.2	8.1	18.7	10.8	19.0	7.0	1.4	1.5	1.7
Amortization of prior service cost (credit)	.8	(.5)	.9	(.4)	1.2	(.4)	(3.3)	(3.3)	(3.2)
Amortization of transition obligation	—	—	—	—	—	.1	—	—	—
Recognized net gain on curtailments	—	—	—	—	—	(.2)	—	—	—
Recognized loss on settlements ⁽¹⁾	92.0	1.7	—	—	41.4	—	—	—	—
Net periodic benefit cost (credit)	\$ 105.4	\$ 20.4	\$ 16.6	\$ 21.8	\$ 53.5	\$ 15.4	\$ (1.8)	\$ (1.7)	\$ (1.4)

(1) In 2018, settlements in the U.S. related to lump-sum payments associated with the ADPP and two nonqualified benefit plans. Settlements in our international plans related to lump-sum payments in the UK and France. In 2016, we recognized a loss on settlements related to the ADPP as a result of making the lump-sum pension payments described above.

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

	Pension Benefits						U.S. Postretirement Health Benefits		
	2018		2017		2016		2018	2017	2016
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Discount rate	3.72%	2.25%	4.18%	2.12%	4.55%	2.95%	3.55%	3.95%	4.13%
Expected return on assets	7.00	3.78	7.00	3.77	7.25	4.14	—	—	—
Compensation rate increase	—	2.26	—	2.24	—	2.24	—	—	—

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 2019:

(In millions)	
U.S. pension plans	\$ 65.2
Int'l pension plans	10.7
U.S. postretirement health benefits	.4

Future Benefit Payments

The future benefit payments shown below, which reflect expected service periods for eligible participants, exclude estimates for the ADPP. We expect to settle the future benefit payments for the ADPP in the first half of 2019. These payments are estimated to be \$792 million and have been included in the projected benefit obligation table above.

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits	
	U.S.	Int'l	U.S.	Int'l
2019	\$ 8.5	\$ 20.2	\$ —	.4
2020	7.4	21.9	—	.4
2021	7.7	21.6	—	.4
2022	6.4	24.0	—	.3
2023	6.3	25.3	—	.3
2024 - 2028	27.5	146.2	—	1.3

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 of \$21.8 million, \$20.2 million, and \$20 million in 2018, 2017, and 2016, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

Other Retirement Plans

We have deferred compensation plans that permit eligible employees and directors to defer a portion of their compensation. The compensation voluntarily deferred by the participant, together with certain employer contributions, earns specified and variable rates of return. As of year-end 2018 and 2017, we had accrued \$84.3 million and \$86.9 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 Program allows our non-employee directors to elect to receive their cash compensation in deferred stock units ("DSUs") issued under our equity plans. Additionally, two legacy deferred compensation plans had DSUs that were issued under our equity plans. Dividend equivalents, representing the value of dividends per share paid on shares of our common stock and calculated with reference to the number of DSUs held as of a quarterly dividend record date, are credited in the form of additional DSUs on the applicable payable date. DSUs are converted into shares of our common stock upon his or her resignation or retirement. Approximately .2 million and .2 million DSUs were outstanding as of year-end 2018 and 2017, respectively, with an aggregate value of \$17 million and \$20.9 million, respectively.

Notes to Consolidated Financial Statements

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 \$227.4 million and \$243.5 million at year-end 2018 and 2017, 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)
2019	\$ 47.7
2020	38.9
2021	29.4
2022	18.8
2023	12.9
2024 and thereafter	37.1
Total minimum lease payments	\$ 184.8

Rent expense for operating leases was approximately \$66 million in 2018, \$64 million in 2017, and \$58 million in 2016. Operating leases primarily relate to office and warehouse space and equipment for information technology, machinery, and transportation. These leases do not impose significant restrictions or unusual obligations.

Refer to Note 4, "Debt and Capital Leases," for more information.

NOTE 8. CONTINGENCIES

Legal Proceedings

We are involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities.

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

Environmental Expenditures

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the shorter of the estimated useful life of the acquired asset or the remaining life of the existing asset. We review our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us as a potentially responsible party ("PRP"). When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities.

As of December 29, 2018, 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 2018 and 2017 related to our environmental liabilities was as follows:

(In millions)	2018	2017
Balance at beginning of year	\$ 21.1	\$ 21.3
Acquisitions	—	3.0
Charges, net of reversals	3.9	2.8
Payments	(5.0)	(6.0)
Balance at end of year	\$ 20.0	\$ 21.1

As of December 29, 2018 and December 30, 2017, approximately \$5 million and \$5 million, respectively, of the balance was classified as short-term and included in "Other accrued liabilities" in the Consolidated Balance Sheets.

Notes to Consolidated Financial Statements

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 29, 2018:

(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	\$ 26.3	\$ 21.5	\$ 4.8	\$ –
Derivative assets	3.6	.1	3.5	–
Bank drafts	23.0	23.0	–	–
Liabilities				
Derivative liabilities	\$ 8.7	\$ –	\$ 8.7	\$ –
Contingent consideration liabilities	1.6	–	–	1.6

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of December 30, 2017:

(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	\$ 22.7	\$ 17.7	\$ 5.0	\$ –
Derivative assets	3.9	–	3.9	–
Bank drafts	18.4	18.4	–	–
Liabilities				
Derivative liabilities	\$ 6.2	\$.1	\$ 6.1	\$ –
Contingent consideration liabilities	45.0	–	–	45.0

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 29, 2018, trading securities of \$2.2 million and \$26.1 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the Consolidated Balance Sheets. As of December 31, 2017, trading securities of \$4.4 million and \$22.3 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the Consolidated Balance Sheets. Derivatives that are exchange-traded are measured at fair value using quoted market prices and classified within Level 1 of the valuation hierarchy. Derivatives measured based on foreign exchange rate inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy. Bank drafts (maturities greater than three months) are valued at face value due to their short-term nature and were included in "Other current assets" in the Consolidated Balance Sheets. Contingent consideration liabilities relate to estimated earn-out payments associated with certain of the 2017 Acquisitions. These payments are based on the achievement of certain performance targets in 2017 and 2018 based on the applicable terms of the purchase agreements, and our estimates are based on the expected payments related to these targets under the terms of their respective agreements. We have classified these liabilities as Level 3. As of December 29, 2018, contingent consideration liabilities were included in "Other accrued liabilities" in the Consolidated Balance Sheets. As of December 30, 2017, contingent consideration liabilities of approximately \$18 million and \$27 million were included in "Other accrued liabilities" and "Long-term retirement benefits and other liabilities," respectively, in the Consolidated Balance Sheets.

The following table presents a reconciliation of Level 3 contingent consideration liabilities for the year ended December 29, 2018:

(In millions)	Level 3 Liabilities
	Contingent Consideration
Balance at December 30, 2017	\$ 45.0
Payments	(17.3)
Adjustments ⁽¹⁾	(26.1)
Balance at December 29, 2018	\$ 1.6

(1) Adjustments primarily relate to measurement period adjustments. Refer to Note 3, "Goodwill and Other Intangibles from Business Acquisitions," for more information. Additional adjustments were recorded in "Other expense, net" in the Consolidated Statements of Income mainly as a result of Yongle Tape not achieving a certain performance objective within the prescribed period.

Non-Recurring Fair Value Measurements

During the year ended December 29, 2018, long-lived assets with carrying amounts totaling \$18.1 million were written down to their fair value of \$10.6 million, resulting in an impairment charge of \$7.5 million.

Notes to Consolidated Financial Statements

which was included in "Other expense, net" in the Consolidated Statements of Income. The fair value was based on the estimated sale price of the assets, less estimated broker fees, which is primarily a Level 3 input.

NOTE 10. NET INCOME PER COMMON SHARE

Net income per common share was computed as follows:

(In millions, except per share amounts)	2018	2017	2016
(A) Net income available to common shareholders	\$ 467.4	\$ 281.8	\$ 320.7
(B) Weighted average number of common shares outstanding	87.3	88.3	89.1
Dilutive shares (additional common shares issuable under stock-based awards)	1.3	1.8	1.6
(C) Weighted average number of common shares outstanding, assuming dilution	88.6	90.1	90.7
Net income per common share: (A) ÷ (B)	\$ 5.35	\$ 3.19	\$ 3.60
Net income per common share, assuming dilution (A) ÷ (C)	\$ 5.28	\$ 3.13	\$ 3.54

Stock-based compensation awards excluded from the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect were as follows:

(In millions)	2018	2017	2016
Antidilutive shares excluded from computation of net income per common share, assuming dilution	–	–	.2

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 no shares are outstanding), with respect to which our Board may fix the series and terms of issuance, and 400 million shares of \$1 par value voting common stock.

From time to time, our Board authorizes the repurchase of shares of our outstanding common stock. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes. In 2018, we repurchased approximately 4.0 million shares of our common stock at an aggregate cost of \$392.9 million. In 2017, we repurchased approximately 1.5 million shares of our common stock at an aggregate cost of \$129.7 million.

In April 2017, our Board authorized the repurchase of shares of our common stock with a fair market value of up to \$650 million, exclusive of any fees, commissions or other expenses related to such purchases, in addition to the amount outstanding under our previous Board authorization. Board authorizations remain in effect until shares in the amount authorized thereunder have been repurchased. Shares of our common stock in the aggregate amount of \$232.4 million and \$625.2 million as of December 29, 2018 and December 30, 2017, respectively, 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 2018 and 2017 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of December 31, 2016	\$ (212.6)	\$ (540.3)	\$ 1.0	\$ (751.9)
Other comprehensive income (loss) before reclassifications, net of tax	56.4	(3.0)	(2.2)	51.2
Reclassifications to net income, net of tax	–	19.3	.9	20.2
Net current-period other comprehensive income (loss), net of tax	56.4	16.3	(1.3)	71.4
Balance as of December 30, 2017	\$ (156.2)	\$ (524.0)	\$ (.3)	\$ (680.5)
Other comprehensive (loss) income before reclassifications, net of tax	(91.2)	(4.1)	1.1	(94.2)
Reclassifications to net income, net of tax	–	93.8	(1.1)	92.7
Net current-period other comprehensive (loss) income, net of tax	(91.2)	89.7	–	(1.5)
Balance as of December 29, 2018	\$ (247.4)	\$ (434.3)	\$ (.3)	\$ (682.0)

Notes to Consolidated Financial Statements

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

(In millions)	2018	2017	2016	Affected Line Item in the Statements Where Net Income is Presented
Cash flow hedges:				
Foreign exchange contracts	\$ 1.3	\$.2	\$ (3.0)	Cost of products sold
Commodity contracts	.1	.2	(.7)	Cost of products sold
Interest rate contracts	–	(1.8)	(.1)	Interest expense
	1.4	(1.4)	(3.8)	Total before tax
	(.3)	.5	1.0	Provision for income taxes
	1.1	(.9)	(2.8)	Net of tax
Pension and other postretirement benefits				
	(121.4)	(28.2)	(66.8)	Other non-operating expense
	27.6	8.9	22.6	Provision for income taxes
	(93.8)	(19.3)	(44.2)	Net of tax
Total reclassifications for the period	\$ (92.7)	\$ (20.2)	\$ (47.0)	Total, net of tax

The following table sets forth the income tax expense (benefit) allocated to each component of other comprehensive (loss) income:

(In millions)	2018	2017	2016
Foreign currency translation:			
Translation (loss) gain	\$ (9.1)	\$ (25.1)	\$ (3.3)
Pension and other postretirement benefits:			
Net loss recognized from actuarial gain/loss and prior service cost/credit	(2.4)	.5	(24.2)
Reclassifications to net income	27.6	8.9	22.6
Cash flow hedges:			
Gains (losses) recognized on cash flow hedges	.3	(.6)	.1
Reclassifications to net income	(.3)	.5	1.0
Income tax expense (benefit) related to items of other comprehensive (loss) income	\$ 16.1	\$ (15.8)	\$ (3.8)

NOTE 12. LONG-TERM INCENTIVE COMPENSATION

Stock-Based Awards

Stock-Based Compensation

We grant our annual stock-based compensation awards to eligible employees in February and non-employee directors in May. Certain awards granted to retirement-eligible employees vest in full upon retirement; awards to these employees are accounted for as fully vested on the date of grant.

In April 2017, our shareholders approved our 2017 Incentive Award Plan (the "Equity Plan") to replace our Amended and Restated Stock Option and Incentive Plan. The Equity Plan, a long-term incentive plan for eligible employees and non-employee directors, allows us to grant stock-based compensation awards—including stock options, RSUs, PUs, and MSUs—or a combination of these and other awards. Under the Equity Plan, 5.4 million shares are available for issuance, and each full value award is counted as 1.5 shares for purposes of the number of shares authorized for issuance. Full value awards include RSUs, PUs, and MSUs.

Stock-based compensation expense and the related recognized tax benefit were as follows:

(In millions)	2018	2017	2016
Stock-based compensation expense	\$ 34.3	\$ 30.2	\$ 27.2
Tax benefit	4.7	4.3	8.5

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

As of December 29, 2018, we had approximately \$39 million of unrecognized compensation expense related to unvested stock-based awards, which is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

Stock Options

Stock options granted to employees may be granted at no less than 100% of the fair market value of our common stock on the date of the grant and generally vest ratably over a four-year period. Options expire ten years from the date of grant.

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

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

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

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

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

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

The weighted-average grant date fair value per share for stock options granted in 2016 was \$14.17. No stock options were granted in fiscal years 2018 or 2017.

	2016
Risk-free interest rate	1.75%
Expected stock price volatility	24.58%
Expected dividend yield	2.58%
Expected option term	6.5 years

Notes to Consolidated Financial Statements

The following table sets forth stock option information during 2018:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 30, 2017	543.6	\$ 44.22	4.94	\$ 38.4
Exercised	(32.0)	30.69		
Outstanding at December 29, 2018	511.6	\$ 45.06	4.00	\$ 22.4
Options vested and expected to vest at December 29, 2018	503.6	44.60	3.95	22.3
Options exercisable at December 29, 2018	370.5	\$ 34.06	2.70	\$ 20.3

The total intrinsic value of stock options exercised was \$2.7 million in 2018, \$26.8 million in 2017, and \$31.7 million in 2016. We received approximately \$1 million in 2018, \$22 million in 2017, and \$71 million in 2016 from the exercise of stock options. The tax benefit associated with these exercised options was \$6 million in 2018, \$10.1 million in 2017, and \$11.3 million in 2016. The intrinsic value of a stock option is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

Performance Units ("PUs")

PUs are performance-based awards granted to eligible employees under our equity plans. PUs are payable in shares of our common stock at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the period. Over the performance period, the estimated number of shares of our common stock issuable upon vesting is adjusted upward or downward based upon the probability of the achievement of the performance objectives established for the award. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant. The weighted-average grant date fair value for PUs was \$120.25, \$82.15, and \$68.04 in 2018, 2017, and 2016, respectively.

The following table summarizes information related to awarded PUs:

	Number of PUs (in thousands)	Weighted-average grant-date fair value
Unvested at December 30, 2017	485.1	\$ 68.15
Granted at target	121.6	120.25
Adjustment for above-target performance ⁽¹⁾	112.9	50.55
Vested	(236.4)	50.53
Forfeited/cancelled	(30.4)	79.41
Unvested at December 29, 2018	452.8	\$ 86.20

⁽¹⁾ Reflects adjustments for the vesting of awards based on above-target performance for the 2015-2017 performance period.

The fair value of vested PUs was \$11.9 million in 2018, \$11.2 million in 2017, and \$13.8 million in 2016.

Market-Leveraged Stock Units ("MSUs")

MSUs are performance-based awards granted to eligible employees under our equity plans. MSUs are payable in shares of our common stock over a four-year period provided that the performance objective is achieved as of the end of each vesting period. MSUs accrue dividend equivalents during the vesting period, which are earned and paid only at vesting provided that, at a minimum, threshold performance is achieved. The number of shares earned is based upon our absolute total shareholder return at each vesting date and can range from 0% to 200% of the target amount of MSUs subject to vesting. Each of the four vesting periods represents one tranche of MSUs and the fair value of each of these four tranches was determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected stock price volatility and other assumptions, to estimate the probability of achieving the performance objective established for the award. The weighted-average grant date fair value for MSUs was \$117.75, \$91.40, and \$72.93 in 2018, 2017, and 2016, respectively.

The following table summarizes information related to awarded MSUs:

	Number of MSUs (in thousands)	Weighted-average grant-date fair value
Unvested at December 30, 2017	403.6	\$ 70.07
Granted at target	118.0	117.75
Adjustments for above-target performance ⁽¹⁾	177.9	63.75
Vested	(373.9)	64.24
Forfeited/cancelled	(22.0)	80.38
Unvested at December 29, 2018	303.6	\$ 90.33

⁽¹⁾ Reflects adjustments for the vesting of awards based on above-target performance for each of the tranches of awards vesting in 2018.

The fair value of vested MSUs was \$24.0 million in 2018, \$19.3 million in 2017, and \$12.4 million in 2016.

Restricted Stock Units ("RSUs")

RSUs are service-based awards granted to eligible employees under our equity plans, which generally vest ratably over a period of four years for employees. Prior to 2017, RSUs granted to non-employee directors under our equity plans vested ratably over a period of three years. Beginning in 2017, RSUs granted to non-employee directors generally vest over a period of one year. The vesting of RSUs is subject to continued service through the applicable vesting date. If that condition is not met, unvested RSUs are generally forfeited. The weighted-average grant date fair value for RSUs was \$106.44, \$82.77, and \$67.66 in 2018, 2017, and 2016, respectively.

Notes to Consolidated Financial Statements

The following table summarizes information related to awarded RSUs:

	Number of RSUs (in thousands)	Weighted- average grant- date fair value
Unvested at December 30, 2017	140.4	\$ 72.62
Granted	22.9	106.44
Vested	(72.4)	69.80
Forfeited/cancelled	(2.2)	68.41
Unvested at December 29, 2018	88.7	\$ 83.72

The fair value of vested RSUs was \$5.1 million, \$2.7 million, and \$5.3 million in 2018, 2017, and 2016, respectively.

Cash-Based Awards

Long-Term Incentive Units ("LTI Units")

LTI Units are granted to eligible employees under our long-term incentive unit plan. LTI Units are service-based awards that generally vest ratably over a four-year period. The settlement value equals the number of vested LTI Units multiplied by the average of the high and low market prices of our common stock on the vesting date. The compensation expense related to these awards is amortized on a straight-line basis and the fair value is remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end.

We also grant cash-based awards in the form of performance and market-leveraged LTI Units to eligible employees. Performance LTI Units are payable in cash at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the performance period. Market-leveraged LTI Units are payable in cash and vest ratably over a period of four years. The number of performance and market-leveraged LTI Units earned at vesting is adjusted upward or downward based upon the probability of achieving the performance objectives established for the respective award and the actual number of units issued can range from 0% to 200% of the target units subject to vesting. The performance and market-leveraged LTI Units are remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end over their respective performance periods. The compensation expense related to performance LTI Units is amortized on a straight-line basis over their respective performance periods. The compensation expense related to market-leveraged LTI Units is amortized on a graded-vesting basis over their respective performance periods.

The compensation expense related to LTI Units was \$12.4 million in 2018, \$36.6 million in 2017, and \$23.8 million in 2016. This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income. The total recognized tax benefit related to LTI Units was \$2.9 million in 2018, \$8.3 million in 2017, and \$7.8 million in 2016.

NOTE 13. COST REDUCTION ACTIONS

Restructuring Charges

We have plans that provide eligible employees with severance in the event of an involuntary termination. We calculate severance using the applicable benefit formulas under the respective plans. Accordingly, we record restructuring charges from qualifying cost reduction actions for severance and other exit costs (including asset impairment charges and lease and other contract cancellation costs) when they are probable and estimable. In the absence of a plan or established local practice in overseas jurisdictions, liabilities for restructuring charges are recognized when incurred.

2018/2019 Actions

In April 2018, we approved a restructuring plan (the "2018 Plan") associated with the consolidation of the European footprint of our LGM reportable segment, which is expected to result in a headcount reduction of approximately 400 positions related to the closure of a manufacturing facility. This reduction is expected to be partially offset by headcount additions in other locations, resulting in a net reduction of approximately 150 positions. During fiscal year 2018, we recorded \$55.2 million in restructuring charges, net of reversals, related to the 2018 Plan. These charges consisted of severance and related costs for the reduction of approximately 345 positions, as well as asset impairment charges. We expect the 2018 Plan to be substantially complete by the end of 2019.

In addition to restructuring charges recorded under the 2018 Plan, we recorded \$4.2 million in restructuring charges in the fourth quarter 2018 related to our 2018/2019 Actions. These charges consisted of severance and related costs for the reduction of approximately 85 positions, as well as asset impairment charges.

2015/2016 Actions

During fiscal year 2018, we recorded \$14.3 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015. These charges consisted of severance and related costs for the reduction of approximately 625 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2017, we recorded \$34.1 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 920 positions, lease cancellation costs, and asset impairment charges.

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

The activities and related charges and payments for the 2015/2016 Actions were substantially completed in 2018.

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.

Notes to Consolidated Financial Statements

Restructuring charges were included in "Other expense, net" in the Consolidated Statements of Income.

During 2018, restructuring charges and payments were as follows:

(In millions)	Accrual at December 30, 2017	Charges, Net of Reversals	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at December 29, 2018
2018/2019 Actions						
Severance and related costs	\$ —	\$ 51.8	\$ (9.8)	\$ —	\$ (1.3)	\$ 40.7
Asset impairment charges	—	7.6	—	(7.6)	—	—
2015/2016 Actions						
Severance and related costs	4.3	11.2	(15.2)	—	—	.3
Lease cancellation costs	.6	.8	(1.0)	—	—	.4
Asset impairment charges	—	2.3	—	(2.3)	—	—
Total	\$ 4.9	\$ 73.7	\$ (26.0)	\$ (9.9)	\$ (1.3)	\$ 41.4

During 2017, restructuring charges and payments were as follows:

(In millions)	Accrual at December 31, 2016	Charges (Reversals), net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at December 30, 2017
2015/2016 Actions						
Severance and related costs	\$ 3.3	\$ 31.9	\$ (30.8)	\$ —	\$ (.1)	\$ 4.3
Lease cancellation costs	.2	1.2	(.8)	—	—	.6
Asset impairment charges	—	1.0	—	(1.0)	—	—
Prior actions						
Severance and related costs	1.3	(.7)	(.6)	—	—	—
Total	\$ 4.8	\$ 33.4	\$ (32.2)	\$ (1.0)	\$ (.1)	\$ 4.9

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

(In millions)	2018	2017	2016
Restructuring charges by reportable segment and Corporate			
Label and Graphic Materials	\$ 57.8	\$ 14.8	\$ 8.5
Retail Branding and Information Solutions	11.9	18.4	10.5
Industrial and Healthcare Materials	4.0	.2	.9
Corporate	—	—	—
Total	\$ 73.7	\$ 33.4	\$ 19.9

NOTE 14. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2018	2017	2016
Current:			
U.S. federal tax	\$ (19.7)	\$ 47.0	\$ 10.1
State taxes	.8	.2	.6
International taxes	134.3	111.0	77.3
	115.4	158.2	88.0
Deferred:			
U.S. federal tax	(6.3)	134.8	64.4
State taxes	2.3	(3.7)	(3.0)
International taxes	(26.0)	18.4	7.0
	(30.0)	149.5	68.4
Provision for income taxes	\$ 85.4	\$ 307.7	\$ 156.4

Notes to Consolidated Financial Statements

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

(In millions)	2018	2017	2016
Computed tax provision at U.S. federal statutory rate	\$ 116.5	\$ 206.7	\$ 167.0
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	3.9	(3.2)	2.2
Tax Cuts and Jobs Act ⁽¹⁾	(34.7)	172.0	–
Foreign earnings taxed at different rates ⁽²⁾	13.0	(40.2)	27.0
Excess tax benefits associated with stock-based payments ⁽³⁾	(7.7)	(16.0)	–
Valuation allowance	10.7	(1.4)	(11.9)
Corporate-owned life insurance	(3.8)	(6.7)	(4.3)
U.S. federal research and development tax credits	(6.1)	(4.9)	(2.9)
Tax contingencies and audit settlements	(11.9)	(1.9)	(20.7)
Other items, net	5.5	3.3	–
Provision for income taxes	\$ 85.4	\$ 307.7	\$ 156.4

- (1) During 2018 and 2017, we recognized a net tax benefit of \$34.7 million and a net tax charge of \$172 million, respectively, as a result of the TCJA. These amounts included the direct impacts of the TCJA following the guidance of SAB 118, including items that would otherwise be separately disclosed as state taxes, net of federal tax benefit, tax effects of foreign earnings taxed at different rates, tax contingencies and audit settlements, and other items, net.
- (2) Included in 2018 are certain U.S. international tax provisions imposed by the TCJA; all years included foreign earnings taxed in the U.S., net of credits.
- (3) During 2018 and 2017, we recognized tax benefits of \$7.7 million and \$16 million as a result of our adoption in 2017 of the accounting guidance update related to stock-based payments. We expect future excess tax benefits to vary based on our future stock-based payments. These excess tax benefits may cause variability in our effective tax rate as they can fluctuate based on vesting and exercise activity, as well as our stock price.

Income before taxes from our U.S. and international operations was as follows:

(In millions)	2018	2017	2016
U.S.	\$ (7.3)	\$ 49.0	\$ 17.9
International	562.1	540.5	459.2
Income before taxes	\$ 554.8	\$ 589.5	\$ 477.1

The effective tax rate was 15.4%, 52.2%, and 32.8% for fiscal years 2018, 2017, and 2016, respectively.

The 2018 effective tax rate included measurement period adjustments to our 2017 provisional amount related to the TCJA in accordance with guidance provided under SEC Staff Accounting Bulletin No. 118 ("SAB 118"). In 2018, we adjusted our 2017 provisional amount by recognizing a net tax benefit of \$34.7 million. This amount primarily included: (i) \$39.6 million tax benefit related to the remeasurement of the net deferred tax asset from cash contributions to the ADPP and realized foreign currency loss, both of which resulted from our decision to accelerate the related deductions on our 2017 U.S. federal income tax return; (ii) \$3.6 million of tax charges for changes in our indefinite reinvestment assertions related to our investments in certain foreign subsidiaries after information required to make such determinations was obtained; (iii) \$9.5 million of tax charge for adjustments made to the one-time transition tax, primarily due to a change in our filing position and to reflect regulatory and administrative guidance subsequently issued by the Internal Revenue Service ("IRS") and certain state taxing authorities; and (iv) \$9.4 million of tax benefit from releasing a previously recorded uncertain tax position after the position was not taken on our 2017 U.S. federal income tax return.

The 2018 effective tax rate also included net tax charges related to: (i) the effects of certain U.S. international tax provisions imposed by the TCJA, including \$16 million of tax charge on Global Intangible Low-taxed Income ("GILTI") and \$9 million of tax charge on Base Erosion Antiabuse Tax ("BEAT") partially offset by \$2 million of tax benefit on Foreign Derived Intangible Income ("FDII"); (ii) \$7.9 million of tax charges for foreign withholding taxes on our current year earnings; (iii) \$8.8 million of tax benefit, including previously accrued interest and penalties, primarily from our changes in our judgment about tax filing positions due to the effective settlement of our German tax audit for tax years 2006-2010; and (iv) \$8 million of tax benefit from decreases in certain tax reserves, including interest and penalties, as a result of closing tax years.

Additionally, the 2018 effective tax rate was not significantly impacted by the \$10.7 million increase in valuation allowance primarily due to the offsetting effects from changes in deferred taxes and uncertain tax positions.

During 2018, after our adoption of the accounting guidance update related to intra-entity transfers of assets other than inventory, certain foreign owned intellectual property was transferred between our foreign subsidiaries. Refer to Note 1, "Summary of Significant Accounting Policies," for more information. Accordingly, we recognized a net discrete tax benefit of \$31 million primarily due to the recognition of a deferred tax asset in a higher tax rate jurisdiction, partially offset by a taxable gain recognized in a lower effective tax rate jurisdiction.

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

The 2016 effective tax rate included: (i) \$7.6 million of tax charge associated with the cost to repatriate current earnings of certain foreign subsidiaries; (ii) \$46.3 million of tax charge related to U.S. income and foreign withholding taxes resulting from changes in indefinite reinvestment assertions on certain foreign earnings and profits; (iii) \$16.8 million of tax benefit resulting from settlements of certain foreign audits; (iv) \$5.4 million of tax benefit resulting from expirations of statutes of limitations; (v) \$6.7 million of tax benefit 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; (vi) \$3.6 million of tax benefit from the release of valuation allowances on certain state deferred tax assets; and (vii) \$8.4 million of tax charge from deferred tax adjustments resulting from tax rate changes in certain foreign jurisdictions.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use existing deferred tax assets. On the basis of our assessment, we record valuation allowances only with respect to the portion of the deferred tax asset that is more likely than not to be realized. Our assessment of the future realizability of our deferred tax assets relies heavily on our forecasted earnings in certain jurisdictions, and such forecasted

Notes to Consolidated Financial Statements

earnings are determined by the manner in which we operate our business. Any changes to our operations may affect our assessment of deferred tax assets considered realizable if the positive evidence no longer outweighs the negative evidence.

U.S. Tax Reform

The TCJA enacted in the U.S. in December 2017 significantly changed U.S. corporate income taxation by, among other things, reducing the federal corporate income tax rates to 21%, implementing a modified territorial tax system prospectively by providing a dividend received deduction on certain dividends from our foreign subsidiaries, loss of domestic manufacturing deductions, and limitations on the deductibility of our executive compensation and interest expense, and imposing a one-time transition tax through a deemed repatriation of accumulated untaxed earnings and profits of foreign subsidiaries.

In 2017, we included a provisional amount of \$172 million as the estimated impact of the TCJA in our results for the fourth quarter and full year 2017. This provisional amount included expenses of \$147 million related to the estimated transition tax, \$49.2 million resulting from the estimated remeasurement of net U.S. deferred tax assets at the lower corporate income tax rate, a \$9.3 million reserve related to potential uncertainties of our accumulated tax attributes that were used in our estimated transition tax calculation, \$5.3 million from the estimated reduction of previously recognized U.S. deferred tax assets that we no longer anticipated to benefit from due to changes in the future deductibility of executive compensation, partially offset by a net benefit of \$38.8 million, primarily from the reversal of the deferred tax liability that we previously recorded for future tax costs associated with repatriations of certain foreign earnings and profits that we considered not to be indefinitely reinvested.

As of December 29, 2018, we have completed our accounting for the income tax effects of the TCJA following the guidance of SAB 118. Specifically, we have adjusted our provisional amount previously recorded primarily related to (i) the transition tax, reflecting subsequent regulatory and administrative guidance and the finalization of our foreign earnings and profits as well as taxes, (ii) the remeasurement of deferred taxes as a result of our decision to accelerate certain deductions in conjunction with the completion of our 2017 U.S. federal income tax return; and (iii) an incremental accrual for foreign withholding taxes associated with changes in our indefinite reinvestment assertions after information required to make such determination was obtained.

The FASB guidance states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. We have made an accounting policy election to account for taxes on GILTI as period costs.

Additionally, we have reevaluated our previous indefinite reinvestment assertions and, as of December 29, 2018, we no longer considered any of our foreign earnings in our foreign subsidiaries to be indefinitely reinvested. We recorded a tax charge of \$3.6 million as a result of this change in assertion, which was included in our adjustment to our TCJA provisional amount.

Deferred Income Taxes

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that gave rise to our deferred tax assets and liabilities were as follows:

(In millions)	2018	2017
Accrued expenses not currently deductible	\$ 18.4	\$ 19.9
Net operating losses	166.4	185.9
Tax credit carryforwards	69.0	14.0
Stock-based compensation	12.4	18.0
Pension and other postretirement benefits	81.3	140.9
Inventory reserves	6.7	6.5
Unrealized foreign currency losses ⁽¹⁾	–	14.9
Other assets	11.8	17.3
Valuation allowance	(71.8)	(63.4)
Total deferred tax assets ⁽²⁾	294.2	354.0
Depreciation and amortization	(38.7)	(95.3)
Repatriation accrual	(21.3)	(27.7)
Foreign operating loss recapture	(56.5)	(65.9)
Other liabilities	(9.5)	(8.8)
Total deferred tax liabilities ⁽²⁾	(126.0)	(197.7)
Total net deferred tax assets	\$ 168.2	\$ 156.3

(1) Primarily reflect the unrealized foreign currency losses related to our net investment hedge described in Note 5, "Financial Instruments." There were no deferred taxes at the end of 2018 due to the conformity of the accounting treatment between financial reporting and tax after a mark-to-market tax treatment was elected for certain fair value adjustments on our 2017 U.S. federal income tax return filed in 2018.

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

Net operating loss carryforwards of foreign subsidiaries at December 29, 2018 and December 30, 2017 were \$538.4 million and \$633.7 million, respectively. Tax credit carryforwards of both domestic and foreign subsidiaries at December 29, 2018 and December 30, 2017 totaled \$69 million and \$14 million, respectively. If unused, foreign net operating losses and tax credit carryforwards will expire as follows:

(In millions) Year of Expiry	Net Operating Losses ⁽¹⁾	Tax Credits
2019	\$ 4.9	\$.3
2020	5.2	14.5
2021	3.9	.4
2022	9.0	9.7
2023	6.2	5.0
2024 - 2038	6.3	30.4
Indefinite life/no expiry	502.9	8.7
Total	\$ 538.4	\$ 69.0

(1) Net operating losses are presented before tax effect and valuation allowance.

Based on current projections, certain indefinite-lived foreign net operating losses may take decades to be fully utilized.

At December 29, 2018, we had net operating loss carryforwards in certain state jurisdictions of \$634.6 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 \$591.3 million of the carryforwards.

As of December 29, 2018, our provision for income taxes did not materially benefit from applicable tax holidays in foreign jurisdictions.

Notes to Consolidated Financial Statements

Unrecognized Tax Benefits

As of December 29, 2018, our unrecognized tax benefits totaled \$80.8 million, \$72.2 million of which, if recognized, would reduce our annual effective income tax rate. As of December 30, 2017, our unrecognized tax benefits totaled \$108.7 million, \$83.9 million of which, if recognized, would reduce our annual effective income tax rate.

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 \$.5 million of tax charge, \$1.5 million of tax charge, and \$3.1 million of tax benefit in the Consolidated Statements of Income in 2018, 2017, and 2016, respectively. We have accrued \$25.0 million and \$25.8 million for interest and penalties, net of tax benefit, in the Consolidated Balance Sheets at December 29, 2018 and December 30, 2017, respectively.

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

(In millions)	2018	2017
Balance at beginning of year	\$ 108.7	\$ 89.5
Additions for tax positions of the current year	11.5	14.1
Additions (reductions) for tax positions of prior years	(23.1)	3.0
Settlements with tax authorities	(6.6)	(1.6)
Expirations of statutes of limitations	(5.9)	(2.7)
Changes due to translation of foreign currencies	(3.8)	6.4
Balance at end of year	\$ 80.8	\$ 108.7

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 2018 Consolidated Financial Statements are being issued, we and our U.S. subsidiaries have completed the IRS' Compliance Assurance Process Program through 2016. 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 2007.

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 \$14 million, primarily as a result of audit settlements and closing tax years.

NOTE 15. SEGMENT AND DISAGGREGATED REVENUE INFORMATION

Segment Reporting

We have the following reportable segments:

- Label and Graphic Materials – manufactures and sells pressure-sensitive labeling 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 and other adhesive products for industrial, medical and other applications as well as fastener solutions.

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 excluded from the computation of income from operations for the segments.

We do not disclose total assets by reportable segment since we neither generate nor review such information internally. As our reporting structure is neither organized nor reviewed internally by country, results by individual country are not provided.

Disaggregated Revenue Information

Disaggregated revenue information is set forth below in the manner that best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Revenue from our LGM reportable segment is attributed to geographic areas based on the location from which products are shipped. Revenue from our RBIS reportable segment is shown by product group.

(In millions)	2018	2017	2016
Net sales to unaffiliated customers			
Label and Graphic Materials:			
U.S.	\$ 1,256.0	\$ 1,198.4	\$ 1,161.0
Europe	1,851.3	1,689.3	1,514.3
Asia	1,081.2	1,002.6	928.9
Latin America	367.8	357.0	331.6
Other international	294.8	264.4	251.5
Total Label and Graphic Materials	4,851.1	4,511.7	4,187.3
Retail Branding and Information Solutions:			
Apparel	1,441.7	1,352.0	1,276.7
Printer Solutions	171.5	159.2	168.7
Total Retail Branding and Information Solutions	1,613.2	1,511.2	1,445.4
Industrial and Healthcare Materials	694.7	590.9	453.8
Net sales to unaffiliated customers	\$ 7,159.0	\$ 6,613.8	\$ 6,086.5

Revenue by geographic area is set forth below. Revenue is attributed to geographic areas based on the location from which the product is shipped.

(In millions)	2018	2017	2016
Net sales to unaffiliated customers			
U.S.	\$ 1,625.1	\$ 1,557.8	\$ 1,525.6
Europe	2,251.4	2,041.6	1,838.8
Asia	2,473.2	2,250.5	1,996.1
Latin America	490.0	476.4	450.5
Other international	319.3	287.5	275.5
Net sales to unaffiliated customers	\$ 7,159.0	\$ 6,613.8	\$ 6,086.5

Notes to Consolidated Financial Statements

Net sales to unaffiliated customers in Asia included sales in China (including Hong Kong) of \$1.43 billion in 2018, \$1.3 billion in 2017, and \$1.14 billion in 2016.

Additional Segment Information

Additional financial information by reportable segment is set forth below.

(In millions)	2018	2017	2016
Intersegment sales			
Label and Graphic Materials	\$ 78.7	\$ 64.1	\$ 63.4
Retail Branding and Information Solutions	4.7	3.2	2.9
Industrial and Healthcare Materials	8.8	7.7	7.2
Intersegment sales	\$ 92.2	\$ 75.0	\$ 73.5
Income before taxes			
Label and Graphic Materials	\$ 568.2	\$ 577.4	\$ 522.0
Retail Branding and Information Solutions	170.4	126.7	105.0
Industrial and Healthcare Materials	62.9	52.6	56.1
Corporate expense	(83.4)	(86.2)	(92.9)
Interest expense	(58.5)	(63.0)	(59.9)
Other non-operating expense	(104.8)	(18.0)	(53.2)
Income before taxes	\$ 554.8	\$ 589.5	\$ 477.1
Capital expenditures			
Label and Graphic Materials	\$ 151.5	\$ 125.5	\$ 118.8
Retail Branding and Information Solutions	57.1	48.8	50.9
Industrial and Healthcare Materials	19.3	19.5	7.2
Capital expenditures	\$ 227.9	\$ 193.8	\$ 176.9
Depreciation and amortization expense			
Label and Graphic Materials	\$ 104.7	\$ 102.3	\$ 103.1
Retail Branding and Information Solutions	49.0	56.4	64.3
Industrial and Healthcare Materials	27.3	20.0	12.7
Depreciation and amortization expense	\$ 181.0	\$ 178.7	\$ 180.1
Other expense, net by reportable segment			
Label and Graphic Materials	\$ 61.8	\$ 14.5	\$ 13.0
Retail Branding and Information Solutions	11.4	18.1	9.8
Industrial and Healthcare Materials	(1.0)	3.7	1.9
Corporate	(2.3)	.2	(.9)
Other expense, net	\$ 69.9	\$ 36.5	\$ 23.8
Other expense, net by type			
Restructuring charges:			
Severance and related costs	\$ 63.0	\$ 31.2	\$ 14.7
Asset impairment charges and lease cancellation costs	10.7	2.2	5.2
Other items:			
Argentine peso remeasurement transition loss	3.4	-	-
Other restructuring-related charge	.5	-	-
Transaction costs	-	5.2	5.0
Reversal of acquisition-related contingent consideration	(5.0)	-	-
Net gain on sales of assets	(2.7)	(2.1)	(1.1)
Other expense, net	\$ 69.9	\$ 36.5	\$ 23.8

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

(In millions)	2018	2017	2016
Property, plant and equipment, net			
U.S.	\$ 317.3	\$ 286.4	\$ 278.5
International	820.1	811.5	636.7
Property, plant and equipment, net	\$ 1,137.4	\$ 1,097.9	\$ 915.2

NOTE 16. SUPPLEMENTAL FINANCIAL INFORMATION

Inventories

Net inventories at year-end were as follows:

(In millions)	2018	2017
Raw materials	\$ 236.2	\$ 214.6
Work-in-progress	196.7	179.8
Finished goods	218.5	215.2
Inventories, net	\$ 651.4	\$ 609.6

Property, Plant and Equipment

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

(In millions)	2018	2017
Land	\$ 28.0	\$ 31.1
Buildings and improvements	643.1	638.9
Machinery and equipment	2,231.1	2,188.2
Construction-in-progress	151.5	142.7
Property, plant and equipment	3,053.7	3,000.9
Accumulated depreciation	(1,916.3)	(1,903.0)
Property, plant and equipment, net	\$ 1,137.4	\$ 1,097.9

Software

Capitalized software costs at year-end were as follows:

(In millions)	2018	2017
Cost	\$ 452.4	\$ 428.9

Accumulated amortization	(316.9)	(301.8)
Software, net	\$ 135.5	\$ 127.1

Software amortization expense was \$20.2 million in 2018, \$29.3 million in 2017, and \$37.9 million in 2016.

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 \$6.7 million and \$9.1 million as of December 29, 2018 and December 30, 2017, respectively, and was included in "Other assets" in the Consolidated Balance Sheets.

Notes to Consolidated Financial Statements

Research and Development

Research and development expense, which is included in "Marketing, general and administrative expense" in the Consolidated Statements of Income, was as follows:

(In millions)	2018	2017	2016
Research and development expense	\$ 98.2	\$ 93.4	\$ 89.7

Supplemental Cash Flow Information

Cash paid for interest and income taxes was as follows:

(In millions)	2018	2017	2016
Interest	\$ 54.9	\$ 57.7	\$ 58.9
Income taxes, net of refunds	153.5	125.6	106.1

Foreign Currency Effects

Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency), including hedging impacts, decreased net income by \$13.4 million, \$4.1 million, and \$1.6 million in 2018, 2017, and 2016, respectively.

Deferred Revenue

Deferred revenue primarily relates to constrained variable consideration on supply agreements for sales of products, as well as to payments received in advance of performance under a contract. Deferred revenue is recognized as revenue as or when we perform under a contract.

The following table shows the amounts and balance sheet locations of deferred revenue as of December 29, 2018 and December 30, 2017:

(In millions)	December 29, 2018	December 30, 2017
Other current liabilities	\$ 11.5	\$ 15.3
Long-term retirement benefits and other liabilities	.3	.4
Total deferred revenue	\$ 11.8	\$ 15.7

Revenue recognized from amounts included in deferred revenue as of December 30, 2017 was \$12.2 million in 2018, which was included in "Net sales" in the Consolidated Statements of Income.

NOTE 17. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018				
Net sales	\$ 1,776.4	\$ 1,854.2	\$ 1,759.7	\$ 1,768.7
Gross profit	483.4	501.4	459.2	471.5
Net income	125.2	95.6	149.5	97.1
Net income per common share	1.42	1.09	1.71	1.13
Net income per common share, assuming dilution	1.40	1.07	1.69	1.11
2017				
Net sales	\$ 1,572.1	\$ 1,626.9	\$ 1,679.5	\$ 1,735.3
Gross profit	442.4	452.6	451.6	465.6
Net income (loss) ⁽¹⁾	112.2	120.9	108.3	(59.6)
Net income (loss) per common share	1.27	1.37	1.23	(.68)
Net income (loss) per common share, assuming dilution	1.25	1.34	1.20	(.66)

⁽¹⁾ During the fourth quarter of 2017, we recognized a net tax charge of \$172 million as a result of the TCJA.

Notes to Consolidated Financial Statements

"Other expense (income), net" by type for each quarter is presented below.

(In millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018				
Restructuring charges:				
Severance and related costs, net of reversals	\$ 4.3	\$ 58.8	\$ (7.1)	\$ 7.0
Asset impairment charges and lease cancellation costs	8.4	.6	.7	1.0
Other items:				
Argentine peso remeasurement transition loss	-	-	3.4	-
Other restructuring-related charge	.5	-	-	-
Reversal of acquisition-related contingent consideration	-	-	-	(5.0)
Net gain on sales of assets	(.4)	(2.3)	-	-
Other expense (income), net	\$ 12.8	\$ 57.1	\$ (3.0)	\$ 3.0
2017				
Restructuring charges:				
Severance and related costs	\$ 5.7	\$ 7.3	\$ 8.7	\$ 9.5
Asset impairment charges and lease cancellation costs	-	.3	1.8	.1
Other items:				
Net gain on sales of assets	-	-	-	(2.1)
Transaction costs	.8	2.6	.3	1.5
Other expense, net	\$ 6.5	\$ 10.2	\$ 10.8	\$ 9.0

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 29, 2018. Management's assessment of the effectiveness of internal control over financial reporting as of December 29, 2018 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/ GREGORY S. LOVINS

Gregory S. Lovins
Senior Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Avery Dennison Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Avery Dennison Corporation and its subsidiaries (the "Company") as of December 29, 2018 and December 30, 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 29, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018 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 29, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for net periodic pension and postretirement benefit costs in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 27, 2019

We have served as the Company's auditor since at least 1960, which were the Company's first financial statements subject to SEC reporting requirements. We have not been able to determine the specific year we began serving as auditor of the Company or a predecessor company.

Other 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 25, 2019 at 207 Goode 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.

Certification Information

We are including, as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for fiscal year 2018 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 27, 2018.

Annual Report on Form 10-K Requests

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 are also available on 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

	2018	2017
Dividends per Common Share		
First Quarter	\$.45	\$.41
Second Quarter	.52	.45
Third Quarter	.52	.45
Fourth Quarter	.52	.45
	\$ 2.01	\$ 1.76
Number of shareholders of record as of year-end	4,606	4,854

SUBSIDIARY ⁽¹⁾	U.S. STATE OR COUNTRY IN WHICH ORGANIZED
ADC PHILIPPINES, INC.	PHILIPPINES
ADESPAN S.R.L.	ITALY
ADHIPRESS BANGLADESH LTD.	BANGLADESH
AVERY CORP.	DELAWARE
AVERY DE MEXICO SRL DE CV	MEXICO
AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD.	AUSTRALIA
AVERY DENNISON AUSTRALIA PTY LTD.	AUSTRALIA
AVERY DENNISON BELGIE BVBA	BELGIUM
AVERY DENNISON BELGIUM MANAGEMENT SERVICES SPRL	BELGIUM
AVERY DENNISON BENELUX BVBA	BELGIUM
AVERY DENNISON BV	NETHERLANDS
AVERY DENNISON CANADA CORPORATION	CANADA
AVERY DENNISON CENTRAL EUROPE GMBH	GERMANY
AVERY DENNISON CHILE S.A.	CHILE
AVERY DENNISON COLOMBIA S. A. S.	COLOMBIA
AVERY DENNISON COMMERCIAL EL SALVADOR, S.A. DE C.V.	EL SALVADOR
AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V.	MEXICO
AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V.	EL SALVADOR
AVERY DENNISON, C.A.	VENEZUELA
AVERY DENNISON DE ARGENTINA S.R.L.	ARGENTINA
AVERY DENNISON DO BRASIL LTDA.	BRAZIL
AVERY DENNISON DOMINICAN REPUBLIC, S.R.L.	DOMINICAN REPUBLIC
AVERY DENNISON EGYPT LLC	EGYPT
AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG	GERMANY
AVERY DENNISON FINANCE GERMANY GMBH	GERMANY
AVERY DENNISON G HOLDINGS I LLC	NEVADA
AVERY DENNISON G HOLDINGS III LLC	DELAWARE
AVERY DENNISON G INVESTMENTS III LIMITED	GIBALTAR
AVERY DENNISON G INVESTMENTS V LIMITED	GIBALTAR
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 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 INTELLIGENT LABELS HK LIMITED	HONG KONG
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 ISRAEL LTD.	ISRAEL

AVERY DENNISON ITALIA S.R.L.	ITALY
AVERY DENNISON JAPAN KK	JAPAN
AVERY DENNISON JAPAN MATERIALS COMPANY LTD.	JAPAN
AVERY DENNISON KOREA LIMITED	SOUTH KOREA
AVERY DENNISON LABEL LIMITED	HONG KONG
AVERY DENNISON LANKA (PRIVATE) LIMITED	SRI LANKA
AVERY DENNISON LUXEMBOURG SALES SARL	LUXEMBOURG
AVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON MANAGEMENT GMBH	GERMANY
AVERY DENNISON MANAGEMENT KGAA	LUXEMBOURG
AVERY DENNISON MANAGEMENT LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON MATERIALS BELGIUM SPRL	BELGIUM
AVERY DENNISON MATERIALS EUROPE B.V.	NETHERLANDS
AVERY DENNISON MATERIALS EUROPE GMBH	SWITZERLAND
AVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
AVERY DENNISON MATERIALS GMBH	GERMANY
AVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
AVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
AVERY DENNISON MATERIALS NEW ZEALAND LIMITED	NEW ZEALAND
AVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
AVERY DENNISON MATERIALS ROM SRL	ROMANIA
AVERY DENNISON MATERIALS RUSSIA LLC	RUSSIA
AVERY DENNISON MATERIALS SALES BELGIUM SPRL	BELGIUM
AVERY DENNISON MATERIALS SALES FRANCE S. A. S.	FRANCE
AVERY DENNISON MATERIALS SALES GERMANY GMBH	GERMANY
AVERY DENNISON MATERIALS SDN BHD	MALAYSIA
AVERY DENNISON MATERIALS UKRAINE LLC	UKRAINE
AVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
AVERY DENNISON MAURITIUS LTD.	MAURITIUS
AVERY DENNISON MOROCCO SARL	MOROCCO
AVERY DENNISON NETHERLANDS INVESTMENT I BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT III 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 NORDIC APS	DENMARK
AVERY DENNISON NTP A. S.	NORWAY
AVERY DENNISON OFFICE PRODUCTS COMPANY	NEVADA
AVERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY	NEVADA
AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
AVERY DENNISON OVERSEAS CORPORATION	MASSACHUSETTS
AVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
AVERY DENNISON PERU S. R. L.	PERU
AVERY DENNISON POLSKA SP. Z O.O.	POLAND
AVERY DENNISON PRAHA SPOL. S R. O.	CZECH REPUBLIC
AVERY DENNISON RBIS PTY LTD	AUSTRALIA
AVERY DENNISON RBIS (CAMBODIA) CO., LTD	CAMBODIA
AVERY DENNISON RBIS (CAMBODIA) TRADING CO., LTD	CAMBODIA
AVERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A. S.	COLOMBIA
AVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
AVERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR, LTDA. DE C. V.	EL SALVADOR

AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
AVERY DENNISON RETAIL INFORMATION SERVICES HONDURAS, S. DE R.L.	HONDURAS
AVERY DENNISON RETAIL INFORMATION SERVICES LLC	NEVADA
AVERY 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. Z O.O.	POLAND
AVERY DENNISON SCANDINAVIA AB	SWEDEN
AVERY DENNISON SCANDINAVIA APS	DENMARK
AVERY DENNISON SECURITY PRINTING EUROPE APS	DENMARK
AVERY DENNISON SHARED SERVICES, INC.	NEVADA
AVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
AVERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S.	FRANCE
AVERY DENNISON S.R.L.	ROMANIA
AVERY DENNISON TRADING COMPANY LTD	BANGLADESH
AVERY DENNISON TREASURY MANAGEMENT BV	NETHERLANDS
AVERY DENNISON TEKSTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON U.K. II LIMITED	UNITED KINGDOM
AVERY DENNISON U.K. LIMITED	UNITED KINGDOM
AVERY DENNISON (ASIA) HOLDINGS LIMITED	MAURITIUS
AVERY DENNISON (CHANGZHOU) FILMS TECHNOLOGY CO., LTD	CHINA
AVERY DENNISON (CHINA) COMPANY LIMITED	CHINA
AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED	CHINA
AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED	CHINA
AVERY DENNISON (GUANGZHOU) CO., LTD.	CHINA
AVERY DENNISON (GUANGZHOU) INTELLIGENT LABELS CO., LTD.	CHINA
AVERY DENNISON (HONG KONG) LIMITED	HONG KONG
AVERY DENNISON (INDIA) PRIVATE LIMITED	INDIA
AVERY DENNISON (IRELAND) LIMITED	IRELAND
AVERY DENNISON (KENYA) PRIVATE LIMITED	KENYA
AVERY DENNISON (KUNSHAN) COMPANY LIMITED	CHINA
AVERY DENNISON (MALAYSIA) SDN. BHD.	MALAYSIA
AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED	CHINA
AVERY DENNISON (SUZHOU) CO. LIMITED	CHINA
AVERY DENNISON (THAILAND) LTD.	THAILAND
AVERY DENNISON (VIETNAM) LIMITED	VIETNAM
AVERY DENNISON, S.A. DE C.V.	MEXICO
AVERY GRAPHIC SYSTEMS, INC.	DELAWARE
AVERY HOLDING S.A.S.	FRANCE
AVERY LLC	DELAWARE
AVERY OFFICE PRODUCTS PUERTO RICO L.L.C.	PUERTO RICO
AVERY PACIFIC LLC	CALIFORNIA
AVERY PROPERTIES PTY. LIMITED	AUSTRALIA
AWESOME PROFITS LTD	BVI
BEST COURAGE INTERNATIONAL LIMITED	BRITISH VIRGIN ISLANDS
CHOICE CLEVER PROFITS LTD	BVI
CREATERO GMBH	GERMANY
DENNISON INTERNATIONAL COMPANY	MASSACHUSETTS

DENNISON MANUFACTURING COMPANY
EUSTON FINANCIAL LIMITED
EVERGREEN HOLDING SARL
EVERGREEN HOLDINGS V LLC
FINESSE MEDICAL LTD.
HANITA COATINGS (KUNSHAN) CO. LTD
HANITA COATINGS EUROPE B.V.
HANITA COATINGS USA, LLC
HANITA EUROPA GMBH
HANITA PACIFIC PTY LTD.
HANITATEK, LLC
HEBEI YONGLE TAPE CO., LTD.
INFODRAGON MANAGEMENT LIMITED
INK MILL LLC
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.
JINTEX LIMITED
L&E AMERICAS SERVICIOS, S. A. DE C.V.
MACTAC ASIA-PACIFIC SELF-ADHESIVE PRODUCTS PTE LTD
MACTAC SCANDINAVIA A.B.
MACTAC (SHANGHAI) TRADING CO., LTD.
MARKSTAR INTERNATIONAL LIMITED
MODERN MARK INTERNATIONAL LIMITED
NINGBO AVERY DENNISON SHENZHOU EMBELLISHMENT CO. LTD.
PAXAR BANGLADESH LIMITED
PAXAR B.V.
PAXAR CANADA CORPORATION
PAXAR CORPORATION
PAXAR DE EL SALVADOR S. A. DE C. V.
PAXAR DE GUATEMALA, S. A.
PAXAR DE MEXICO S. A. DE C. V.
PAXAR DO BRASIL LTDA
PAXAR FAR EAST LIMITED
PAXAR KOREA LIMITED
PAXAR PACKAGING (GUANGZHOU) LTD.
PAXAR PAKISTAN (PRIVATE) LIMITED
PLYMOUTH YONGLE TAPE (SHANGHAI) CO., LTD
PAXAR (CHINA) LTD.
PAXAR (THAILAND) LIMITED
PT AVERY DENNISON 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
TIGER EIGHT GROUP LIMITED
WORLDWIDE RISK INSURANCE, INC.
YONGLE TAPE LTD

NEVADA
BRITISH VIRGIN ISLANDS
LUXEMBOURG
U.S.A.
IRELAND
CHINA
NETHERLANDS
U.S.A.
GERMANY
AUSTRALIA
U.S.A.
CHINA
BRITISH VIRGIN ISLANDS
U.S.A.
MALAYSIA
DOMINICAN REPUBLIC
BRAZIL
NEW ZEALAND
FRANCE
JERSEY, CHANNEL ISLANDS
MEXICO
SINGAPORE
SWEDEN
CHINA
HONG KONG
HONG KONG
CHINA
BANGLADESH
NETHERLANDS
CANADA
NEW YORK
EL SALVADOR
GUATEMALA
MEXICO
BRAZIL
HONG KONG
SOUTH KOREA
CHINA
PAKISTAN
CHINA
HONG KONG
THAILAND
INDONESIA
INDONESIA
INDONESIA
INDONESIA
MEXICO
GUATEMALA
HONG KONG
MEXICO
DELAWARE
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
HAWAII
BERMUDA

(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 (No. 333-211029) and Form S-8 (Nos. 033-54411, 033-58921, 033-63979, 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, 333-197631, 333-217534 and 333-226484) of Avery Dennison Corporation of our report dated February 27, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2018 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 27, 2019

**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 27, 2019

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

CERTIFICATION

I, Gregory S. Lovins, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gregory S. Lovins

Gregory S. Lovins
Senior Vice President and
Chief Financial Officer

February 27, 2019

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 29, 2018 (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 27, 2019

/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 29, 2018 (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 27, 2019

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and
Chief Financial Officer

* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.
