Avery Dennison Corp
Form DEF 14A
March 08, 2016

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

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**
**Securities Exchange Act of 1934**

Filed by the Registrant ý
Filed by a Party other than the Registrant o

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

**AVERY DENNISON CORPORATION**
(Name of Registrant as Specified In Its Charter)

**N/A**
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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# Notice of 2016 Annual Meeting of Stockholders

To Our Stockholders:

You are cordially invited to attend our 2016 Annual Meeting of Stockholders to be held at the Embassy Suites, 800 North Central Avenue, Glendale, California 91203 on Thursday, April 28, 2016, at 1:30 p.m. Pacific Time. At the meeting, stockholders will vote on the following items of business:

1. Election of the ten directors nominated by our Board to serve a one-year term;

2. Approval, on an advisory basis, of our executive compensation;

3. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2016; and

4. Transaction of any other business properly brought before the meeting or any adjournment or postponement thereof.

**Our Board recommends that stockholders vote FOR each of the director nominees named in Item 1, and FOR Items 2 and 3.** After considering these items of business at the meeting, Dean Scarborough, our Chairman and Chief Executive Officer, and Mitch Butier, our President and Chief Operating Officer, will review our 2015 performance and answer your questions.

Stockholders of record as of February 29, 2016 are entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof.

We will be mailing our Notice of Internet Availability of Proxy Materials, which includes instructions on how to access these materials on the Internet, on or before March 11, 2016. Stockholders who previously elected to receive a paper copy of our proxy materials will be mailed our 2016 proxy statement, 2015 annual report, Chairman's letter to stockholders and a proxy card on about March 14, 2016.

**Even if you cannot attend the Annual Meeting, it is important that your shares be represented and voted.** You may vote as follows:

On behalf of the Board of Directors, management and employees of Avery Dennison, thank you for your continued support.

By Order of the Board of Directors

Susan C. Miller
Corporate Secretary

March 8, 2016

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# Our Plan to Win

## At Avery Dennison, we are creating a more sustainable world through our:

- **Vision** An aspirational picture of our future;
- **Values** The core beliefs that guide our actions and support our vision;
- **Leadership Principles** The characteristics and behaviors we expect from our leaders in support of our objectives; and
- **Strategies** How we own, manage and profitably operate a portfolio of businesses to transform information and elevate brands.

# PROXY SUMMARY

This section contains summary information described in greater detail in other parts of this proxy statement and does not contain all the information you should consider before voting. Stockholders are urged to read the entire proxy statement before voting.

## ANNUAL MEETING INFORMATION

| | |
|---|---|
| **TIME AND DATE** | 1:30 p.m. Pacific Time on Thursday, April 28, 2016 |
| **PLACE** | Embassy Suites, 800 North Central Avenue, Glendale, California 91203 |
| **RECORD DATE** | Stockholders as of the close of business on February 29, 2016 are entitled to vote at the meeting |
| **ATTENDING THE MEETING** | Please follow the instructions contained in the *Meeting and Voting Information* section of this proxy statement |

## ITEMS BEING VOTED ON AT ANNUAL MEETING

Stockholders are being asked to vote on the following items of business at the Annual Meeting. As shown below, our Board of Directors (our "Board") recommends that stockholders vote for all ten director nominees and in favor of the two other items being brought for stockholder vote.

| ITEM | BOARD RECOMMENDATION | VOTE REQUIRED | DISCRETIONARY BROKER VOTING | PAGE REFERENCE |
|---|---|---|---|---|
| 1. Election of directors | FOR each nominee | Majority of votes cast | No | 13-22 |
| 2. Advisory vote to approve executive compensation | FOR | Majority of shares represented and entitled to vote | No | 23-67 |
| 3. Ratification of appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for fiscal year 2016 | FOR | Majority of shares represented and entitled to vote | Yes | 68-72 |

## 2015 PERFORMANCE HIGHLIGHTS

Fiscal year 2015 was another year of solid progress for our company. With net sales of approximately $6.0 billion, we delivered 4.6% in organic sales growth and 10.6% growth in adjusted earnings per share (EPS). Adjusted EPS for the year of $3.44 exceeded the high end of the $3.20-$3.40 guidance range we provided to investors in January 2015. Free cash flow rebounded to $329.4 million from $184.7 million in the prior year, which reflected actions we took in 2014 to reduce the volatility associated with year-end changes to our levels of working capital.

Organic sales growth, adjusted EPS, free cash flow, and return on total capital (ROTC) are non-GAAP financial measures that we provide to investors to assist them in assessing our performance and operating trends and are defined in the *Compensation Discussion and Analysis* section of this proxy statement. These non-GAAP financial measures are not in accordance with, nor a substitute for or superior to, the comparable financial measures under generally accepted accounting principles in the United States of America (GAAP) and are reconciled to GAAP in Appendix A to this proxy statement.

* Decrease from prior year due primarily to the impact of currency; sales on an organic basis increased 4.6%

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***Delivered Against Long-Term Financial Targets.*** In May 2012, we communicated to our stockholders the long-term financial targets we planned to realize by the end of 2015. As shown below, we delivered strong financial performance during the 2012-2015 period, meeting our organic sales growth and adjusted EPS growth targets. Although our free cash flow fell substantially short of our annual target in 2014, we reached our target of $300+ million in three of the four years in the period and achieved a four-year average of $287 million. We substantially delivered our 2015 commitments to investors.

| | 2012-2015 TARGETS | 2012-2015 RESULTS |
|---|---|---|
| Organic Sales Growth | 3%-5% | **4%** |
| Adjusted EPS Growth | 15%-20%+ | **20%** |
| Annual Free Cash Flow | $300 mil.+ | **Avg. of $287 mil.** |

In May 2014, we announced new long-term financial targets through 2018. We raised the midpoint of our long-term organic sales growth target from 4% to 4.5%, reflecting confidence in the trajectory of our two primary operating segments. We continued targeting double-digit adjusted EPS growth. We also introduced a target for ROTC, which has long been a key internal financial metric for our company. We believe that the combination of our growth and ROTC targets effectively communicates our value creation objectives, which together are a proxy for economic value added (EVA), one of the performance objectives used in our long-term incentive compensation program. As shown below, based on our results for the first two years of this five-year period, we are on track to deliver our 2018 commitments to investors.

| | 2014-2018 TARGETS | 2014-2015 RESULTS |
|---|---|---|
| Organic Sales Growth | 4%-5% | **4%** |
| Adjusted EPS Growth | 12%-15%+ | **13%** |
| Return on Total Capital | 16%+ in 2018 | **15% in 2015** *(up from 11% in 2013)* |

***Disciplined Capital Allocation.*** Effectively deploying capital is one of our core strategies, and we have been consistently disciplined in our execution of that strategy by being a patient investor with respect to acquisitions and share repurchases. We have paid quarterly dividends for decades and increased our annual dividend rate per share by over 80% since 2010. As shown on the following page, over the last five years, we have returned more than $1.5 billion to our stockholders, delivering on our commitment to return an increased amount of cash to our stockholders over the long term. Share repurchases declined in 2015 compared to the prior year, reflecting the disciplined execution of our capital allocation strategy, which considers our leverage capacity, assessment of the discount to intrinsic value of our common stock and other opportunities for investment, such as acquisitions. Given the higher price of our common stock in 2015 compared to 2014, the volume guidelines under which we make repurchases dictated that a lower range of shares be repurchased.

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**Substantial Return of Cash to Stockholders**

***Strong Three- and Five-Year Cumulative TSR.*** As shown below, our strong annual total stockholder return (TSR) of approximately 24% in 2015 contributed to our substantial outperformance in cumulative TSR for the 2013-2015 period compared to the S&P 500® and the median of the S&P 500 Industrials and Materials subsets (we are a member of the Materials subset, but also share many characteristics with members of the Industrials subset; investors have advised us that they look at both subsets in evaluating our relative performance). TSR measures the return that we have provided our stockholders, including stock price appreciation and dividends paid (assuming reinvestment thereof).

**Three-Year Cumulative TSR**

For the 2011-2015 five-year period, our cumulative TSR was above the peer company median but below the S&P 500; annual TSR was higher than both groups in three of the five years, including significant outperformance in 2015.

**TOTAL STOCKHOLDER RETURN**

| | 2011 | 2012 | 2013 | 2014 | 1-Year TSR | 5-Year TSR |
|---|---|---|---|---|---|---|
| **AVY** | -30.2% | 26.2% | 47.5% | 6.2% | **23.8%** | **70.8%** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **S&P 500** | 2.1% | 16.0% | 32.4% | 13.7% | **1.4%** | **80.8%** |
| **S&P Indus. & Mats.* (median)** | -3.3% | 19.3% | 39.9% | 11.3% | **-7.2%** | **67.2%** |

* Based on companies in subsets as of December 31, 2015.

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## CORPORATE GOVERNANCE HIGHLIGHTS

Our corporate governance policies and practices reflect our values, and allow our Board to effectively oversee our company in the interest of creating long-term value. The key elements of our program and their benefits to our stockholders are described below.

| OUR POLICY OR PRACTICE | DESCRIPTION AND BENEFIT TO OUR STOCKHOLDERS |
|---|---|
| | **STOCKHOLDER RIGHTS** |
| **Annual Election of Directors** | Our directors are elected annually, reinforcing their accountability to our stockholders. |
| **Single Class of Outstanding Voting Stock** | We have no class of preferred stock outstanding, meaning our common stockholders control our company, with equal voting rights. |
| **Majority Voting for Director Elections** | We have a majority vote standard for uncontested director elections, which increases Board accountability to our stockholders. |
| **Mandatory Director Resignation Policy** | Incumbent directors who are not elected by the majority of our stockholders must tender their resignation. |
| **No Supermajority Voting Requirements** | We eliminated the supermajority provisions in our charter and bylaws; as a result, stockholders may amend these documents or approve mergers and similar transactions by simple majority vote. |
| **No Poison Pill** | We do not have a stockholder rights plan (commonly referred to as a "poison pill"). |
| | **BOARD STRUCTURE** |
| **Governance Guidelines** | Our Corporate Governance Guidelines provide stockholders with information regarding the best practice principles of our corporate governance program and Board framework. |
| **89% Independent** | Currently, all but one of our current directors are independent, ensuring that they oversee our company without undue influence from management. If all director nominees are elected by our stockholders, our Board will be 80% independent after the Annual Meeting. |
| **Robust Lead Independent Director Role** | Our Lead Independent Director is selected annually by our independent directors to perform clearly delineated duties, such as presiding at executive sessions and approving Board agendas. |
| **Committee Governance** | Our Board Committees have written charters and are comprised exclusively of independent directors. Committee composition and charters are reviewed annually by our Board. |
| **Mandatory Retirement Policy** | We have adopted a mandatory director retirement age of 72, which helps ensure regular refreshment of our Board. |
| **Board Refreshment** | Our Board's Governance and Social Responsibility Committee annually reviews our Board composition, which helps ensure we have the right balance between continuity and fresh perspectives. We have added three new directors in the past six years and have nominated a new director for election at the Annual Meeting. |
| **Annual Performance Evaluations** | Our Board's Governance and Social Responsibility Committee oversees an annual performance evaluation of our Board and its Committees and leadership to ensure that they continue to serve the best interests of stockholders. |
| **Access to Management and Experts** | Our Board and Committes have complete access to all levels of management and can engage advisors at our expense, giving them access to employees with direct responsibility for managing our company and experts to help them fulfill their oversight responsiblities on behalf of our stockholders. |
| **Succession Planning** | |

Our Board's Compensation and Executive Personnel Committee and/or the full Board reviews senior executive successors at least annually to identify and develop our future leaders and ensure business continuity if any of these key employees were to leave our company.

## EXECUTIVE COMPENSATION

| | |
|---|---|
| **Stringent Stock Ownership Guidelines** | All of our directors and executive officers meet our stringent stock ownership guidelines (5x base salary for our CEO and 3-4x base salary for our other NEOs), helping ensure the alignment of their interests with those of our stockholders. |
| **Performance-Based Compensation** | 85% of our CEO's 2015 target total direct compensation was performance-based. |
| **Compensation Best Practices** | Our executive compensation program reflects best practices, which are summarized at the end of this proxy summary and in greater detail in the *Compensation Discussion and Analysis* section of our proxy statement. |

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## 2016 DIRECTOR NOMINEES

Since 2011, our Board has overseen a significant transformation of our company, including the execution of our business strategies to deliver strong cumulative TSR of approximately 94% and 71% over the last three and five years, respectively; the divestiture of two of our businesses in 2013, allowing us to focus primarily on our industry-leading Pressure-sensitive Materials (PSM) and Retail Branding and Information Solutions (RBIS) segments; a restructuring program that delivered over $100 million in annualized savings and substantially improved our productivity, followed by additional restructuring actions designed to substantially improve the cost structure of RBIS; and the implementation of our Board's succession planning with the recent election of Mitchell Butier as our President and Chief Executive Officer (CEO) effective May 1, 2016, and his nomination for election as a director on our Board. Effective immediately before the Annual Meeting, our Board is increasing its size from nine to ten. Our incumbent directors have demonstrated a commitment to diligently and effectively executing their fiduciary duties on behalf of our stockholders, and we recommend that each of the following nominees be elected at the Annual Meeting.

| NAME | AGE | DIRECTOR SINCE | CURRENT PRINCIPAL OCCUPATION | INDEPENDENT | AC | CC | GC |
|---|---|---|---|---|---|---|---|
| Bradley A. Alford | 59 | 2010 | Retired Chairman & CEO, Nestlé USA | | | M | M |
| Anthony K. Anderson | 60 | 2012 | Retired Vice Chair & Managing Partner, Ernst & Young LLP | | M | | |
| Peter K. Barker | 67 | 2003 | Retired Chairman of California, JPMorgan Chase & Co. | | C | | |
| Mitchell R. Butier | 44 | | President & COO, Avery Dennison Corporation | No | | | |
| Ken C. Hicks | 63 | 2007 | Retired Chairman, Foot Locker, Inc. | | M | | M |
| David E. I. Pyott (LID) | 62 | 1999 | Retired Chairman & CEO, Allergan, Inc. | | | C | M |
| Dean A. Scarborough | 60 | 2000 | Chairman & CEO, Avery Dennison Corporation | No | | | |
| Patrick T. Siewert | 60 | 2005 | Managing Director and Partner, The Carlyle Group | | M | | |
| Julia A. Stewart | 60 | 2003 | Chairman & CEO, DineEquity, Inc. | | | M | C |
| Martha N. Sullivan | 59 | 2013 | President & CEO, Sensata Technologies Holding N.V. | | | M | |

AC = Audit & Finance Committee CC = Compensation & Executive Personnel Committee GC = Governance & Social Responsibility Committee
M = Member C = Chairman LID = Lead Independent Director

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# EXECUTIVE COMPENSATION HIGHLIGHTS

## COMPENSATION PHILOSOPHY AND STOCKHOLDER ENGAGEMENT

Our Board's Compensation and Executive Personnel Committee (the "Compensation Committee") designs our executive compensation program to motivate our executives to execute our business strategies and deliver long-term stockholder value. The program delivers pay for performance, with realized compensation dependent on our company achieving annual and long-term financial and value creation performance objectives that advance the interests of our stockholders.

We value stockholder feedback on our executive compensation practices, and we actively solicit input through our stockholder engagement program. Our Board and management continued their long-standing practice of open dialogue with stockholders in 2015. In advance of the 2015 Annual Meeting, we proactively contacted our thirty largest institutional stockholders, representing over 60% of our then-outstanding shares, to solicit their views on our executive compensation program and make directors and management available to answer questions or address concerns. As a result of this effort, we engaged in telephonic discussions with stockholders representing approximately 35% of our then-outstanding shares. In addition, after one of our directors and members of management met in person with four of our largest stockholders and the two leading proxy advisory firms in the fall of 2014, we followed up on these meetings with as-needed engagement during 2015.

## PERFORMANCE-BASED COMPENSATION TARGETED AT MARKET MEDIAN

Target total direct compensation (TDC) to our executives is comprised of the following three components:

- Base salary;
- Performance-based cash incentive award under our Annual Incentive Plan (AIP); and
- Long-term incentives (LTI) delivered in performance-based equity, consisting 50% of performance units (PUs) and 50% of market-leveraged stock units (MSUs).

**Elements of Total Direct Compensation**

The Compensation Committee targets our Named Executive Officers' (NEOs') TDC and the components thereof at the market median, giving consideration to responsibilities, individual performance, tenure, retention, succession and market factors. The majority of this compensation is at risk, meaning that if we fail to achieve our financial objectives and create stockholder value, our executives may ultimately not realize some or all of these performance-based components of compensation. In 2015, 85%, 79% and 67% of our CEO's, President's and average of other current NEOs' TDC, respectively, was performance-based.

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**2015 Target Total Direct Compensation Mix**

## CEO TRANSITION

In October 2014, Mr. Butier was elected by our Board as President and Chief Operating Officer (COO) effective November 1, 2014. Mr. Butier served in these capacities throughout 2015, resigning from the additional position of Chief Financial Officer (CFO) in March 2015 in connection with the appointment of Anne Bramman as our Senior Vice President and CFO. In February 2016, after having discussed CEO transition matters during executive session at all but the first meeting held during 2015, our Board determined to elect Mr. Butier as President and CEO effective May 1, 2016, replacing Mr. Scarborough in the CEO role at that time. The independent directors of our Board determined to elect, subject to his election by our stockholders, Mr. Scarborough as Executive Chairman of our Board also effective May 1, 2016. In recognition of responsibilities in these respective roles, as well as the advice of its independent compensation consultant, Willis Towers Watson, the Compensation Committee made the following decisions:

- For Mr. Butier, increase his base salary from $765,000 to $1,100,000 effective May 1, 2016; raise his 2016 target AIP and LTI opportunities from 90% and 300%, respectively, to 125% and 400%, respectively (the AIP opportunity will be prorated based on the portion of the year for which he serves as President and COO and the portion for which he serves as President and CEO); and, consistent with similar promotion grants to CEOs in the market, grant him an option to purchase shares of our common stock with a grant date fair value of approximately $2,000,000 on June 1, 2016, which will vest 50% on each of the third and fourth anniversaries of the date of grant. This equity grant provides for realizable gains that align directly with the long-term appreciation of our common stock and intentionally differs from our annual LTI awards to underscore its special purpose and one-time nature. Mr. Butier's new target TDC of $6,875,000 is less than the market median; the Compensation Committee believes that positioning his compensation at the 40th percentile acknowledges that he will be new to the CEO role yet compensates him within a reasonable CEO market range.

- For Mr. Scarborough, decrease his base salary from $1,125,000 to $875,000 effective May 1, 2016 and decrease his 2016 target AIP and LTI opportunities from 125% and 450%, respectively, to 100% and 300%, respectively (the AIP opportunity will be prorated based on the portion of the year for which he serves as Chairman and CEO and the portion for which he serves as Executive Chairman). Mr. Scarborough's 2016 target TDC of $4,375,000 is at (i) the market median for an executive chairman role and (ii) represents a 45% decrease from his current target TDC of $7,593,750. The Compensation Committee believes that in his new role as Executive Chairman, Mr. Scarborough will provide critical leadership experience and mentorship to facilitate a smooth CEO transition.

- For 2017, Mr. Scarborough's base salary is expected to be further reduced to $230,000; he is not expected to be eligible to participate in the AIP; and his annual LTI opportunity is expected to be valued at approximately $140,000, the same as that of our non-employee directors. Mr. Scarborough's anticipated 2017 target TDC of $370,000 is expected to be at the market median for a non-executive chairman.

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## PAY-FOR-PERFORMANCE

Over the past five years, our cumulative TSR has increased over 70% while our CEO's compensation has increased only 18%. See the *Summary Compensation Table* in this proxy statement for more information.

**Five-Year CEO Pay and Cumulative TSR**

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## COMPENSATION BEST PRACTICES

As summarized below and described in further detail in the *Compensation Discussion and Analysis* section of this proxy statement, we believe that our executive compensation program aligns with our goals and strategies and reflects best practices.

### What We Do

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Pay for performance    85% of our CEO's 2015 target TDC was tied to company performance

Emphasize long-term performance    66% of our CEO's 2015 target TDC was equity-based and tied to creating stockholder value

Use double-trigger change of control vesting provisions    Vesting of equity following a change of control requires termination of employment within 24 months

Manage share usage conservatively    We have reduced our dilution and burn rate to 4.0% and 0.4%, respectively

Maintain rigorous stock ownership guidelines    5x base salary for our CEO and 3-4x base salary for our other NEOs

Review tally sheets    Compensation Committee performs a detailed review of all executive compensation components

Maintain market consistent clawback policy

Use an independent compensation consultant retained directly by the Compensation Committee

Assess risks related to our compensation policies and practices

Obtain releases from liability and post-termination restrictive covenants from our executives

Annually review the Compensation Committee's charter and evaluate the Compensation Committee's performance

### What We Don't Do

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Have employment agreements with our NEOs

Gross up change of control severance benefits for excise taxes

Provide above-market interest rates in our only deferred compensation plan currently open for deferrals

Provide gross-ups to cover tax liabilities associated with executive perquisites

Permit directors or officers to hedge or pledge company stock

Grant stock options with an exercise price less than the fair market value on the date of grant

Re-price or exchange stock options without stockholder approval

Pay accrued dividend equivalents unless and until the underlying equity awards vest

## RATIFICATION OF APPOINTMENT OF PwC

Our Board's Audit and Finance Committee has appointed PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm for fiscal year 2016, and our Board is seeking stockholder ratification of the appointment. PwC is knowledgeable about our operations and accounting practices, and is well qualified to act as our independent registered public accounting firm. The Audit and Finance Committee considered the qualifications, performance, and independence of PwC, the quality of its discussions with PwC, and the fees charged by PwC for the level and quality of services provided during 2015, and determined that the reappointment of PwC is in the best interest of our company and its stockholders.

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# CORPORATE GOVERNANCE, SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

We develop identification and decorative solutions primarily for businesses worldwide. Our products include pressure-sensitive labeling technology and materials; films for graphic and reflective applications; performance tapes; brand and price tickets, tags and labels (including radio-frequency identification inlays); and pressure-sensitive adhesive products for surgical, wound care, ostomy, and electromedical applications. We serve our customers with insights and innovations that help make brands more inspiring and the world more intelligent.

## CORPORATE GOVERNANCE

Under the oversight of our Board of Directors (our "Board"), we have designed our corporate governance program to ensure continued compliance with applicable laws and regulations including the rules of the Securities and Exchange Commission (SEC) and the listing standards of the New York Stock Exchange (NYSE) and to reflect best practices as informed by the policies of other public companies, recommendations from our outside advisors, the voting guidelines of our stockholders and the policies of proxy advisory firms. The key features of our program and the related benefits to our stockholders are described in the *Corporate Governance Highlights* section of our Proxy Summary (see page iv).

We encourage stockholders to visit the Corporate Governance section of our website at www.averydennison.com/corporategovernance, where the following corporate governance documents can be found:

- Code of Ethics for the Chief Executive Officer (CEO) and Senior Financial Officers;
- Code of Conduct;
- Audit Committee Complaint Procedures for Accounting and Auditing Matters;
- Corporate Governance Guidelines (our "Governance Guidelines"); and
- Charters for our Board's Audit and Finance Committee (the "Audit Committee"), Compensation and Executive Personnel Committee (the "Compensation Committee"), and Governance and Social Responsibility Committee (the "Governance Committee").

Our website also includes copies of our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws ("Bylaws"). You can access these documents on our website using the links contained in this proxy statement, but should note that information on our website is not and should not be considered part of, nor is it incorporated by reference into, this proxy statement. You can also receive copies of these documents, without charge, by written request mailed to our Corporate Secretary at Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

### CODE OF ETHICS

We have adopted a Code of Ethics that requires our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Controller to act professionally and ethically in fulfilling their responsibilities. These individuals are expected to avoid actual or apparent conflicts between their personal and professional relationships and disclose any material transaction or relationship that could reasonably be expected to give rise to a conflict of interest to the Governance Committee. In addition, they are expected to ensure that the reports and documents we file with the SEC contain full, fair, accurate and understandable information; respect the confidentiality of information acquired in the course of the performance of their responsibilities; employ corporate assets and resources in a responsible manner; and report violations of our Code of Ethics to the Chair of either the Audit Committee or the Governance Committee. Supporting the principles of our Code of Ethics, our controllership and internal audit functions ensure a robust internal control environment, and regularly report to the Audit Committee.

Our Code of Ethics is available on our website at www.averydennison.com/codeofethics. Only the Audit Committee or Governance Committee can amend or waive the provisions of the Code of Ethics, and any amendments or waivers must be posted promptly on our website or timely filed with the SEC on a Current Report on Form 8-K. Since we first adopted our Code of Ethics in February 2004, no amendments have been made and no waivers have been granted.

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## CODE OF CONDUCT

Our Code of Conduct which is built on our core values of Integrity, Service, Teamwork, Innovation, Excellence and Community applies to all of our directors, officers and employees and is available on our website at www.averydennison.com/codeofconduct. Our Code of Conduct has been translated into 30 languages and our leaders are trained on it and affirm their commitment to comply with it when they first join our company and annually thereafter. The core ethical matters discussed in our Code of Conduct are shown below. Our global supplier standards extend our commitment to many of these principles to our third party service providers, establishing our expectation that they also do business in an ethical manner.

Our Business Conduct GuideLine is a hotline available at all hours for employees or third parties to report potential violations of our Code of Conduct, anonymously if they so choose, by (i) calling 888.567.4387 toll-free in the United States; 704.731.0166 collect from outside the United States; 10.800.711.0729 toll-free in North China; or 10.800.110.0672 toll-free in South China or

(ii) visiting www.integrity-helpline.com/AveryDennison.jsp (www.financial-integrity.com/AveryDennison.jsp in Europe). The hotline is operated by an independent third party and accepts reports in any language to accommodate the needs of our global workforce and customer/supplier base. All reports are investigated under the direction of our Chief Compliance Officer, in consultation with the law department and senior management and with oversight from the Governance Committee. Our policies prohibit retaliation for good-faith reporting.

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## COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

The Audit Committee is responsible for ensuring that complaints related to accounting, accounting standards, internal accounting controls and audit practices are handled appropriately and has adopted procedures for the confidential, anonymous submission of complaints regarding these matters. These procedures relate to complaints for fraud or deliberate error in the preparation, evaluation, review or audit of our financial statements or other financial reports; fraud or deliberate error in the recording or maintenance of our financial records; deficiencies in or noncompliance with our internal accounting controls; misrepresentation or false statement to or by a senior officer or accountant regarding a matter contained in our financial records, statements, or other reports; or deviation from full and fair reporting of our financial condition. Any person, including third parties, may submit a good faith complaint regarding accounting and auditing matters; employees may do so without fear of dismissal or other retaliation. The Audit Committee oversees these procedures, which are available on our website at www.averydennison.com/auditprocedures. Investigations are conducted under the direction of our internal audit department in consultation with the law department and members of senior management to the extent appropriate under the circumstances.

Stockholders and other interested parties interested in communicating regarding these matters may make a confidential, anonymous report by (i) reporting to the Business Conduct GuideLine as described above, or (ii) writing to the Audit and Finance Committee Chair, c/o Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

## SUSTAINABILITY

Sustainability is rooted in our values and has long been part of our approach to doing business. It drives us to work collaboratively across our entire value chain to address the environmental and social impacts of our packaging, labeling, retail branding and graphics materials. Our aim is to improve the sustainability of our products and processes, while helping to create shared value for all our stakeholders. Management leads the execution of our sustainability promise through our Sustainability Council, which is chaired by Mitchell Butier, our President and Chief Operating Officer (COO), and comprised of other corporate and business leaders, with Board oversight from the Governance Committee.

In September 2015, we issued our second Sustainability Report, covering the 2013-2014 period and reporting on our progress towards achieving the 2015 sustainability goals we announced in 2009. Each of our goals was grounded in a vision for the future of our company, and we were proud to report that, as of the end of fiscal year 2014, we were on track to meet or exceed each of these goals by the end of 2015. Details of our accomplishments may be found in the Sustainability Report posted in the "Sustainability" section of our company website at www.averydennison.com/sustainability.

| VISION | 2015 GOAL | YE 2014 STATUS |
|---|---|---|
| Industry leadership in sustainable solutions | Create market-leading sustainable materials and solutions | Several sustainable solutions developed |
| Responsibly sourced materials | Our strategic suppliers achieve a preferred environmental performance rating | On track |
| Reduce our carbon footprint | Reduce greenhouse gas emissions indexed to net sales by 15% from 2005 levels | Exceeded |
| Zero waste to landfill | Reduce manufacturing waste sent to landfill to 15% of total waste generated | Exceeded |
| Safe and fair labor practices | Achieve a world-class safety incident rate of 0.40 | Exceeded |
| | Report on social compliance performance of key suppliers | On track |

| | | |
|---|---|---|
| Invest in our global communities | Triple our community investment in emerging markets | On track |

## CORPORATE SOCIAL RESPONSIBILITY

With oversight from the Governance Committee, the Avery Dennison Foundation leads our community outreach efforts and is built on our company's leadership principle of model integrity and social responsibility. Our vision is to inspire human promise toward a more intelligent and sustainable world a vision that drives us to advance education and sustainability initiatives in the communities in which our employees live, learn and work. In cooperation with not-for-profit organizations, non-governmental organizations and schools, we encourage our employees to volunteer their time to improve quality of life in their communities and identify organizations that provide needed services with the same spirit of invention and innovation found at the heart of our company's success. In recent years, our global giving program has expanded into China, India and Brazil to measurably improve the lives of students and families in these nations where we have a significant presence.

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# OUR BOARD OF DIRECTORS

## OVERVIEW

Our Board is responsible for overseeing, counseling and directing management in serving the long-term interests of our company and stockholders, with the goal of building long-term value and ensuring the vitality of our businesses for our customers, employees and other stakeholders. Our Board's primary responsibilities include establishing an effective corporate governance program, with a Board and Committee structure that ensures independent oversight; overseeing our businesses, strategies and risks; maintaining the integrity of our financial statements; evaluating the performance of our senior executives and determining their compensation; undertaking succession planning for our CEO and other senior executives; and reviewing our annual operating plan and significant strategic and operational actions.

### BOARD COMPOSITION

Our Bylaws currently provide that our Board be comprised of between eight and 12 directors, with the exact number fixed from time to time by Board resolution. Effective immediately before our Annual Meeting, our Board has fixed the number of directors at ten. The nominees for election at the Annual Meeting and their tenure, current principal occupation, independence status, and committee memberships (if applicable) during 2015 are as follows:

| NAME | DIRECTOR SINCE | CURRENT PRINCIPAL OCCUPATION | INDEPENDENT | AC | CC | GC |
|---|---|---|---|---|---|---|
| Bradley A. Alford | 2010 | Retired Chairman & CEO, Nestlé USA | | | M | M |
| Anthony K. Anderson | 2012 | Retired Vice Chair & Managing Partner, Ernst & Young LLP | | M | | |
| Peter K. Barker | 2003 | Retired Chairman of California, JPMorgan Chase & Co. | | C | | |
| Mitchell R. Butier | | President & COO, Avery Dennison Corporation | No | | | |
| Ken C. Hicks | 2007 | Retired Chairman, Foot Locker, Inc. | | M | | M |
| David E. I. Pyott (LID) | 1999 | Retired Chairman & CEO, Allergan, Inc. | | | C | M |
| Dean A. Scarborough | 2000 | Chairman & CEO, Avery Dennison Corporation | No | | | |
| Patrick T. Siewert | 2005 | Managing Director and Partner, The Carlyle Group | | M | | |
| Julia A. Stewart | 2003 | Chairman & CEO, DineEquity, Inc. | | | M | C |
| Martha N. Sullivan | 2013 | President & CEO, Sensata Technologies Holding N.V. | | | M | |

AC = Audit & Finance Committee CC = Compensation & Executive Personnel Committee GC = Governance & Social Responsibility Committee

M = Member C = Chair LID = Lead Independent Director

The ages of our director nominees range from 44 to 67, with an average age of 59. Their lengths of service range from zero to 16 years, with an average tenure on our Board of nine years. None of our directors serves on more than two other boards of SEC-reporting companies, except for Messrs. Anderson and Pyott, each of whom is retired and serves on three such other boards.

### BOARD MEETINGS AND ATTENDANCE

Our Board met five times and acted twice by unanimous written consent during 2015. There were 22 meetings and one action by written consent of the Committees of our Board during the year. Each of our directors attended at least 75% of the aggregate number of meetings of our Board and Committees of which he or she was a member held during 2015; the average attendance of all directors was 98%. Directors are strongly encouraged to attend our annual stockholder meetings and all of the then-serving directors attended the 2015 Annual Meeting, except for Rolf Börjesson who retired from the Board on that day.

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## CORPORATE GOVERNANCE GUIDELINES

Our Governance Guidelines, which were most recently amended in February 2016, provide the corporate governance framework for our company and reflect the beliefs of our Board with respect to the matters described below. They are reviewed at least annually and amended from time to time to reflect changes in regulatory requirements, evolving market practices and recommendations from our stockholders and advisors.

| MATTER | DESCRIPTION |
|---|---|
| Board Composition | **Reasonable Size.** Our Board should consist of between eight and 12 directors.<br><br>**No Over-Boarded Directors**. Our directors should sit on four or fewer other public company boards.<br><br>**Mandatory Retirement.** Directors should retire on the date of our annual stockholder meeting occurring after they reach age 72, with no established term limits on service. |
| Director Independence | **Majority Independent**. A majority of our directors should satisfy NYSE independence standards.<br><br>**Regular Executive Sessions**. Our independent directors should meet in executive session at each regular meeting of our Board. |
| Board Leadership Structure | **Frequent Review.** Our Governance Committee should periodically consider the appropriateness of our Board leadership structure, with the independent directors on our Board retaining the authority to separate or combine the positions of Chairman and CEO.<br><br>**Robust Lead Independent Director Role**. Since our current CEO is also Chairman, our independent directors should annually select one of themselves to serve as Lead Independent Director. |
| Board Committees | **Independence.** Board Committees should be comprised only of independent directors.<br><br>**Governance.** Board Committees should act under charters setting forth their purposes and responsibilities.<br><br>**Attendance.** Directors should attend all meetings of our Board and its Committees on which they serve, and are strongly encouraged to attend all annual stockholder meetings. |
| Board Duties | **Management and Expert Access**. Directors should exercise their reasonable business judgment and are entitled to rely on our senior executives, to whom they have full and free access, and any independent legal, financial or other advisors they deem necessary or appropriate, which they may engage at our expense.<br><br>**Strategic and Risk Oversight**. Our Board should regularly review our long-term strategic plans, including the major risks facing our company.<br><br>**Succession Planning**. Our Board should periodically conduct succession planning through the Compensation Committee. |
| Continuous | **New Director Orientation**. All new directors should participate in an orientation program after |

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| Board Improvement | joining our Board to familiarize themselves with our company.<br><br>**Continuing Education**. Directors should continue their education through meetings with management, visits to our facilities and attendance at accredited director education programs and institutes.<br><br>**Annual Performance Evaluations**. The Governance Committee should oversee an annual evaluation process to ensure our Board, Committees, Chairman and Lead Independent Director are functioning effectively. |
| Director Qualifications | **Diverse and Relevant Experience**. The Governance Committee should review the skills and characteristics of Board members, as well as the composition of the Board as a whole, and recommend director nominees. |

## DIRECTOR INDEPENDENCE

Our Governance Guidelines require that our Board be comprised of a majority of directors who satisfy the criteria for independence under NYSE listing standards. These standards require that our audit, compensation and nominating committees be comprised entirely of independent directors. An independent director is one who meets the independence requirements of the NYSE and who our Board affirmatively determines has no material relationship with our company, directly or indirectly as a partner, stockholder or officer of an entity with which we have a relationship.

Each year, our directors complete a questionnaire designed to solicit information that may have a bearing on the annual independence determination, including all relevant relationships they have with our company, directly or indirectly through our company's sale or purchase of products or services to or from the companies or firms with which they are affiliated. The Governance Committee reviews with our Senior Vice President, General Counsel and Corporate Secretary any relevant disclosures made in the questionnaires, as well as any transactions our company has with director-affiliated entities. In February 2016, the Governance Committee reviewed the following relationships impacting the independence of our director nominees (i) Mr. Scarborough's service as our Chairman and CEO and (ii) Mr. Butier's service as our President and COO. For a discussion of the potential impact of tenure on director independence, see *Board Refreshment and Director Succession Planning*.

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After review and discussion of the relevant facts and circumstances, the Governance Committee concluded that only Messrs. Scarborough and Butier had relationships that were disqualifying under NYSE listing standards, otherwise material or impairing of director independence. Upon recommendation of the Governance Committee, our Board affirmatively determined the following eight director nominees to be independent, representing 80% of our nominees.

## BOARD LEADERSHIP STRUCTURE

We currently have a combined Chairman/CEO and a Lead Independent Director. Our Board understands that there are various views on the most appropriate Board leadership structure, particularly on whether it is advisable for a company's CEO also to serve as its Chairman. Our Governance Guidelines give our Board acting through its independent directors the discretion to combine or separate these roles as it deems appropriate based on the needs of our company at any given time; to facilitate this decision-making, the Governance Committee annually discusses our Board leadership structure, providing its recommendation on the appropriate structure to our independent directors. Our independent directors do not view any particular Board leadership structure as generally preferred; they make an informed annual determination taking into account company circumstances, our financial and operational strategies and any feedback received from our stockholders.

In February 2016, subject to his election by our stockholders, our independent directors elected Mr. Scarborough as Executive Chairman effective May 1, 2016, based on their belief that his leadership will optimize the execution of our strategic priorities in the coming year as he mentors and oversees the transition of Mr. Butier in his new role as CEO. The Chairman and CEO roles will be separated, each filled by individuals with deep industry knowledge who developed and executed our strategies effectively to deliver superior total stockholder return in recent years. Because Mr. Scarborough will remain our employee, we will continue to have a Lead Independent Director to ensure independent oversight of our Board. The Governance Committee and our independent directors plan to discuss and determine the Lead Independent Director in April 2016.

Our independent directors believe that the current structure was appropriate because it allowed for one individual to lead our company with a cohesive vision, the industry expertise and intimate company knowledge to execute that vision, and the understanding of the significant enterprise risks that need to be mitigated or overcome to achieve that vision. Combined leadership at the top has provided the flexibility for us to address the rapidly changing needs of our businesses. Mr. Scarborough serves as Chairman/CEO at the pleasure of our independent directors because he does not have an employment agreement.

Our Lead Independent Director balanced our combined Chairman/CEO. Mr. Pyott currently serves as our Lead Independent Director, exercising critical duties in the boardroom to ensure effective and independent Board decision-making. Our Governance Guidelines clearly delineate these responsibilities, which are summarized below.

| Lead Independent Director | Primary Responsibilities |
| --- | --- |
| **Current Selectee:** David E. I. Pyott<br><br>**Executive Sessions Led in 2015:** 5 | Preside over executive sessions and meetings of our Board at which the Chairman is not present |

| | |
|---|---|
| Lead Independent Director is selected annually by independent directors. | Serve as liaison between the Chairman and our independent directors |
| | Approve meeting agendas and schedules and other information sent to our Board to ensure that appropriate items are discussed, with sufficient time for discussion of all items |
| | Call meetings of our independent directors when necessary or appropriate |
| | If requested by major stockholders, consult and directly communicate with our stockholders |

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Supplementing our Lead Independent Director are our Committee Chairs and members, all of whom are independent. With the Compensation Committee conducting a rigorous annual evaluation of the CEO's performance that is discussed by all independent directors during executive session and the Governance Committee overseeing an annual performance evaluation of our Chairman and Lead Independent Director, we believe our current Board leadership structure provides independent oversight of our company. During the last few years of heightened engagement with our stockholders on governance matters, none of them has expressed concerns with this Board leadership structure, most likely reflecting our robust Lead Independent Director role.

In February 2015, the Governance Committee assessed the appropriateness of our current Board leadership structure recommending to our Board that Mr. Scarborough serve as Chairman, noting that (i) his leadership generated strong financial performance over the past three years executing our Board-aligned strategies to drive long-term stockholder value; (ii) his service as an independent director on the board and compensation, executive and finance committees of Mattel, Inc. has provided him with valuable insights into board processes and decision-making; and (iii) he received positive feedback on his performance from our independent directors during the 2014 Board evaluation process. The Governance Committee also recommended (with Mr. Pyott abstaining) that Mr. Pyott serve as Lead Independent Director, commending his strong independent leadership of our Board and noting his chairmanship of the Compensation Committee and membership on the Governance Committee have enabled us to have executive compensation and corporate governance best practices.

## BOARD COMMITTEES

Each of our Board committees has a written charter that describes its purposes, membership and meeting structure, and responsibilities. These charters, which may be found in the "Corporate Governance" section of our investor website at www.investors.averydennison.com, are reviewed by the respective committee on an annual basis, with any recommended changes adopted upon approval by our Board. Amended charters are promptly posted on our website. The Charters for the Audit, Compensation and Governance Committees were most recently amended in December 2015.

Each of our Board committees has the ability to form and delegate authority to subcommittees and may obtain advice and assistance from internal or external consultants, legal counsel or other advisors at our expense. In addition, each committee annually evaluates its performance. The primary responsibilities, membership and meeting information for the three committees of our Board during 2015 are summarized below.

| Audit & Finance Committee | Primary Responsibilities |
|---|---|
| **Members in 2015:**<br>Peter K. Barker (Chair)<br>Anthony K. Anderson<br>Ken C. Hicks<br>Patrick T. Siewert | Oversee financial statement and disclosure matters, including our quarterly and annual financial results, earnings release documentation and SEC reports, internal controls and major financial risk exposures |
| **Meetings in 2015:** 9 | |
| **Average Attendance in 2015:** 94% | Appoint and oversee our independent registered public accounting firm, including its qualifications, performance and independence and the scope, staffing and fees for its annual audit or other audit, review or attest services |
| All members satisfy the audit committee experience and enhanced independence standards required by the NYSE and have been determined by our Board to be financially literate. | Oversee our internal audit function, including the senior internal auditor's appointment or dismissal, significant issues reported to management and management's response, and the internal audit plan, budget and staffing |
| Each of Messrs. Anderson and Barker was determined by our Board | Perform compliance oversight responsibilities, including conducting or authorizing investigations into matters within the scope of its responsibility and reviewing complaints regarding accounting, internal accounting controls or |

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|---|---|
| to be an "audit committee financial expert" under applicable SEC regulations for 2015. | auditing matters, significant correspondence with governmental agencies, and legal matters that may have a material impact on our financial statements |
| | Conduct finance oversight responsibilities, including reviewing our capital structure and financing plans, capital allocation strategy, the funding status of our pension plans and significant tax matters |

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| Compensation & Executive Personnel Committee | Primary Responsibilities |
| --- | --- |
| **Members in 2015:**<br>David E. I. Pyott (Chair)<br>Bradley A. Alford<br>Julia A. Stewart<br>Martha N. Sullivan | Review and approve corporate goals and individual objectives for our CEO's compensation and evaluate our and his performance to determine his annual compensation |
| **Meetings in 2015:** 5 | |
| **Average Attendance in 2015:** 100% | Review and approve the base salaries and incentive compensation of other senior executives, giving consideration to the recommendations of our CEO |
| All members satisfy the compensation committee enhanced independence standards required by the NYSE. | Make recommendations on our compensation strategy, incentive plans and benefit programs |
| All members qualify as "non-employee directors" under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and "outside directors" under Section 162(m) of the Internal Revenue Code of 1986, as amended. | Discuss with management our Compensation Discussion and Analysis (CD&A) and recommend that the CD&A as well as the Compensation and Executive Personnel Committee Report be included in our proxy statement<br><br>Oversee our stockholders' approval of executive compensation matters, including advisory votes on executive compensation and the frequency of such votes |
| | Periodically evaluate the extent to which our compensation policies and programs may create incentives that encourage excessive risk-taking |
| | Recommend the compensation of our non-employee directors |
| | Conduct succession planning for our CEO and other senior executives |
| | Rely on expert advice of an independent compensation consultant reporting directly to the Committee to facilitate decision-making |

| **Governance & Social Responsibility Committee** | **Primary Responsibilities** |
|---|---|
| **Members in 2015:**<br>Julia A. Stewart (Chair)<br>Bradley A. Alford<br>Ken C. Hicks<br>David E. I. Pyott | Identify potential Board members and recommend director nominees |
| **Meetings in 2015:** 3<br><br>**Average Attendance in 2015:** 100% | Recommend the structure, chairmanship and membership of our Board committees |
| | Recommend the directors who satisfy the independence requirements of the NYSE |
| | Review and approve any related person transactions |
| | Oversee and conduct an annual performance evaluation of our Board and its Committees |
| | Review our Governance Guidelines and recommend any changes to our Board |
| | Discuss our social responsibility initiatives and consider the impact of our business operations and practices on matters of sustainability and corporate social responsibility |
| | Oversee the effectiveness of our values and ethics program and Code of Conduct and evaluate significant conflicts of interest or questions related to our legal and ethical conduct policy |

## EXECUTIVE SESSIONS

Our Board believes it is important to have executive sessions without our CEO or other members of management present, which are scheduled during every meeting of the Board. Our independent directors have robust and candid discussions at these executive sessions during which they critically evaluate the performance of our company, CEO and management. During 2015, Mr. Pyott presided as Lead Independent Director at all five executive sessions of independent directors.

In addition, during 2015, executive sessions were scheduled for each regular meeting of the Audit, Compensation and Governance Committees. All of these executive sessions excluded Mr. Scarborough and other members of management, unless the Committee requested the presence of a member of management for a portion of the session to provide information or perspective.

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## RISK OVERSIGHT

Management is responsible for managing the day-to-day risks confronting our businesses, but our Board has responsibility for overseeing enterprise risk management (ERM). We have a Chief Compliance Officer who, with assistance from our Vice President of Internal Audit and members of their respective teams, drives ERM accountability into our businesses, ensures that they semiannually complete a risk profile, and semiannually prepares a corporate risk profile based on identified business-specific risks as well as enterprise-wide risks. In addition, we have robust global processes that together support a strong internal control environment to promote the early identification and continued management of risks by our company's leadership. Our legal and compliance functions report into our General Counsel to provide independent evaluation of the challenges facing our businesses and our Vice President of Internal Audit reports to the Audit Committee in the conduct of his operational responsibilities, ensuring his candor and independence from management.

Our Board as a whole oversees risks related to our corporate and business strategies and operations, exercising this responsibility by considering the risks related to its decisions. In performing this oversight role, our Board is responsible for ensuring that the risk management processes designed and implemented by management are functioning, and that necessary steps are taken to foster a culture of risk-adjusted decision-making within our company. Each year, our Board receives reports on the ERM process and the strategic plans and risks facing our company as a whole from our executive management, as well as each of our businesses from their respective management teams. These risks include financial risks, political and regulatory risks, legal risks, supply chain risks, competitive risks, information technology risks, and other risks related to the ways in which we do business. Employees who lead various risk areas, such as environmental, health and safety, tax and sustainability, periodically report to Board Committees, as well as occasionally to our full Board.

Our Board has delegated to its Committees certain elements of its risk oversight function to better coordinate with management and serve the long-term interests of our stockholders. Our Board receives reports from Committee Chairs regarding topics discussed at every Committee meeting, which includes the areas of risk overseen primarily by the Committees.

### OVERSIGHT OF RISK

| BOARD OR COMMITTEE | PRIMARY AREAS OF RESPONSIBILITY |
|---|---|
| **Board of Directors** | Corporate and business strategies and operations<br>Annual operating plan and significant capital expenditures<br>Corporate governance<br>Acquisitions, divestitures and other significant transactions |
| **Audit Committee** | Financial reporting processes, statements and internal controls<br>Capital structure |

| | |
|---|---|
| | Financing, including borrowing, liquidity, capital allocation and pension plan funding |
| | Stockholder distributions (dividends and stock repurchases) |
| | Information technology and cybersecurity |
| | Legal, compliance, regulatory and tax matters |
| **Compensation Committee** | Compensation plans and benefit programs |
| | Executive compensation |
| | Performance objectives for our incentive plans |
| | Director compensation |
| | Succession planning |
| **Governance Committee** | Board and committee membership and structure |
| | Values and ethics |
| | Conflicts of interest and related person transactions |
| | Corporate citizenship and sustainability |

Legal, compliance and regulatory matters

During 2015, risk areas of particular Board and Committee focus included the uncertain global economic environment, particularly the headwinds to our global businesses from currency; information technology and cybersecurity; shareholder distributions; potential acquisitions; and our CEO transition.

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Supplementing these processes, the Audit Committee also periodically meets in executive session with each of our CFO, Chief Accounting Officer (CAO), General Counsel, Vice President of Internal Audit, and representatives of our independent registered public accounting firm. In addition, the Audit Committee oversees our internal control environment and evaluates the effectiveness of our internal controls at least annually.

## RISKS ASSOCIATED WITH COMPENSATION POLICIES AND PRACTICES

As described in the *Compensation Discussion and Analysis* section of this proxy statement, we maintain best practices in compensation that collectively encourage ongoing risk assessment and mitigation. The Compensation Committee periodically reviews our executive compensation program to ensure that it does not provide incentives that encourage our employees to take excessive risks in managing their respective businesses or functional areas.

In consultation with its independent compensation consultant, Towers Watson (now Willis Towers Watson), the Compensation Committee has noted the following with respect to risks associated with our compensation policies and practices:

- the program balances executive retention with rewarding stockholder value creation;
- the substantial majority of executive compensation is variable, with a mix that is consistent with market practices and primarily equity-based to motivate pursuit of strong long-term performance and sustainable growth;
- the incentive mix is well-balanced, with short- and long-term performance metrics that do not overlap, cover different time periods and are balanced among annual financial objectives and long-term economic and stockholder value creation, as well as between growth and efficient capital deployment;
- our Annual Incentive Plan (AIP) and long-term incentives (LTIs) balance profitable growth in the near term with sustainable long-term financial success, using multiple performance metrics and providing realized compensation based primarily on our performance;
- the Compensation Committee may exercise discretion to decrease AIP and LTI awards based on individual performance;
- AIP awards are not guaranteed, with below-threshold performance yielding zero payout and payments subject to an overall cap of 200%;
- our equity award vehicles are performance-based, use multiple performance metrics, are subject to threshold and maximum payout opportunities to encourage appropriate performance focus and limit potential risk-taking, and cliff vest at the end of three years or vest over one-, two-, three- and four-year performance periods;
- our clawback policy is consistent with market practices;
- our change of control and general severance plans are reasonable and appropriate, with change of control benefits provided on a double-trigger basis and not grossed up for excise taxes;
- our stock ownership guidelines are rigorous and consistent with market practices; and
- we expressly prohibit the hedging or pledging of company stock by our officers.

Based on these and other factors, as well as the advice of Towers Watson, the Compensation Committee has concluded that our compensation policies and practices strike an appropriate compensation-risk balance, do not encourage excessive risk-taking and do not as a whole create risks that are reasonably likely to have a material adverse effect on our company.

## SUCCESSION PLANNING

Our Board is actively involved in talent management to identify and cultivate our future leaders. We maintain a robust mid-year and annual performance review process and leadership development program for our employees. Management develops leadership at lower levels of our organization by identifying core talent, cultivating the skills and capabilities that will allow identified individuals to become our future leaders, assessing their development and identifying gaps and developmental needs in skills and experience. Through regular reports from management, our Board has the opportunity to meet with leaders of our company, including business group leaders and functional leaders in law, finance, information technology, risk, and human resources. In addition, Board members have freedom of access to all employees, and are encouraged to make site visits to meet local management and attend company events.

The Compensation Committee and/or the Board conducts executive succession planning at least annually. In February and October 2014, the Compensation Committee reviewed individuals identified as possible CEO succession candidates,

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including progress in current job position and career development in terms of strategy, leadership and execution. Based on these meetings and further one-on-one discussions between Mr. Scarborough and each director, the Compensation Committee discussed the potential appointment of Mr. Butier an experienced executive who has held successive positions of increasing responsibility within our company as President and COO, culminating in our Board electing him as such effective November 1, 2014.

During executive sessions at Board meetings held throughout 2015, the Board continued discussing CEO transition matters, including Mr. Butier's ability to define, refine and execute our strategies in the years ahead and Mr. Scarborough's future role at our company. In February 2016, our Board elected Mr. Butier as President and CEO effective May 1, 2016. He will succeed Mr. Scarborough in the CEO role at that time. The independent directors of our Board also elected, subject to his election by our stockholders, Mr. Scarborough as Executive Chairman of our Board effective May 1, 2016.

Consistent with its general practice of annually reviewing executive succession beyond the role of CEO, in July 2015, our Board discussed leaders below the executive officer level, identifying the talent that is currently ready or, with continued development on their current trajectory with mentorship and coaching from our current leaders, will be ready to fill executive officer positions in the event of a vacancy.

## DIRECTOR EDUCATION

### NEW DIRECTOR ORIENTATION

Our new director orientation generally covers our vision, strategies and leadership; investor messaging; the strategies and risks of our businesses; finance matters, including our financial reporting policies and practices, internal control environment, internal audit deployment, tax planning and compliance, and capital structure; legal matters, including corporate governance policies and procedures, values and ethics, compliance, and ERM; human resources matters, including executive compensation, succession planning, and non-employee director compensation; and information technology and cybersecurity.

### CONTINUING EDUCATION

Our continuing director education program consists of periodic visits to our facilities and management presentations regarding our business operations, strategies, risks and values and ethics. We provide updates on relevant topics of interest to our Board at meetings throughout the year. We also reimburse directors who attend accredited director education programs and institutes for program fees and related expenses.

## BOARD AND COMMITTEE EVALUATIONS

The Governance Committee oversees and conducts an annual performance evaluation of our Board, Chairman and Lead Independent Director, and Board Committees, including the Committee Chairs. Many of the improvements in our corporate governance practices and Board processes have resulted from the annual evaluation process and our Board views the process as an integral part of its commitment to excellence and best practices in its performance.

In response to feedback received in recent years during the evaluation process, our Board has made the following enhancements:

- Combined the previously separate Finance Committee with the Audit Committee;
- Maintained a Board sized near the middle of the range set forth in our Bylaws and Governance Guidelines;
- Significantly increased the time allotted at meetings for executive sessions with and without the CEO; and
- Enhanced the Board and Audit Committee's focus on cybersecurity.

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# STOCKHOLDER ENGAGEMENT AND COMMUNICATIONS

## GOVERNANCE ENGAGEMENT PROCESS

We value stockholders feedback on our governance policies and practices, and we actively solicit input through our stockholder engagement program. Our engagement program begins in the spring of each year, with the filing of our proxy statement. After we file our proxy season engagement presentation with the SEC as supplementary proxy materials, we reach out to our largest investors (generally representing 50-70% of our shares outstanding as of the record date), sharing the presentation and offering members of management and/or our Board for a meeting to discuss our governance program and answer questions regarding the items being brought before the Annual Meeting. On the day of the Annual Meeting, we discuss preliminary vote results with our Board, following up with a more detailed analysis of the vote results, including feedback from investors and views of proxy advisors, with Committees of the Board in the summer. In the fall, we again reach out to our largest investors to discuss governance matters, without the time pressures associated with proxy season; these more general discussions allow us to hear what issues are important to our stockholders. In the winter, as we prepare for the following proxy season, we review the feedback from our fall outreach effort with management and the Board and consider whether any changes to our governance program are advisable. We also keep stockholder feedback in mind as we prepare our next proxy statement, enhancing or clarifying our disclosure as appropriate.

## STOCKHOLDER ENGAGEMENT IN 2015

Our Board and management continued their long-standing practice of open dialogue with stockholders in 2015. In advance of the 2015 Annual Meeting, we proactively contacted our thirty largest institutional stockholders, representing over 60% of our then-outstanding shares, to solicit their views on our corporate governance program and make directors and management available to answer questions or address concerns. As a result of this effort, we engaged in telephonic discussions with stockholders representing approximately 35% of our then-outstanding shares. In addition, after one of our directors and members of management met in person with four of our largest stockholders and the two leading proxy advisory firms in the fall of 2014, we followed up on these meetings with as-needed engagement during 2015.

During 2015, our stockholders generally expressed their support for our Board, governance program and engagement outreach efforts. Investors conveyed interest in Board composition and refreshment matters; requested additional information regarding our Board evaluation process and the Board's oversight of risk management, which has been added to this proxy statement; and shared their views on stockholder rights matters, including exclusive forum bylaws, the right of stockholders to call a special meeting and proxy access.

## CONTACTING OUR BOARD

We welcome ongoing feedback from all our stockholders. We review correspondence submitted by stockholders, discussing the feedback received with senior management and/or our Board to the extent appropriate.

Stockholders or other interested parties may contact our Board, Chairman, Lead Independent Director, any Committee or Committee Chair, or any other individual director concerning business matters by writing to: Board of Directors (or a particular subgroup or individual director), c/o Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

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# ITEM 1 ELECTION OF DIRECTORS

Our Bylaws currently provide for a Board of between eight and 12 directors, with the exact number fixed by a resolution of our Board. Effective immediately before our Annual Meeting, our Board has fixed the number of directors at ten. All nominees are standing for election at the Annual Meeting for a one-year term.

Nine of the ten nominees are presently serving as director on our Board and all nominees have consented to being named in this proxy statement and serving if elected.

### MAJORITY VOTING STANDARD

Our Bylaws provide for the majority voting for the election of directors in uncontested elections like this one and require that an incumbent director who is not re-elected tender his or her resignation from the Board. Our Board, excluding the tendering director, is required to determine whether to accept the resignation taking into account the recommendation of the Governance Committee and any other factors it considers appropriate and publicly disclose its decision regarding the tendered resignation, including its rationale for the decision, within 90 days from the date election results are certified. In a contested election, plurality voting is the standard for election of directors.

In voting for the election of directors, each share has one vote for each position to be filled and there is no cumulative voting.

### RECOMMENDATION OF BOARD OF DIRECTORS

**Our Board of Directors recommends that you vote FOR each of the director nominees.** The persons named as proxies will vote for the election of each of the ten nominees, unless you specify otherwise. If any director nominee were to become unavailable prior to the Annual Meeting, your proxy would be voted for a substitute nominee designated by our Board or we would reduce the size of our Board.

## SELECTION OF DIRECTOR NOMINEES

Director nominees are generally recommended by the Governance Committee for nomination by our Board and election by our stockholders. Director nominees may also be recommended by the Governance Committee for appointment to our Board, with election by stockholders to follow at the next Annual Meeting. Our Board believes that the backgrounds and qualifications of our directors, considered as a group, provide a mix of complementary experience, knowledge and ability that allows our directors effectively to fulfill their oversight responsibilities.

In considering whether to recommend a candidate as a director nominee, the Governance Committee applies the criteria described in our Governance Guidelines, including the potential nominee's ability to qualify as independent, to ensure that a majority of our Board remains independent; relevant business and leadership experience, considering factors such as size, industry, scope, complexity and global operations; experience as a board member of another public company; expertise in finance and accounting or executive compensation; time commitments, including other boards on which the nominee serves; potential conflicts of interest; ability to contribute to the oversight and governance of our company; and ability to represent the balanced interests of stockholders as a whole, rather than those of any special interest group. For incumbent directors, these criteria also include contributions to our Board and Committees; attendance record at Board and Committee meetings; compliance with our stock ownership guidelines; and mandatory retirement date to assist with Board succession planning. The Governance Committee does not assign specific weights to the criteria and no particular criterion is necessarily applicable to all nominees.

The Governance Committee reviews the qualifications of any candidate with those of current directors to determine coverage and gaps in experience in relevant industries and functional areas, such as finance, manufacturing, and technology. Sources for identifying potential nominees include existing Board members, our executive officers, third-party search firms, and our stockholders.

### STOCKHOLDER SUBMISSION OF DIRECTOR NOMINEES

Stockholders may recommend director candidates by submitting the candidate's name, together with his or her biographical information, professional experience and written consent to nomination, to Governance and Social Responsibility Committee Chair, c/o Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

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To be considered at the 2017 Annual Meeting, stockholder nominations must comply with the requirements referenced in the last section of this proxy statement under *Submission of Stockholder Items for 2017 Annual Meeting*. The Governance Committee considers stockholder nominees on the same basis as it considers all other nominees.

## DIRECTOR QUALIFICATIONS

The qualifications that are particularly desirable for our directors to possess to provide oversight and stewardship of our company include the following:

| QUALIFICATION | DESCRIPTION | VALUE TO OUR BOARD AND STOCKHOLDERS | # (%) OF NOMINEES |
|---|---|---|---|
| **Senior Leadership Experience** | Service as president, chief executive officer or in similar senior executive positions | Provides us valuable perspectives from individuals with hands-on leadership in executive management to help us assess our operations, execute our strategies, mitigate related risks, and improve our policies and procedures | 9 (90%) |
| **Global Exposure** | Seniority in a global enterprise or significant experience in international markets | Gives us insight into the geographic markets in which we operate, helping us navigate mature markets and seize opportunities in higher-growth emerging markets | 10 (100%) |
| **Industry Background** | Experience in the retail, packaging or consumer goods industries | Allows us to better understand the needs of our customers in developing our business strategies, as well as evaluate acquisition and divestiture opportunities | 7 (70%) |
| **Financial Sophistication** | Expertise in accounting, auditing, tax, banking, insurance, or investments | Helps us manage our capital structure, optimize stockholder distributions, undertake significant transactions, and ensure proper accounting, financial reporting and internal controls | 5 (50%) |
| **Board Experience** | Prior or concurrent service on other SEC-reporting company boards | Helps reinforce management accountability for maximizing long-term stockholder value and promote corporate governance and executive compensation best practices | 9 (90%) |

## BOARD REFRESHMENT AND DIRECTOR SUCCESSION PLANNING

Our Governance Guidelines reflect our belief that directors should not be subject to term limits. While term limits could facilitate fresh ideas and viewpoints being consistently brought to the Board, we believe they are counter-balanced by the disadvantage of causing the loss of a director who over a period of time has developed insight into our strategies, operations and risks and continues to provide valuable contributions to Board deliberations. We believe that our decision not to establish term limits is consistent with the prevailing practice among companies in the S&P 500. We recognize that certain governance stakeholders have suggested that longer-serving directors may have decreased independence and objectivity; however, we believe that arbitrarily removing knowledgeable directors and the oversight consistency they bring particularly during

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periods of management change weighs against strict restrictions on director tenure. Ultimately, it is our Board's responsibility to establish board refreshment policies, using its discretion in the best interest of our company and stockholders.

We have adopted the policies shown below to facilitate regular refreshment of our Board and ensure that it continues to appropriately challenge our management.

**POLICIES SUPPORTING BOARD REFRESHMENT**

| POLICY | DESCRIPTION | EVENTS OCCURRING AT OR SINCE 2015 ANNUAL MEETING |
|---|---|---|
| **Mandatory Resignation Policy** | Incumbent directors who are not elected by our stockholders must tender their resignation. | All incumbent directors were elected at the 2015 Annual Meeting. |
| **Mandatory Retirement Policy** | Directors must retire on the date of the annual meeting of stockholders that follows their reaching the age of 72. Since inception, this policy has never been waived. | Mr. Börjesson retired on the date of the 2015 Annual Meeting. |
| **Resignation Tendered Upon Change in Principal Employment** | Directors who change the principal occupation, position or responsibility they held when they were elected to our Board must volunteer to resign from the Board. | Mr. Hicks ceased being Executive Chairman of Foot Locker, Inc. in May 2015. Mr. Hicks volunteered to resign from our Board. After excusing him from the meeting, the Governance Committee determined that Mr. Hicks should remain on our Board. |
| **Prior Notice Requirement to Prevent Over-Boarding** | Directors must give prior notice before accepting another public company directorship so that the director's ability to fulfill Board responsibilities may be appropriately evaluated if he or she serves on more than four other public company boards. | In July 2015, Mr. Alford joined the board of ConAgra Foods, Inc. and Mr. Pyott joined the supervisory board of Koninklijke Philips N.V. In December 2015 and January 2016, Mr. Pyott joined the boards of Alnylam Pharmaceuticals Inc. and BioMarin Pharmaceutical Inc., respectively. While neither Mr. Alford nor Mr. Pyott serves on more than four other public company boards, the Governance Committee discussed their additional commitments and determined that they both should continue to serve on our Board. |

In part as a result of these policies, a new independent director was appointed to our Board during each year in the 2009-2013 period. While two of these directors subsequently resigned from our Board (not due to any disagreement with our company), this recent experience demonstrates our commitment to Board refreshment. In addition, a new director has been nominated for election at the Annual Meeting.

The average tenure of our director nominees is approximately nine years, which we believe is comparable to the average tenure for companies in the S&P 500 and within the six-to-ten year band in which the majority of these companies fall. The graph below shows the tenure of our director nominees.

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## DIRECTOR DIVERSITY

Although we do not have a formal policy regarding the consideration of diversity in selecting director nominees, the Governance Committee seeks to recommend individuals with a broad diversity of experience, profession, skill, geographic representation and background, which may include consideration of personal characteristics such as race, gender and national origin. While diversity is a consideration, nominees are not chosen or excluded solely or primarily on that basis; rather, the Governance Committee focuses on skills, expertise and background to complement the existing Board in light of the diverse and global nature of our businesses and operations.

Our Board recognizes the benefits of racial and gender diversity in the boardroom, including better reflecting our global customer base and the healthy debate that stems from different viewpoints that may result from diverse backgrounds. Of the five new independent directors appointed to our Board from 2009 to 2013, two were women and one was an African-American man. The racial, gender, and citizenship diversity of our 2016 director nominees is reflected on the following chart.

## 2016 DIRECTOR NOMINEES

The following pages provide information on each nominee for election at the Annual Meeting, including his or her age, current board leadership roles, and business experience during at least the past five years. We also indicate the name of any other public company board on which each nominee currently serves, or has served during the past five years; for these purposes, "public company" means one that is required to file reports with the SEC.

In addition to the information presented regarding each nominee's experience and qualifications that led our Board to conclude that he or she should serve as a director which includes senior leadership experience, global exposure, industry background, financial sophistication, and public company board experience we believe that each of them has integrity and adheres to our high ethical standards. Each nominee also has demonstrated the ability to exercise sound judgment, as well as the commitment to serving the long-term interests of our stockholders.

**SELECT BUSINESS EXPERIENCE**

Nestlé USA, a nutrition, health and wellness company

Chairman & Chief Executive Officer from January 2006 to October 2012

Nestlé Brands Company, an operating unit of Nestlé USA

President & Chief Executive Officer from 2003 to December 2005

**SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Led a company with $12+ billion in annual revenues and 26,000+ employees

Industry knowledge

30+ years in the consumer goods industry

Knowledge of the food and beverage segments into which we sell our pressure-sensitive materials

Global exposure

International management assignments

Significant mergers and acquisitions and integration experience

**CURRENT BOARD LEADERSHIP ROLES**

Age 59

Director since April 2010

Independent

Other Public Company Boards

Current:

ConAgra Foods, Inc.

Unified Grocers, Inc.

Past Five Years:

None

Compensation Committee Member

Governance Committee Member

**SELECT BUSINESS EXPERIENCE**

Ernst & Young LLP, an assurance, tax, transaction and advisory services firm

Vice Chair, Managing Partner and Member of the Executive Board from 2000 to March 2012

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Age 60

Director since December 2012

Independent

Other Public Company Boards

Current:

AAR Corporation

Exelon Corporation

First American Financial Corporation

Past Five Years:

None

Served on the executive board of Ernst & Young for 12 years, and as the managing partner of the Midwest and Pacific Southwest regions

Director of The Chicago Council on Global Affairs, World Business Chicago and the Chicago Urban League (Former Chairman)

Financial sophistication

35 years of financial and risk management expertise acquired through auditing global public companies

Substantial experience advising audit committees of large multinational corporations

Certified public accountant (now inactive)

Public board experience

Concurrent service on three other public boards

**CURRENT BOARD LEADERSHIP ROLE**

Audit Committee Member

**SELECT BUSINESS EXPERIENCE**

JPMorgan Chase & Co., a global financial services firm

Chairman of California and Executive Committee Member from September 2009 to January 2013

Goldman Sachs & Co., an investment banking, securities and investment management firm

Partner/Managing Director from 1982 to 1998

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Led a division with over 21,000 employees

Member of the executive committee overseeing a global enterprise with $100+ billion in annual revenues

Financial sophistication

37 years of investment banking experience, advising companies on capital structure, strategic planning, financing, recapitalization, acquisitions and divestitures

Public board experience

Age 67

Director since January 2003

Independent

Other Public Company Boards

Current:

Fluor Corporation

Franklin Resources, Inc.

Past Five Years:

| | |
|---|---|
| None | Concurrent service on two other public boards; prior service on other public boards |

**CURRENT BOARD LEADERSHIP ROLE**

Audit Committee Chair

**SELECT BUSINESS EXPERIENCE**

Avery Dennison Corporation

Elected President & Chief Executive Officer effective May 1, 2016

President & Chief Operating Officer from November 2014 to Present

Senior Vice President & Chief Financial Officer from June 2010 to October 2014; retained Chief Financial Officer position until March 2015

Vice President, Global Finance and Chief Accounting Officer from March 2007 to May 2010

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Age 44

Director since April 2016

Not Independent

Other Public Company Boards

Current:

None

Past Five Years:

None

Has held roles of increasing responsibility at our company including, most recently, President & Chief Operating Officer

Industry knowledge and global exposure

Served in senior leadership positions in both of our key business segments, including an international assignment in Europe

Financial sophistication

Served as our Chief Financial Officer for nearly five years and our Chief Accounting Officer for over two years

**CURRENT BOARD LEADERSHIP ROLE**

None

**SELECT BUSINESS EXPERIENCE**

Foot Locker, Inc., a specialty athletic retailer

Executive Chairman from December 2014 to May 2015

Chairman, President & Chief Executive Officer from February 2010 to November 2014

President, Chief Executive Officer & Director from August 2009 to February 2010

J.C. Penney Company, Inc., a retail company

President & Chief Merchandising Officer from January 2005 to July 2009

President & Chief Operating Officer from July 2002 to December 2004

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Oversaw a company with over $7 billion in 2014 revenues and over 43,000 employees

Industry knowledge

29 years of senior marketing and operational experience in the retail industry into which we sell our retail branding and information solutions

Age 63

Director since July 2007

Independent

Other Public Company Boards

Current: Public board experience

None

Past Five Years: Prior service on other public boards

Foot Locker, Inc.

**CURRENT BOARD LEADERSHIP ROLES**

Audit Committee Member

Governance Committee Member

**SELECT BUSINESS EXPERIENCE**

Allergan, Inc., a global health care company

Chairman & Chief Executive Officer from June 2013 to March 2015 and February 2006 to April 2011

Chairman, President & Chief Executive Officer from April 2011 to June 2013 and April 2001 to January 2006

President & Chief Executive Officer from January 1998 to March 2001

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Age 62

Director since November 1999

Independent

Other Public Company Boards

Led a company with over $7 billion in 2014 revenues and over 11,000 employees

Global exposure

30+ years of strategic, operational, research and development and marketing experience in the health care industry into which we sell our pressure-sensitive materials and medical solutions

| | |
|---|---|
| Current: | Public board experience |
| Alnylam Pharmaceuticals Inc. | Concurrent service on three other public boards; prior service on other public boards |
| BioMarin Pharmaceutical Inc. | |
| Koninklijke Philips N.V. | **CURRENT BOARD LEADERSHIP ROLES** |
| Past Five Years: | Lead Independent Director |
| Allergan, Inc. | Compensation Committee Chair |
| Edwards Lifesciences Corporation | Governance Committee Member |

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## SELECT BUSINESS EXPERIENCE

Avery Dennison Corporation

Elected Executive Chairman effective May 1, 2016

Chairman & Chief Executive Officer from November 2014 to Present

Chairman, President & Chief Executive Officer from April 2010 to October 2014

President & Chief Executive Officer from May 2005 to April 2010

President & Chief Operating Officer from May 2000 to April 2005

## SELECT SKILLS AND QUALIFICATIONS

Substantial leadership experience

| | |
|---|---|
| Age 60 | Six years leading our company as Chairman, 11 years as Chief Executive Officer and 15 years as President |
| Director since May 2000 | Global exposure and industry knowledge |
| Not Independent | |
| Other Public Company Boards | 30+ years managing or overseeing our global pressure-sensitive materials operations |
| Current: | Public board experience |
| Mattel, Inc. | |

Past Five Years: Concurrent service on one other public board

None

## CURRENT BOARD LEADERSHIP ROLE

Chairman

## SELECT BUSINESS EXPERIENCE

The Carlyle Group, a global alternative investment firm

Managing Director and Partner from April 2007 to Present

The Coca-Cola Company, the world's largest beverage company

Senior Advisor from February 2006 to March 2007

Group President, Asia from August 2001 to February 2006

## SELECT SKILLS AND QUALIFICATIONS

Industry knowledge and financial sophistication

Age 60

Led a division of a global company in the beverage segment of the consumer goods industry into which we sell our pressure-sensitive materials

Director since April 2005

Independent

Advises on investments in consumer-related businesses across Asia

Other Public Company Boards

Global exposure

Current:

Mondelez International, Inc.

Work experience in Asia, a region in which we manufacture many of our products and a geographic market that is driving our sales growth in emerging markets

Past Five Years:

Public board experience

None

Concurrent service on one other public board

**CURRENT BOARD LEADERSHIP ROLE**

Audit Committee Member

**SELECT BUSINESS EXPERIENCE**

DineEquity, Inc., owner, operator and franchisor of IHOP and Applebee's restaurants

Chairman & Chief Executive Officer from June 2008 to Present

IHOP Corporation, DineEquity's predecessor entity

Chairman & Chief Executive Officer from May 2006 to May 2008

President, Chief Executive Officer & Chief Operating Officer from May 2002 to April 2006

President & Chief Operating Officer from December 2001 to May 2002

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Age 60

Director since January 2003

Leads the world's largest full-service restaurant company

Global exposure

Independent

Other Public Company Boards

Current:

DineEquity, Inc.

Past Five Years:

None

Substantial operational and marketing experience in the dining industry

Expertise in brand positioning, risk assessment, financial reporting and corporate governance

Public board experience

Concurrent service on one other public board; prior service on one public board

**CURRENT BOARD LEADERSHIP ROLES**

Governance Committee Chair

Compensation Committee Member

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**SELECT BUSINESS EXPERIENCE**

Sensata Technologies Holding N.V., a leading supplier of sensors and controls

President & Chief Executive Officer from January 2013 to Present

President from September 2010 to December 2012

Chief Operating Officer from April 2006 to August 2010

Texas Instruments, Inc., Sensata's predecessor entity

Vice President of Sensor Products from 1997 to 2006

**SELECT SKILLS AND QUALIFICATIONS**

Substantial leadership experience

Age 59

Director since February 2013

Independent

Other Public Company Boards

Current:

Sensata Technologies Holding N.V.

Leads a business-to-business enterprise with nearly $3 billion in 2015 revenues

Global exposure

Oversees all business segments, global operations and strategic planning

Strong technology background, including experience overseeing a radio-frequency identification business

Public board experience

Past Five Years: Concurrent service on one other public board

None

## CURRENT BOARD LEADERSHIP ROLE

Compensation Committee Member

# DIRECTOR COMPENSATION

The Compensation Committee targets non-employee director compensation at the median of companies similar in size, global scope and complexity with which we compete for director talent. The majority of this compensation is delivered in equity to align director interests with those of our stockholders.

### 2015 DIRECTOR COMPENSATION PROGRAM AND CHANGES APPROVED DURING 2015

The director compensation table provides information regarding the compensation earned by or awarded to our non-employee directors during 2015, when target total non-employee director compensation was $225,000.

In December 2015, the Compensation Committee considered the design of our non-employee director compensation program, which had not changed for three years. At the Committee's request, Towers Watson reviewed trends in board compensation and assessed the competitiveness of our program. The firm assessed all components of our program, including cash compensation (Board and Committee retainers); equity grants; total direct compensation (annual cash plus equity); total remuneration; stock ownership guidelines; and the additional retainer for the Lead Independent Director.

Using data from public filings of companies ranked in the Fortune 375-500 with median 2014 revenues of $6.0 billion, Towers Watson determined that our total annual remuneration of $225,000 was below the median. Towers Watson recommended that the program be changed to maintain its market-competitiveness and continue allowing us to attract and retain qualified directors. On the advice of its independent compensation consultant, the Compensation Committee recommended to the Board the following changes to target total non-employee director compensation at the projected market median through 2017:

- increase target total remuneration to $250,000, reflecting the 10-13% growth rate in outside director compensation among large companies in recent years;
- raise the annual Board retainer by $10,000 to $100,000 and the supplemental Lead Independent Director retainer by $5,000 to $25,000; and
- increase the amount of annual equity compensation from $125,000 to $140,000, granted 100% in the form of RSUs consistent with the current program and market practices.

In consideration of these increases, the Compensation Committee also increased our director stock ownership guidelines to the lesser of the fixed-dollar amount of $500,000 (up from $325,000) and 7,500 (up from 6,500) shares.

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Upon the Compensation Committee's recommendation and further discussion, the Board approved the revised program, effective after the Annual Meeting. The primary components of current and future non-employee director compensation are summarized in the chart below, and described in further detail thereafter.

## ANNUAL NON-EMPLOYEE DIRECTOR COMPENSATION

| | Through April 2016 | Starting May 2016 |
|---|---|---|
| Equity Grant of Restricted Stock Units | $ 125,000 | $140,000 |
| Cash Retainer | $ 90,000 | $100,000 |
| Match of Charitable/Educational Contributions | $ 10,000 | No change |
| Additional Cash Retainer for Lead Independent Director | $ 20,000 | $ 25,000 |
| Additional Cash Retainer for Audit Committee Chair | $ 20,000 | No change |
| Additional Cash Retainer for Compensation Committee Chair | $ 15,000 | No change |
| Additional Cash Retainer for Governance Committee Chair | $ 15,000 | No change |

### EQUITY COMPENSATION

The annual equity grant to non-employee directors is made on May 1 and denominated in restricted stock units (RSUs) that vest ratably over three years, except that all unvested RSUs fully vest upon a director's death, disability, retirement from our Board after reaching age 72 or termination of service within 24 months after a change of control. Unvested RSUs are cancelled in the event a director voluntarily resigns, is not re-elected by our stockholders or is otherwise asked to leave our Board. On May 1, 2015, each of our then-serving directors was granted 2,239 RSUs with a grant date value of approximately $125,000 based on the fair market value of our common stock on that date.

Directors are subject to stock ownership requirements and prohibited from hedging or pledging our common stock.

### DEFERRABLE CASH COMPENSATION

Cash retainers are paid semi-annually in arrears and prorated for any director's partial service during the year. Directors are also reimbursed for travel expenses incurred to attend Board meetings and continuing education events.

Non-employee directors may choose to receive their compensation in (i) cash, either paid directly or deferred into an account under our Directors Variable Deferred Compensation Plan (DVDCP), which accrues earnings at the rate of return of certain bond and equity investment funds managed by an insurance company; (ii) deferred stock units (DSUs) credited to an individual account under the Directors Deferred Equity Compensation Plan (DDECP); or (iii) a combination of cash and DSUs. None of our non-employee directors currently participates in the DVDCP and seven of our non-employee directors participate in the DDECP. When a director participating in the DDECP retires or otherwise ceases serving as a director, the dollar value of the DSUs in his or her account is divided by the closing price of our common stock on the last date of the director's service, with the resulting number of shares of our common stock issued to the director. Dividend equivalents, representing the value of dividends per share paid on shares of our common stock calculated with reference to the number of DSUs held as of a dividend record date, are reinvested on the applicable payable date in the form of additional DSUs credited to the accounts of directors participating in the DDECP.

### MATCHING GIFT PROGRAM

We match up to $10,000 per year of a non-employee director's contributions to charitable organizations or educational institutions.

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## DIRECTOR COMPENSATION TABLE

| NAME | FEES EARNED OR PAID IN CASH(1) | STOCK AWARDS(2) | CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS(3) | ALL OTHER COMPENSATION(4) | TOTAL |
|---|---|---|---|---|---|
| Bradley A. Alford | $ 90,000 | $ 125,015 | | $ 10,000 | $ 225,015 |
| Anthony A. Anderson | $ 90,000 | $ 125,015 | | | $ 215,015 |
| Peter K. Barker | $ 110,000 | $ 125,015 | | $ 10,000 | $ 245,015 |
| Rolf L. Börjesson(5) | $ 30,000 | | | | $ 30,000 |
| Ken C. Hicks | $ 90,000 | $ 125,015 | | $ 10,000 | $ 225,015 |
| David E.I. Pyott | $ 125,000 | $ 125,015 | $ 14,713 | | $ 264,728 |
| Patrick T. Siewert | $ 90,000 | $ 125,015 | | $ 5,000 | $ 220,015 |
| Julia A. Stewart | $ 105,000 | $ 125,015 | | $ 10,000 | $ 240,015 |
| Martha N. Sullivan | $ 90,000 | $ 125,015 | | $ 10,000 | $ 225,015 |

(1) Mr. Scarborough does not appear in the table because he does not receive any additional compensation to serve as a director. Amounts represent retainers earned as set forth in the following table. At their election, the following directors deferred their cash compensation through the DDECP, with the following balance of DSUs in their accounts as of January 2, 2016, the last day of our 2015 fiscal year: Mr. Alford 13,176; Mr. Anderson 5,411; Mr. Barker 23,428; Mr. Hicks 10,848; Mr. Pyott 42,747; Ms. Stewart 31,376; and Ms. Sullivan 5,312.

| NAME | BOARD LEADERSHIP ROLES DURING 2015 | BOARD RETAINER | COMMITTEE CHAIR RETAINER | LEAD DIRECTOR RETAINER |
|---|---|---|---|---|
| Mr. Alford | | $ 90,000 | | |
| Mr. Anderson | | $ 90,000 | | |
| Mr. Barker | Audit Committee Chair | $ 90,000 | $ 20,000 | |
| Mr. Börjesson | | $ 30,000 | | |
| Mr. Hicks | | $ 90,000 | | |
| Mr. Pyott | Lead Independent Director; Compensation Committee Chair | $ 90,000 | $ 15,000 | $ 20,000 |
| Mr. Siewert | | $ 90,000 | | |
| Ms. Stewart | Governance Committee Chair | $ 90,000 | $ 15,000 | |
| Ms. Sullivan | | $ 90,000 | | |

(2) Amounts reflect the grant date fair value, without adjustment for forfeitures, of 2,239 RSUs granted on May 1, 2015. The fair value of RSUs was determined based on the fair market value of our common stock on the grant date, adjusted for foregone dividends. Each non-employee director serving as of January 2, 2016 had a total of 4,972 unvested RSUs, except that Ms. Sullivan had a total of 5,042 unvested RSUs. Because his

outstanding unvested RSUs vested in connection with his qualified retirement in April 2015, Mr. Börjesson had no unvested RSUs outstanding as of January 2, 2016.

(3)

We do not currently have a retirement benefit program for non-employee directors. Amount for Mr. Pyott reflects the change in present value of his accumulated benefits under a director retirement plan the accrual of benefits under which was frozen in 2002, based on an interest rate of 3.32% as of December 31, 2015.

(4)

Amounts reflect our matching gifts for contributions made to charitable organizations or educational institutions.

(5)

Mr. Börjesson retired from our Board on the date of the 2015 Annual Meeting and received only cash compensation during the year, prorated for his period of service through April 2015.

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# ITEM 2 ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Our Board has determined to hold say-on-pay votes annually, at least until the next advisory vote on the frequency of our say-on-pay vote (which will occur at our 2017 Annual Meeting). Our stockholders are being asked to vote on the following resolution:

> RESOLVED, that our stockholders approve, on an advisory basis, the compensation of our Named Executive Officers, as described in the *Compensation Discussion and Analysis* and *Executive Compensation Tables* sections of our 2016 proxy statement.

### RECOMMENDATION OF BOARD OF DIRECTORS

**The Compensation Committee considered feedback from stockholders regarding our executive compensation program and made significant changes to our program over the past few years to both address stockholder concerns and more closely align our compensation program with our financial profile and business strategies. Our Board of Directors recommends that you vote FOR approval, on an advisory basis, of our executive compensation.** Properly dated and signed proxies will be so voted unless stockholders specify otherwise.

### MEANING OF ADVISORY VOTE

The advisory vote is a vote to approve the compensation of our NEOs, as described in the *Compensation Discussion and Analysis* (CD&A) and *Executive Compensation Tables* sections of this proxy statement. It is not a vote on our general compensation policies or any specific element thereof, the compensation of our non-employee directors, or our program features designed to prevent excessive risk-taking as described in *Risks Associated with Compensation Policies and Practices*.

The results of the advisory vote are not binding on our Board. However, in accordance with SEC regulations, the Compensation Committee will disclose the extent to which it takes into account the results of the vote in the CD&A of our 2017 proxy statement. We remain committed to continued engagement with our stockholders to solicit their viewpoints and discuss why we believe our executive compensation program properly aligns with our strategies and incents our executives to deliver strong long-term operating and financial performance for our stockholders.

# COMPENSATION AND EXECUTIVE PERSONNEL COMMITTEE REPORT

The Compensation and Executive Personnel Committee (referred to in this report as the "Committee") of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis (CD&A) required by Item 402(b) of Regulation S-K with management and, based on its review and these discussions, has recommended to the Board of Directors that the CD&A be included in our 2016 proxy statement and incorporated by reference into our 2015 Annual Report on Form 10-K.

The Committee welcomes feedback regarding our executive compensation program. Stockholders may communicate with the Committee by writing to the Compensation and Executive Personnel Committee Chair, c/o Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

David E. I. Pyott, Chair
Bradley A. Alford
Julia A. Stewart
Martha N. Sullivan

*This Compensation and Executive Personnel Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our filings under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), unless specifically incorporated by reference therein.*

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# COMPENSATION DISCUSSION AND ANALYSIS*

This Compensation Discussion and Analysis (CD&A) provides an overview and analysis of the principles and practices underlying our executive compensation program and the decisions made by the Compensation Committee (referred to in this CD&A as the "Committee") related to 2015 compensation. This CD&A is organized into the following sections:

- Executive Summary
  - Delivered Against Long-Term Targets
  - 2015 Performance
  - Strong Three- and Five-Year Cumulative TSR
  - 2015 Say-on-Pay Vote and Stockholder Engagement
  - Recent Compensation Changes
  - CEO Transition
  - Overview of Pay Philosophy and Executive Compensation Components
  - Strong Compensation Governance Practices
- Summary of Compensation Decisions for 2015
- Discussion of Compensation Components and Decisions Impacting 2015 Compensation
  - Base Salary
  - 2015 Annual Incentive Plan (AIP) Awards
  - 2015 Grants of Long-Term Incentive (LTI) Awards
  - 2015 Vesting of Previously Granted LTI Awards
  - Perquisites
  - Relocation/International Assignment Benefits
  - Benefits

Severance Benefits

Compensation-Setting Tools

Independent Oversight and Expertise

Other Considerations

In this CD&A and the *Executive Compensation Tables* section of this proxy statement, we provide compensation information for our 2015 NEOs, who are identified below.

**2015 NAMED EXECUTIVE OFFICERS**

| NAME | TITLE | RECENT EMPLOYMENT HISTORY |
|---|---|---|
| Dean A. Scarborough | Chairman & Chief Executive Officer | Served in a number of capacities since joining in 1983, including President from May 2000 to October 2014, Chief Executive Officer (CEO) since May 2005 and Chairman since April 2010. Subject to his election by our stockholders, he will serve solely as Executive Chairman effective May 1, 2016. |
| Mitchell R. Butier | President & Chief Operating Officer | Appointed as President and Chief Operating Officer in November 2014, after serving as Senior Vice President and Chief Financial Officer (CFO) since June 2010. He ceased serving as CFO in March 2015. Effective May 1, 2016, he will become President and CEO. |
| Anne L. Bramman | Senior Vice President & Chief Financial Officer | Joined as Senior Vice President and CFO in March 2015 from Carnival Cruise Line, the largest division of Carnival Corporation, where she served as Senior Vice President and Chief Financial Officer for four years. |
| Georges Gravanis | President, Materials Group | Elected to his current role in May 2015, after serving as Vice President and General Manager of the Asia Pacific division of the Materials Group since August 2010. Prior to that, he held several leadership roles in Asia and Europe since joining in May 2003. |
| Anne Hill | Senior Vice President & Chief Human Resources Officer | Served as Senior Vice President and Chief Human Resources Officer since joining in March 2007. |
| R. Shawn Neville | Former President, Retail Branding and Information Solutions | Began in June 2009 as Group Vice President of the business group he continued to lead as President until June 2015. He left our company after a brief transition period. |

The NEOs who served at the end of our 2015 fiscal year (which excludes Mr. Neville) are collectively referred to in this CD&A as our "Current NEOs."

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This CD&A contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from the results, performance or achievements expressed or implied thereby. For a detailed discussion of these risks, see Part I, Item 1a. "Risk Factors" and Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2015

Annual Report on Form 10-K, filed on February 24, 2016 with the SEC (our "2015 Annual Report"). Stockholders should note that statements contained in this CD&A regarding our company and business group performance targets and goals should not be interpreted as management's expectations, estimates of results or other guidance.

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# EXECUTIVE SUMMARY

## DELIVERED AGAINST LONG-TERM TARGETS

We initiated a major transformation of our business in response to our relatively weak performance in 2011, committing to the achievement of aggressive long-term financial targets that we communicated to our stockholders in May 2012 and aimed to achieve by the end of 2015. In this four-year period, we substantially delivered against these goals by executing our strategies to grow through innovation and differentiated quality and service; expand margins through productivity and leveraging our scale; and deploy capital effectively. As shown below, we met our 2015 targets for organic sales growth and adjusted earnings per share (EPS) growth. Although our free cash flow fell substantially short of our annual target in 2014, we reached our target of $300+ million in three of the four years in the period and achieved a four-year average of $287 million. We substantially delivered our 2015 commitments to investors.

Organic sales growth, adjusted EPS, free cash flow and return on capital (ROTC) are non-GAAP financial measures that we provide to investors to assist them in assessing our performance and operating trends. These non-GAAP financial measures are not in accordance with, nor a substitute for or superior to, the comparable financial measures under generally accepted accounting principles in the United States of America (GAAP) and are reconciled to GAAP in Appendix A to this proxy statement.

(1)

*Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of currency translation, product line exits, acquisitions and divestitures, and, where applicable, the extra week in the prior fiscal year. Percentages represent compound annual growth rates.

(2)

*Adjusted EPS* refers to reported income from continuing operations per common share, assuming dilution, adjusted for tax-effected restructuring costs and other items. Percentages represent compound annual growth rates.

(3)

*Free cash flow* refers to cash flow from operations, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from sales (purchases) of investments. Free cash flow excludes uses of cash that do not directly or immediately support the underlying business, such as discretionary debt reductions, dividends, share repurchases, and certain effects of acquisitions and divestitures (e.g., cash flow from discontinued operations, taxes, and transaction costs).

In May 2014, we announced new long-term financial targets through 2018. We raised the midpoint of our long-term organic sales growth target from 4% to 4.5%, reflecting confidence in the trajectory of our two primary operating segments. We continued targeting double-digit adjusted EPS growth. We also introduced a target for ROTC, which has long been a key internal financial metric for our company. We believe that the combination of our growth and ROTC targets effectively communicates our value creation objectives, which together are a proxy for economic value added (EVA), one of the

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performance objectives used in our long-term incentive compensation program. As shown below, based on our results for the first two years of this five-year period, we are on track to deliver our 2018 commitments to investors.

| | 2014-2018 TARGETS | 2014-2015 RESULTS |
|---|---|---|
| **Organic Sales Growth** | 4%-5% | **4%** |
| **Adjusted EPS Growth** | 12%-15%+ | **13%** |
| **Return on Total Capital(1)** | 16%+ in 2018 | **15% in 2015** *(up from 11% in 2013)* |

(1) *Return on total capital* refers to income from continuing operations excluding the expense and tax benefit of debt financing divided by the average of beginning and ending invested capital.

**2015 PERFORMANCE**

Fiscal year 2015 was another year of solid progress for our company. With net sales of approximately $6.0 billion, we delivered 4.6% in organic sales growth and 10.6% growth in adjusted EPS. Adjusted EPS for the year of $3.44 exceeded the high end of the $3.20-$3.40 guidance range we provided to investors in January 2015. Free cash flow rebounded to $329.4 million from $184.7 million in the prior year, which reflected actions we took in 2014 to reduce the volatility associated with year-end changes to our levels of working capital.

**Disciplined Capital Allocation**

We achieved these results while maintaining a healthy balance sheet and continuing the disciplined execution of our capital allocation strategy. Over the last five years, we have returned more than $1.5 billion to our stockholders, delivering on our commitment to return an increased amount of cash to our stockholders. In 2015, we returned approximately $365 million to our stockholders by (i) repurchasing 3.9 million, or approximately 4%, of our outstanding shares at an aggregate cost of approximately $232 million and (ii) paying an annual dividend of $1.46 per share for an aggregate amount of approximately $133 million. We have paid quarterly dividends for decades and increased our annual dividend rate per share by over 80% since 2010; most recently, we raised the quarterly dividend rate by 6% in June 2015.

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For complete information regarding our 2015 performance, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in particular the information contained under the heading "Non-GAAP Financial Measures" and our audited consolidated financial statements and notes thereto contained in our 2015 Annual Report.

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## STRONG THREE- AND FIVE-YEAR CUMULATIVE TSR

As shown below, our strong annual total stockholder return (TSR) of approximately 24% in 2015 contributed to our substantial outperformance in three-year cumulative TSR for the 2013-2015 period compared to the S&P 500 and the median of the S&P 500 Industrials and Materials subsets (we are a member of the Materials subset, but also share many characteristics with members of the Industrials subset; investors have advised us that they look at both subsets in evaluating our relative performance). TSR measures the return that we have provided our stockholders, including stock price appreciation and dividends paid (assuming reinvestment thereof).

**Three-Year Cumulative TSR**

For the 2011-2015 five-year period, our cumulative TSR was above the peer company median but below the S&P 500; annual TSR was higher than both groups in three of the five years, including significant outperformance in 2015.

**TOTAL STOCKHOLDER RETURN**

| | 2011 | 2012 | 2013 | 2014 | 1-Year TSR | 5-Year TSR |
|---|---|---|---|---|---|---|
| **AVY** | -30.2% | 26.2% | 47.5% | 6.2% | **23.8%** | **70.8%** |
| **S&P 500** | 2.1% | 16.0% | 32.4% | 13.7% | **1.4%** | **80.8%** |
| **S&P Indus. & Mats.* (median)** | -3.3% | 19.3% | 39.9% | 11.3% | **-7.2%** | **67.2%** |

* Based on companies in subsets as of December 31, 2015.

## 2015 SAY-ON-PAY VOTE AND STOCKHOLDER ENGAGEMENT

Our Board and management continued their long-standing practice of open dialogue with stockholders in 2015. We made significant changes to our executive compensation program in 2014 and 2015 (described in the chart below) to address direct feedback from our stockholders and more closely align our long-term incentive compensation with our financial profile and business strategies. These changes demonstrate the Committee's commitment to pay for performance and their responsiveness to stockholder feedback.

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**Results and Analysis of 2015 Vote**

At the 2015 Annual Meeting, approximately 92% of our stockholders approved our 2014 executive compensation. This level of support returned to the level we received in 2013, after having fallen to approximately 70% in 2014, below what we and the Committee deemed acceptable. During dialogue with our stockholders in connection with the 2014 Annual Meeting, we determined that there was a need to highlight the significant impact on our long-term pay-and-performance alignment of our relatively poor performance in 2011, which represented the inflection point in our turnaround. We also determined that we needed to better explain market-leveraged stock units (MSUs), the new equity award vehicle adopted by the Committee based on the expert advice and recommendation of its independent compensation consultant, Towers Watson.

To address the feedback we received and to provide additional disclosure on certain aspects of our executive compensation program, we filed supplemental proxy materials in April 2014 and 2015. These materials described the transformation of our businesses since 2011 and the resulting strong TSR outperformance during the 2012-2014 period compared to the S&P 500. We also provided additional disclosure on our compensation program, particularly relating to MSUs, which replaced stock options and restricted stock units (RSUs) to reduce our burn rate and make our long-term incentive program fully performance based. This change served to better support our business transformation and to address stockholder concerns. During 2014 and 2015, we made several changes to our compensation program based on the feedback we received, which are described under *Recent Compensation Changes* on the following pages.

The Compensation Committee believes that the 92% approval of our 2015 say-on-pay vote, along with positive feedback we received during our engagement with stockholders, indicates their strong support of the changes to our compensation program made in 2014 and 2015, as well as the improved CD&A disclosure contained in our 2015 proxy statement.

**Ongoing Stockholder Engagement**

We value stockholder feedback on our executive compensation policies and practices, and we actively solicit input through our stockholder engagement program. Our engagement program begins in the spring of each year, with the filing of our proxy statement. After we file our proxy statement and supplementary proxy materials with the SEC, we reach out to our largest investors (generally representing 50-70% of our shares outstanding as of the record date), sharing these materials and offering members of management and/or the Board for a meeting to discuss our executive compensation and answer questions regarding the items being brought before the Annual Meeting. On the day of the Annual Meeting, we discuss preliminary vote results with our Board, following up with a more detailed analysis of the vote results, including feedback from investors and views of proxy advisory firms, with Committees of the Board in the summer. In the fall, we again reach out to our largest investors to discuss executive compensation without the time pressures associated with proxy season; these more general discussions allow us to hear what issues are important to our stockholders. In the winter, as we prepare for the following proxy season, we review the feedback from our fall outreach effort with management and our Board and consider whether any changes to our executive compensation program are advisable. We also keep investor feedback in mind as we prepare our next proxy statement, enhancing or clarifying our disclosure as appropriate.

Our Board and management continued their long-standing practice of open dialogue with stockholders in 2015. In advance of the 2015 Annual Meeting, we proactively contacted our thirty largest institutional stockholders, representing over 60% of our then-outstanding shares, to solicit their views on our executive compensation program and make directors and management available to answer questions or address concerns. As a result of this effort, we engaged in telephonic discussions with stockholders representing approximately 35% of our then-outstanding shares. In addition, after one of our directors and members of management met in person with four of our largest stockholders and the two leading proxy advisory firms in the fall of 2014, we followed up on these meetings with as-needed engagement during 2015.

During 2015 engagement, our stockholders expressed support for the substantial changes made to our executive compensation program in response to our low 2014 say-on-pay result and stockholder feedback (as described on the following pages), which they felt enhanced pay-for-performance linkage and more closely aligned the interests of our executives with those of our stockholders. In addition, they appreciated the more graphical and streamlined disclosure in our 2015 proxy statement. Investors requested additional information regarding the EVA performance objective used for our grants of performance units (PUs) over the past few years; responsive disclosure has been included in this CD&A.

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## RECENT COMPENSATION CHANGES

The Committee discussed the feedback received from our stockholders with management and Towers Watson, taking several actions to address stockholder concerns. These changes, which are described in the chart below, demonstrate the Committee's ongoing evaluation of our executive compensation program and willingness to make adjustments to reflect feedback received from stockholders and changes in our company's financial profile and business strategies.

| ISSUE | STOCKHOLDER FEEDBACK | ACTIONS TAKEN BY COMMITTEE |
|---|---|---|
| | **CHANGES MADE IN 2013** | |
| Share Utilization | Our burn rate (the three-year average of the sum of stock options and time-vesting restricted stock units (RSUs) granted during the year plus MSUs and PUs vested during the year, divided by the weighted average of common shares outstanding) at the end of 2012 was above 2%<br><br>Our dilution (outstanding equity awards divided by the weighted average of common shares outstanding) at the end of 2012 was over 10% | **Suspended regular grants of stock options** given impact on share usage relative to full-value awards<br><br>Began granting cash-based incentives to lower-level management to more conservatively manage share usage and reduce dilutive impact to stockholders<br><br>**As a result of these changes, our burn rate and dilution at the end of 2015 had significantly decreased to 0.4% and 4.0%, respectively** |
| Performance-Based Nature of LTI Awards | Program included stock options, which some stockholders and proxy advisory firms did not view as performance based<br><br>Program included RSUs, which are not performance based | **Replaced regular grants of stock options and RSUs with performance-based MSUs**, which vest over one-, two-, three- and four-year performance periods (with an average vesting period of 2.5 years) based on our absolute TSR<br><br>**Increased allocation of three-year cliff-vesting performance units (PUs)** from 40% of long-term incentive (LTI) to 50%<br><br>**Suspended regular grants of time-vesting RSUs** to executives<br><br>**These changes made our long-term incentive program fully performance based** |
| Single Performance Objective for PUs | Single performance objective could unduly focus management on that measure to the exclusion of other measures of performance | **Reintroduced cumulative EVA as a second performance objective for PUs** (in addition to relative TSR), weighted 50% for our corporate NEOs (based on our company as a whole) and 75% for our |

business group NEOs (based on their respective business group), to motivate our NEOs to achieve profitable growth as well as increase stockholder value

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| ISSUE | STOCKHOLDER FEEDBACK | ACTIONS TAKEN BY COMMITTEE |
|---|---|---|
| | **CHANGES MADE IN 2014 AND 2015** | |
| PU Performance Criteria | Potential for above-target payouts in periods of negative absolute TSR | **Capped the payout for the relative TSR component of PUs at 100% of target for any three-year performance period in which absolute TSR is negative** to prevent management from being unduly enriched when stockholders experience loss, while still incenting executives to deliver relatively strong performance during challenging economic periods |
| MSU Performance Criteria | Vesting of MSUs at threshold with TSR of -30% and vesting of MSUs at target where TSR is flat | **Increased threshold performance level for absolute TSR from -30% to -15% and target performance level from flat TSR to TSR of 10%. The performance level required for maximum payout was proportionally adjusted from TSR of 100% to 75%.** Previous performance criteria for threshold and target payouts appropriately reflected the business transformation underway when the MSU program began; more stringent threshold and target performance criteria reflect our improved financial profile and business strategies |
| MSU Vesting Schedule | Long-term incentives vesting ratably, including one-year performance periods | **Clarified disclosure to reflect that MSUs vest based on one-, two-, three- and four-year performance periods, with an average vesting period of 2.5 years.** Emphasized MSUs were designed to advance retention objective because they replaced stock options and RSUs (both of which had annual vesting opportunities) and balance PUs (which cliff-vest after three years) |
| Maximum Potential AIP Award | Combination of maximum financial modifier of 200% and maximum individual modifier of 150% could result in outsize AIP award of 300% | **Capped AIP awards at 200% of target** (financial modifier and individual modifier combined) for all NEOs, consistent with our historical practice for our CEO. This cap has now been extended to all AIP participants |
| AIP Individual Modifier | Committee's evaluation of NEO performance could increase AIP awards in | **Committed to providing greater transparency of individual modifier** |

| | | |
|---|---|---|
| | seemingly discretionary manner | **components for CEO**, consistent with disclosure in our 2014 supplemental proxy materials and 2015 proxy statement |
| Above-Median Benchmarking | Base salaries targeted at the lower end of the third quartile and closer to the market median | **Confirmed practice of targeting base salaries at the market median**. Continued emphasizing that total direct compensation is targeted at the median |
| Hedging and Pledging Policy | Despite historical record of no hedging or pledging by officers or directors, had not formally prohibited such activities given pending SEC regulations | Amended insider trading policy expressly to prohibit hedging and pledging by directors and officers |

**CEO TRANSITION**

In October 2014, Mr. Scarborough resigned from the office of President and Mr. Butier was elected by our Board as President and COO effective November 1, 2014. Mr. Butier served in both these roles throughout 2015, resigning from his additional position of CFO in March 2015 in connection with the appointment of Anne Bramman as our Senior Vice President and CFO. In February 2016, after having discussed CEO transition matters during executive session at all but the first meeting held during 2015, our Board determined to elect Mr. Butier as President and CEO effective May 1, 2016, succeeding Mr. Scarborough in the CEO role at that time. The independent directors of our Board also determined to elect, subject to his election by our stockholders, Mr. Scarborough as Executive Chairman of our Board also effective May 1, 2016. In recognition of responsibilities in these respective roles, as well as the advice of its independent compensation consultant, Willis Towers Watson, the Committee made the following decisions:

For Mr. Butier, increase his base salary from $765,000 to $1,100,000 effective May 1, 2016; raise his 2016 target AIP and LTI opportunities from 90% and 300%, respectively, to 125% and 400%, respectively (the AIP opportunity will be prorated based on the portion of the year for which he serves as President and COO and the portion for which he serves as President and CEO); and, consistent with similar promotion grants to CEOs in the market, grant him an option to purchase shares of our common stock with a grant date fair value of approximately $2,000,000 on June 1, 2016, which will vest 50% on each of the third and fourth anniversaries of the date of grant. This equity grant provides for realizable gains that align directly with the long-term appreciation of our common stock and intentionally differs from our annual LTI awards to underscore its special purpose and one-time nature. Mr. Butier's new target total direct compensation (TDC) of $6,875,000 is less than the market median; the Committee believes that positioning his compensation at the 40th percentile acknowledges that he will be new to the CEO role yet compensates him within a reasonable CEO market range.

For Mr. Scarborough, decrease his base salary from $1,125,000 to $875,000 effective May 1, 2016 and decrease his 2016 target AIP and LTI opportunities from 125% and 450%, respectively, to 100% and 300%, respectively (the AIP opportunity will be prorated based on the portion of the year for which he serves as Chairman and CEO and the portion for which he serves as Executive Chairman). Mr. Scarborough's 2016 target TDC of $4,375,000 is at (i) the market median for an executive chairman role and (ii) represents a 45% decrease from his current target TDC of $7,593,750. The Committee believes that in his new role as Executive Chairman, Mr. Scarborough will provide critical leadership experience and mentorship to facilitate a smooth CEO transition.

For 2017, Mr. Scarborough's base salary is expected to be further reduced to $230,000; he is not expected to be eligible to participate in the AIP; and his annual LTI opportunity is expected to be valued at approximately $140,000, the same as that of our non-employee directors. Mr. Scarborough's anticipated 2017 target TDC of $370,000 is expected to be at the market median for a non-executive chairman.

## OVERVIEW OF PAY PHILOSOPHY AND EXECUTIVE COMPENSATION COMPONENTS

The Committee has designed our executive compensation program to reflect its philosophy that a substantial majority of compensation should be tied to our success in meeting predetermined performance objectives and positively influencing stock price appreciation, providing higher compensation when we deliver superior, sustained performance. The objective of this strategy is to motivate our executives to achieve our annual and long-term financial goals and recognize their contributions in delivering strong corporate and/or business group performance. The Committee implements this philosophy and incents our executives by following three key principles:

Positioning target TDC and each component thereof at the market median, giving consideration to responsibilities, individual performance, tenure, retention, succession and market factors;

Aligning our annual incentive awards with our annual operating plan and key financial and strategic objectives that are predetermined and objectively measurable; and

Rewarding long-term performance using absolute and relative TSR, as well as cumulative EVA, all of which focus our executives on consistent and sustainable stockholder value creation.

Our incentive compensation for 2015 consisted of a target award under our AIP and LTI awards, with payouts determined based on our performance against goals established by the Committee in February 2015. The Committee structures annual incentive compensation to reward NEOs based on corporate and/or business group performance, as well as their individual contributions, to motivate them and align their compensation with stockholder interests. Our long-term incentive compensation awards provide upside opportunity for exceeding performance targets and downside risk, up to and including cancellation, for failing to achieve performance targets, with targets generally established at or above the midpoint of our annual guidance and consistent with our long-term financial goals.

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**Elements of Total Direct Compensation**

As shown in red in the following graph, the substantial majority of our Current NEOs' target TDC in 2015 was performance-based and at risk.

**2015 Target Total Direct Compensation Mix**

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Over the past five years, our cumulative TSR has increased over 70% while our CEO's compensation has increased only 18%. See the *Summary Compensation Table* in this proxy statement for more information.

**Five-Year CEO Pay and Cumulative TSR**

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## STRONG COMPENSATION GOVERNANCE PRACTICES

Our executive compensation program incorporates the following best practices, which we believe ensure that it serves the long-term interests of our stockholders.

| POLICY OR BEST PRACTICE | DESCRIPTION AND BENEFIT TO OUR STOCKHOLDERS |
|---|---|
| | **PAY FOR PERFORMANCE** |
| **Median Targeting** | TDC (base salary + annual cash incentive opportunity + long-term equity incentive opportunity) and the components thereof are targeted at the median of companies similar in size, scope and complexity, giving consideration to responsibilities, individual performance, tenure, retention, succession and market factors. |
| **Majority of Compensation Performance-Based** | For 2015, 85% of our CEO's and an average of 70% of our other Current NEOs' target TDC was tied to company performance and at risk of cancellation if our performance is poor. |
| **Capped Annual Incentive Set At or Above Midpoint of Guidance** | Annual cash incentive compensation is based primarily on our achievement of performance objectives targeted at or above the midpoint of our annual guidance and consistent with our long-term financial goals, and secondarily on the Committee's assessment of our NEOs' achievement of predetermined and objectively measurable strategic objectives, with awards capped at 200% of target. |
| **Majority Long-Term Equity Incentive Compensation** | Our equity-based incentive awards emphasize long-term performance, with PUs cliff-vesting at the end of three years and MSUs having an average vesting period of 2.5 years. Equity compensation aligns NEO interests with stockholder interests by delivering compensation dependent on our long-term performance and stockholder value creation. |
| **No Annual Stock Options** | Given their past adverse impact on our burn rate and related stockholder feedback, we last made a regular grant of stock options in 2012. |
| | **BEST PRACTICES** |
| **No Employment Agreements** | Our NEOs are employed at will. |
| **Rigorous Stock Ownership Guidelines** | Our CEO is required to obtain and maintain shares equal to the lesser of 5x his annual salary or 95,000 shares; he currently owns shares with a market value greater than 28 times his annual salary. All of our Current NEOs are in compliance with our stock ownership guidelines. |
| **No Hedging or Pledging** | Our insider trading policy prohibits our directors and officers from hedging or pledging our common stock and all our Current NEOs are in compliance with the policy. |
| **Low Burn Rate and Dilution** | Our burn rate and dilution at the end of fiscal year 2015 were 0.4% and 4.0%, respectively. |
| **Clawback Policy** | Cash and equity incentive compensation is subject to clawback in the event of fraud or other intentional misconduct on the part of an NEO that necessitates a restatement of our financial results. |
| **No Excise Tax Gross Ups** | We do not gross-up payments received in connection with termination following a change of control for excise taxes. |
| **Double Trigger Equity Vesting** | Equity awards granted after April 2012 would not be accelerated on change of control, unless the NEO is terminated without cause or terminates for good reason within 24 months thereof. |
| **No** | Our stock option and incentive plan prohibits the repricing/exchange of underwater options |

| | |
|---|---|
| **Repricing/Exchange of Underwater Stock Options** | without stockholder approval. |
| **Limited Perquisites** | Other than a capped financial planning reimbursement and our payment for an annual physical examination, our NEOs receive a flat taxable executive benefit allowance in lieu of enumerated perquisites that is not subject to any tax gross-up. |
| **Reasonable Severance Benefits** | Severance formula:<br>*CEO*: 2x (annual salary + highest AIP award in last three years + cash value of 12 months of health insurance premiums)<br>*Other Current NEOs*: 1x (annual salary + highest AIP award in last three years + cash value of 12 months of health insurance premiums) |
| **Reasonable Change of Control Benefits** | Change of Control Severance Formula (requires termination within 24 months of a change of control):<br>*CEO*: 3x (annual salary + highest AIP award in last three years + cash value of 12 months of health insurance premiums) + prorated AIP award for year of termination<br>*Other Current NEOs*: 2x (annual salary + highest AIP award in last three years + cash value of 12 months of health insurance premiums) + prorated AIP award for year of termination |

**STRONG GOVERNANCE**

| | |
|---|---|
| **Independent Oversight** | The Committee is comprised solely of independent directors and its executive compensation decisions are ratified by our independent directors. |
| **Independent Expert Advice** | Willis Towers Watson (formerly Towers Watson), which has been determined by the Committee to be independent and free of conflicts of interest, provides the Committee with expert executive compensation advice. |

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## SUMMARY OF COMPENSATION DECISIONS FOR 2015

The Committee targets TDC for NEOs at the median of companies similar in size, scope and complexity with which we compete for executive talent, giving consideration to responsibilities, individual performance, tenure, retention, succession and market factors. TDC includes base salary, target AIP opportunity and target LTI opportunity. The Committee believes this positioning is appropriate given our business portfolio mix, product diversity and the global nature of our operations, which require our executives to have a wide range of business leadership experience and skills.

In determining 2015 NEO compensation, the Committee gave consideration to the following:

**Company/Business Performance** Our company's overall operational and financial performance including our 2015 adjusted sales growth, adjusted EPS, and free cash flow, as well as the performance of our two largest business segments;

**Stockholder Alignment** Our TSR on an absolute basis, as well as relative to a predetermined list of peer group companies;

**Annual Individual Performance** Each NEO's individual performance against the strategic objectives established for them at the beginning of the year;

**Competitiveness** Market pay practices and company performance relative to the competitive marketplace; and

**Responsiveness to Investors** The results of our 2015 say-on-pay vote and feedback received during the course of our ongoing stockholder engagement program.

The key elements of 2015 NEO target TDC are shown in the following table. While we provide consistent, market-competitive total direct compensation opportunities for our NEOs, the actual compensation they realize varies year-to-year based primarily on our company's performance.

### 2015 TOTAL DIRECT COMPENSATION (TDC)

| COMPONENT | DESCRIPTION | DECISIONS IMPACTING 2015 EXECUTIVE COMPENSATION |
|---|---|---|
| **PERFORMANCE-BASED EQUITY**<br><br>**Target LTI Awards**<br><br>66% of TDC for CEO<br>Avg. 51% of TDC for Other Current NEOs | Provides variable, equity-based incentive compensation to align NEO interests with stockholder interests and drive long-term value creation<br><br>LTI opportunity based on market survey data; award vehicles, performance criteria and weightings based on expert advice and recommendations of Towers Watson | **LTI Awards Granted in 2015**<br><br>There were no changes to NEO target LTI opportunities for 2015, other than: (i) an increase in Mr. Butier's target LTI opportunity from 200% to 300% in connection with his election as President and Chief Operating Officer and (ii) for 2015 only, increases of 40% for Mr. Gravanis, 30% for Ms. Hill, and around 10% for Messrs. Butier and Neville, reflecting the impact their leadership had in contributing to our strong financial performance in 2014. |

50% in PUs that cliff-vest at the end of a three-year period subject to our achieving at least the threshold level of performance for the cumulative EVA and relative TSR performance objectives established for the award. To reflect stockholder feedback, the payout for the TSR component is now capped at 100% of target for any three-year performance period in which absolute TSR is negative. No other changes to performance objectives or weightings from 2014.

50% in MSUs that vest based on our absolute TSR over one-, two-, three- and four-year performance periods, with an average vesting period of 2.5 years. To reflect stockholder feedback and reflect our improved financial profile and business strategies, the Committee revised the performance criteria to make them more challenging: (i) the threshold performance level for absolute TSR increased from -30% to -15%, and (ii) the target performance level increased from flat TSR to requiring a TSR of 10%. The Committee also proportionally adjusted the payout level for threshold performance from 70% to 85% and the TSR required for a maximum payout from 100% to 75%.

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## 2015 TOTAL DIRECT COMPENSATION (TDC)

| COMPONENT | DESCRIPTION | DECISIONS IMPACTING 2015 EXECUTIVE COMPENSATION |
|---|---|---|
| | | **LTI Awards Vesting in 2015** |
| | | Our TSR was at the 93rd percentile of an objectively determined peer group established at the time of grant. Cumulative EVA for our company was $308.2 million. As a result, the PUs granted in 2013 vested at 200% of target for our corporate NEOs and our business group Current NEO (Mr. Gravanis) for the 2013-2015 performance period. |
| | | Payout at vesting for MSUs is determined based on the following formula: |
| | | (stock price at settlement + reinvested dividends during the period)<br>stock price at grant |
| | | 3rd Tranche payout for MSUs granted in 2013 |
| | | ($59.74 + $4.80)/$36.00 = 1.79 |
| | | Paid out at 179% of target |
| | | 2nd Tranche payout for MSUs granted in 2014 |
| | | ($59.74 + $3.21)/$50.24 = 1.25 |

| | | |
|---|---|---|
| | | Paid out at 125% of target |
| | | 1st Tranche payout for MSUs granted in 2015 |
| | | ($59.74 + $1.49)/$52.74 = 1.16 |
| | | Under the revised payout scale approved for 2015 MSU grants, the TSR range between target and maximum payouts decreased from 100% (reflecting flat TSR to TSR increase of 100%) to 65% (reflecting 10% TSR to 75% TSR); as a result, every one percentage point increase in TSR above 10% equates to a 1.54% increase in payout. |
| | | (1.16 1.10) × 1.54 + 1 = 1.09 |
| | | Paid out at 109% of target |
| **PERFORMANCE-BASED CASH**<br><br>**Target AIP Award**<br><br>Capped at 200% of target<br><br>19% of TDC for CEO<br>Avg. 19% of TDC for Other Current NEOs | Provides variable, cash-based incentive to motivate our executives to grow sales, increase profitability and deliver strong free cash flow consistent with our long-term financial objectives<br><br>AIP opportunity based on market survey data; financial modifier based on corporate and/or business group performance; individual modifier based on predetermined and measurable strategic objectives | There were no changes in previously-serving NEO target AIP opportunities for 2015, except for (i) an increase in Mr. Butier's target AIP opportunity from 75% to 90% in connection with his election as President and COO and (ii) an increase in Mr. Gravanis' target AIP opportunity from 50% to 60% in connection with his election as President, Materials Group.<br><br>Our company and/or business group performance resulted in financial modifier for CEO and other corporate Current NEOs of 123% and financial modifier for business group Current NEO of 161%.<br><br>Individual NEO performance warranted modifiers within the range of 100% to 125%, reflecting their performance against their strategic objectives established at the beginning of 2015.<br><br>The Committee determined AIP awards within the range of 110% to 154% of target. |
| **FIXED** | | |

| | | |
|---|---|---|
| **Base Salary**<br><br>15% of TDC for CEO<br>Avg. 30% of TDC for Other Current NEOs | Provides fixed, market competitive monthly income for performing daily responsibilities | Excluding promotions and initial appointments, the Committee provided NEOs limited salary increases of around 2%, consistent with the average increase for U.S. employees. |

In addition to these primary elements of our executive compensation program, we also provide our NEOs with limited perquisites and benefits that the Committee believes are comparable to other multinational public companies.

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## DISCUSSION OF COMPENSATION COMPONENTS AND DECISIONS IMPACTING 2015 COMPENSATION

The Committee aims to have base salaries at the market median, with the substantial majority of NEO compensation consisting of incentive compensation to advance the Committee's pay-for-performance philosophy. This methodology drives higher realized compensation when our financial performance is stronger and lower realized compensation when our financial performance is weaker. In addition, it provides the Committee with the flexibility to respond to changing business conditions, manage compensation in accordance with career progression, and adjust compensation to reflect differences in executive experience and performance.

### BASE SALARY

Increases in base salary are generally driven by the average percentage merit increase provided to our U.S. employees, subject to marginal increase or decrease based on the NEO's performance and the market median for positions with similar scope and responsibility. In February 2015, the Committee approved a 2% base salary increase for our then-serving NEOs consistent with the average increase for U.S. employees. Ms. Bramman's initial base salary was approved in connection with her election as Senior Vice President and CFO and Mr. Gravanis's base salary was increased from $330,957 to $500,160 in connection with his promotion to President, Materials Group. Mr. Gravanis' base salary was converted from Euros to U.S. dollars using the exchange rate as of our fiscal year-end. Base salaries for these two NEOs fell around the market median for roles with similar scope and responsibility.

### 2015 AIP AWARDS

The 2015 AIP was designed to incent management to create long-term stockholder value. AIP awards are determined using the following formula:

#### 2015 Target AIP Opportunities

As a percentage of 2015 year-end base salary, the target AIP opportunities for 2015 were 125% for Mr. Scarborough; 90% for Mr. Butier; 75% for Mr. Neville; 60% for Mses. Bramman and Hill; and 57% for Mr. Gravanis. The target AIP opportunities for previously-serving NEOs were unchanged from last year, except for Mr. Butier's, which increased from 75% to 90% of base salary in connection with his election as President and COO. The opportunity for Mr. Gravanis was prorated based on his previous AIP opportunity of 50% and his current AIP opportunity of 60%.

#### 2015 AIP Performance Objectives and Weightings

The following performance objectives and weightings for the 2015 AIP were established and weighted by the Committee, in consultation with Towers Watson. Our CEO, COO, CFO and Chief Human Resources Officer participated during portions of the meeting during which the Committee reviewed and recommended performance objectives for our AIP and analyzed our performance against these objectives.

For our business group NEOs (Messrs. Gravanis and Neville), the Committee determined to link 75% of the AIP financial modifier to their respective business group's results and 25% to corporate results. The business group performance objectives were designed to be achievable only if our business groups substantially improved upon their 2014 performance and delivered results consistent with the achievement of the long-term financial targets we announced in May 2012 and May 2014.

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In setting the targets for these objectives, the Committee aimed to (i) ensure consistency with our long-term financial targets and (ii) require adjusted EPS and free cash flow improvement from the actual amounts achieved in the prior year. These were the same objectives and weightings used for purposes of the 2014 AIP to continue incenting our NEOs to increase sales on an organic basis, improve profitability and generate strong free cash flow.

Target adjusted sales growth was set at the low end of our long-term target, reflecting top-line challenges in our Retail Branding and Information Solutions (RBIS) segment. The target adjusted EPS performance goal was established at the midpoint of the guidance we announced to investors in January 2015, reflecting the uncertain economic environment at that time and anticipated headwinds from currency. Target free cash flow was set 5% above the annual target of $300 million reflected in our 2015 financial targets. Because our annual operating plan builds on results for the prior year and takes into account the anticipated business environment as well as our strategic plans, operational matters and planned capital expenditures our AIP targets reflect these factors as well.

**CORPORATE AIP TARGETS VS. PRIOR YEAR RESULTS**

| | 2014 Results | 2015 AIP Target |
|---|---|---|
| **Adjusted Sales Growth** | 4.2% | 3.0% |
| **Adjusted EPS** | $3.11 | $3.30 |
| **Free Cash Flow** | $185 mil. | $315 mil. |

**2015 Financial Modifiers**

Financial modifiers are capped at 200%. Consistent with prior years, in evaluating our achievement of these performance objectives, the Committee has the discretion to exclude the impact, positive or negative, of extraordinary items such as acquisitions and divestitures; restructuring and integration actions not included in our annual net income plan; changes in accounting principles, tax codes or related regulations and rulings; natural disasters, terrorism and war; costs related to the early extinguishment of debt; costs of litigation outside the normal course of business; and non-cash charges associated with the impairment of long-lived assets.

The following table shows the AIP financial modifiers for our NEOs for 2015. As shown, we exceeded the target level established for all performance objectives established for corporate NEOs and our business group Current NEO. Our corporate and business group performance resulted in AIP financial modifiers of 123% for our corporate NEOs and 157% for our business group Current NEO. Because he was not employed by us at the end of 2015, Mr. Neville was not eligible for a 2015 AIP award.

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## 2015 NEO AIP FINANCIAL MODIFIERS

| NAME | PERFORMANCE OBJECTIVE | WEIGHTING | THRESHOLD (50%) | TARGET (100%) | MAXIMUM (200%) | 2015 ACTUAL | MODIFIER | WEIGHTED AVERAGE MODIFIER |
|---|---|---|---|---|---|---|---|---|
| Mr. Scarborough Mr. Butier | Total Company Adjusted Sales Growth(1) | 20% | 0.9% | 3.0% | 7.1% | 3.4% | 110% | 22% |
| Ms. Bramman Ms. Hill | Total Company Adjusted EPS(2) | 60% | $3.10 | $3.30 | $3.70 | $3.44 | 135% | 81% |
| | Total Company Free Cash Flow(3) | 20% | $240M | $315M | $466M | $329M | 100% | 20% |
| ***Corporate NEO Financial Modifier*** | | | | | | | | **123%** |
| Mr. Gravanis | Total Company Adjusted EPS(2) | 25% | $3.10 | $3.30 | $3.70 | $3.44 | 135% | 34% |
| *Materials Group (MG)* | PSM Segment Adjusted Sales Growth(4) | 20% | 0.8% | 2.9% | 7.0% | 4.1% | 130% | 26% |
| | PSM Segment Adjusted Net Income(4)(5) | 35% | $310M | $326M | $359M | $361M | 200% | 70% |
| | PSM Segment Free Cash Flow(4) | 20% | $250M | $290M | $370M | $358M | 157% | 31% |
| ***MG NEO Financial Modifier*** | | | | | | | | **157%**(6) |
| Mr. Neville | Total Company Adjusted EPS(2) | 25% | $3.10 | $3.30 | $3.70 | | | |
| *Retail Branding and Information* | RBIS Segment Adjusted Sales Growth(4) | 20% | 1.5% | 4.1% | 9.3% | | | |
| *Solutions (RBIS)* | RBIS Segment Adjusted Net Income(4)(5) | 35% | $63M | $72M | $81M | | | |
| | RBIS Segment Free Cash Flow(4) | 20% | $65M | $85M | $125M | | | |

(1)

Total Company Adjusted Sales Growth refers to reported sales growth of (5.7)%, excluding the unfavorable impact of currency translation of 8.6% and product line divestitures of 0.6%. Although excluded in determining organic sales growth, the impact of the extra week in the prior fiscal year is reflected in adjusted sales growth targets.

(2)

Total Company Adjusted EPS refers to reported net income per common share, assuming dilution, of $2.95, adjusted for tax-effected restructuring costs and other items of $0.49.

(3)

Total Company Free Cash Flow refers to cash flow from operations of $473.7 million, minus purchases of property, plant and equipment of $135.8 million and software and other deferred charges of $15.7 million, plus proceeds from sales of property, plant and equipment of $7.6 million, minus purchases of investments of $0.5 million, plus net divestiture-related payments and free cash outflow from discontinued operations of $0.1 million. Free cash flow was measured quarterly to align with business seasonality and focus on consistent management of working capital throughout the year, subject to adjustment if full-year targets were not achieved. While 2015 free cash flow exceeded target by approximately 9%, the average quarterly performance resulted in a modifier of 100%.

(4)

Adjusted sales growth, adjusted net income and free cash flow measures at the segment level are internal metrics. These metrics either exclude or make simplifying assumptions for items that cannot be allocated precisely by segment, such as interest and income tax expenses, and related balance sheet accounts, such as deferred tax assets and liabilities, income tax payables and receivables, and short- and long-term debt. Certain balance sheet accounts such as pension and other postretirement benefits and insurance that are generally managed at the corporate level, as well as the impact of foreign currency translation, are also excluded from the calculation of these metrics for the segments. The impact of intercompany sales is included in segment metrics. While 2015 PSM segment free cash flow was over 180% of target, the average quarterly performance resulted in a modifier of 157%.

(5)

Adjusted net income refers to reported net income adjusted for tax-effected restructuring costs and other items.

(6)

Financial modifier reduced from 161% to 157% to reflect a reclassification for 2014 of certain liquid short-term bank drafts with maturities greater than 90 days to other current assets. Mr. Gravanis' financial modifier was prorated based on his previous role's financial modifier of 119% and his current role's financial modifier of 157%.

**2015 NEO Performance Evaluations & Individual Modifiers**

Our NEOs are evaluated on their achievement of strategic objectives reflected in their individual performance plans for the year, with the Committee approving our CEO's goals for the year and our CEO approving the goals of our other NEOs. The NEOs' performance against their objectives is assessed in February of the following year. For the NEOs other than our CEO, this assessment considers the totality of their performance rather than assigning specific weights to each of the performance goals. Individual modifiers are capped at 150%, subject to the total cap on AIP awards of 200%.

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The Committee reviewed and evaluated our CEO's 2015 performance, taking into account his performance against the measurable objectives established at the beginning of the year, his self-assessment of his performance and market reference and other data provided by Willis Towers Watson. Our CEO is not involved in the decisions regarding his own compensation, which are determined by the Committee meeting in executive session with Willis Towers Watson. The Committee determined the individual modifier for our CEO based on its assessment of his performance.

For 2015, the Committee evaluated the performance of our CEO, determining that he met or exceeded four of his strategic objectives and nearly achieved the strategic objectives related to the RBIS and Vancive segments, as shown below:

## 2015 CEO PERFORMANCE EVALUATION

| STRATEGIC OBJECTIVE | WEIGHTING | EVALUATION |
|---|---|---|
| Execute PSM goals, achieving targeted restructuring savings, delivering margin improvement, and growing sales in higher-value product categories | 25% | Exceeded restructuring savings target; exceeded targeted margin improvement by nearly 10%; and significantly grew sales on an organic basis in specialty materials, performance tapes and graphics product categories |
| Deliver RBIS goals, reaching milestones on organic sales growth and margin improvement | 25% | Radio-frequency identification and external embellishment product categories grew over 20% on an organic basis; significantly improved EBIT margin, nearly reaching goal; and implemented strategy to accelerate growth through a faster and simpler business model |
| Deliver milestones for our Vancive Medical Technologies segment, focusing on product family milestones and realizing targeted profitability | 5% | Nearly achieved core business profitability goal and made the appropriate strategic decision to exit the wearable sensors product category when milestones were missed |
| Build acquisition pipeline by identifying, pursuing and actively engaging with potential targets | 25% | Held substantive discussions with acquisition targets in excess of goal and actively engaged with targets in excess of goal |
| Deliver a succession plan that meets the Board's goals | 10% | Mentored his recently announced successor, Mr. Butier, throughout 2015; appointed Ms. Bramman as Senior Vice President and CFO in March 2015; and appointed Mr. Gravanis as President, Materials Group in May 2015 |
| Achieve 2015 sustainability goals and establish and commit to 2025 sustainability goals | 10% | Met or exceeded 2015 sustainability goals; established and communicated aggressive 2025 sustainability goals; and signed the American Business Act on Climate Pledge for climate change, reflecting our goal of reducing greenhouse gas emissions |
| ***Individual Modifier Based on Committee Evaluation*** | | **110%** |

Our CEO recommended to the Committee the individual modifiers for our other Current NEOs based on his assessment of their 2015 performance. The Committee considered our CEO's recommendations, challenged his assessments as needed and retained the discretion to approve individual modifiers for our other Current NEOs lower than what the CEO has recommended. Other than discussing with our CEO their performance against their predetermined strategic objectives, our other Current NEOs played no role in their compensation determinations.

In determining the individual modifiers for our other Current NEOs, the Committee noted the following highlights of their respective 2015 performance:

*Mr. Butier* Led our PSM segment for six months after becoming President & COO, refining its business strategy and setting it on course to achieve record 2015 results and exceed its 2018 targets; implemented a new strategy to increase competitiveness in the RBIS segment, delivering a significant course correction in the business' trajectory with progress against its long-term targets during the second half of 2015; supervised changes in leadership in the PSM and RBIS segments, providing mentorship to achieve successful transitions; and implemented a portfolio scoping strategy to accelerate growth in higher-value product categories.

*Ms. Bramman* Successfully on-boarded as our CFO, quickly mastering our accounting policies and internal controls and establishing her vision for the global finance function; refined our capital deployment strategy, enabling continued return of cash to stockholders, investment in our businesses and pursuit of acquisition opportunities; oversaw our

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information technology function, selecting a new enterprise resource planning system; and identified and mentored new corporate leaders for our tax and treasury functions.

*Mr. Gravanis* Successfully transitioned to President, Materials Group, enabling our PSM segment to deliver its fourth consecutive year of strong organic sales growth, with significantly improved profitability; grew volume across all key product categories and regions, achieving above-average growth in targeted, higher-value categories; successfully implemented significant reorganization in Asia; and, in previous role as Vice President/General Manager, Materials Group Asia, consistently delivered on earnings objectives despite top-line challenges.

*Ms. Hill* Led successful CEO succession planning, providing valuable insights to the Committee and guidance to executives; directly managed support of the human resources function in our PSM segment for the first six months of 2015; supported multiple leadership changes and successful transitions in our businesses, as well as in our corporate finance and communications functions; and implemented a new global performance management system.

Based on the above assessments and after giving consideration to the recommendations of our CEO, the Committee approved the following individual modifiers for our other Current NEOs: 125% for Mr. Butier; 100% for Ms. Bramman; 100% for Mr. Gravanis; and 115% for Ms. Hill.

**2015 AIP Awards**

Our Current NEOs received the AIP awards shown in the following table for 2015, based on their respective base salary at year-end 2015, AIP opportunity, financial modifier and individual modifier:

## 2015 NEO AIP AWARDS

| NAME | 2015 YE BASE SALARY | AIP OPPORTUNITY | TARGET AIP AWARD | FINANCIAL MODIFIER | INDIVIDUAL MODIFIER | AIP AWARD |
|---|---|---|---|---|---|---|
| Mr. Scarborough | $ 1,125,060 | 125% | $ 1,406,325 | 123% | 110% | $ 1,902,758 |
| Mr. Butier | $ 765,000 | 90% | $ 688,500 | 123% | 125% | $ 1,058,569 |
| Ms. Bramman | $ 550,000 | 60% | $ 330,000 | 123% | 100% | $ 405,900 |
| Mr. Gravanis* | $ 500,160 | 57% | $ 285,091 | ~145% | 100% | $ 413,304 |
| Ms. Hill | $ 501,503 | 60% | $ 300,902 | 123% | 115% | $ 425,626 |

* Mr. Gravanis' AIP award was prorated based on his previous role's AIP opportunity of 50% and financial modifier of 119% and his current role's AIP opportunity of 60% and financial modifier of 157%. Amounts converted from Euros to U.S. dollars using the exchange rate as of our fiscal year-end.

**2015 GRANTS OF LTI AWARDS**

Our LTI program provides variable incentive compensation to enhance alignment of executive interests with stockholder interests and drive long-term value creation. The annual LTI awards granted in 2015 were fully performance-based and delivered in equity comprised of:

- 50% in PUs that cliff-vest at the end of a three-year period subject to our achievement of the cumulative EVA and relative TSR performance objectives established for the award; and

- 50% in MSUs that vest at the end of the one-, two-, three- and four-year performance periods, with an average vesting period of 2.5 years, based solely on our absolute TSR.

Annual LTI awards were granted on the fourth Thursday of February 2015, the day our Board had its regularly-scheduled meeting. Given that her start date took place a few weeks after this grant, Ms. Bramman's 2015 LTI awards were granted in June 2015, consistent with our special award policy described below. The Committee does not offset the loss or gain of prior year grants in determining current year grants as doing so would compromise the intended risk/reward nature of these incentives.

Although we have suspended the regular grant of options and RSUs to our executives, special awards may be granted by the Committee for hiring, promotion or retention purposes, with the awards granted on the first day of the last month of the calendar quarter following the hiring or promotion event or decision to make a retention grant. The Committee approved the following special awards for our NEOs in 2015:

- for Mr. Butier, a promotion grant of RSUs on March 2, 2015 with a target grant date fair value of $2,000,000, 50% of which vested on the grant date, 40% of which will vest on December 1, 2016 and 10% of which will vest on the three-year anniversary of the grant date. This replaced a grant from December 1, 2014 that was voided for not meeting our three-year minimum vesting requirement for time-vesting full-value awards;

for Mr. Neville, a promotion grant of RSUs on March 2, 2015 of RSUs with a target grant date fair value of $1,500,000, 90% of which would have vested on December 1, 2016 and 10% of which would have vested on the three-year anniversary of the grant date. This replaced a grant from December 1, 2014 that was voided for the same reason described above for Mr. Butier. These RSUs were cancelled upon the termination of Mr. Neville's employment in 2015;

for Ms. Bramman, a sign-on grant of RSUs on June 1, 2015 with a target grant date fair value of $400,000, which vest in equal installments on the first, second and third anniversaries of the grant date; and

for Mr. Gravanis, a promotion grant of RSUs on June 1, 2015 with a target grant date fair value of $750,000, which vest in equal installments on the first, second, third and fourth anniversaries of the grant date.

The table below sets forth the grant date fair value of the special awards made in 2015. As a result of the methodology for determining grant date fair value and timing, total values for special LTI awards were slightly below target values.

## 2015 NEO SPECIAL LTI AWARDS

| NAME | PURPOSE | RSUs (#) | RSUs ($)(1) |
|---|---|---|---|
| Mr. Butier | Promotion(2) | 38,081 | $ 1,989,091 |
| Ms. Bramman | Sign-on | 6,492 | $ 380,891 |
| Mr. Gravanis | Promotion | 12,172 | $ 705,366 |
| Mr. Neville(3) | Promotion(2) | 28,561 | $ 1,456,849 |

(1) The fair value of RSUs was determined based on the fair value of our common stock on the grant date, adjusted for foregone dividends.

(2) Replacement of grants originally made on December 1, 2014 and voided as described above.

(3) Mr. Neville's RSUs were cancelled upon the termination of his employment.

**Target LTI Opportunity**

As a percentage of 2015 year-end base salary, the target LTI opportunities for our NEOs were 450% for Mr. Scarborough, 300% for Mr. Butier (increased from 200% following his promotion as President and COO), 200% for Mr. Neville, 180% for Mses. Bramman and Hill and 130% for Mr. Gravanis. These target LTI award opportunities represented approximately 78% and 72%, respectively, of our CEO's, and other Current NEOs' average, total incentive compensation. For 2015 only, the Committee increased the LTI opportunities for Mr. Gravanis by 40%, Ms. Hill by 30%, and Messrs. Butier and Neville by approximately 10% to recognize the impact their leadership had in contributing to our strong financial performance in fiscal year 2014.

**Performance Units (PUs)**

Awarded under our 2015-2017 Mid-Term Incentive Plan (MTIP), PUs cliff-vest in shares of our common stock after the end of a three-year period at threshold (50% payout), target (100% payout) and maximum (200% payout) levels based on our achievement of the performance objectives established for the award. PUs do not accrue dividend equivalents.

Consistent with the 2014-2016 MTIP, the Committee selected the following performance objectives for the 2015-2017 MTIP. The Committee believes that these objectives continue to appropriately align executive compensation with the long-term interests of our stockholders because delivery of economic value and appreciation of our stock price relative to peer companies directly impacts the number of shares executives may receive at vesting.

**Cumulative EVA, weighted 50% for our corporate NEOs (based on our total company EVA) and 75% for our business group NEOs (based on the cumulative EVA for their respective business group)**. EVA is a measure of financial performance calculated by deducting the economic cost associated with the use of capital (weighted average cost of capital multiplied by average invested capital) from our after-tax operating profit. The Committee established corporate EVA goals consistent with the long-term targets we announced in May 2014 and our key financial objective of delivering superior TSR, with the target payout at the low end of our 2018 growth targets and the maximum payout at the high end of our 2018 growth targets. Targets for our business groups focused on EVA change compared to the prior three-year period, with (i) the target payout for executives linked to our PSM segment (including Mr. Gravanis) requiring positive EVA and significant change in EVA and (ii) the target payout for executives linked to our RBIS segment (including Mr. Neville) recognizing the business as operating below its cost of capital, but requiring significant change in EVA. In all cases, the cost of capital is fixed over the performance period, but reassessed annually for new cycles. Average invested capital is targeted to increase at a rate substantially below our targeted rate of organic sales growth. Cash restructuring

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charges, which include severance and related costs and exclude asset impairment and lease and other contract cancellation charges, are included in EVA calculations. Whether linked to corporate or business group results, target payouts require significant improvement in our business performance.

**Relative TSR compared to an objectively determined peer group of companies, weighted 50% for our corporate NEOs and 25% for our business group NEOs**. TSR measures the return that we have provided our stockholders, including stock price appreciation and dividends paid (assuming reinvestment thereof), expressed as a percentage. TSR is a common metric used by the investment community to measure return on investment. Consistent with its pay-for-performance philosophy, the Committee designed the TSR objective to provide realized compensation only if our stockholder value creation compares favorably relative to the designated peer group. The Committee established the threshold payout level at TSR at the 40th percentile, the target payout level at TSR at the 50th percentile and maximum payout level at TSR at the 80th percentile, which were the same levels used for the 2014-2016 MTIP. Payouts for the relative TSR component of these PUs is capped at 100% of target if our absolute TSR is negative in the 2015-2017 performance period. In assessing the rigor of the TSR objectives, the Committee noted that the economic environment remained uncertain and that the 2012-2014 MTIP cycle had paid out only slightly above target.

Consistent with the 2014-2016 MTIP and on the recommendation of Towers Watson, to benchmark TSR, the Committee continued utilizing a peer group comprised of U.S. companies (i) in similar industries based on their being classified in one of five GICS codes (diversified chemicals (15101020), specialty chemicals (15101050), metal and glass containers (15103010), paper packaging (15103020), and paper products (15105020)) and (ii) with revenues during the last twelve months of $1 billion to $20 billion. The Committee continued using these objective criteria to benchmark TSR against companies that are in similar industries and of similar size. Based on the formulaic application of the same objective criteria, the peer group changed from the prior year as follows: (i) Axalta Coating Systems Ltd. was added because it became a public company in 2014 and met the criteria; (ii) OMNOVA Solutions was deleted because its annual revenues fell below $1 billion; (iii) Rockwood Holdings was deleted because it was acquired by Albemarle Corporation; and (iv) Taminco Corporation was deleted because it was acquired by Eastman Chemical Company. The Committee noted that all the companies designated by a leading proxy advisory firm as peers of our company were included in the TSR peer group.

**2015-2017 MTIP**

| NAME | PERFORMANCE OBJECTIVES | WEIGHTING |
|---|---|---|
| Mr. Scarborough | | |
| Mr. Butier | Total Company Cumulative EVA | 50% |
| Ms. Bramman | Relative TSR | 50% |
| Ms. Hill | | |
| Mr. Gravanis | PSM Segment Cumulative EVA | 75% |
| | Relative TSR | 25% |
| Mr. Neville | RBIS Segment Cumulative EVA | 75% |
| | Relative TSR | 25% |

**Market-leveraged Stock Units (MSUs)**

In 2013, based on the expert advice and recommendation of Towers Watson, the Committee began granting our NEOs MSUs, which are linked directly to our absolute TSR performance, meaning the percentage change in our stock price (plus dividend equivalents accrued and paid at vesting). MSUs:

Are fully performance-based because they are tied to our absolute TSR performance, which represents appreciation in our stock price and dividends paid; and

Have one-, two-, three- and four-year performance periods, with an average vesting period of 2.5 years.

The following companies comprise the peer group for purposes of the 2015-2017 MTIP: A. Schulman, Inc.; AEP Industries Inc.; Albermarle Corporation; AptarGroup, Inc.; Ashland Inc.; Axalta Coating Systems Ltd.; Ball Corporation; Bemis Company, Inc.; Berry Plastics Group, Inc.; Celanese Corporation; Chemtura Corporation; Clearwater Paper Corporation; Crown Holdings Inc.; Eastman Chemical Co; Ecolab Inc.; Ferro Corporation; FMC Corp; Graphic Packaging Holding Company; Greif Inc.; HB Fuller Co.; Huntsman Corporation; International Flavors & Fragrances Inc.; KapStone Paper and Packaging Corporation; Kraton Performance Polymers Inc.; Minerals Technologies Inc.; NewMarket Corporation; Olin Corp.; Owens-Illinois Inc.; Packaging Corp. of America; PH Glatfelter Co.; PolyOne Corporation; PPG Industries Inc.; RPM International Inc.; Sealed Air Corporation; Sensient Technologies Corporation; Silgan Holdings Inc.; Sonoco Products Co.; Stepan Company; The Sherwin-Williams Company; The Valspar Corporation; Valhi Inc.; Verso Corporation; W.R. Grace & Co.; and Wausau Paper Corp.