FULLER H B CO
Form 10-K
January 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 2, 2017

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________ to _____________

Commission file number: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

Minnesota	**41-0268370**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1200 Willow Lake Boulevard, St. Paul, Minnesota	**55110-5101**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(651) 236-5900**

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $1.00 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: none

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

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

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

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

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

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

Large accelerated filer [X] Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

Emerging growth company [ ]

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

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

The aggregate market value of the Common Stock, par value $1.00 per share, held by non-affiliates of the registrant as of June 3, 2017 was approximately $2,621,584,525 (based on the closing price of such stock as quoted on the New York Stock Exchange of $52.24 on such date).

The number of shares outstanding of the Registrant's Common Stock, par value $1.00 per share, was 50,425,567 as of January 23, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 12, 2018.

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H.B. FULLER COMPANY

2017 Annual Report on Form 10-K

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PART I

Item 1. Business

H.B. Fuller Company was founded in 1887 and incorporated as a Minnesota corporation in 1915. Our stock is traded on the New York Stock Exchange ("NYSE") under the ticker symbol FUL. As used herein, "H.B. Fuller", "we", "us", "our", "management" or "company" includes H.B. Fuller and its subsidiaries unless otherwise indicated. Where we refer to 2017, 2016 and 2015 herein, the reference is to our fiscal years ended December 2, 2017, December 3, 2016 and November 28, 2015, respectively.

We are a leading worldwide formulator, manufacturer and marketer of adhesives, sealants and other specialty chemical products. Sales operations span 37 countries in North America, Europe, Latin America, the Asia Pacific region, India, the Middle East and Africa. Industrial adhesives represent our core product offering. Customers use our adhesives products in manufacturing common consumer and industrial goods, including food and beverage containers, disposable diapers, windows, doors, flooring, roofing, appliances, sportswear, footwear, multi-wall bags, water filtration products, insulation, textiles, automotives, recreational vehicles, bus, truck and trailer, marine, solar energy systems, electronics and aerospace and defense. Our adhesives help improve the performance of our customers' products or improve their manufacturing processes. We also provide our customers with technical support and unique solutions designed to address their specific needs. In addition, we have established a variety of product offerings for residential construction markets, such as tile-setting adhesives, grout, sealants and related products.

Recent Acquisitions

Adecol

On November 1, 2017, we acquired Adecol Industria Quimica, Limitada ("Adecol") headquartered in Guarulhos, Brazil. Adecol works with customers to develop innovative, high-quality hot melt, reactive and polymer-based adhesive solutions in the packaging, converting and durable assembly markets. The acquisition is expected to enhance our business in Brazil by partnering with customers to produce new and better consumer and durable goods products in this region. The purchase price of $44.7 million was funded through existing cash and is reported in our Americas Adhesives operating segment.

Royal Adhesives

On October 20, 2017, we acquired Royal Adhesives and Sealants (“Royal Adhesives”) a manufacturer of high-value specialty adhesives and sealants. Royal Adhesives is a supplier of industrial adhesives in a diverse set of end markets, including aerospace, transportation, commercial roofing, insulating glass, solar, packaging and flooring applications and operates 19 manufacturing facilities in five countries. The acquisition is expected to expand our presence in North America, Europe and China and add new technology and packaging capabilities. The purchase price of $1,622.7 million was funded through new debt financing. See Note 6 to the Consolidated Financial Statements for further information on our debt financing. Royal Adhesives is reported as a separate operating segment for the year ended December 2, 2017.

Wisdom Adhesives

On January 27, 2017, we acquired substantially all of the assets of H.E. Wisdom & Sons, Inc. and its affiliate Wisdom Adhesives Southeast, L.L.C., (“Wisdom Adhesives”) headquartered in Elgin, Illinois. Wisdom Adhesives is a provider of adhesives for the packaging, paper converting and durable assembly markets. The acquisition is expected to strengthen our position in the North America adhesives market. The purchase price of $123.5 million was financed through borrowings on our revolving credit facility and is reported in our Americas Adhesives operating segment.

Operating Segment Information

Our business is reported in six operating segments: Americas Adhesives, EIMEA (Europe, India, Middle East and Africa), Asia Pacific, Construction Products, Engineering Adhesives and Royal Adhesives. In fiscal 2017, as a percentage of total net revenue by operating segment, Americas Adhesives was 39 percent, EIMEA was 24 percent, Asia Pacific was 11 percent, Construction Products was 10 percent, Engineering Adhesives was 13 percent and Royal Adhesives was 3 percent. See Note 15 to the Consolidated Financial Statements for further information on our operating segments.

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Our Americas Adhesives, EIMEA and Asia Pacific operating segments produce and supply industrial adhesives products for applications in various markets, including durable assembly (appliances and filters), packaging (food and beverage containers, flexible packaging, consumer goods, package integrity and re-enforcement, and durable and non-durable goods), converting (corrugation, folding carton, tape and label, paper converting, envelopes, books, multi-wall bags, sacks, and tissue and towel), nonwoven and hygiene (disposable diapers, feminine care and medical garments), performance wood (windows, doors and wood flooring) and textile (footwear and sportswear).

The Americas Adhesives, EIMEA and Asia Pacific operating segments include a full range of specialty adhesives such as thermoplastic, thermoset, reactive, water-based and solvent-based products. Sales are made through both a direct sales force and distributors.

The Construction Products operating segment includes products used for tile setting (adhesives, grouts, mortars, sealers and levelers) and heating, ventilation and air conditioning and insulation applications (duct sealants, weather barriers and fungicidal coatings and block fillers). Construction Products sales are made primarily through distributors, wholesalers, big box retailers and a direct sales force. This operating segment also includes caulks and sealants for the consumer market and professional trade, sold through retailers, primarily in Australia.

The Engineering Adhesives operating segment produces and supplies high performance industrial adhesives to the transportation, electronics, medical, clean energy, appliance and heavy machinery markets. Engineering Adhesives sales are made through both a direct sales force and distributors.

The Royal Adhesives operating segment produces and supplies specialty adhesives, sealants, coatings, polymers, tapes, encapsulants and additives for use in a wide range of commercial, industrial and institutional applications. The products are sold into five primary market sectors: transportation, assembly and construction; commercial roofing; insulating glass; flooring and carpet; and textile, paper, printing and packaging. These products are also used in a variety of secondary markets including aerospace and defense, automotive, recreational vehicle, bus, truck and trailer, marine, assembly, electrical/electronic, filter, printing, flexible packaging, laminating, graphic arts, solar/renewable energy, personal care, home furnishings, roofing and flooring. Sales are made through both a direct sales force and distributors.

Financial information with respect to our operating segments and geographic areas is set forth in Note 15 to the Consolidated Financial Statements.

Non-U.S. Operations

The principal markets, products and methods of distribution outside the United States vary with each of our regional operations generally maintaining integrated business units that contain dedicated supplier networks, manufacturing, logistics and sales organizations. The vast majority of the products sold within any region are produced within the region, and the respective regions do not import significant amounts of product from other regions. At the end of 2017, we had sales offices and manufacturing plants in 21 countries outside the United States and satellite sales offices in another 15 countries.

We have detailed Code of Conduct policies that we apply across all of our operations around the world. These policies represent a set of common values that apply to all employees and all of our business dealings. We have adopted policies and processes, and conduct employee training, all of which are intended to ensure compliance with various economic sanctions and export controls, including the regulations of the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). We do not conduct any business in the following countries that are subject to U.S. economic sanctions: Cuba; North Korea; Syria; and the Crimea region of the Ukraine.

Competition

Many of our markets are highly competitive. However, we compete effectively due to the quality and breadth of our adhesives, sealants and specialty chemical portfolio and the experience and expertise of our commercial organizations. Within the adhesives and other specialty chemical markets, we believe few suppliers have comparable global reach and corresponding ability to deliver quality and consistency to multinational customers. Our competition is made up generally of two types of companies: (1) similar multinational suppliers and (2) regional or specialty suppliers that typically compete in only one region or within a narrow geographic area within a region. The multinational competitors typically maintain a broad product offering and range of technology, while regional or specialty companies tend to have limited or more focused product ranges and technology.

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Principal competitive factors in the sale of adhesives and other specialty chemicals are product performance, supply assurance, technical service, quality, price and customer service.

Customers

We have cultivated strong, integrated relationships with a diverse set of customers worldwide. Our customers are among the technology and market leaders in consumer goods, construction, and industrial markets. We pride ourselves on long-term, collaborative customer relationships and a diverse portfolio of customers in which no single customer accounted for more than 10 percent of consolidated net revenue.

Our leading customers include manufacturers of food and beverages, hygiene products, clothing, major appliances, electronics, automobiles, aerospace and defense products, solar energy systems, filters, construction materials, wood flooring, furniture, cabinetry, windows, doors, tissue and towel, corrugation, tube winding, packaging, labels and tapes.

Our products are delivered directly to customers primarily from our manufacturing plants, with additional deliveries made through distributors and retailers.

Backlog

No significant backlog of unfilled orders existed at December 2, 2017 or December 3, 2016.

Raw Materials

We use several principal raw materials in our manufacturing processes, including tackifying resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials.

The majority of our raw materials are petroleum/natural gas based derivatives. Under normal conditions, raw materials are available on the open market. Prices and availability are subject to supply and demand market mechanisms. Raw material costs are primarily determined by the balance of supply against the aggregate demand from the adhesives industry and other industries that use the same raw material streams. The cost of crude oil and natural gas, the primary feedstocks for our raw materials, can also impact the cost of our raw materials.

Patents, Trademarks and Licenses

Much of the technology we use in our products and manufacturing processes is available in the public domain. For technology not available in the public domain, we rely on trade secrets and patents when appropriate to protect our competitive position. We also license some patented technology from other sources. Our business is not materially dependent upon licenses or similar rights or on any single patent or group of related patents.

We enter into agreements with many employees to protect rights to technology and intellectual property. Confidentiality commitments also are routinely obtained from customers, suppliers and others to safeguard proprietary information.

We own numerous trademarks and service marks in various countries. Trademarks, such as H.B. Fuller®, Swift®, Advantra®, Clarity®, Sesame®, TEC®, Foster®, Rakoll®, Rapidex®, Full-CareTM, Thermonex®, Silaprene®, Eternabond®, Cilbond®, and TONSAN® are important in marketing products. Many of our trademarks and service marks are registered. U.S. trademark registrations are for a term of ten years and are renewable every ten years as long as the trademarks are used in the regular course of trade.

Research and Development

Our investment in research and development creates new and innovative adhesive technology platforms, enhances product performance, ensures a competitive cost structure and leverages available raw materials. New product development is a key research and development outcome, providing higher-value solutions to existing customers or meeting new customers' needs. Projects are developed in local laboratories in each region, where we understand our customer base the best. Platform developments are coordinated globally through our network of laboratories.

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Through designing and developing new polymers and new formulations, we expect to continue to grow in our current markets. We also develop new applications for existing products and technologies, and improve manufacturing processes to enhance productivity and product quality. Research and development efforts are closely aligned to customer needs, but we do not engage in customer sponsored activities. We foster open innovation, seek supplier-driven new technology and use relationships with academic and other institutions to enhance our capabilities.

Research and development expenses were $30.1 million, $28.6 million and $26.2 million in 2017, 2016 and 2015, respectively. Research and development costs are included in selling, general and administrative expenses.

Environmental, Health and Safety

We comply with applicable regulations relating to environmental protection and workers' safety. This includes regular review of and upgrades to environmental, health and safety policies, practices and procedures as well as improved production methods to minimize our facilities’ outgoing waste, based on evolving societal standards and increased environmental understanding.

Expenditures to comply with environmental regulations over the next two years are estimated to be approximately $13.8 million, including approximately $1.5 million of capital expenditures. See additional disclosure under Item 3. Legal Proceedings.

Seasonality

Our operating segments have historically had lower net revenue in winter months, which is primarily our first fiscal quarter, mainly due to international holidays and the seasonal decline in construction and consumer spending activities.

Employees

We employed approximately 6,000 individuals on December 2, 2017, of which approximately 2,500 were located in the United States.

Executive Officers of the Registrant

The following table shows the name, age and business experience for the past five years of the executive officers as of January 19, 2018. Unless otherwise noted, the positions described are positions with the company or its subsidiaries.

Name	Age	Positions	Period Served
James J. Owens	53	President and Chief Executive Officer	November 2010 - Present
Zhiwei Cai	55	Senior Vice President, Engineering Adhesives	February 2016 - Present
		Vice President, TONSAN and Electronics	2014 - 2016
		Director, Electronics Materials	2012 - 2014
Heather A. Campe	44	Senior Vice President, Americas Adhesives	October 2016 - Present
		Vice President, Asia Pacific	2013 - 2016
		Director, Hygiene	2010 - 2012
Theodore M. Clark	64	Senior Vice President, Royal Adhesives	October 2017 - Present
		President and CEO of Royal Adhesives & Sealants	2003 - 2017
Paula M. Cooney	49	Vice President, Human Resources	April 2016 - Present
		Director, Global Human Resources Strategic Programs	2010 - 2016
John J. Corkrean	52	Executive Vice President & Chief Financial Officer	May 2016 - Present
		Senior Vice President, Finance - Global Energy Services, NALCO Champion, an Ecolab Inc. company (supplier of chemicals and related services to the oil & gas industry)	2014 - 2016

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		Senior Vice President and Corporate Controller, Ecolab Inc. (global provider of water, hygiene and energy technologies and services)	2008 - 2014
Dietrich J. Crail	47	Vice President, Asia Pacific	October 2016 - Present
		Vice President, Paper Converting and Construction, Henkel Corporation (global manufacturer of adhesives, sealants and surface treatments)	2013 - 2016
		Vice President & Global Segment Leader, Pressure Sensitive Adhesives, Henkel Corporation	2008 - 2014
Traci L. Jensen	51	Senior Vice President, Global Construction Products	July 2016 - Present
		Senior Vice President, Americas Adhesives	2013 - 2016
		Vice President, Americas Adhesives	2011 - 2013
Timothy J. Keenan	60	Vice President, General Counsel and Corporate Secretary	December 2006 - Present
Steven Kenny	56	Senior Vice President, Emerging Markets	June 2015 - Present
		Senior Vice President, Europe, India, Middle East and Africa (EIMEA)	2009 - 2015
Patrick M. Kivits	50	Senior Vice President, EIMEA	September 2015 - Present
		Corporate Vice President and General Manager, Henkel Corporation (global manufacturer of adhesives, sealants and surface treatments)	2013 - 2015
		Vice President, Henkel AG & Co. KGaA	2011 - 2013
David W. Moorman	49	Vice President, Operations Excellence	March 2017 - Present
		Director, Global Information Technology	2010 - 2017
Ebrahim Rezai	66	Vice President and Chief Technology and Innovation Officer	October 2016 - Present
		Associate Director, Baby and Feminine Care Global Material Development and Supply Organization, Procter & Gamble (multinational manufacturer of family, personal and household care products)	2015 - 2016

Associate Director, Baby Care Global Material Development and Supply Organization, Procter & Gamble

2005 - 2015

The Board of Directors elects the executive officers annually.

Available Information

For more information about us, visit our website at: www.hbfuller.com.

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC") via EDGAR. Our SEC filings are available free of charge to the public at our website as soon as reasonably practicable after they have been filed with or furnished to the SEC.

Item 1A. Risk Factors

As a global manufacturer of adhesives, sealants and other specialty chemical products, we operate in a business environment that is subject to various risks and uncertainties. Below are the most significant factors that could adversely affect our business, financial condition and results of operations.

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Macroeconomic and Industry Risks

Uncertainties in foreign economic, political, regulatory and social conditions and fluctuations in foreign currency may adversely affect our results.

Approximately 58 percent, or $1.3 billion, of our net revenue was generated outside the United States in 2017. After the acquisitions of Royal Adhesives and Adecol, we expect our revenue generated outside the United States to be approximately 58 percent. International operations could be adversely affected by changes in economic, political, regulatory, and social conditions, especially in Brazil, Russia, China, the Middle East, including Turkey and Egypt, and other developing or emerging markets where we do business. An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for these products and result in a decrease in sales volume that could have a negative impact on our results of operations. Product demand often depends on end-use markets. Economic conditions that reduce consumer confidence or discretionary spending may reduce product demand. Challenging economic conditions may also impair the ability of our customers to pay for products they have purchased, and as a result, our reserves for doubtful accounts and write-offs of accounts receivable may increase. In addition, trade protection measures, anti-bribery and anti-corruption regulations, restrictions on repatriation of earnings, differing intellectual property rights and changes in legal and regulatory requirements that restrict the sales of products or increase costs could adversely affect our results of operations.

Fluctuations in exchange rates between the U.S. dollar and other currencies could potentially result in increases or decreases in net revenue, cost of raw materials and earnings and may adversely affect the value of our assets outside the United States. In 2017, the change in foreign currencies negatively impacted our net revenue by approximately $46 million. In 2017, we spent approximately $1.3 billion for raw materials worldwide of which approximately $705.6 million was purchased outside the United States. Based on 2017 financial results, a hypothetical one percent change in our cost of sales due to foreign currency rate changes would have resulted in a change in net income of approximately $7.0 million or $0.14 per diluted share. Although we utilize risk management tools, including hedging, as appropriate, to mitigate market fluctuations in foreign currencies, any changes in strategy in regard to risk management tools can also affect revenue, expenses and results of operations and there can be no assurance that such measures will result in cost savings or that all market fluctuation exposure will be eliminated.

Distressed financial markets may result in dramatic deflation of asset valuations and a general disruption in capital markets.

Adverse equity market conditions and volatility in the credit markets could have a negative impact on the value of our pension trust assets, our future estimated pension liabilities and other postretirement benefit plans. In addition, we could be required to provide increased pension plan funding. As a result, our financial results could be negatively impacted. Reduced access to capital markets may affect our ability to invest in strategic growth initiatives such as acquisitions. In addition, the reduced credit availability could limit our customers' ability to invest in their businesses, refinance maturing debt obligations, or meet their ongoing working capital needs. If these customers do not have sufficient access to the financial markets, demand for our products may decline.

Operational Risks

Increases in prices and declines in the availability of raw materials could negatively impact our financial results.

In 2017, raw material costs made up over 76 percent of our cost of sales. Accordingly, changes in the cost of raw materials can significantly impact our earnings. Raw materials needed to manufacture products are obtained from a number of suppliers and many of the raw materials are petroleum and natural gas based derivatives. Under normal market conditions, these raw materials are generally available on the open market from a variety of producers. While alternate supplies of most key raw materials are available, supplier production outages may lead to strained supply-demand situations for certain raw materials. The substitution of key raw materials requires us to identify new supply sources, reformulate and re-test and may require seeking re-approval from our customers using those products. From time to time, the prices and availability of these raw materials may fluctuate, which could impair our ability to procure necessary materials, or increase the cost of manufacturing products. If the prices of raw materials increase in a short period of time, we may be unable to pass these increases on to our customers in a timely manner and could experience reductions to our profit margins. Based on 2017 financial results, a hypothetical one percent change in our raw material costs would have resulted in a change in net income of approximately $10.0 million or $0.19 per diluted share.

We experience substantial competition in each of the operating segments and geographic areas in which we operate.

Our wide variety of products are sold in numerous markets, each of which is highly competitive. Our competitive position in markets is, in part, subject to external factors. For example, supply and demand for certain of our products is driven by end-use markets and worldwide capacities which, in turn, impact demand for and pricing of our products. Many of our direct competitors are part of large multinational companies and may have more resources than we do. Any increase in competition may result in lost market share or reduced prices, which could result in reduced profit margins. This may impair the ability to grow or even to maintain current levels of revenues and earnings. While we have an extensive customer base, loss of certain top customers could adversely affect our financial condition and results of operations until such business is replaced, and no assurances can be made that we would be able to regain or replace any lost customers.

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Failure to develop new products and protect our intellectual property could negatively impact our future performance and growth.

Ongoing innovation and product development are important factors in our competitiveness. Failure to create new products and generate new ideas could negatively impact our ability to grow and deliver strong financial results. We continually apply for and obtain U.S. and foreign patents to protect the results of our research for use in our operations and licensing. We are party to a number of patent licenses and other technology agreements. We rely on patents, confidentiality agreements and internal security measures to protect our intellectual property. Failure to protect this intellectual property could negatively affect our future performance and growth.

We may be required to record impairment charges on our long-lived assets.

Weak demand may cause underutilization of our manufacturing capacity or elimination of product lines; contract terminations or customer shutdowns may force sale or abandonment of facilities and equipment; or other events associated with weak economic conditions or specific product or customer events may require us to record an impairment on tangible assets, such as facilities and equipment, as well as intangible assets, such as intellectual property or goodwill, which would have a negative impact on our financial results.

Catastrophic events could disrupt our operations or the operations of our suppliers or customers, having a negative impact on our financial results.

Unexpected events, including natural disasters and severe weather events, fires or explosions at our facilities or those of our suppliers, acts of war or terrorism, supply disruptions or breaches of security of our information technology systems could increase the cost of doing business or otherwise harm our operations, our customers and our suppliers. Such events could reduce demand for our products or make it difficult or impossible for us to receive raw materials from suppliers and deliver products to our customers.

A failure in our information technology systems could negatively impact our business.

We rely on information technology to record and process transactions, manage our business and maintain the financial accuracy of our records. Our computer systems are subject to damage or interruption from various sources, including power outages, computer and telecommunications failures, computer viruses, security breaches, vandalism, catastrophic events and human error. Interruptions of our computer systems could disrupt our business and could result in the loss of business and cause us to incur additional expense.

Information technology security threats are increasing in frequency and sophistication. Our information technology systems could be breached by unauthorized outside parties or misused by employees or other insiders intent on extracting sensitive information, corrupting information or disrupting business processes. Such unauthorized access could compromise confidential information, disrupt our business, harm our reputation, result in the loss of assets, customer confidence and business and have a negative impact on our financial results.

We are in the process of implementing a global Enterprise Resource Planning ("ERP") system, which we refer to as Project ONE, which will upgrade and standardize our information system. The North America adhesives business went live in 2014, and the implementation process proved to be more difficult than we originally anticipated resulting in disruptions in our manufacturing network, lower productivity and deteriorated customer service levels. By the end of 2014, most of the problems associated with the software implementation had been remediated and the business was stable and running at capacity with productivity levels approaching the levels experienced prior to the new software implementation. In late 2014, we suspended any further implementation projects in other geographic regions until we complete the optimization of the current platform for the North America adhesives business. In 2017, we re-initiated the project and began the implementation and upgrade of our ERP system in our Latin America adhesives business. The new ERP system went live in Argentina at the beginning of fiscal 2018. We expect full implementation of our ERP system in in the remaining countries within our Latin America adhesives business in early 2019, followed by continued implementation in North America (including our acquired businesses and Construction Products business), EIMEA and Asia Pacific.

Any delays or other failure to achieve our implementation goals may adversely impact our financial results. In addition, the failure to either deliver the application on time or anticipate the necessary readiness and training needs could lead to business disruption and loss of business. Failure or abandonment of any part of the ERP system could result in a write-off of part or all of the costs that have been capitalized on the project.

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Risks associated with acquisitions could have an adverse effect on us and the inability to execute organizational restructuring may affect our results.

As part of our growth strategy, we have made and intend to pursue additional acquisitions of complementary businesses or products and joint ventures. The ability to grow through acquisitions or joint ventures depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions or joint venture arrangements. If we fail to successfully integrate acquisitions into our existing business, our results of operations and our cash flows could be adversely affected. Our acquisition strategy also involves other risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return on capital, unidentified issues not discovered in our investigations and evaluations of those strategies and acquisitions and difficulties implementing and maintaining consistent standards, controls, procedures, policies and systems. Future acquisitions could result in debt, dilution, liabilities, increased interest expense, restructuring charges and amortization expenses related to intangible assets.

In addition, our profitability is dependent on our ability to drive sustainable productivity improvements such as cost savings through organizational restructuring. Delays or unexpected costs may prevent us from realizing the full operational and financial benefits of such restructuring initiatives and may potentially disrupt our operations.

Risks Related to the Royal Adhesives Acquisition

We may not realize the revenue growth opportunities and cost synergies that are anticipated from the Royal Adhesives acquisition as we may experience difficulties in integrating Royal Adhesives' business with ours.

The benefits that are expected to result from the Royal Adhesives acquisition will depend, in part, on our ability to realize the anticipated revenue growth opportunities and cost synergies as a result of the acquisition. Our success in realizing these revenue growth opportunities and cost synergies, and the timing of this realization, depends on the successful integration of Royal Adhesives. There is a significant degree of difficulty and management distraction inherent in the process of integrating an acquisition as sizable as Royal Adhesives. The process of integrating operations could cause an interruption of, or loss of momentum in, our and Royal Adhesives' activities. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our company, service existing customers, attract new customers and develop new products or strategies. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer. There can be no assurance that we will successfully or cost-effectively integrate Royal Adhesives. The failure to do so could have a material adverse effect on our business, financial condition or results of operations.

Even if we are able to integrate Royal Adhesives successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration, and we cannot guarantee that these benefits will be achieved within anticipated timeframes or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of Royal Adhesives. While it is anticipated that certain expenses will be incurred to achieve cost synergies, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the acquisition may be offset by costs incurred to, or delays in, integrating the businesses.

The debt incurred in connection with the Royal Adhesives acquisition could have a negative impact on our liquidity or restrict our activities.

As a result of the Royal Adhesives acquisition, our outstanding indebtedness has significantly increased. Our current indebtedness contains various covenants that limit our ability to engage in specified types of transactions. Our overall leverage and the terms of our financing arrangements could:

- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions;
- make it more difficult to satisfy our obligations under the terms of our indebtedness;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;

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- limit our flexibility to plan for and adjust to changing business and market conditions in the industries in which we operate and increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow to make interest and principal payments on our debt, thereby limiting the availability of our cash flow to fund future acquisitions, working capital, business activities, and other general corporate requirements;
- limit our ability to obtain additional financing for working capital, to fund growth or for general corporate purposes, even when necessary to maintain adequate liquidity, particularly if any ratings assigned to our debt securities by rating organizations were revised downward; and
- subject us to higher levels of indebtedness than our competitors, which may cause a competitive disadvantage and may reduce our flexibility in responding to increased competition.

In addition, the restrictive covenants require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests will depend on our ongoing financial and operating performance, which, in turn, will be subject to economic conditions and to financial, market, and competitive factors, many of which are beyond our control. A breach of any of these covenants could result in a default under the instruments governing our indebtedness.

Royal Adhesives may have liabilities that are not known, probable or estimable at this time.

As a result of the Royal Adhesives acquisition, Royal Adhesives became our subsidiary and it will remain subject to all of its liabilities. There could be unasserted claims or assessments that we failed or were unable to discover or identify in the course of performing due diligence investigations of Royal Adhesives. In addition, there may be liabilities that are neither probable nor estimable at this time that may become probable or estimable in the future. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our financial results. We may learn additional information about Royal Adhesives that adversely affects us, such as unknown, unasserted or contingent liabilities and issues relating to compliance with applicable laws.

Without limitation to the generality of the foregoing, Royal Adhesives is subject to various rules, regulations, laws and other legal requirements, enforced by governments or other public authorities. Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by any of Royal Adhesives' directors, officers, employees or agents could have a significant impact on Royal Adhesives' business and reputation and could subject Royal Adhesives to fines and penalties, criminal, civil and administrative legal sanctions and suspension from contracting (including with public bodies), resulting in reduced revenues and profits. Such misconduct could include the failure to comply with regulations prohibiting bribery, regulations on lobbying or similar activities, control over financial reporting, environmental laws and any other applicable laws or regulations.

As a result of the Royal Adhesives acquisition, we may become subject to additional risks and uncertainties relating to Royal Adhesives and its business.

As a result of the Royal Adhesives acquisition, we are subject to additional risks associated with Royal Adhesives, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. The integration process may be complex, costly and time-consuming, as Royal Adhesives was not previously operating as a public company. The difficulties of integrating the businesses include, among others:

- failure to implement our business plan for the combined company;
- unanticipated issues in integrating equipment, logistics, information, communications and other systems;
- possible inconsistencies in standards, controls, contracts, procedures and policies;
- impacts of change in control provisions in contracts and agreements;
- failure to retain key customers and suppliers;
- unanticipated changes in applicable laws and regulations;
- failure to recruit and retain key employees to operate the combined business;
- increased competition within the industries in which Royal Adhesives operates;
- inherent operating risks in the business;
- unanticipated issues, expenses and liabilities;
- additional reporting requirements pursuant to applicable rules and regulations; and
- additional requirements relating to internal control over financial reporting.

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Legal and Regulatory Risks

We have lawsuits and claims against us with uncertain outcomes.

Our operations from time to time are parties to or targets of lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The results of any future litigation or settlement of such lawsuits and claims are inherently unpredictable, but such outcomes could be adverse and material in amount. See Item 3. Legal Proceedings for a discussion of current litigation.

Costs and expenses resulting from compliance with environmental laws and regulations may negatively impact our operations and financial results.

We are subject to numerous environmental laws and regulations that impose various environmental controls on us or otherwise relate to environmental protection, the sale and export of certain chemicals or hazardous materials, and various health and safety matters. The costs of complying with these laws and regulations can be significant and may increase as applicable requirements and their enforcement become more stringent and new rules are implemented. Adverse developments and/or periodic settlements could negatively impact our results of operations and cash flows. See Item 3. Legal Proceedings for a discussion of current environmental matters.

Additional income tax expense or exposure to additional income tax liabilities could have a negative impact on our financial results.

We are subject to income tax laws and regulations in the United States and various foreign jurisdictions. Significant judgment is required in evaluating and estimating our provision and accruals for these taxes. Our income tax liabilities are dependent upon the location of earnings among these different jurisdictions. Our income tax provision and income tax liabilities could be adversely affected by the jurisdictional mix of earnings, changes in valuation of deferred tax assets and liabilities and changes in tax laws and regulations. In the ordinary course of our business, we are also subject to continuous examinations of our income tax returns by tax authorities. Although we believe our tax estimates are reasonable, the final results of any tax examination or related litigation could be materially different from our related historical income tax provisions and accruals. Adverse developments in an audit, examination, litigation related to previously filed tax returns, or in the relevant jurisdiction’s tax laws, regulations, administrative practices, principles and interpretations could have a material effect on our results of operations and cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

Federal income tax reform could have unforeseen effects on our financial condition and results of operations.

On December 22, 2017, the President of the United States signed into law H.R. 1, originally known as the “Tax Cuts and Jobs Act”, hereafter referred to as “U.S. Tax Reform”. The Company is in the process of determining the impact to the financial statements of all aspects of U.S. Tax Reform and will reflect the impact of such reform in the financial statements during the period in which such amounts can be reasonably estimated. U.S. Tax Reform includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018, which will result in a blended federal tax rate for fiscal year 2018. There are also provisions that may partially offset the benefit of such rate reduction, such as the repeal of the deduction for domestic production activities. U.S. Tax Reform also includes international provisions, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations. Financial statement impacts will include adjustments for the re-measurement of deferred tax assets (liabilities) and the accrual for deemed repatriation tax on unremitted foreign earnings and profits. While there are benefits, there is also substantial uncertainty regarding the details of U.S. Tax Reform. The intended and unintended consequences of U.S. Tax Reform on our business and on holders of our common shares is uncertain and could be adverse. The Company anticipates that the impact of U.S. Tax Reform may be material to the income tax expense on the Consolidated Statement of Income and related income tax balances on the Consolidated Balance Sheet and Statement of Cash Flows.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Principal executive offices and central research facilities are located in the St. Paul, Minnesota area. These facilities are company-owned and contain 247,630 square feet. Manufacturing operations are carried out at 36 plants located throughout the United States and at 35 plants located in 21 other countries. In addition, numerous sales and service offices are located throughout the world. We believe that the properties owned or leased are suitable and adequate for our business. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of shifts worked. The following is a list of our manufacturing plants as of December 2, 2017 (each of the listed properties are owned by us, unless otherwise specified):

Segment	**Manufacturing Sq Ft**
Americas Adhesives	
California - Roseville	82,202
Georgia - Covington	73,500
- Tucker	69,000
Illinois - Seneca	24,621
- Elgin - River Ridge	35,239
- Elgin - Executive	30,000
- Huntley	29,000
Kentucky - Paducah	252,500
Michigan - Grand Rapids	65,689
Minnesota - Fridley	15,850
- Vadnais Heights	53,145
Ohio - Blue Ash	102,000
Texas - Mesquite	25,000
Washington - Vancouver	35,768
Argentina - Buenos Aires	10,367
Brazil - Sorocaba, SP[2]	7,535
- Curitiba[1]	9,896
- Guarulhos	32,292
Dominican Republic[2]	15,132
Chile - Maipu, Santiago	64,099
Colombia - Rionegro	17,072
Americas Adhesives Total	**1,049,907**
Construction Products	
California - La Mirada	15,206
Florida - Gainesville	8,300
Georgia - Dalton	72,000
Illinois - Aurora	149,000
- Palatine[2]	55,000
New Jersey - Edison	9,780

Segment	**Manufacturing Sq Ft**
Royal Adhesives	
California - Wilmington[1]	26,373
Georgia - Dalton	21,980
- Ball Ground[1]	4,800
Illinois - Frankfort - Corsair	12,500
- Frankfort - West Drive	17,000
Indiana - South Bend - Washington	128,218
Michigan - Michigan Center	115,000
New Jersey - Wayne[1]	16,000
New York - Syracuse[1]	23,000
Ohio - Chagrin Falls	16,500
South Carolina - Simpsonville	23,722
Texas - Mansfield	28,790
Canada - Ontario[1]	63,020
Canada - Toronto[1]	25,172
Republic of China - Nanjing[1]	62,430
Germany - Langelsheim[1]	123,353
- Pirmasens	81,278
United Kingdom - Preston[1]	34,000
Royal Adhesives Total	**823,136**
EIMEA	
Egypt - 6th of October City	8,525
France - Blois	48,438
- Surbourg	21,743
Germany - Luneburg	64,249
- Nienburg	139,248
- Pirmasens[2]	48,438
Greece - Lamia	11,560
India - Pune	38,782

Pennsylvania - Fairless Hills	19,229
Texas - Eagle Lake	26,000
- Houston	11,000
Construction Products Total	**365,515**
Engineering Adhesives	
Republic of China - Beijing	78,120
- Beijing[1]	42,044
- Suzhou	73,622
- Yantai	44,203
Germany - Wunstorf	16,146
Georgia - Norcross[1]	21,755
Illinois - Batavia[1]	19,169
Engineering Adhesives Total	**295,059**

Italy - Pianezze	36,500
Portugal - Mindelo	90,193
Kenya - Nairobi	5,262
United Kingdom - Dukinfield	17,465
EIMEA Total	**530,403**
Asia Pacific	
Australia - Dandenong South, VIC	71,280
- Sydney [1]	12,968
Republic of China - Guangzhou	36,055
- Nanjing	55,224
Indonesia - Mojokerto	52,991
Malaysia - Selongor	21,900
New Zealand - Auckland[1]	7,330
Philippines - Manila	9,295
Asia Pacific Total	**267,043**

1 Leased Property
2 Idle Property

Item 3. Legal Proceedings

Environmental Matters

From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. We review the circumstances of each individual site, considering the number of parties involved, the level of potential liability or our contribution relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. Also, from time to time, we are identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision.

Currently, we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with landfills and/or hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites.

We are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities. As of December 2, 2017, we had reserved $11.4 million, which represents our best estimate of probable liabilities with respect to environmental matters. It is reasonably possible that we may have additional liabilities related to these known environmental matters. However, the full extent of our future liability for environmental matters is difficult to predict because of uncertainty as to the cost of investigation and clean up of the sites, our responsibility for such hazardous substances and the number of and financial condition of other potentially responsible parties.

While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

Other Legal Proceedings

From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow.

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We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 30 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

A significant portion of the defense costs and settlements in asbestos-related litigation is paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Currently, this third party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party.

In addition to the indemnification arrangements with third parties, we have insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and settlements and judgments in asbestos-related lawsuits. These agreements require, among other things, that we fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

($ in millions)	**Year Ended December 2, 2017**	**Year Ended December 3, 2016**	**Year Ended November 28, 2015**
Lawsuits and claims settled	9	14	10
Settlement amounts	$ 1.7	$ 1.4	$ 0.9
Insurance payments received or expected to be received	$ 1.4	$ 0.9	$ 0.7

We do not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against us because relatively few of these lawsuits are known to involve exposure to asbestos-containing products that we manufactured. Rather, we believe it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff. To the extent we can reasonably estimate the amount of our probable liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

We have retained legal counsel to conduct an internal investigation of possible resale of our products by certain customers to Iran contrary to U.S. law and regulations and our compliance policy. The sales to those particular customers being investigated represented less than one percent of our net revenue in each of our last three fiscal years. The investigation also includes a review of sales by our subsidiaries in two countries outside the United States in possible violation of the sanctions regulations of the Office of Foreign Assets Control (“OFAC”) and other applicable laws and regulations. In January 2018, we voluntarily contacted OFAC to advise it of this internal investigation and our intention to cooperate fully with OFAC. At this time, we cannot predict the outcome or effect of the investigation.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol FUL. As of January 23, 2018, there were 1,600 common shareholders of record for our common stock. The following table shows the high and low sales price per share of our stock and the dividends declared for the fiscal quarters.

	High and Low Sales Price					
	2017		**2016**		**Dividends (Per Share)**	
	High	**Low**	**High**	**Low**	**2017**	**2016**
First quarter	$50.43	$47.09	$39.81	$32.71	$0.140	$0.130
Second quarter	53.40	48.44	45.59	38.49	0.150	0.140
Third quarter	53.67	49.11	48.36	41.89	0.150	0.140
Fourth quarter	58.64	51.93	48.82	41.81	0.150	0.140

There are no significant contractual restrictions on our ability to declare or pay dividends. We currently expect that comparable dividends on our common stock will continue to be paid in the future.

Issuer Purchases of Equity Securities

Information on our purchases of equity securities during the fourth quarter of 2017 is as follows:

Period	**(a)**	**(b)**	**(c)**	**(d)**
	Total Number of Shares Purchased[1]	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of a Publicly Announced Plan or**	**Maximum Approximate Dollar Value of Shares that**

			Program	**may yet be Purchased Under the Plan or Program (thousands)**
September 3, 2017 - October 7, 2017	(1,955)	$ 52.53	-	$ 187,170
October 8, 2017 - November 4, 2017	(267)	$ 57.15	-	$ 187,170
November 5, 2017 - December 2, 2017	-	$ -	-	$ 187,170

1 The total number of shares purchased include shares withheld to satisfy employees’ withholding taxes upon vesting of restricted stock.

On April 6, 2017, the Board of Directors authorized a new share repurchase program of up to $200.0 million of our outstanding common shares. Under the program, we are authorized to repurchase shares for cash on the open market, from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases is dependent on price, market, conditions and applicable regulatory requirements. Upon repurchase of the shares, we reduced our common stock for the par value for the shares with the excess being applied against additional paid in capital. This authorization replaces the September 30, 2010 authorization to repurchase shares.

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Total Shareholder Return Graph

The line graph below compares the cumulative total shareholder return on our common stock for the last five fiscal years with cumulative total return on the S&P Small Cap 600 Index and Dow Jones U.S. Specialty Chemicals Index. This graph assumes a $100 investment in each of H.B. Fuller, the S&P Small Cap 600 Index and the Dow Jones U.S. Specialty Chemicals Index at the close of trading on December 1, 2012, and also assumes the reinvestment of all dividends.

Item 6. Selected Financial Data

The table that follows presents selected financial data for each of the last five years from the Company's consolidated financial statements and should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The selected financial data set forth below as of December 2, 2017 and December 3, 2016 and for the years ended December 2, 2017, December 3, 2016 and November 28, 2015 are derived from our audited financial statements included in this Annual Report on Form 10-K. All other selected financial data set forth below is derived from our audited financial statements not included in this Annual Report on Form 10-K.

(Dollars in thousands, except per share amounts)	**Fiscal Years[3]**				
	2017	**2016 [2]**	**2015**	**2014**	**2013**
Net revenue	**$2,306,043**	$2,094,605	$2,083,660	$2,104,454	$2,046,968
Income from continuing operations[1]	**$58,290**	$124,382	$88,397	$50,151	$95,975
Percent of net revenue	**2.5**	5.9	4.2	2.4	4.7
Total assets	**$4,360,646**	$2,055,868	$2,042,252	$1,869,006	$1,873,028
Long-term debt, excluding current maturities	**$2,398,927**	$585,759	$669,606	$547,735	$472,315
Total H.B. Fuller stockholders' equity	**$1,043,627**	$937,876	$872,920	$890,047	$930,065
Per Common Share:					
Income from continuing operations:					
Basic	**$1.16**	$2.48	$1.75	$1.00	$1.92
Diluted	**$1.13**	$2.42	$1.71	$0.97	$1.87
Dividends declared and paid	**$0.590**	$0.550	$0.510	$0.460	$0.385
Book value[4]	**$20.69**	$18.70	$17.43	$17.69	$18.52
Number of employees	**5,965**	4,587	4,425	3,650	3,676

[1] 2016, 2015, 2014 and 2013 include after-tax charges of $(0.2) million, $4.7 million, $45.2 million and $35.3 million, respectively, related to special charges, net.
[2] 2016 contained 53 weeks.
[3] All amounts have been adjusted retroactively for discontinued operations.
[4] Book value is calculated by dividing total H.B. Fuller stockholders' equity by the number of common stock shares outstanding as of our fiscal year end.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

H.B. Fuller Company is a global formulator, manufacturer and marketer of adhesives and other specialty chemical products. We manage our business through six operating segments - Americas Adhesives, EIMEA (Europe, India, Middle East and Africa), Asia Pacific, Construction Products, Engineering Adhesives and Royal Adhesives.

The Americas Adhesives, EIMEA and Asia Pacific operating segments manufacture and supply adhesives products in the assembly, packaging, converting, nonwoven and hygiene, performance wood, flooring, textile, flexible packaging, graphic arts and envelope markets. The Construction Products operating segment provides floor preparation, grouts and mortars for tile setting, and adhesives for soft flooring as well as sealants and related products for heating, ventilation and air conditioning installations. The Engineering Adhesives operating segment provides high-performance adhesives to the transportation, electronics, medical, clean energy, appliance and heavy machinery markets. The Royal Adhesives operating segment produces and supplies specialty adhesives, sealants, coatings, polymers, tapes, encapsulants and additives to the aerospace and defense, automotive, recreational vehicle, bus, truck and trailer, marine, assembly, electrical/electronic, filter, printing, flexible packaging, laminating, graphic arts, solar/renewable energy, personal care, home furnishings, roofing and flooring markets.

Total Company

When reviewing our financial statements, it is important to understand how certain external factors impact us. These factors include:

- Changes in the prices of our raw materials that are primarily derived from refining crude oil and natural gas,
- Global supply of and demand for raw materials,
- Economic growth rates, and
- Currency exchange rates compared to the U.S. dollar.

We purchase thousands of raw materials, the majority of which are petroleum/natural gas derivatives. The price of these derivatives impacts the cost of our raw materials. However, the supply of and demand for key raw materials has a greater impact on our costs. As demand increases in high-growth areas, the supply of key raw materials may tighten, resulting in certain materials being put on allocation. Natural disasters, such as hurricanes, also can have an impact as key raw material producers are shut down for extended periods of time. We continually monitor capacity utilization figures, market supply and demand conditions, feedstock costs and inventory levels, as well as derivative and intermediate prices, which affect our raw materials. With over 75 percent of our cost of sales accounted for by raw materials, our financial results are extremely sensitive to changing costs in this area.

In 2017, we generated 42 percent of our net revenue in the United States and 28 percent in EIMEA. The pace of economic growth in these areas directly impacts certain industries to which we supply products. For example, adhesives-related revenues from durable goods customers in areas such as appliances, furniture and other woodworking applications tend to fluctuate with the overall economic activity. In business components such as construction products and insulating glass, revenues tend to move with more specific economic indicators such as housing starts and other construction-related activity.

The movement of foreign currency exchange rates as compared to the U.S. dollar impacts the translation of the foreign entities' financial statements into U.S. dollars. As foreign currencies weaken against the dollar, our revenues and costs decrease as the foreign currency-denominated financial statements translate into fewer dollars. The fluctuations of the Euro and the Chinese renminbi against the U.S. dollar have the largest impact on our financial results as compared to all other currencies. In 2017, currency fluctuations had a negative impact on net revenue of approximately $46 million as compared to 2016.

Key financial results and transactions for 2017 included the following:

Net revenue increased 10.1 percent from 2016 primarily driven by a 11.9 percent increase in sales volume, including a 7.7 percent increase due to acquisitions, and 0.8 percent in product pricing offset by a 2.2 percent decrease in currency and a 0.4 percent decrease due to unfavorable sales mix.

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Gross profit margin decreased to 26.2 percent from 29.1 percent in 2016 primarily due to higher raw material costs and the impact of acquired businesses including the inventory step up related to our recent acquisitions.

We acquired Adecol for $44.7 million, Royal Adhesives for $1,622.7 million and Wisdom Adhesives for $123.5 million. Inclusion of the acquired businesses increased net revenue by $161.7 million.

Cash flow generated by operating activities from continuing operations was $138.2 million in 2017 as compared to $195.7 million in 2016 and $210.5 million in 2015.

Our total year constant currency sales growth, which we define as the combined variances from sales volume, product pricing, sales mix and business acquisitions, increased 12.3 percent for 2017 compared to 2016. The inclusion of a 53rd week in 2016 negatively impacted 2017 constant currency sales growth by approximately 2.0 percent.

In 2017, our diluted earnings per share from continuing operations was $1.13 per share compared to $2.42 per share in 2016 and $1.71 per share in 2015. The lower earnings per share from continuing operations in 2017 compared to 2016 was due to an increase in transaction costs related to acquisitions, including make-whole costs associated with the early repayment of certain outstanding debt obligations, and the implementation of the 2017 Restructuring Plan.

Project ONE

In December of 2012, our Board of Directors approved a multi-year project to replace and enhance our existing core information technology platforms. The scope for this project includes most of the basic transaction processing for the company including customer orders, procurement, manufacturing, and financial reporting. The project envisions harmonized business processes for all of our operating segments supported with one standard software configuration. The execution of this project, which we refer to as Project ONE, is being supported by internal resources and consulting services.

During 2013, a project team was formed and the global blueprint for the software configuration was designed and built. In the latter half of 2013 and in the early months of 2014, the global blueprint was applied to the specific requirements of our North America adhesives business, the software was tested and the user groups were trained. On April 6, 2014, our North America adhesives business went live. The implementation process proved to be more difficult than we originally anticipated resulting in disruptions in our manufacturing network, lower productivity and deteriorated customer service levels. By the end of 2014, most of the problems associated with the software implementation had been remediated and the business was stable and running at capacity with productivity levels approaching the levels experienced prior to the new software implementation.

In 2017, we re-initiated Project ONE and began the implementation of our ERP system in Argentina. The project work was completed at the end of fiscal 2017 and the system went live at the beginning of fiscal 2018. We expect full implementation of our ERP system in Latin America in early 2019, followed by continued implementation in North America (including our acquired businesses and Construction Products business), EIMEA and Asia Pacific.

Total expenditures for Project ONE are estimated to be $125 to $150 million, of which 50-60% is expected to be capital expenditures. Our total project-to-date expenditures are approximately $50 million, of which approximately $33 million are capital expenditures. Given the complexity of the implementation, the total investment to complete the project may exceed our estimate.

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Restructuring Plan

On December 7, 2016, the Company approved a restructuring plan (the “2017 Restructuring Plan”) related to organizational changes and other actions to optimize operations. In implementing the 2017 Restructuring Plan, we expect to incur pre-tax costs of approximately $20.0 million which includes severance and related employee costs and costs related to the optimization of production facilities, streamlining of processes, rationalization of product offerings and accelerated depreciation of long-lived assets. The 2017 Restructuring Plan was implemented in the first quarter of 2017 and is currently expected to be completed by mid-year of fiscal 2018. During the year ended December 2, 2017, we recorded a pre-tax charge of $18.0 million related to the 2017 Restructuring Plan.

Federal Income Tax Reform

On December 22, 2017, the President of the United States signed into law H.R. 1, originally known as the “Tax Cuts and Jobs Act”, hereafter referred to as “U.S. Tax Reform”. The Company is in the process of determining the impact to the financial statements of all aspects of U.S. Tax Reform and will reflect the impact of such reform in the financial statements during the period in which such amounts can be reasonably estimated. U.S. Tax Reform includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018, which will result in a blended federal tax rate for fiscal year 2018. There are also provisions that may partially offset the benefit of such rate reduction, such as the repeal of the deduction for domestic production activities. U.S. Tax Reform also includes international provisions, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations. Financial statement impacts will include adjustments for the re-measurement of deferred tax assets (liabilities) and the accrual for deemed repatriation tax on unremitted foreign earnings and profits. The Company anticipates that the impact of U.S. Tax Reform may be material to the income tax expense on the Consolidated Statement of Income and related income tax balances on the Consolidated Balance Sheet and Statement of Cash Flow.

Critical Accounting Policies and Significant Estimates

Management’s discussion and analysis of our results of operations and financial condition are based upon the Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We believe the critical accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the Consolidated Financial Statements are pension and other postretirement plan assumptions; goodwill impairment assessment; long-lived assets recoverability; product, environmental and other litigation liabilities; accounting for our contingent consideration liability; income tax accounting; and acquisition accounting.

Pension and Other Postretirement Plan Assumptions

We sponsor defined-benefit pension plans in both the U.S. and non-U.S. entities. Also in the U.S., we sponsor other postretirement plans for health care and life insurance benefits. Expenses and liabilities for the pension plans and other postretirement plans are actuarially calculated. These calculations are based on our assumptions related to the discount rate, expected return on assets, projected salary increases and health care cost trend rates. Note 10 to the Consolidated Financial Statements includes disclosure of assumptions employed in these measurements for both the non-U.S. and U.S. plans.

The discount rate assumption is determined using an actuarial yield curve approach, which results in a discount rate that reflects the characteristics of the plan. The approach identifies a broad population of corporate bonds that meet the quality and size criteria for the particular plan. We use this approach rather than a specific index that has a certain set of bonds that may or may not be representative of the characteristics of our particular plan. A higher discount rate reduces the present value of the pension obligations. The discount rate for the U.S. pension plan was 3.73 percent at December 2, 2017, as compared to 4.10 percent at December 3, 2016 and 4.30 percent at November 28, 2015. Net periodic pension cost for a given fiscal year is based on assumptions developed at the end of the previous fiscal year. A discount rate reduction of 0.5 percentage points at December 2, 2017 would increase U.S. pension and other postretirement plan expense approximately $0.1 million (pre-tax) in fiscal 2018. Discount rates for non-U.S. plans are determined in a manner consistent with the U.S. plans.

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The expected long-term rate of return on plan assets assumption for the U.S. pension plan was 7.75 percent in 2017, 2016 and 2015. Our expected long-term rate of return on U.S. plan assets was based on our target asset allocation assumption of 60 percent equities and 40 percent fixed-income. Management, in conjunction with our external financial advisors, determines the expected long-term rate of return on plan assets by considering the expected future returns and volatility levels for each asset class that are based on historical returns and forward looking observations. For 2017, the expected long-term rate of return on the target equities allocation was 8.5 percent and the expected long-term rate of return on the target fixed-income allocation was 5.0 percent. The total plan rate of return assumption included an estimate of the effect of diversification and the plan expense. For 2018, the expected long-term rate of return on assets will continue to be 7.75 percent with an expected long-term rate of return on the target equities allocation of 8.2 percent and an expected long-term rate of return on target fixed-income allocation of 5.6 percent. A change of 0.5 percentage points for the expected return on assets assumption would impact U.S. net pension and other postretirement plan expense by approximately $2.3 million (pre-tax).

Management, in conjunction with our external financial advisors, uses the actual historical rates of return of the asset categories to assess the reasonableness of the expected long-term rate of return on plan assets. The most recent 10-year and 20-year historical equity returns are shown in the table below. Our expected rate of return on our total portfolio is consistent with the historical patterns observed over longer time frames.

U.S. Pension Plan Historical actual rates of return	Total Portfolio	Equities	Fixed Income
10-year period	6.0 %	5.8 %	8.0 %
20-year period	8.6 %	8.3 %	8.1 %*

* Beginning in 2006, our target allocation migrated from 100 percent equities to our current allocation of 60 percent equities and 40 percent fixed-income. The historical actual rate of return for the fixed income of 8.1 percent is since inception (11 years, 11 months).

The expected long-term rate of return on plan assets assumption for non-U.S. pension plans was a weighted-average of 6.21 percent in 2017 compared to 6.20 percent in 2016 and 6.22 percent in 2015. The expected long-term rate of return on plan assets assumption used in each non-U.S. plan is determined on a plan-by-plan basis for each local jurisdiction and is based on expected future returns for the investment mix of assets currently in the portfolio for that plan. Management, in conjunction with our external financial advisors, develops expected rates of return for each plan, considers expected long-term returns for each asset category in the plan, reviews expectations for inflation for each local jurisdiction, and estimates the effect of active management of the plan’s assets. Our largest non-U.S. pension plans are in the United Kingdom and Germany. The expected long-term rate of return on plan assets for the United Kingdom was 6.75 percent and the expected long-term rate of return on plan assets for Germany was 5.75 percent. Management, in conjunction with our external financial advisors, uses actual historical returns of the asset portfolio to assess the reasonableness of the expected rate of return for each plan.

The projected salary increase assumption is based on historic trends and comparisons to the external market. Higher rates of increase result in higher pension expenses. As this rate is also a long-term expected rate, it is less likely to change on an annual basis. In the U.S., we have used the rate of 4.50 percent for 2017, 2016 and 2015. Benefits under the U.S. Pension Plan were locked-in as of May 31, 2011 and no longer include compensation increases. The 4.50 percent rate is for the supplemental executive retirement plan only. Projected salary increase assumptions for non-U.S. plans are determined in a manner consistent with the U.S. plans.

Goodwill

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a purchase business combination. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to a reporting unit, it no longer retains its association with a particular acquisition, and all the activities within a reporting unit are available to support the value of goodwill. Accounting standards require us to test goodwill for impairment annually or more often if circumstances or events indicate a change in the estimated fair value may have occurred.

The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. We use a discounted cash flow approach to estimate the fair value of our reporting units. Our judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margin percentages, discount rates, perpetuity growth rates, future capital expenditures and working capital requirements. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step of the process, if required, involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is determined in a manner similar to how goodwill is calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

In the fourth quarter of 2017, we conducted the required annual test of goodwill for impairment. We performed the goodwill impairment analysis by using a discount rate determined by management to result in the most representative fair value of the business as a whole. There were no indications of impairment in any of our remaining reporting units.

Of the goodwill balance of $1,336.7 million as of December 2, 2017, $108.0 million is allocated to the EIMEA reporting unit. The calculated fair value of this reporting unit exceeded its carrying value by approximately 60 percent. The goodwill balance in the Tonsan reporting unit as of December 2, 2017 is $119.0 million. The calculated fair value of this reporting unit exceeded its carrying value by approximately 60 percent. The goodwill balance in the Construction Products reporting unit as of December 2, 2017 is $20.8 million. The calculated fair value of this reporting unit exceeded it carrying value by approximately 90 percent. For all of these reporting units, the Company believes the calculated fair value exceeds the carrying value by a reasonable margin. For the remaining reporting units assessed in our annual impairment test, the calculated fair value substantially exceeded the carrying value of the net assets.

If the economy or business environment falter and we are unable to achieve our assumed revenue growth rates or profit margin percentages, our projections used would need to be remeasured, which could impact the carrying value of our goodwill in one or more of our reporting units. See Note 5 to the Consolidated Financial Statements.

Recoverability of Long-Lived Assets

The assessment of the recoverability of long-lived assets reflects our assumptions and estimates. Factors that we must estimate when performing impairment tests include sales volume, prices, inflation, currency exchange rates, tax rates and capital spending. Significant judgment is involved in estimating these factors, and they include inherent uncertainties. The measurement of the recoverability of these assets is dependent upon the accuracy of the assumptions used in making these estimates and how the estimates compare to the eventual future operating performance of the specific businesses to which the assets are attributed.

Judgments made by us include the expected useful lives of long-lived assets. The ability to realize undiscounted cash flows in excess of the carrying amounts of such assets is affected by factors such as the ongoing maintenance and improvement of the assets, changes in economic conditions and changes in operating performance.

Product, Environmental and Other Litigation Liabilities

As disclosed in Item 3. Legal Proceedings and in Note 1 and Note 14 to the Consolidated Financial Statements, we are subject to various claims, lawsuits and other legal proceedings. Reserves for loss contingencies associated with these matters are established when it is determined that a liability is probable and the amount can be reasonably estimated. The assessment of the probable liabilities is based on the facts and circumstances known at the time that the financial statements are being prepared. For cases in which it is determined that a liability is probable but only a range for the potential loss exists, the minimum amount of the range is recorded and subsequently adjusted as better information becomes available.

For cases in which insurance coverage is available, the gross amount of the estimated liabilities is accrued, and a receivable is recorded for any probable estimated insurance recoveries. A discussion of environmental, product and other litigation liabilities is disclosed in Item 3. Legal Proceedings and Note 14 to the Consolidated Financial Statements.

Based upon currently available facts, we do not believe that the ultimate resolution of any pending legal proceeding, individually or in the aggregate, will have a material adverse effect on our long-term financial condition. However, adverse developments and/or periodic settlements could negatively affect our results of operations or cash flows in one or more future quarters.

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Contingent Consideration Liability

Concurrent with a business acquisition, we entered into an agreement that requires us to pay the sellers a certain amount based upon a formula related to the entity's gross profit in 2018. We use the income approach in calculating the fair value of this contingent consideration liability using a real option model. The significant judgments and assumptions utilized in the calculation of the contingent consideration liability include revenue growth rates, profit margin percentages, volatility and discount rate, which are sensitive to change. The change in fair value of the contingent consideration liability each reporting period is recorded in selling, general and administration expenses in the Consolidated Statements of Income. See Note 2 and Note 13 for additional information.

Income Tax Accounting

As part of the process of preparing the Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more-likely-than-not to be realized. We have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the Consolidated Statements of Income. As of December 2, 2017, the valuation allowance to reduce deferred tax assets totaled $9.3 million.

We recognize tax benefits for tax positions for which it is more-likely-than-not that the tax position will be sustained by the applicable tax authority at the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement. We do not recognize a financial statement benefit for a tax position that does not meet the more-likely-than-not threshold. We believe that our liabilities for income taxes reflect the most likely outcome. It is difficult to predict the final outcome or the timing of the resolution of any particular tax position. Future changes in judgment related to the resolution of tax positions will impact earnings in the quarter of such change. We adjust our income tax liabilities related to tax positions in light of changing facts and circumstances. Settlement with respect to a tax position would usually require cash. Based upon our analysis of tax positions taken on prior year returns and expected tax positions to be taken for the current year tax returns, we have identified gross uncertain tax positions of $8.9 million as of December 2, 2017.

We have not recorded U.S. deferred income taxes for certain of our non-U.S. subsidiaries undistributed earnings as such amounts are intended to be indefinitely reinvested outside of the U.S. Should we change our business strategies related to these non-U.S. subsidiaries, additional U.S. tax liabilities could be incurred. It is not practical to estimate the amount of these additional tax liabilities. See Note 11 to the Consolidated Financial Statements for further information on income tax accounting.

Acquisition Accounting

As we enter into business combinations, we perform acquisition accounting requirements including the following:

Identifying the acquirer,
Determining the acquisition date,
Recognizing and measuring the identifiable assets acquired and the liabilities assumed, and
Recognizing and measuring goodwill or a gain from a bargain purchase.

We complete valuation procedures, and record the resulting fair value of the acquired assets and assumed liabilities based upon the valuation of the business enterprise and the tangible and intangible assets acquired. Enterprise value allocation methodology requires management to make assumptions and apply judgment to estimate the fair value of assets acquired and liabilities assumed. If estimates or assumptions used to complete the enterprise valuation and estimates of the fair value of the acquired assets and assumed liabilities significantly differed from assumptions made, the resulting difference could materially affect the fair value of net assets.

The calculation of the fair value of the tangible assets, including property, plant and equipment utilizes the cost approach, which computes the cost to replace the asset, less accrued depreciation resulting from physical deterioration, functional obsolescence and external obsolescence. The calculation of the fair value of the identified intangible assets are determined using cash flow models following the income approach or a discounted market-based methodology approach. Significant inputs include estimated revenue growth rates, gross margins, operating expenses, estimated attrition rate, and a discount rate. Goodwill is recorded as the difference in the fair value of the acquired assets and assumed liabilities and the purchase price.

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Results of Operations

Net revenue

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Net revenue	$2,306.0	$2,094.6	$2,083.7	10.1 %	0.5 %

Net revenue in 2017 increased 10.1 percent from 2016. Every five or six years we have a 53rd week in our fiscal year. 2016 was a 53-week year which contributed approximately 2.0 percent to net revenue in 2016, primarily related to volume. The 2016 net revenue was 0.5 percent higher than the net revenue in 2015. In analyzing our results of operations from period to period, we review variances in net revenue in terms of changes related to sales volume, product pricing, sales mix, business acquisitions and changes in foreign currency exchange rates. The impact of sales volume, product pricing, sales mix and acquisitions including Royal Adhesives, Adecol, Wisdom, Cyberbond, L.L.C., Advanced Adhesives and Tonsan are viewed as constant currency growth. The following table shows the net revenue variance analysis for the past two years:

	2017 vs 2016	**2016 vs 2015**
Constant currency growth	12.3 %	2.3 %
Currency	(2.2)%	(1.8)%
	10.1 %	0.5 %

Constant currency growth was 12.3 percent in 2017 compared to 2016. The inclusion of a 53rd week in 2016 negatively impacted 2017 constant currency sales growth by approximately 2.0 percent. The 12.3 percent constant currency growth in 2017 was driven by 19.8 percent growth in Engineering Adhesives, 10.9 percent growth in Asia Pacific, 10.5 percent growth in Americas Adhesives, and 7.2 percent growth in EIMEA, offset by a 7.2 percent decrease in Construction Products. Constant currency growth in 2017 also includes 3.7 percent growth attributable to the acquisition of Royal Adhesives. The negative 2.2 percent currency impact was primarily driven by the devaluation of the Egyptian pound, Turkish lira, Chinese renminbi, Argentinian peso, Mexican peso and Malaysian ringgit partially offset by a stronger Euro, Indian rupee and Australian dollar compared to the U.S. dollar.

Constant currency growth was 2.3 percent in 2016 compared to 2015. The 2016 sales volume included approximately 2.0 percent in incremental net revenue related to the 53rd week. The 2.3 percent constant currency growth in 2016 was driven by 27.3 percent growth in Engineering Adhesives, 8.5 percent growth in Asia Pacific and 2.0 percent growth in EIMEA, offset by a 5.8 percent decrease in Construction Products and 2.7 percent decrease in Americas Adhesives. The negative 1.8 percent currency impact was primarily driven by the devaluation of the Chinese renminbi, Euro, Egyptian pound, Turkish lira, Canadian dollar, Indian rupee, Australian dollar and Malaysian ringgit compared to the U.S. dollar.

Cost of sales

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Raw materials	$1,288.0	$1,121.4	$1,161.3	14.9 %	(3.4)%
Other manufacturing costs	414.9	363.4	354.3	14.2 %	2.6 %
Cost of sales	$1,702.9	$1,484.8	$1,515.6	14.7 %	(2.0)%
Percent of net revenue	73.8 %	70.9 %	72.7 %		

Raw material costs as a percentage of net revenue increased 240 basis points in 2017 compared to 2016 due to higher raw material costs and the impact of acquired businesses including the inventory step up related to our recent acquisitions. Other manufacturing costs as a percentage of revenue increased 70 basis points compared to 2016 driven primarily by the impact of acquired businesses and the implementation of the 2017 Restructuring Plan. As a result, cost of sales as a percentage of net revenue increased 290 basis points compared to 2016.

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Raw material costs as a percentage of net revenue decreased 220 basis points in 2016 compared to 2015 due to lower raw material costs, sales mix and the 2015 impact of valuing inventories acquired in the Tonsan Adhesive, Inc. acquisition at fair value. Other manufacturing costs as a percentage of revenue increased 40 basis points compared to 2015. As a result, cost of sales as a percentage of net revenue decreased 180 basis points compared to 2015.

Gross profit

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Gross profit	$603.2	$609.8	$568.0	(1.1)%	7.4 %
Percent of net revenue	26.2 %	29.1 %	27.3 %		

Gross profit in 2017 decreased $6.6 million compared to 2016 and gross profit margin decreased 290 basis points. The decrease in gross profit margin was primarily due to higher raw material costs, the impact of acquired businesses and the implementation of the 2017 Restructuring Plan.

Gross profit in 2016 increased $41.8 million compared to 2015 and gross profit margin increased 180 basis points. The decrease in the cost of raw materials was the main factor for the increase in gross profit.

Selling, general and administrative expenses

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
SG&A	$477.0	$407.6	$397.6	17.0 %	2.5 %
Percent of net revenue	20.7 %	19.5 %	19.1 %		

Selling, general and administration (“SG&A”) expenses for 2017 increased $69.4 million or 17.0 percent compared to 2016. The increase is mainly due to the impact of acquired businesses, transaction costs related to acquisitions and higher variable compensation, partially offset by lower expenses related to general spending reductions and foreign currency exchange rate benefits on spending outside the U.S.

SG&A expenses for 2016 increased $10.0 million or 2.5 percent compared to 2015. The increase is mainly due to higher personnel costs related to increased headcount, a full year of Tonsan operations for 2016 and incremental expenses coming from newly acquired businesses compared to 2015. This increase is partially offset by lower expenses related to general spending reductions, foreign currency exchange rate benefits on spending outside the U.S. and the mark to market adjustment related to the Tonsan contingent consideration liability.

We make SG&A expense plans at the beginning of each fiscal year and barring significant changes in business conditions or our outlook for the future, we maintain these spending plans for the entire year. Management routinely monitors our SG&A spending relative to these fiscal year plans for each operating segment and for the company overall. We feel it is important to maintain a consistent spending program in this area as many of the activities within the SG&A category such as the sales force, technology development, and customer service are critical elements of our business strategy.

Special Charges, net

($ in millions)	**2017**	**2016**	**2015**
Special Charges, net	$ -	$(0.2)	$4.7

The following table provides detail of special charges, net:

($ in millions)	**2017**	**2016**	**2015**
Acquisition and transformation related costs	$ -	$0.2	$0.7
Facility exit costs	-	(0.6)	3.7
Other related costs	-	0.2	0.3
Special charges, net	$ -	$(0.2)	$4.7

The integration of the industrial adhesives business we acquired in March 2012 involved a significant amount of restructuring and capital investment to optimize the new combined entity. In addition to this acquisition, we announced our intentions to take a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We combined these two initiatives into a single project which we refer to as the Business Integration Project. The Business Integration Project was substantially complete at the end of 2016, and no special charges, net were incurred during the year ended December 2, 2017. We incurred special charges, net of $(0.2) million and $4.7 million for costs related to the Business Integration Project during the years ended December 3, 2016 and November 28, 2015, respectively.

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Acquisition and transformation related costs of $0.2 million for the year ended December 3, 2016 and $0.7 million for the year ended November 28, 2015 include costs related to organization consulting, financial advisory and legal services necessary to integrate the acquired business into our existing operating segments.

During the year ended December 3, 2016, we incurred cash facility exit costs of $1.3 million, non-cash facility exit costs of $1.7 million and other incremental transformation related costs of $0.2 million including the cost of personnel directly working on the integration. Also included in facility exit costs for 2016 is a $3.6 million gain on the sale of our production facility located in Wels, Austria. During the year ended November 28, 2015, we incurred cash facility exit costs of $2.2 million, non-cash facility exit costs of $1.5 million and other incremental transformation related costs of $0.3 million including the cost of personnel directly working on the integration.

Other expense, net

($ in millions)	**2017**	**2016**	**2015**
Other expense, net	$(23.7)	$(7.6)	$(2.5)

Other expense, net includes currency transaction and remeasurement losses of $2.4 million, $9.5 million and $3.5 million in 2017, 2016 and 2015, respectively. Interest income was $3.9 million in 2017 compared to $2.0 million in 2016 and $0.5 million in 2015. Gain (loss) on disposal of fixed assets was nil, ($0.8) million and $0.3 million in 2017, 2016 and 2015, respectively. Other expense, net for 2017 also includes $25.5 million of expense related to make-whole costs associated with the early repayment of certain outstanding debt obligations which were refinanced upon entering into the Term Loan B Credit Agreement (as described in Note 6 to our Consolidated Financial Statements).

Interest expense

($ in millions)	**2017**	**2016**	**2015**
Interest expense	$43.7	$27.4	$25.0

Interest expense was $43.7 million in 2017 compared to $27.4 million in 2016 and $25.0 million in 2015. The higher interest expense in 2017 compared to 2016 was due primarily to higher U.S. debt balances from the issuance of our Term Loan B Credit Agreement and the Public Notes (as described in Note 6 to our Consolidated Financial Statements) and the write-off of capitalized debt issuance costs on repaid debt facilities. The higher interest expense in 2016 compared to 2015 was due to higher LIBOR rates on floating rate debt held in the U.S. and larger local currency balances at higher interest rates. We capitalized interest of $0.3 million, $0.8 million and $0.1 million in 2017, 2016 and 2015, respectively.

Income taxes

($ in millions)	**2017**	**2016**	**2015**
Income taxes	$9.1	$50.4	$55.9
Effective tax rate	15.5%	30.1%	40.4%

Income tax expense in 2017 of $9.1 million includes $4.1 million of discrete tax benefits in both the U.S. and foreign jurisdictions, primarily related to the release of the valuation allowance in Brazil in conjunction with the Adecol acquisition. Income tax expense in 2016 of $50.4 million includes $2.6 million of discrete tax benefits in both the U.S. and foreign jurisdictions. Income tax expense in 2015 of $55.9 million included $0.2 million of discrete tax expense in both the U.S. and foreign jurisdictions. Excluding discrete items, the overall effective tax rate decreased by 9.2 percentage points in 2017 as compared to 2016 and decreased by 8.5 percentage points in 2016 as compared to 2015. The decrease in the tax rate is principally due to a pre-tax loss in the U.S. and a decrease in the effective rate outside the U.S. due to a change in the geographic mix of pre-tax earnings.

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Income from equity method investments

($ in millions)	2017	2016	2015
Income from equity method investments	$8.7	$7.4	$5.9

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The higher income for 2017 compared to 2016 relates to higher net income in our joint venture. The higher income for 2016 compared to 2015 is related to higher net income in our joint venture and the impact of a stronger Japanese yen.

Loss from discontinued operations, net of tax

($ in millions)	2017	2016	2015
Loss from discontinued operations, net of tax	$ -	$ -	$(1.3)

The loss from discontinued operations, net of tax, relates to our Central America Paints business, which we sold in 2012. In 2015, in conjunction with the final settlement agreement, we increased our contingent consideration liability by $2.1 million and adjusted the related deferred income tax.

Net income attributable to non-controlling interests

($ in millions)	2017	2016	2015
Net income attributable to non-controlling interests	$ -	$(0.3)	$(0.4)

The net income attributable to non-controlling interests related to the redeemable non-controlling interest in H.B. Fuller Kimya Sanayi Ticaret A.S. (HBF Kimya). During fiscal 2017, we purchased the remaining shares from the non-controlling shareholder.

Net income attributable to H.B. Fuller

($ in millions)	2017	2016	2015

				2017 vs 2016	2016 vs 2015
Net income attributable to H.B. Fuller	$58.2	$124.1	$86.7	(53.1)%	43.2 %
Percent of net revenue	2.5 %	5.9 %	4.2 %		

Net income attributable to H.B. Fuller was $58.2 million in 2017 compared to $124.1 million in 2016 and $86.7 million in 2015. Diluted earnings per share, from continuing operations, was $1.13 per share in 2017, $2.42 per share for 2016 and $1.71 per share for 2015.

Operating Segment Results

We are required to report segment information in the same way that we internally organize our business for assessing performance and making decisions regarding allocation of resources. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses. Segment operating income excludes special charges, net. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Corporate expenses are fully allocated to each operating segment.

The acquisition of Royal Adhesives during the fourth quarter of 2017 resulted in the addition of another reportable segment. We have six reportable segments for the year ended December 2, 2017: Americas Adhesives, EIMEA, Asia Pacific, Construction Products, Engineering Adhesives and Royal Adhesives.

The tables below provide certain information regarding the net revenue and segment operating income of each of our operating segments.

Net Revenue by Segment

	2017		2016		2015	
($ in millions)	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total
Americas Adhesives	$888.6	39 %	$806.1	38 %	$830.8	40 %
EIMEA	548.4	24 %	545.1	26 %	549.6	26 %
Asia Pacific	264.2	11 %	241.8	12 %	230.7	11 %
Construction Products	238.5	10 %	256.4	12 %	272.7	13 %
Engineering Adhesives	289.3	13 %	245.2	12 %	199.9	10 %
Royal Adhesives	77.0	3 %	-	-	-	-
Total	$2,306.0	100 %	$2,094.6	100 %	$2,083.7	100 %

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Segment Operating Income (Loss)

	2017		2016		2015	
($ in millions)	Operating Income	% of Total	Operating Income	% of Total	Operating Income	% of Total
Americas Adhesives	$99.0	79 %	$126.0	61 %	$127.8	74 %
EIMEA	29.9	24 %	40.1	20 %	15.1	9 %
Asia Pacific	15.3	12 %	15.4	8 %	13.0	8 %
Construction Products	(1.1)	(1)%	3.3	2 %	13.7	8 %
Engineering Adhesives	20.4	16 %	17.4	9 %	0.9	1 %
Royal Adhesives	(37.4)	(30)%	-	-	-	-
Total	$126.1	100 %	$202.2	100 %	$170.5	100 %

The following table provides a reconciliation of segment operating income to income from continuing operations before income taxes and income from equity method investments, as reported in the Consolidated Statements of Income.

($ in millions)	2017	2016	2015
Segment operating income	$126.1	$202.2	$170.5
Special charges, net	-	0.2	(4.7)
Other income (expense), net	(23.7)	(7.6)	(2.5)
Interest expense	(43.7)	(27.4)	(25.0)
Income from continuing operations before income taxes and income from equity method investments	$58.7	$167.4	$138.3

Americas Adhesives

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Net revenue	$888.6	$806.1	$830.8	10.2 %	(3.0)%
Segment operating income	$99.0	$126.0	$127.8	(21.4)%	(1.4)%
Segment profit margin %		11.1 %	15.6 %	15.4 %	

The following tables provide details of Americas Adhesives net revenue variances:

	2017 vs 2016	**2016 vs 2015**
Constant currency growth	10.5 %	(2.7)%
Currency	(0.3)%	(0.3)%
Total	10.2 %	(3.0)%

Net revenue increased 10.2 percent in 2017 compared to 2016. The 10.5 percent increase in constant currency growth was attributable to an 11.7 percent increase in sales volume, including an 8.2 percent increase due to the Wisdom Adhesives acquisition and a 0.5 percent increase due to the Adecol acquisition offset by an unfavorable 0.8 percent decrease in sales mix and a 0.4 percent decrease in product pricing. The 0.3 percent negative currency effect was due to the weaker Argentinian peso and Mexican peso, offset by the stronger Brazilian real and Canadian dollar compared to the U.S. dollar. As a percentage of net revenue, raw material costs increased 300 basis points mainly due to higher raw material costs and the inventory step up related to the Wisdom and Adecol acquisitions. Other manufacturing costs as a percentage of net revenue increased 170 basis points, primarily due to the acquisition and integration of Wisdom Adhesives. Operating expense as a percentage of net revenue decreased 20 basis points. Segment operating income decreased 21.4 percent and segment operating margin as a percentage of net revenue decreased 450 basis points in 2017 compared to 2016.

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Net revenue decreased 3.0 percent in 2016 compared to 2015. The 2.7 percent decrease in constant currency growth was attributable to a 0.2 percent increase in sales volume offset by a 2.9 percent decrease in product pricing. The 0.3 percent negative currency effect was due to the weaker Canadian dollar compared to the U.S. dollar. The sales volume increase was driven by modest market share gains partially offset by general end-market weakness in Latin America and unfavorable sales mix. As a percentage of net revenue, raw material costs decreased 150 basis points mainly due to reductions in raw material costs. Other manufacturing costs as a percentage of net revenue increased 40 basis points in 2016 compared to 2015. Segment operating income decreased 1.4 percent and segment operating margin as a percentage of net revenue increased 20 basis points in 2016 compared to 2015.

EIMEA

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Net revenue	$548.4	$545.1	$549.6	0.6 %	(0.8)%
Segment operating income	$29.9	$40.1	$15.1	(25.5)%	165.4%
Segment profit margin %	5.5 %	7.4 %	2.8 %		

The following table provides details of the EIMEA net revenue variances:

	2017 vs 2016	**2016 vs 2015**
Constant currency growth	7.2 %	2.0 %
Currency	(6.6)%	(2.8)%
Total	0.6 %	(0.8)%

Net revenue increased 0.6 percent in 2017 compared to 2016. The 7.2 percent increase in constant currency growth was attributable to a 4.5 percent increase in product pricing, a 2.6 percent increase in sales volume and a 0.1 percent increase due to favorable sales mix. Sales volume growth was primarily related to the hygiene and durable assembly markets. In addition, we had strong growth in the emerging markets. The 6.6 percent negative currency effect was primarily the result of a weaker Egyptian pound and Turkish lira offset by a stronger Euro and Indian rupee compared to the U.S. dollar. Raw material costs as a percentage of net revenue increased 160 basis points in 2017 compared to 2016 primarily due to higher raw material costs offset by higher product pricing. Other manufacturing costs as a percentage of net revenue decreased 10 basis points in 2017 compared to 2016. Operating expense as a percentage of net revenue increased 30 basis points. Segment operating income decreased 25.5 percent and segment operating margin decreased 190 basis points compared to 2016.

Net revenue decreased 0.8 percent in 2016 compared to 2015. The 2.0 percent increase in constant currency growth was attributable to a 3.0 percent increase in sales volume offset by a 1.0 percent decrease in product pricing. Sales volume growth was primarily related to the hygiene market, with strong growth in the emerging markets, as well as growth in core Europe. The 2.8 percent negative currency effect was primarily the result of a weaker Euro, Egyptian pound, Turkish lira and Indian rupee compared to the U.S. dollar. Raw material costs as a percentage of net revenue decreased 300 basis points in 2016 compared to 2015 primarily due to lower raw material costs. Other manufacturing costs as a percentage of net revenue were 100 basis points lower than 2015 primarily due to improved production efficiencies, lower freight costs and favorable currency impacts. Segment operating income increased 165.4 percent and segment operating margin increased 460 basis points compared to 2015.

Asia Pacific

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Net revenue	$264.2	$241.8	$230.7	9.3 %	4.8 %
Segment operating income	$15.3	$15.4	$13.0	(0.6)%	19.0 %
Segment profit margin %	5.8 %	6.4 %	5.6 %		

The following table provides details of Asia Pacific net revenue variances:

	2017 vs 2016	**2016 vs 2015**
Constant currency growth	10.9 %	8.5 %
Currency	(1.6)%	(3.7)%
Total	9.3 %	4.8 %

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Net revenue in 2017 increased 9.3 percent compared to 2016. The 10.9 percent increase in constant currency growth was attributable to a 12.0 percent increase in sales volume, including a 2.8 percent increase due to the Advanced Adhesives acquisition, partially offset by a 0.6 percent decrease in product pricing and a 0.5 percent decrease due to unfavorable sales mix. Organic constant currency growth was primarily driven by volume growth in Greater China. Negative currency effects of 1.6 percent compared to 2016 were primarily driven by the weaker Chinese renminbi and Malaysian ringgit compared to the U.S. dollar, partially offset by a stronger Australian dollar. Raw material costs as a percentage of net revenue increased 150 basis points compared to 2016, primarily due to higher raw material costs. Other manufacturing costs as a percentage of net revenue decreased 50 basis points compared to 2016. Operating expense as a percentage of net revenue decreased 40 basis points. Segment operating income decreased 0.6 percent and segment operating margin decreased 60 basis points compared to 2016.

Net revenue in 2016 increased 4.8 percent compared to 2015. The 8.5 percent increase in constant currency growth was attributable to a 10.8 percent increase in sales volume partially offset by a 2.3 percent decrease in product pricing. Most of the growth compared to 2015 is driven by the acquisition of Advanced Adhesives that occurred during the second quarter of 2016, as well as growth in Southeast Asia and Greater China. Negative currency effects of 3.7 percent compared to 2015 were primarily driven by the weaker Chinese renminbi, Australian dollar and Malaysian ringgit compared to the U.S. dollar. Raw material costs as a percentage of net revenue decreased 140 basis points compared to 2015 due to lower raw material costs and changes in sales mix, partially offset by the impact of valuing inventories related to the Advanced Adhesives acquisition at fair value. Other manufacturing costs as a percentage of net revenue increased 110 basis points compared to 2015, primarily due to the acquisition of Advanced Adhesives and the costs to rationalize certain production capabilities in Southeast Asia. Segment operating income increased 19 percent and segment operating margin increased 80 basis points compared to 2015.

Construction Products

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Net revenue	$238.5	$256.4	$272.7	(7.0)%	(6.0)%
Segment operating income (loss)	$(1.1)	$3.3	$13.7	(133.3)%	(76.3)%
Segment profit margin %	(0.5)%	1.3 %	5.0 %		

The following tables provide details of Construction Products net

revenue
variances:

	2017 vs 2016	2016 vs 2015
Constant currency growth	(7.2)%	(5.8)%
Currency	0.2 %	(0.2)%
Total	(7.0)%	(6.0)%

Net revenue decreased 7.0 percent in 2017 compared to 2016. The 7.2 percent decrease in constant currency growth was driven by a 6.9 percent decrease in sales volume and a 0.3 percent decrease due to unfavorable sales mix. The sales volume decline was due to lower service levels related to the facility upgrade and expansion project. Positive currency effects of 0.2 percent compared to 2016 were primarily driven by the stronger Australian dollar compared to the U.S. dollar. Raw material costs as a percentage of net revenue was 140 basis points lower in 2017 compared to 2016 primarily due to lower raw material costs. Other manufacturing costs as a percentage of net revenue were 280 basis points higher in 2017 compared to 2016 due to inefficiencies related to the facility upgrade and expansion project. Operating expense as a percentage of net revenue increased 30 basis points. Segment operating income (loss) decreased 133.3 percent and segment profit margin decreased 180 basis points in 2017 compared to 2016.

Net revenue decreased 6.0 percent in 2016 compared to 2015. The 5.8 percent decrease in constant currency growth was driven by a 6.7 percent decrease in sales volume offset by a 0.9 percent increase in product pricing. The decrease in sales volume was primarily attributed to lower export revenue, inventory rebalancing with certain channel partners and a strong fiscal 2015 driven by market share gains with certain retail partners. The increase in pricing is mainly due to price increases related to certain product lines in multiple channels. Negative currency effects of 0.2 percent compared to 2015 were primarily driven by the weaker Australian dollar compared to the U.S. dollar. Raw material costs as a percentage of net revenue was 210 basis points lower in 2016 compared to 2015 primarily due to changes in product mix and lower raw material costs. Other manufacturing costs as a percentage of net revenue were 360 basis points higher in 2016 compared to 2015 mainly due to higher supply chain costs as we complete the facility upgrade and expansion project. Segment operating income decreased 76.3 percent and segment profit margin decreased 370 basis points in 2016 compared to 2015.

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Engineering Adhesives

($ in millions)	2017	2016	2015	2017 vs 2016	2016 vs 2015
Net revenue	$289.3	$245.2	$199.9	18.0 %	22.7 %
Segment operating income	$20.4	$17.4	$0.9	17.2 %	NMP
Segment profit margin %	7.0 %	7.1 %	0.4 %		

The following tables provide details of Engineering Adhesives net revenue variances:

	2017 vs 2016	2016 vs 2015
Constant currency growth	19.8 %	27.3 %
Currency	(1.8)%	(4.6)%
Total	18.0 %	22.7 %

Net revenue increased 18.0 percent in 2017 compared to 2016. The 19.8 percent increase in constant currency growth was driven by a 21.4 percent increase in sales volume including a 3.2 percent increase due to the acquisition of Cyberbond, L.L.C., partially offset by a 1.2 percent decrease in product pricing and a 0.5 percent decrease due to unfavorable sales mix. Organic constant currency growth was driven by strong performance in the electronics and Tonsan markets. Negative currency effects of 1.8 percent compared to 2016 were primarily driven by the weaker Chinese renminbi partially offset by a stronger Euro and Indian rupee compared to the U.S. dollar. Raw material costs as a percentage of net revenue was 200 basis points higher in 2017 compared to 2016 due to unfavorable sales mix and higher raw material costs. Other manufacturing costs as a percentage of net revenue were 90 basis points lower in 2017 compared to 2016 primarily due to higher sales volume. Operating expense as a percentage of net revenue decreased 110 basis points compared to 2016, partially due to the net mark to market adjustment related to the Tonsan contingent consideration liability. Segment operating income decreased 17.2 percent and segment operating margin decreased 10 basis points in 2017 compared to 2016.

Net revenue increased 22.7 percent in 2016 compared to 2015. The 27.3 percent increase in constant currency growth was driven by a 27.9 percent increase in sales volume offset by a 0.6 percent decrease in product pricing. The increase in sales volume was partially attributed to a full year of the Tonsan business, which was acquired late in the first quarter of 2015, as well as the acquisition of Cyberbond, L.L.C. that occurred during the third quarter of 2016. Negative currency effects of 4.6 percent compared to 2015 were primarily driven by the weaker Chinese renminbi and Euro compared to the U.S. dollar. Raw material costs as a percentage of net revenue was 390 basis points lower in 2016 compared to 2015 primarily due to the impact of valuing inventories related to the Tonsan acquisition at fair value, lower raw material costs and changes in product mix associated with the acquisition of Tonsan. Other manufacturing costs as a percentage of net revenue were 40 basis points higher in 2016 compared to 2015 primarily due to the impact of a full year of the Tonsan business and the Cyberbond, L.L.C. acquisition. Operating expense as a percentage of net revenue decreased 320 basis points compared to 2015, partially due to the net mark to market adjustment related to the Tonsan contingent consideration liability offset by the Cyberbond, L.L.C. acquisition. Segment operating income increased $16.5 million and segment operating margin increased 670 basis points in 2016 compared to 2015.

Royal Adhesives

($ in millions)	**2017**	**2016**	**2015**	**2017 vs 2016**	**2016 vs 2015**
Net revenue	$77.0	$ -	$ -	NMP	-
Segment operating loss	$(37.4)	$ -	$ -	NMP	-
Segment profit margin %	(48.5)%	-	-		

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Royal Adhesives was acquired during the fourth quarter of 2017. As a result, there is no comparable financial information for this segment for the years ended December 3, 2016 and November 28, 2015. Segment operating income for the year ended December 2, 2017 includes $32.1 million of transaction costs incurred by the Company related to the Royal Adhesives acquisition and $10.8 million of inventory step up expense.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of December 2, 2017 were $194.4 million compared to $142.2 million as of December 3, 2016. Total long and short-term debt was $2,451.9 million as of December 2, 2017 and $703.3 million as of December 3, 2016.

We believe that cash flows from operating activities will be adequate to meet our ongoing liquidity and capital expenditure needs. In addition, we believe we have the ability to obtain both short-term and long-term debt to meet our financing needs for the foreseeable future. Cash available in the United States has historically been sufficient and we expect it will continue to be sufficient to fund U.S. operations and U.S. capital spending and U.S. pension and other postretirement benefit contributions in addition to funding U.S. acquisitions, dividend payments, debt service and share repurchases as needed. For those international earnings considered to be reinvested indefinitely, we currently have no intention to, and plans do not indicate a need to, repatriate these funds for U.S. operations.

Our credit agreements include restrictive covenants that, if not met, could lead to a renegotiation of our credit lines and a significant increase in our cost of financing. At December 2, 2017, we were in compliance with all covenants of our contractual obligations as shown in the following table:

Covenant	**Debt Instrument**	**Measurement**	**Result as of December 2, 2017**
Total Indebtedness / TTM EBITDA	Revolving Credit Agreement and Term Loan Credit Agreement	Not greater than 6.5	5.2

TTM = trailing 12 months

EBITDA for covenant purposes is defined as consolidated net income, plus interest expense, expense for taxes paid or accrued, depreciation and amortization, certain non-cash impairment losses, extraordinary non-cash losses incurred other than in the ordinary course of business, nonrecurring extraordinary non-cash restructuring charges and the non-cash impact of purchase accounting, expenses related to the Royal Adhesives acquisition not to exceed $40.0 million, one-time costs incurred in connection with prepayment premiums and make-whole amounts under certain agreements, certain "run rate" cost savings and synergies in connection with the Royal Adhesives acquisition not to exceed 15% of Consolidated EBITDA, expenses relating to the integration of Royal Adhesives during the fiscal years ending in 2017, 2018 and 2019 not exceeding $30 million in aggregate, restructuring expenses that began prior to the Royal Adhesives acquisition incurred in fiscal years ending in 2017 and 2018 not exceeding $28 million in aggregate, and non-capitalized charges relating to the SAP implementation during fiscal years ending in 2017 through 2021 not exceeding $13 million in any single fiscal year, minus extraordinary non-cash gains. For the Total Indebtedness / TTM EBITDA ratio, TTM EBITDA is adjusted for the pro forma results from Material Acquisitions and Material Divestitures as if the acquisition or divestiture occurred at the beginning of the calculation period. The full definition is set forth in the Term Loan B Credit Agreement and the Amended Revolving Credit Agreement, and can be found in the Company's 8-K filings dated October 20, 2017 and 8-K dated November 17, 2017, respectively.

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2018.

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Net Financial Assets (Liabilities)

($ in millions)	2017	2016
Financial assets:		
Cash and cash equivalents	**$194.4**	$142.2
Foreign exchange contracts	**0.6**	11.7
Cash flow hedges	**-**	4.7
Interest rate swaps	**3.1**	1.6
Financial liabilities:		
Notes payable	**(31.5)**	(37.3)
Long-term debt	**(2,420.4)**	(665.9)
Foreign exchange contracts	**(4.4)**	(6.9)
Fair value hedges	**2.1**	-
Cash flow hedges	**(20.1)**	-
Net financial liabilities	**$(2,278.3)**	$(549.9)

Of the $194.4 million in cash and cash equivalents as of December 2, 2017, $172.1 million was held outside the U.S. Of the $172.1 million of cash held outside the U.S., earnings on $161.7 million are indefinitely reinvested outside of the U.S. It is not practical for us to determine the U.S. tax implications of the repatriation of these funds.

There are no contractual or regulatory restrictions on the ability of consolidated and unconsolidated subsidiaries to transfer funds in the form of cash dividends, loans or advances to us, except for: 1) a credit facility limitation restricting investments, loans, advances or capital contributions from Loan Parties to non-Loan Parties in excess of $100.0 million, 2) a credit facility limitation that provides total investments, loans, advances or guarantees not otherwise permitted in the credit agreement for all subsidiaries shall not exceed $125.0 million in the aggregate, 3) a credit facility limitation that provides total investments, dividends, and distributions shall not exceed the Available Amount defined in these agreements, and 4) typical statutory restrictions, which prohibit distributions in excess of net capital or similar tests. The Royal Adhesives acquisition and any investments, loans, and advances established to consummate the Royal Adhesives acquisition, are excluded from the credit facility limitations described above. Additionally, we have taken the income tax position that the majority of our cash in non-U.S. locations is indefinitely reinvested.

Debt Outstanding and Debt Capacity

Notes Payable

Notes payable were $31.5 million at December 2, 2017 and $37.3 million at December 3, 2016. These amounts mainly represented various foreign subsidiaries' short-term borrowings that were not part of committed lines. The weighted-average interest rates on these short-term borrowings were 11.0 percent in 2017 and 13.7 percent in 2016.

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Long-Term Debt

Long-term debt consisted of a secured term loan (“Term Loan B”) and an unsecured public note (“Public Notes”). The Term Loan B bears a floating interest rate at the London Interbank Offered Rate (LIBOR) plus 2.25 percent (3.53 percent at December 2, 2017) and matures in fiscal year 2024. The Public Notes bear interest at 4.00 percent fixed interest and matures in fiscal year 2027. We are subject to a par call of 1.00 percent except within three months of maturity date. We currently have no intention to prepay the Public Notes. Additional details on the Public Notes and the Term Loan B Credit Agreement can be found in the 8-K dated February 9, 2017 and the 8-K dated October 20, 2017, respectively.

We executed interest rate swap agreements for the purpose of obtaining a fixed interest rate on $1,050,000 of the $2,150,000 Term Loan B. We have designated forecasted interest payments resulting from the variability of 1-month LIBOR in relation to $1,050,000 of the Term Loan B as the hedged item in cash flow hedges. The combined fair value of the interest rate swaps in total was an asset of $3,104 at December 2, 2017 and was included in other liabilities in the Consolidated Balance Sheets. We are applying the shortcut method in accounting for these interest rate swaps as changes in the fair value of the interest rate swap are expected to offset the changes in cash flows (i.e. changes in interest rate payments) attributable to fluctuations in LIBOR rates on the interest payments associated with the $1,050,000 tranche of variable rate Term Loan B, resulting in no ineffectiveness.

We entered into interest rate swap agreements for the purpose of obtaining a floating rate on $150,000 of our $300,000 Public Notes. We have designated the $150,000 of public debt as the hedged item in a fair value hedge. The combined fair value of the interest rate swaps in total was a liability of $2,121 at December 2, 2017 and was included in other liabilities in the Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as fair value hedges. We are applying the shortcut method in accounting for these interest rate swaps as we expect that the changes in the fair value of the swap will offset the changes in the fair value of the Public Notes resulting in no ineffectiveness. As a result of applying the shortcut method, the change in the fair value of the interest rate swap and an equivalent amount for the change in the fair value of the debt will be reflected in other income (expense), net and no ineffectiveness will be recognized in our Condensed Consolidated Statements of Income.

Lines of Credit

We have a revolving credit agreement with a consortium of financial institutions at December 2, 2017.   This credit agreement creates a secured multi-currency revolving credit facility that we can draw upon to repay existing indebtedness, finance working capital needs, finance acquisitions, and for general corporate purposes up to a maximum of $400.0 million. Interest on the revolving credit facility is payable at LIBOR plus 2.00 percent (3.27 percent at December 2, 2017). A facility fee of 0.30 percent of the unused commitment under the revolving credit facility is payable quarterly. The interest rate and the facility fee are based on a leverage grid. The credit facility expires on April 12, 2022. As of December 2, 2017, our lines of credit were undrawn. Additional details on the revolving credit agreement can be found in the 8-K dated November 17, 2017. For further information related to debt outstanding and debt capacity, see Note 6 to the Consolidated Financial Statements.

Goodwill and Other Intangible Assets

As of December 2, 2017, goodwill totaled $1,336.7 million (31 percent of total assets) and other intangible assets, net of accumulated amortization, totaled $1,001.8 million (23 percent of total assets).

The components of goodwill and other identifiable intangible assets, net of amortization, by segment at December 2, 2017 are as follows:

($ in millions)	**Americas Adhesives**	**EIMEA**	**Asia Pacific**	**Construction Products**	**Engineering Adhesives**	**Royal Adhesives**	**Total**
Goodwill	$ 141.1	$ 108.0	$ 18.0	$ 22.0	$ 178.8	$ 868.8	$1,336.7
Purchased technology & patents	9.3	4.8	1.2	1.4	28.9	59.4	105.0
Customer relationships	70.9	12.2	9.6	60.0	29.4	641.0	823.1
Other finite-lived intangible assets[1]	4.5	8.6	1.8	3.9	1.2	53.2	73.2
Indefinite-lived intangible assets[2]	-	0.5	-	-	-	-	0.5

[1] Other finite-lived intangible assets are related to operating segment trademarks.

[2] Indefinite-lived intangible assets are related to EIMEA operating segment trademarks.

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Selected Metrics of Liquidity and Capital Resources

Key metrics we monitor are net working capital as a percent of annualized net revenue, trade account receivable days sales outstanding (DSO), inventory days on hand, free cash flow and debt capitalization ratio.

	December 2, 2017	December 3, 2016
Net working capital as a percentage of annualized net revenue[1]	18.8%	18.9%
Accounts receivable DSO[2] (in days)	61	57
Inventory days on hand[3] (in days)	59	60
Free cash flow[4]	$56.2	$104.9
Debt capitalization ratio[5]	60.3%	42.9%

[1] Current quarter net working capital (trade receivables, net of allowance for doubtful accounts plus inventory minus trade payables) divided by annualized net revenue (current quarter, adjusted for extra week, multiplied by 4).

[2] Trade receivables net of allowance for doubtful accounts multiplied by 56 (8 weeks) for 2017 and 63 (9 weeks) for 2016 and divided by the net revenue for the last 2 months of the quarter.

[3] Total inventory multiplied by 56 for 2017 and 63 for 2016 and divided by cost of sales (excluding delivery costs) for the last 2 months of the quarter.

[4] Net cash provided by operations less purchased property, plant and equipment and dividends paid.

[5] Total debt divided by (total debt plus total stockholders' equity).

Summary of Cash Flows

Cash Flows from Operating Activities from Continuing Operations

($ in millions)	**2017**	**2016**	**2015**
Net cash provided by operating activities	$140.8	$195.7	$210.5

Net income including non-controlling interest was $58.3 million in 2017, $124.4 million in 2016 and $87.3 million in 2015. Depreciation and amortization expense totaled $87.4 million in 2017 compared to $77.7 million in 2016 and $75.3 million in 2015. The higher depreciation and amortization expense in 2017 was directly related to the intangible assets acquired in acquisitions.

Changes in net working capital (trade receivables, inventory and trade payables) accounted for a source of cash of $7.0 million and a use of cash of $13.9 million and $10.8 million in 2017, 2016 and 2015, respectively. Following is an assessment of each of the net working capital components:

Trade Receivables, net – Changes in trade receivables resulted in a $26.8 million use of cash in 2017 compared to $1.9 million source of cash in 2016 and $12.0 million use of cash in 2015. The use of cash in 2017 was related to higher net revenue compared to 2016. The source of cash in 2016 was related to higher collection of receivables somewhat offset by higher net revenue compared to the use of cash in 2015. The DSO was 61 days at December 2, 2017, 57 days at December 3, 2016 and 60 days at November 28, 2015.

Inventory – Changes in inventory resulted in a $10.6 million use of cash in 2017 compared to a $3.5 million use of cash in 2016 and a $4.6 million use of cash of in 2015. In 2017, inventory levels increased due to higher raw material costs and to maintain service levels while integrating our acquisitions. In 2016, inventory levels decreased slightly from 2015 related to normal activity. Inventory days on hand were 59 days at the end of 2017 compared to 60 days at the end of 2016 and 60 days at the end of 2015.

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Trade Payables – Changes in trade payables resulted in a $44.4 million source of cash in 2017 compared to a $12.3 million use of cash in 2016 and a $5.8 million source of cash in 2015. Both comparisons were primarily related to the timing of payments.

Contributions to our pension and other postretirement benefit plans were $4.7 million, $6.6 million and $4.6 million in 2017, 2016 and 2015, respectively. Income taxes payable resulted in a $15.0 million, $1.7 million and $1.4 million use of cash in 2017, 2016 and 2015, respectively. Other assets resulted in a $13.0 million use of cash in 2017, an $8.4 million use of cash in 2016 and a $12.0 million source of cash in 2015. Accrued compensation was a $12.2 million, $0.9 million and a $6.0 million source of cash in 2017, 2016 and 2015, respectively. The source of cash in 2017 relates to higher accruals for our employee incentive plans and the source of cash in 2016 relates to lower payouts for our employee incentive plans. Other operating activity was a $8.8 million use of cash in 2017 and a source of cash in $29.5 million and $22.6 million in 2016 and 2015, respectively. This reflects the impact of a stronger U.S. dollar on certain foreign transactions in 2017, 2016 and 2015.

Cash Flows from Investing Activities from Continuing Operations

($ in millions)	**2017**	**2016**	**2015**
Net cash used in investing activities	$(1,800.9)	$(111.5)	$(258.8)

Purchases of property plant and equipment were $54.9 million in 2017 compared to $63.3 million in 2016 and $58.6 million in 2015. The increase in 2016 relates to building a new plant in Indonesia and the Construction Products expansion project offset by lower capital expenditures for the Business Integration project. In 2015 we received a cash settlement of $12.8 million as a result of an arbitration proceeding related to our initial implementation of Project ONE, of which $12.0 million was recorded as a reduction of the ERP system asset.

In 2017, we acquired Adecol for $44.7 million, net of cash acquired, Royal Adhesives for $1,622.7 million, net of cash acquired and Wisdom for $123.5 million, net of cash acquired. In 2016, we acquired Cyberbond, L.L.C. for $42.2 million, net of cash acquired and Advanced Adhesives for $10.4 million, net of cash acquired. In 2015, we acquired Tonsan Adhesive, Inc. for $215.9 million and Continental Products Limited for $1.6 million. See Note 2 to the Consolidated Financial Statements for further information on acquisitions.

Cash Flows from Financing Activities from Continuing Operations

($ in millions)	**2017**	**2016**	**2015**
Net cash provided by (used in) financing activities	$1,710.2	$(52.6)	$104.2

In 2017 we repaid $1,079.3 million and borrowed $2,856.3 million of debt in conjunction with our acquisition of Royal Adhesives. In 2017, we paid $24.2 million of debt issuance costs. In 2016, there was $22.5 million of repayments of long-term debt and no proceeds from long term debt borrowing. In 2015 proceeds from long-term debt were $357.0 million. Included in the $357.0 million of proceeds is $300.0 million from our October 31, 2014 Term Loan A which was drawn in conjunction with the acquisition of Tonsan Adhesive, Inc. Repayment of long-term debt in 2015 was $211.3 million. See Note 6 of the Consolidated Financial Statements for further discussion of debt borrowings and repayments.

Cash paid for dividends were $29.6 million, $27.5 million and $25.7 million in 2017, 2016 and 2015, respectively. Cash generated from the exercise of stock options were $17.7 million in 2017, $11.3 million in 2016 and $4.6 million in 2015. Repurchases of common stock were $21.8 million in 2017 compared to $23.2 million in 2016 and $19.3 million in 2015, including $19.1 million in 2017, $20.9 million in 2016 and $17.1 million in 2015 from our share repurchase program.

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Contractual Obligations

Due dates and amounts of contractual obligations follow:

($ in millions)	Payments Due by Period Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$2,420.4	$21.5	$43.0	$43.0	$2,312.9
Interest payable on long-term debt[1]	756.7	101.0	209.5	211.5	234.7
Notes payable	31.5	31.5	-	-	-
Operating leases	35.4	12.3	15.1	8.0	-
Pension contributions[2]	2.8	2.8	-	-	-
Financial instrument liabilities[3]	24.5	15.6	8.9		
Other[4]	12.5	-	12.5	-	-
Total contractual obligations	$3,283.8	$184.7	$289.0	$262.5	$2,547.6

[1] Some of our interest obligations on long-term debt are variable based on LIBOR. Interest payable for the variable portion is estimated based on a forward LIBOR curve.

[2] Pension contributions are only included for fiscal 2018. We have not determined our pension funding obligations beyond 2018 and thus, any potential future contributions have been excluded from the table.

[3] Represents the fair value of our foreign exchange contracts and cash flow hedges with a payable position to the counterparty as of December 2, 2017, based on fair market values as of that date. Future changes in market values will impact the amount of cash ultimately paid or received to settle those instruments in the future.

[4] This amount includes the forward purchase contract of $12.0 million and the contingent consideration liability of $0.5 million related to the Tonsan acquisition.

We are subject to mandatory prepayments in the first quarter of each fiscal year equal to 50 percent of Excess Cash Flow, as defined in the Term Loan B Credit Agreement, of the prior fiscal year less any voluntary prepayments made during that fiscal year. The Excess Cash Flow Percentage (“ECF Percentage”) shall be reduced to 25 percent when our Secured Leverage Ratio is below 4.25:1.00 and to 0 percent when our Secured Leverage Ratio is below 3.75:1.00. The first measurement period is fiscal year 2018 and the first prepayment is due in the first fiscal quarter of 2019. We have not estimated the prepayment for the first quarter of fiscal year 2019 or for future years in the table above, and have listed only the scheduled amortization payments.

We expect to make cash outlays in the future related to uncertain tax positions. However, due to the uncertainty of the timing of future cash flows, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, gross unrecognized tax benefits of $8.9 million as of December 2, 2017 have been excluded from the contractual obligations table above. For further information related to unrecognized tax benefits see Note 11 to the Consolidated Financial Statements.

We expect 2018 capital expenditures to be approximately $90.0 million.

Off-Balance Sheet Arrangements

There are no relationships with any unconsolidated, special-purpose entities or financial partnerships established for the purpose of facilitating off-balance sheet financial arrangements.

Forward-Looking Statements and Risk Factors

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words like "plan," "expect," "aim," "believe," "project," "anticipate," "intend," "estimate," "will," "should," "could" (including the negative or variations thereof) and other expressions that indicate future events and trends. These plans and expectations are based upon certain underlying assumptions, including those mentioned with the specific statements. Such assumptions are in turn based upon internal estimates and analyses of current market conditions and trends, our plans and strategies, economic conditions and other factors. These plans and expectations and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. In addition to the factors described in this report, Item 1A. Risk Factors identifies some of the important factors that could cause our actual results to differ materially from those in any such forward-looking statements. In order to comply with the terms of the safe harbor, we have identified these important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. These factors should be considered, together with any similar risk factors or other cautionary language that may be made elsewhere in this Annual Report on Form 10-K.

The list of important factors in Item 1A. Risk Factors does not necessarily present the risk factors in order of importance. This disclosure, including that under Forward-Looking Statements and Risk Factors, and other forward-looking statements and related disclosures made by us in this report and elsewhere from time to time, represents our best judgment as of the date the information is given. We do not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public company disclosures (such as in filings with the SEC or in our press releases) on related subjects.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

We are exposed to various market risks, including changes in interest rates, foreign currency rates and prices of raw materials. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

Our financial performance may be negatively affected by unfavorable economic conditions. Recessionary economic conditions may have an adverse impact on our sales volumes, pricing levels and profitability. As domestic and international economic conditions change, trends in discretionary consumer spending also become unpredictable and subject to reductions due to uncertainties about the future. A general reduction in consumer discretionary spending due to a recession in the domestic and international economies, or uncertainties regarding future economic prospects, could have a material adverse effect on our results of operations.

Interest Rate Risk

Exposure to changes in interest rates results primarily from borrowing activities used to fund operations. Committed floating rate credit facilities are used to fund a portion of operations. We believe that probable near-term changes in interest rates would not materially affect financial condition, results of operations or cash flows. The annual impact on interest expense of a one-percentage point interest rate change on the outstanding balance of our variable rate debt as of December 2, 2017 would have resulted in a change in net income of approximately $9.7 million or $0.19 per diluted share.

Foreign Exchange Risk

As a result of being a global enterprise, there is exposure to market risks from changes in foreign currency exchange rates. Our operating results and financial condition are subject to both currency transaction and currency translation risk. Approximately 59 percent of net revenue was generated outside of the United States in 2017. Principal foreign currency exposures relate to the Euro, British pound sterling, Canadian dollar, Chinese renminbi, Japanese yen, Australian dollar, Argentine peso, Brazilian real, Colombian peso, Mexican peso, Turkish lira, Egyptian pound, Indian rupee, Indonesian rupiah and Malaysian ringgit.

We enter into cross border transactions through importing and exporting goods to and from different countries and locations. These transactions generate foreign exchange risk as they create assets, liabilities and cash flows in currencies other than their functional currency. This also applies to services provided and other cross border agreements among subsidiaries. Our objective is to balance, where possible, non-functional currency denominated assets to non-functional currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts.

In the event a natural hedge is not available, we take steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. We do not enter into any speculative positions with regard to derivative instruments.

Based on 2017 financial results, a hypothetical one percent change in our cost of sales due to foreign currency rate changes would have resulted in a change in net income attributable to H.B. Fuller of approximately $7.0 million or $0.14 per diluted share. Based on 2017 financial results and foreign currency balance sheet positions as of December 2, 2017, a hypothetical overall 10 percent change in the U.S. dollar would have resulted in a change in net income of approximately $9.6 million or $0.19 per diluted share.

On December 4, 2016, for our subsidiaries in Latin America, the company changed its functional currency from the U.S. dollar to the entity’s local currency based on management’s analysis of the changes of the economic facts and circumstances in which these subsidiaries operate. The change in functional currency is accounted for prospectively from December 4, 2016 and financial statements prior to and including the year ended December 3, 2016 have not been restated for the change in functional currency.

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Raw Materials

The principal raw materials used to manufacture products include resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials. While alternate supplies of most key raw materials are available, unplanned supplier production outages may lead to strained supply-demand situations for several key raw materials such as ethylene and propylene, several polymers and other petroleum derivatives such as waxes.

The purchase of raw materials is our largest expenditure. Our objective is to purchase raw materials that meet both our quality standards and production needs at the lowest total cost. Most raw materials are purchased on the open market or under contracts that limit the frequency but not the magnitude of price increases. In some cases, however, the risk of raw material price changes is managed by strategic sourcing agreements which limit price increases to increases in supplier feedstock costs, while requiring decreases as feedstock costs decline. The leverage of having substitute raw materials approved for use wherever possible is used to minimize the impact of possible price increases. Based on 2017 financial results, a hypothetical one percent change in our raw material costs would have resulted in a change in net income of approximately $10.0 million or $0.19 per diluted share.

Recently Issued Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for information concerning new accounting standards and the impact of the implementation of these standards on our financial statements.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

H.B. Fuller Company:

We have audited the accompanying consolidated balance sheets of H.B. Fuller Company and subsidiaries (Company) as of December 2, 2017 and December 3, 2016, and the related consolidated statements of income, comprehensive income (loss), total equity, and cash flows for each of the years in the three-year period ended December 2, 2017. We also have audited the Company's internal control over financial reporting as of December 2, 2017, based on criteria established in *Internal Control – Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A of the Company's December 2, 2017 Annual Report on Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H.B. Fuller Company and subsidiaries as of December 2, 2017 and December 3, 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 2, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, H.B. Fuller Company maintained, in all material respects, effective internal control over financial reporting as of December 2, 2017, based on criteria established in *Internal Control – Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

H.B. Fuller Company acquired Wisdom Adhesives in January 2017, Royal Adhesives in October 2017 and Adecol in November 2017, and management excluded from its assessment of the effectiveness of internal control over financial reporting as of December 2, 2017, Wisdom Adhesives, Royal Adhesives and Adecol 's internal control over financial reporting associated with assets of approximately 50 percent of H.B. Fuller Company's total assets and revenues of approximately seven percent of H.B. Fuller Company's total revenues included in the consolidated financial statements of H.B. Fuller Company and subsidiaries as of and for the year ended December 2, 2017. Our audit of internal control over financial reporting of H.B. Fuller Company also excluded an evaluation of the internal control over financial reporting of Wisdom Adhesives, Royal Adhesives and Adecol.

/s/ KPMG LLP

Minneapolis, Minnesota
January 31, 2018

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CONSOLIDATED STATEMENTS OF INCOME
H.B. Fuller Company and Subsidiaries
(In thousands, except per share amounts)

	Fiscal Years December 2, 2017	December 3, 2016	November 28, 2015
Net revenue	**$2,306,043**	$2,094,605	$2,083,660
Cost of sales	**(1,702,873)**	(1,484,802)	(1,515,617)
Gross profit	**603,170**	609,803	568,043
Selling, general and administrative expenses	**(477,030)**	(407,638)	(397,558)
Special charges, net	**-**	168	(4,654)
Other income (expense), net	**(23,740)**	(7,549)	(2,465)
Interest expense	**(43,701)**	(27,359)	(25,021)
Income from continuing operations before income taxes and income from equity method investments	**58,699**	167,425	138,345
Income taxes	**(9,086)**	(50,436)	(55,855)
Income from equity method investments, net of tax	**8,677**	7,393	5,907
Income from continuing operations	**58,290**	124,382	88,397
Loss from discontinued operations, net of tax	**-**	-	(1,300)
Net income including non-controlling interests	**58,290**	124,382	87,097
Net income attributable to non-controlling interests	**(48)**	(254)	(417)
Net income attributable to H.B. Fuller	**$58,242**	$124,128	$86,680
Earnings per share attributable to H.B. Fuller common stockholders:			
Basic			
Income from continuing operations	**$1.16**	$2.48	$1.75
Loss from discontinued operations	**$-**	$-	$(0.03)
Basic earnings per share	**$1.16**	$2.48	$1.72
Diluted			
Income from continuing operations	**$1.13**	$2.42	$1.71
Loss from discontinued operations	**$-**	$-	$(0.03)
Diluted earnings per share	**$1.13**	$2.42	$1.69
Weighted-average common shares outstanding:			
Basic	**50,370**	50,136	50,274
Diluted	**51,619**	51,270	51,393

Dividends declared per common share	**$*0.590***	$*0.550*	$*0.510*

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
H.B. Fuller Company and Subsidiaries
(In thousands)

	Fiscal Years December 2, 2017	December 3, 2016	November 28, 2015
Net income including non-controlling interests	**$58,290**	$ 124,382	$ 87,097
Other comprehensive income (loss)			
Foreign currency translation	**29,288**	(33,855)	(62,776)
Defined benefit pension plans adjustment, net of tax	**34,930**	(1,701)	(15,871)
Interest rate swaps, net of tax	**1,894**	41	40
Other cash-flow hedges, net of tax	**(4,047)**	42	(1,342)
Other comprehensive income (loss)	**62,065**	(35,473)	(79,949)
Comprehensive income	**120,355**	88,909	7,148
Less: Comprehensive income attributable to non-controlling interests	**39**	226	400
Comprehensive income attributable to H.B. Fuller	**$120,316**	$ 88,683	$ 6,748

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS
H.B. Fuller Company and Subsidiaries
(In thousands, except share and per share amounts)

	December 2, 2017	December 3, 2016
Assets		
Current assets:		
Cash and cash equivalents	$***194,398***	$*142,245*
Trade receivables, net	***473,700***	*351,130*
Inventories	***359,505***	*247,399*
Other current assets	***117,389***	*70,479*
Total current assets	***1,144,992***	*811,253*
Property, plant and equipment, net	***670,194***	*515,275*
Goodwill	***1,336,684***	*366,248*
Other intangibles, net	***1,001,792***	*205,359*
Other assets	***206,984***	*157,733*
Total assets	$***4,360,646***	$*2,055,868*
Liabilities, redeemable non-controlling interest and total equity		
Current liabilities:		
Notes payable	$***31,468***	$*37,334*
Current maturities of long-term debt	***21,515***	*80,178*
Trade payables	***268,467***	*162,964*
Accrued compensation	***84,903***	*52,444*
Income taxes payable	***14,335***	*7,985*
Other accrued expenses	***84,225***	*50,939*
Total current liabilities	***504,913***	*391,844*
Long-term debt	***2,398,927***	*585,759*
Accrued pension liabilities	***71,205***	*73,545*
Other liabilities	***341,581***	*62,174*
Total liabilities	***3,316,626***	*1,113,322*
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	**-**	*4,277*
Equity:		
H.B. Fuller stockholders' equity:		
Preferred stock (no shares outstanding) Shares authorized – 10,045,900	**-**	-
Common stock, par value $1.00 per share, Shares authorized – 160,000,000, Shares outstanding – 50,388,839 and 50,141,343, for 2017 and 2016, respectively	***50,389***	*50,141*
Additional paid-in capital	***74,662***	*59,564*
Retained earnings	***1,119,231***	*1,090,900*

Accumulated other comprehensive loss	***(200,655***)	*(262,729*)
Total H.B. Fuller stockholders' equity	***1,043,627***	*937,876*
Non-controlling interests	***393***	*393*
Total equity	***1,044,020***	*938,269*
Total liabilities, redeemable non-controlling interest and total equity	**$*4,360,646***	$*2,055,868*

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF TOTAL EQUITY
H.B. Fuller Company and Subsidiaries
(In thousands)

	H.B. Fuller Company Shareholders					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
Balance at November 29, 2014	$ *50,311*	$ *53,269*	$ *933,819*	$ *(147,352)*	$ *403*	$ *890,450*
Comprehensive income (loss)	-	-	*86,680*	*(79,932)*	*400*	*7,148*
Dividends	-	-	*(25,891)*	-	-	*(25,891)*
Stock option exercises	*234*	*4,397*	-	-	-	*4,631*
Share-based compensation plans other, net	*83*	*15,159*	-	-	-	*15,242*
Tax benefit on share-based compensation plans	-	*1,433*	-	-	-	*1,433*
Repurchases of common stock	*(554)*	*(18,736)*	-	-	-	*(19,290)*
Non-controlling interest assumed	-	-	-	-	*14,197*	*14,197*
Recognition of non-controlling interest redemption liability	-	-	-	-	*(11,773)*	*(11,773)*
Purchase of non-controlling interest	-	-	-	-	*(2,424)*	*(2,424)*
Non-controlling interest	-	-	-	-	*(76)*	*(76)*
Redeemable non-controlling interest	-	-	-	-	*(321)*	*(321)*
Balance at November 28, 2015	$ *50,074*	$ *55,522*	$ *994,608*	$ *(227,284)*	$ *406*	$ *873,326*
Comprehensive income (loss)	-	-	*124,128*	*(35,445)*	*226*	*88,909*
Dividends	-	-	*(27,836)*	-	-	*(27,836)*
Stock option exercises	*519*	*10,750*	-	-	-	*11,269*
Share-based compensation plans other, net	*116*	*14,485*	-	-	-	*14,601*
Tax benefit on share-based compensation plans	-	*1,467*	-	-	-	*1,467*
Repurchases of common stock	*(568)*	*(22,660)*	-	-	-	*(23,228)*
Redeemable non-controlling interest	-	-	-	-	*(239)*	*(239)*
Balance at December 3, 2016	**$** ***50,141***	**$**				