

translating  
ideas...



## Financial Overview

(in millions, except per share amounts)

	2004	2003	2002
Net sales from continuing operations	\$5,340.9	\$4,762.6	\$4,155.9
Net income	279.7	267.9	257.2
Net income as a percent of sales	5.2	5.6	6.2
Net income per common share, assuming dilution	\$ 2.78	\$ 2.68	\$ 2.59
Dividends per common share	1.49	1.45	1.35
Capital expenditures	205.7	201.4	150.4
Return on average shareholders' equity (percent)	19.9	22.3	25.7

*The photographs on the front cover and inside front cover of this annual report feature members of a Horizon 1 growth team at the Company's retail information services business. The team successfully developed a global garment ticketing program that enables retail and apparel manufacturing customers to easily comply with new industry "Color-for-Size" standards. Thank you to the following Avery Dennison employees who appear in the photographs: Kim Macaulay (front cover), Cathy Coggins, Doug Kivett, Jill Coleman, Rhonda Aghassi, Scott Jones and Steven Wall (inside front cover). Team members not pictured: Bobby Pruitt and Thomas Lam.*



## into action

In 2004, Avery Dennison transformed concepts, technologies and processes into bold new drivers of business growth.

**\$5.3**

billion  
in  
sales

**21,400**

employees  
worldwide

**1,600**

Six Sigma  
trained  
Green Belts,  
Black Belts  
and  
Master Black Belts

**1,000**

Horizon 1  
Projects

operations  
in

**47**

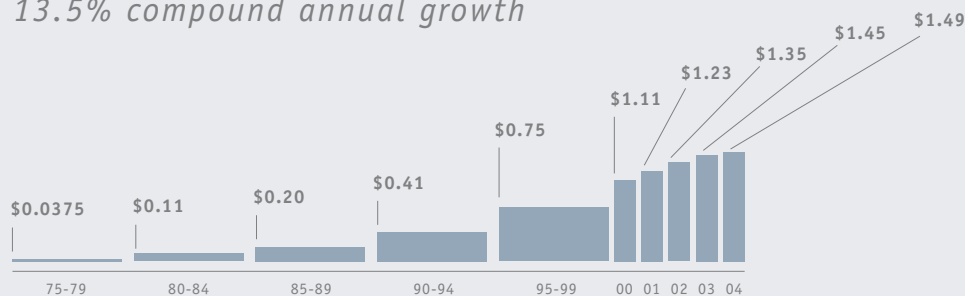
countries

more than

**275**

sites

*29 consecutive years of  
dividend increases...  
13.5% compound annual growth*



**Dear Fellow Shareholders:**

Avery Dennison reported improved results in 2004, achieving accelerated sales growth over the prior year with annual revenue surpassing the \$5 billion mark for the first time.

We generated record cash flow and strong top-line growth, while reaching a key milestone as we completed the integration of operations from the 2002 acquisition of Jackstädt. Even with these impressive accomplishments, we faced a number of challenges, including operating margin pressure, partly due to rising raw material costs, and previously announced antitrust investigations.

Notwithstanding the challenges, our business was strengthened during the year, and the future looks promising. Our 2004 results demonstrate that our expanding portfolio of businesses and broad geographic presence are effectively driving both short-term financial results and long-term value creation.

**LEADERSHIP AND GROWTH**

In 2004, we maintained leading market positions in all of our key businesses – pressure-sensitive paper and film roll materials, printable media and supplies for the office and consumer products market, and tickets, tags and labels for the retail apparel industry. To further drive our top-line sales growth, we focused on key growth initiatives – investing in emerging markets, identifying opportunities to create new businesses and developing new products and applications for our core markets. We are committed to expanding our fast-growth businesses through superior service and product innovation.

Our Horizons growth program is our premier initiative for achieving top-line growth. Horizons is a disciplined process for accelerating sales growth by developing a steady pipeline of new products and services, as well as identifying

new business ideas. This approach, now in its third year, has energized our Company by allowing employees to find solutions to business development challenges in nontraditional ways.

The Horizons Program has fostered a renewed emphasis on collaboration – of knowledge, resources, and action across divisional boundaries – that highlights the theme of this year’s annual report, which illustrates how the translation of expertise across functions is leading to operational and financial success. Since we started the program in 2003, our teams have created and launched more than 1,000 Horizon 1 projects, generating millions of dollars in revenue from products and services they developed.

#### BRINGING IT ALL TOGETHER

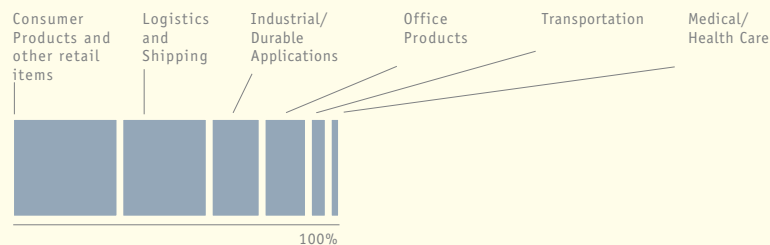
In 2004, a number of important initiatives began to bear fruit, contributing significantly to our improving operational and financial performance. Specifically, in 2004 we completed the two-year integration of our Jackstädt acquisition, enabling our worldwide roll and graphics materials businesses to optimize their regional and global scale. We expanded our retail information services business with the acquisition of woven label manufacturer Rinke Etiketten, based in Germany. We are now able to supply a complete portfolio of in-house brand identification products, including high-quality woven labels, to our apparel manufacturing customers throughout the world.

In keeping with our ongoing goal to improve productivity, our Six Sigma program continues to provide the foundation for driving significant productivity improvement in both operational and transactional processes across the Company. Along with Six Sigma, we have implemented Lean Manufacturing principles at many of our facilities to reduce waste and process redundancies and to maximize efficiency.

#### EMERGING OPPORTUNITIES

Eleven years ago, we made a strategic decision to increase significantly our ongoing investment in Asia in order to establish a more substantial foothold in the growing markets across the region. Since then we also have expanded our operations serving

#### 2004 Sales by End-User Markets



developing markets located in Latin America and Eastern Europe. Today, approximately 20 percent of the Company's total sales are generated in these fast-growing economies, and that major commitment of resources to these emerging markets is providing excellent returns.

Sales growth for our pressure-sensitive materials business in China has been particularly robust, with an average annual rate exceeding 30 percent during the last four years. China continues to offer a vast potential market for our products, from pressure-sensitive roll labeling materials for packaging and office products to specialty tapes for disposable diapers, reflective materials for highway signs and commercial graphics materials. In response to the increasingly important role of the Chinese market and the entire Asian region, we have started a multiyear project to build a world-class research and development center in China. Our new Asian Technical Center will provide enhanced technical productivity and localized product development support to our growing businesses in the region.

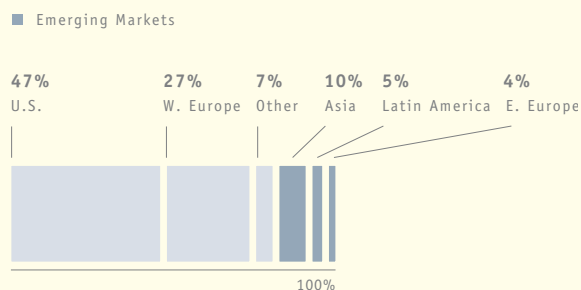
Emerging markets, with their accelerating consumer economies, are a top priority for us. We plan to invest in new markets with future potential, such as India and Russia, that are poised for significant growth resulting from an anticipated increase in demand for our pressure-sensitive labeling materials.

#### GEARING UP FOR RFID

One of our most important forward-looking initiatives is the development of our radio frequency identification (RFID) business. As more businesses of all types realize that RFID technology is a necessary component to improve their supply chain management, they are discovering that a pressure-sensitive label is the ideal vehicle for carrying RFID chips and antennas. Producing RFID label materials fits perfectly into the core of Avery Dennison operations, already one of the world's largest producers of pressure-sensitive materials for labels.

### 2004 Sales by Region

(before elimination of sales between regions)





We announced in 2004 the formation of a new business dedicated to the manufacturing and marketing of RFID labels and inlays, from which label converters will produce RFID labels. By marketing RFID labels and inlays to our label converter customers, we expect our materials will meet the needs of diverse end-user markets, such as retail, pharmaceutical and packaged goods companies. Very few companies offer the precision-based, high-volume manufacturing capability that is truly one of our areas of expertise.

#### **COMPETITIVE ADVANTAGES**

We continue to build sustainable competitive advantage in our key markets. In retail consumer merchandising, our Fasson brand of pressure-sensitive labeling materials enjoys a leading role in providing advanced packaging and product identification solutions to the marketplace. These markets are approximately 50 percent penetrated with pressure-sensitive label materials, offering significant growth potential for those suppliers who are able to solve difficult production challenges. To that end, we recently have worked with a major label converter and beverage producer to provide a premium packaging solution for beer bottles – a clear, thin film that conveys a new, upscale look for one of its flagship beer brands. This consumer-driven appeal is transforming the concept of beer label design and reinforcing the value of pressure-sensitive labeling materials.

The Avery brand continues to be a leader in the office and consumer products category. Avery-brand printable media products are known throughout the world for their superior quality, ease of use, reliability and compatibility with virtually all personal computers and desktop printers.

Our retail and apparel manufacturing customers rely on Avery Dennison's retail information services business to provide an extensive portfolio of brand identification products, as well as state-of-the-art data management services available on a global basis wherever apparel is manufactured. We anticipate further strong growth in this area as the demand for on-time and accurate delivery of goods and services in complex production environments continues to escalate.

#### **TRANSITIONS**

As this Annual Report goes to press, we are pleased to report that the board of directors has elected Dean A. Scarborough as the next chief executive officer of the Company, effective May 1, 2005. Dean succeeds Phil Neal, who has served as CEO since 1998 and has worked at Avery Dennison for more than 30 years. Phil will remain in his role as chairman of the board until May 1, 2006. Dean, a 21-year veteran of Avery Dennison, has served as president and chief operating officer for the past five years. Before that, he held a variety of progressively responsible senior management, marketing and operations positions, both in the U.S. and overseas. We look forward to the talented leadership and strategic vision that Dean will provide to our Company in the years to come.

In 2004, we were pleased to announce the additions of John T. Cardis and Rolf Börjesson as directors of the Company, further strengthening what is already an outstanding board of directors. John's many years of leadership and management experience at Deloitte & Touche USA LLP will serve us well in the years ahead, as will Rolf's superb strategic instincts and valuable international business expertise derived from his years of experience at the helm of several of the world's premier consumer packaging firms.

Additionally, we note with great respect the retirements of Charles D. Miller and Frank V. Cahouet from our board of directors, effective April 28, 2005. Our profound gratitude goes to Chuck for his superb leadership and counsel during 30 years of service on the board, and to Frank for his many contributions during the 22 years he has served as a board member. We are pleased to announce that Chuck, former chairman and CEO of Avery Dennison, will become a director emeritus of the board upon his retirement, enabling us to continue to benefit from his intelligent and knowledgeable insights about the Company for many years to come.

#### LOOKING AHEAD

We will continue to build on the business fundamentals in 2005 that have made this Company so strong over the years: a commitment to our customers to provide the highest quality solutions available, and a commitment to our shareholders to increase the value of their investment in Avery Dennison over the long term.

As always, the success of our initiatives will reflect the efforts of our remarkable workforce – extremely talented people who exceed our expectations with their dedication, innovation and enthusiasm to make our goals and strategies a reality, while adhering to the highest ethical standards. Integrity is one of Avery Dennison's core values, the importance of which is being underscored as we expand our efforts to reinforce our values with employees worldwide.

As we look forward to another productive and successful year in 2005, we want to thank all of our stakeholders – employees, shareholders, business partners and customers – for your continued support throughout the year.



Philip M. Neal  
Chairman and Chief Executive Officer



Dean A. Scarborough  
President and Chief Operating Officer

March 7, 2005







translating  
needs

Spring  
Sale  
10 - 30%



into

## products

Creativity, energy and innovation are powerful drivers to building and managing growth. Our Horizons growth program provides the framework and process for doing just that, with impressive results – like bringing our new Avery Sign Kit to market in record time.

This revolutionary do-it-yourself product gives consumers the ability to get a sign-shop look from their desktop printers. A significant new platform, this signage product has tremendous growth potential across many channels. So, a Horizon 1 team stepped up to the challenge of expediting the complex process of getting the product into distribution – with outstanding results accomplished within a short 100-day timeframe.

Innovation and technical expertise fuel our Horizons program and much of Avery Dennison's growth. It's why meeting consumers' needs – and do-it-yourself signs – will never be the same.



Avery Dennison 2004

translating  
dreams





into

## possibilities

Not all innovations can be created and launched in 100 days. Our Horizon 2 program is designed for products that need a little more development time: on the order of 18 to 24 months.

Consider our Avloy product, a dry paint film application that is used on a wide variety of automobiles, including the running boards of Chevrolet's new SSR Sport Utility Vehicle. Drawing on elements from this technology, a Horizon 2 team created a new application for something completely unrelated to automobiles – T-shirts. Our new ComfortTag product features a heat transfer technology that enables garment manufacturers to apply a label directly onto the fabric, resulting in the highest level of comfort for consumers.

Consider the possibilities.



transl  
labels

1. **What is the main purpose of the study?**  
 2. **What are the research objectives?**  
 3. **What is the significance of the study?**  
 4. **What are the limitations of the study?**

Indium Corporation  
20000 15th Avenue  
Boulder, CO 80501  
303-440-1000

Copyright © 2004  
 by the author  
 All rights reserved.

Debra L. Jorgensen  
30 West Kimbark Street  
21 Pompano Beach,  
Florida 33062, USA  
Tel: 954-781-1111

[illegible]

800-368-5868  
 477-6710 ext. 2000  
 101 Madison Road  
 Fort Mill, SC 29504

© 2004 Blackwell Publishing Ltd  
Journal of Internal Medicine 255: 105–112

James H. Thompson  
at 1700 Dec. 17th - 18th St.  
2nd St. Detroit  
Michigan 48206

1999

Harvey Diamond  
 5750120, Avenue de France  
 66100 Perpignan  
 France, Tel. 0769 20 00 00

[Home](#)
[About Us](#)
[Contact Us](#)

Stephen Bunt  
 2015-2016: 2015-2016  
 2016-2017: 2016-2017  
 2017-2018: 2017-2018

1. *Journal of the American Medical Association*, 1997; 277: 103-107.  
 2. *Journal of the American Medical Association*, 1997; 277: 108-112.  
 3. *Journal of the American Medical Association*, 1997; 277: 113-117.  
 4. *Journal of the American Medical Association*, 1997; 277: 118-122.

Multi-Component Learning  
of Patterns: Wang, Woodhouse,  
JML: Submitted (2014)  
Springer, 2014 (2014)

1. The first step is to identify the problem.

Copyright Clearance Center  
222 Rosewood Drive, Danvers, MA 01923  
978-750-8400  
www.copyright.com

1. **Introduction**  
 2. **Background**  
 3. **Methodology**  
 4. **Results**  
 5. **Conclusion**

Amphibious Productions  
P.O. Box 2004, Westborough  
MA 01581  
www.amphibious.com

1. *Journal of the American Medical Association*, 1997; 277: 1001-1005.

Journal of Interpersonal Violence 27(12)  
doi:10.1177/0886260512450000  
© The Author(s) 2012  
Reprints and permissions:  
sagepub.com/journalsPermissions.nav

100% Satisfaction  
 100% Satisfaction  
 100% Satisfaction  
 100% Satisfaction

George F. Johnson, Inc.  
 401 E. W. 10th, Jersey Gardens  
 Newark, N.J. 07104  
 (201) 791-4000

© 2000 Blackwell Science Ltd  
Journal of Internal Medicine 247: 105–112

Steve Weinberg  
 281 West 11th Street  
 111 Canal Street, 11th Floor  
 New York, NY 10038

[Download](#)  
[View](#)  
[Share](#)

**WISCONSIN**  
**ARMED AND DANGEROUS**  
**ed. by Robert J. Long**  
 (University of Wisconsin Press, 1992, \$24.95)

© 2004 Blackwell Publishing Ltd  
Journal of Internal Medicine 255: 103–110

Electronic Security/Disruption  
of Electronic Security (ESD)

1. **Introduction**  
 2. **Background**  
 3. **Methodology**  
 4. **Results**  
 5. **Conclusion**

Robert J. and Susan Friedman  
ATTN: JEFFREY HALL, Manager  
500 University Avenue  
New Haven, CT 06510

1. [Home](#)

Supply noted above.  
 HTD-0506: Daily Location  
 till East end stream.

114

ATTENTION: Suppliers Only



© 2004 Blackwell Publishing Ltd  
Journal of Internal Medicine 255: 103–110



## into data

The label as we know it is on the threshold of a new era. Labels will continue to communicate information, but now, in an entirely new way.

Welcome to the growing world of RFID, where the technology behind radio frequency identification is revolutionizing the way we collect, manage and use information, particularly in today's complex global supply chains.

This new technology will enable businesses everywhere to closely manage and monitor the myriad shipments of products from the original manufacturing site through the shipping process to the warehouse and ultimately the retail sales floor. Avery Dennison is poised to become a leading provider of materials for the millions of RFID labels that will be needed.

translating  
scale





## into markets

As one of the world's leading manufacturers of pressure-sensitive roll label materials, the entire world is Avery Dennison's market. From papers to films and foils, we have long been the supplier of choice to global enterprises for their label material needs.

We play a vital role in emerging markets – Asia, Latin America and Eastern Europe – those regions of the world in which consumer-driven economies are starting to take hold. When individual consumers gain power through their ability to choose what they buy, product packaging takes on a new importance as attractive labels influence the purchasing decision. Global manufacturers demand a consistent, high-quality label that provides product information, instructions for use and eye-catching graphics.





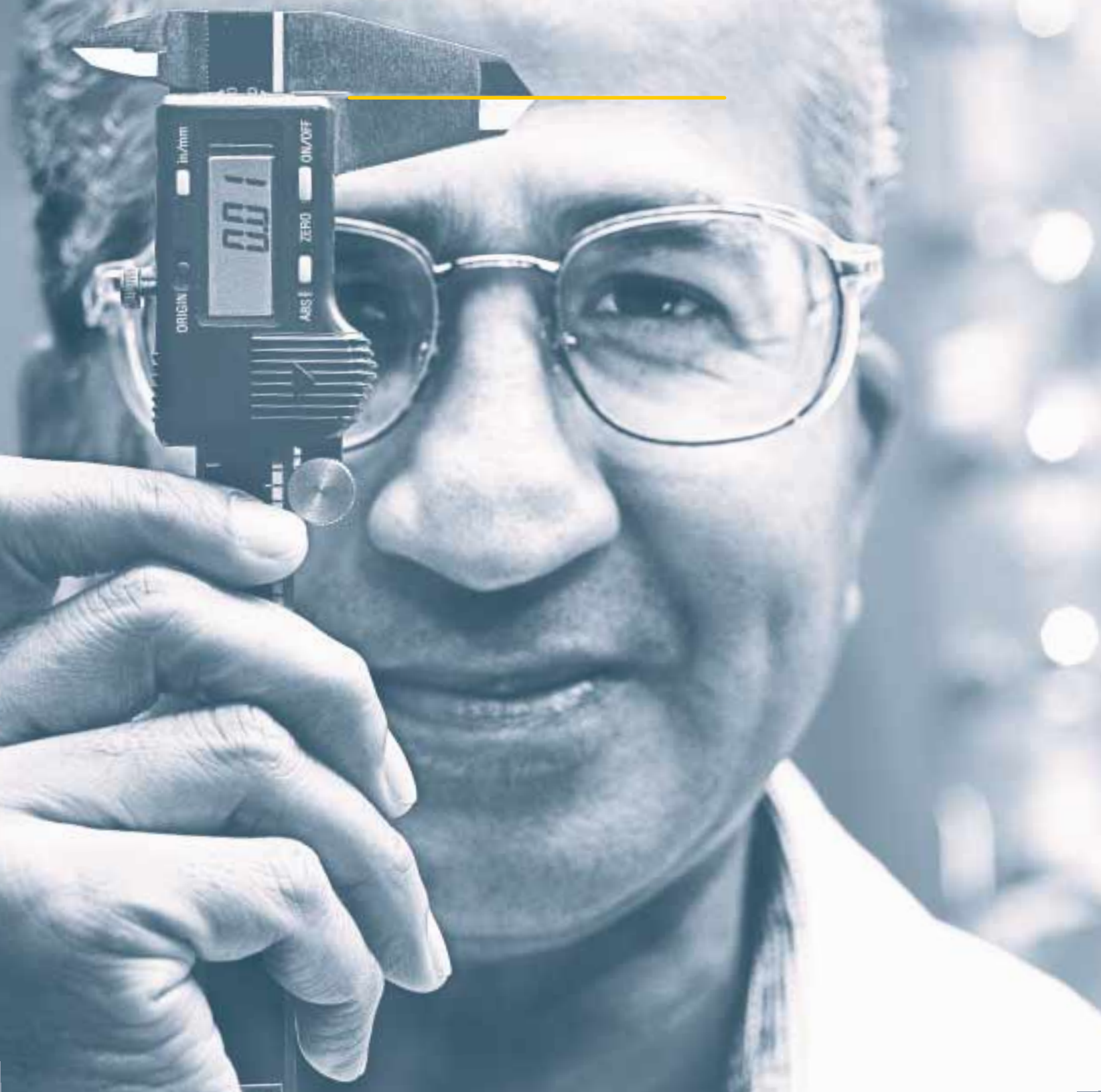


## into profits

Eliminate defects. Prevent waste. Improve productivity. These are lofty, but common goals shared by manufacturers everywhere, regardless of their end product.

Avery Dennison has implemented a comprehensive approach to achieving these goals by applying Six Sigma and Lean Manufacturing principles throughout the Company. Our Six Sigma program is a disciplined approach to making and sustaining process improvements that reduce variation and continuously improve the way we operate. Combined with Lean Manufacturing, which focuses on streamlining business processes, our productivity improvement efforts are a resounding success. Our customers benefit, and so do we.

translating  
technology





into

## opportunity

A label requires more than just glue. The beer industry previously relied on traditional, glue-based paper labels for its bottles. However, as beverage manufacturers expand the requirements and stringent performance standards for label functionality, pressure-sensitive adhesive material has surfaced as the preferred choice.

We worked with Spear, a leading label converting company, to develop a specialized, pressure-sensitive clear film for labels on Anheuser-Busch's well-known Bud Light brand, not just because our product has a crisp, clean look, but because it is able to withstand a variety of harsh environments. As Bud Light bottles pass through the pasteurization process, the label must be resistant to moisture and high temperature – it cannot detach, change color or become cloudy or hazy.

The result is a remarkable opportunity.



and  
complex





## into order

There are many components that constitute a company's brand – identity, market reputation, packaging and, not least, consumer expectations. None of these matter if the product is not delivered in the right condition to the right location at the right time. Making this happen requires a symphony of technological and human elements, each doing its part in harmony with one another at every step along the supply chain.

At Avery Dennison, our retail information services business focuses on serving the retail and apparel manufacturing industries with a full portfolio of brand identification, information management and solution-enabling products. We offer products and services that are critical to the shipping, distribution, marketing and product branding requirements of our retail and apparel customers. Our goal is to ensure that both consumers and manufacturers have the brand experience they want and expect.



expanding  
businesses



PRESSURE-SENSITIVE MATERIALS

*Our pressure-sensitive materials offer superior options for durability, flexibility and creative design for consumer product labels, commercial graphics applications and reflective road signs.*

**FASSON®**

In 2004 we proudly marked the 50th anniversary of the Fasson brand. We introduced a new, global film-labeling product for diverse markets around the world. We received a prestigious certification from the State of Ohio Occupational Safety and Health Administration for our excellent safety record. We supplied graphics materials for colorful building wraps on high-visibility structures around the world, and we provided reflective films for police vehicles in South Africa and China, as well as highway signage in countries throughout the world.

RETAIL INFORMATION SERVICES

*We are capitalizing on new opportunities for growth in supply chain management and brand identification.*



We provided powerful solutions to our retail and apparel manufacturer customers, as more customers embraced InfoChain Express, our state-of-the-art data management product, as a key supply chain management tool. We introduced ComfortTag heat transfer labels that are ideal for undergarments and active-wear clothing where user comfort is a top priority, as well as a new RFID Ticket Express Service Bureau and a complete line of RFID-compatible printers.



#### OFFICE AND CONSUMER PRODUCTS

*The Avery brand continues to provide innovative printer media and organizational products to consumers in the home, school and office.*



We introduced the Avery Personal Label Printer for fast printing of one or more labels and the Avery Quick Peel Automatic Label Peeler to efficiently peel and apply labels printed on a desktop laser printer. We expanded our Avery Photo ID System product line with new ID badge supplies and accessories, as well as a new version of software. The Avery PRS Selection system has repositioned our binder, sheet protector and divider products on retail shelves by function – presentation, reference and storage – making it more convenient for consumers to select and purchase office products.

#### OTHER SPECIALTY CONVERTING BUSINESSES

*Our technological capabilities include converting pressure-sensitive materials into specialized products and applications worldwide.*



In 2004, we printed a record 10 billion self-adhesive stamps for the U.S. Postal Service and we launched Avery Fun Stamps, a new product that allows consumers to create their own customized postage labels featuring a personal digital photo. We produced fully functional, next-generation RFID inlays and labels. We created innovative adhesive tapes for high-strength industrial fastening and bonding and a new specialty tape for a diaper closure system using a stretchable laminate. We continued to produce a variety of customized wound care products for the medical market.

## global marketplace



Throughout the world, wherever you look, you can find Avery Dennison products – on your favorite wine or beer, hair-care products, household cleaning products, reflective street signs, self-adhesive postage stamps, apparel tags, food packaging, supplies for your office, home or school ... the list is virtually endless.

Seventy years ago, Avery Dennison pioneered the pressure-sensitive industry by developing the world's first self-adhesive label. Today, as a global leader in pressure-sensitive technology, we thrive on recognizing market needs, coming up with fresh ideas and solving the technical challenges – everywhere in the world.



## our businesses

## at a glance

2004 Sales by Business

56%



## PRESSURE-SENSITIVE MATERIALS

Pressure-sensitive Materials consist of Fasson-brand roll materials, graphics and reflective materials, performance polymers and engineered films. Roll materials are used in brand identity, barcode labeling systems, product identification and other applications by label converters and consumer products package designers and manufacturers. Graphics and reflective materials are used in traditional screen printing, offset printing, wide-format digital printing and sign-making to serve the graphic arts, vehicle marking, transportation and highway-safety industries. Performance polymers are an extensive line of water-based and solvent-based pressure-sensitive adhesives used in film and paper labels; graphic films; specialty automotive and industrial tapes; and protective films for windows and consumer goods. Locations: North America, Europe, Latin America, Asia Pacific and South Africa.

22%



## OFFICE AND CONSUMER PRODUCTS

Office and Consumer Products manufactures a wide range of products for home, school and office including Avery-brand self-adhesive labels, content and template software, binders, sheet protectors, dividers, writing instruments, cards, security badge systems and do-it-yourself signage. Locations: North America, Europe, Latin America, Asia Pacific and South Africa.

12%



## RETAIL INFORMATION SERVICES

Retail Information Services designs, manufactures and sells a variety of price marking and brand identification products for retailers, apparel manufacturers, distributors and industrial customers worldwide. These include woven and printed labels, heat transfers, graphic tags, patches, integrated tags, price tickets, custom hard and soft goods packaging, barcode printers, software solutions, molded plastic fastening and application devices, as well as service bureau, printing applications for supply chain and security management. Locations: North America, Europe, Latin America, Asia Pacific and South Africa.

10%



## OTHER SPECIALTY CONVERTING BUSINESSES

This group consists of several different businesses. The specialty tapes business produces technically advanced pressure-sensitive tapes that are used by industrial fabricators, original equipment manufacturers, medical device manufacturers and in disposable diaper products. The industrial and automotive products business manufactures high-quality converted materials, such as decorative automotive interior films and long-life paint replacement films, as well as self-adhesive postage stamps and battery labels. The radio frequency identification (RFID) business, which is now part of this group as of the beginning of 2005, produces RFID inlays and labels for label converters who supply pressure-sensitive labels to diverse end-user markets. Locations: North America, Europe, Latin America and Asia Pacific.

## Five-Year Summary

(Dollars in millions, except per share amounts)	5 Year Compound Growth Rate	2004(1)		2003(2)		2002(3)		2001(4)		2000			
		Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%		
For the Year													
Net sales	7.5%	\$ 5,340.9	100.0	\$ 4,762.6	100.0	\$ 4,155.9	100.0	\$ 3,755.5	100.0	\$ 3,845.0	100.0		
Gross profit	4.5	1,579.5	29.6	1,458.0	30.6	1,335.6	32.1	1,223.0	32.6	1,315.3	34.2		
Marketing, general and administrative expense(5)	5.9	1,112.4	20.8	1,034.1	21.7	904.5	21.8	823.0	21.9	843.3	21.9		
Interest expense(5)	5.4	58.5	1.1	58.5	1.2	44.7	1.1	51.0	1.4	56.8	1.5		
Income from continuing operations (before taxes)	3.1	373.4	7.0	334.9	7.0	354.3	8.5	349.3	9.3	415.2	10.8		
Taxes on income	(3.4)	93.7	1.8	92.1	1.9	104.5	2.5	113.0	3.0	139.1	3.6		
Income from continuing operations	6.0	279.7	5.2	242.8	5.1	249.8	6.0	236.1	6.3	276.1	7.2		
Income from discontinued operations, net of tax	N/A	—	N/A	25.1	N/A	7.4	N/A	7.1	N/A	7.4	N/A		
Net income	5.4	279.7	5.2	267.9	5.6	257.2	6.2	243.2	6.5	283.5	7.4		
		5 Year Compound Growth Rate		2004		2003		2002		2001		2000	
Per Share Information													
Income per common share from continuing operations				5.8%	\$ 2.80	\$ 2.45	\$ 2.54	\$ 2.42	\$ 2.81				
Income per common share from continuing operations, assuming dilution				6.2	2.78	2.43	2.51	2.40	2.77				
Net income per common share				5.2	2.80	2.70	2.61	2.49	2.88				
Net income per common share, assuming dilution				5.5	2.78	2.68	2.59	2.47	2.84				
Dividends per common share				8.5	1.49	1.45	1.35	1.23	1.11				
Average common shares outstanding				.1	99.9	99.4	98.5	97.8	98.3				
Average common shares outstanding, assuming dilution				(.2)	100.5	100.0	99.4	98.6	99.8				
Book value at fiscal year end				13.5	\$ 15.47	\$ 13.24	\$ 10.64	\$ 9.49	\$ 8.49				
Market price at fiscal year end				(3.8)	59.97	54.71	59.05	56.20	54.88				
Market price range					54.90 to 65.78	47.75 to 63.51	52.86 to 69.49	44.39 to 60.24	43.31 to 78.00				
At Year End													
Working capital(5)					\$ 155.1	\$ (56.1)	\$ (85.3)	\$ 27.4	\$ 178.0				
Property, plant and equipment, net(5)					1,381.0	1,294.0	1,184.4	1,060.0	1,064.5				
Total assets(5)					4,399.3	4,118.1	3,652.4	2,909.6	2,766.3				
Long-term debt					1,007.2	887.7	837.2	626.7	772.3				
Total debt					1,211.7	1,180.3	1,144.2	849.7	826.6				
Shareholders' equity					1,548.7	1,318.7	1,056.4	929.4	828.1				
Number of employees					21,400	20,300	20,500	17,300	17,900				
Other Information													
Depreciation expense					\$ 147.2	\$ 143.9	\$ 125.1	\$ 122.1	\$ 124.0				
Research and development expense					82.3	74.8	74.5	69.9	67.8				
Effective tax rate					25.1%	27.5%	29.5%	32.4%	33.5%				
Long-term debt as a percent of total long-term capital					39.4	40.2	44.2	40.3	48.3				
Total debt as a percent of total capital					43.9	47.2	52.0	47.8	50.0				
Return on average shareholders' equity (percent)					19.9	22.3	25.7	27.4	34.6				
Return on average total capital (percent)					13.4	14.3	15.8	16.2	19.6				

(1) Results for 2004 include a pretax charge of \$35.2 of restructuring costs, asset impairment and lease cancellation charges. Results for 2004 reflect a 53-week period.

(2) Results for 2003 include a net pretax charge of \$30.5 for restructuring costs, asset impairment and lease cancellation charges and net losses associated with several product line divestitures, partially offset by a gain from settlement of a lawsuit. Additionally, results for 2003 included a pretax gain on sale of discontinued operations of \$25.5.

(3) Results for 2002 include a pretax charge for asset impairment and lease cancellation charges of \$21.4, as well as a pretax charge of \$10.7 related to severance.

(4) Results for 2001 include a pretax gain of \$20.2 for the sale of the Company's specialty coatings business and a pretax cost reduction charge of \$19.9.

(5) Certain amounts for prior years were reclassified to conform with the current year presentation.

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

### ORGANIZATION OF INFORMATION

Management's Discussion and Analysis provides a narrative concerning our financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

• Overview and Outlook .....	27
• Analysis of Results of Operations .....	30
• Results of Operations by Operating Segment .....	33
• Financial Condition .....	35
• Related Party Transactions .....	40
• Critical Accounting Policies and Estimates .....	40
• Recent Accounting Requirements .....	42
• Risk Factors (Safe Harbor Statement) .....	42
• Market-Sensitive Instruments and Risk Management .....	43

### OVERVIEW AND OUTLOOK

Our sales from continuing operations increased 12 percent in 2004 to \$5.34 billion compared to 2003. Net income and diluted earnings per share increased \$11.8 million and \$.10 per share, respectively.

The increase in sales was due to growth in core unit volume and the benefit of foreign currency translation.

Core unit volume grew an estimated 8 percent in 2004. (Core unit volume growth is a measure of sales performance that excludes the estimated impact of acquisitions, divestitures, changes in product mix and pricing, and currency translation. We use this measure to evaluate underlying demand for our products and services, and to assess sales trends over time.) Growth in core unit volume was due to generally improved economic conditions and growth in the emerging markets of Asia, Latin America and Eastern Europe, as well as the benefit from new products and applications (due in part to our growth acceleration program, "Horizons"), an extra week in the 2004 fiscal year and accelerated purchases by Office and Consumer Products customers in advance of our 2005 selling price increases.

Net income increased 4 percent in 2004 compared to 2003.

#### *Positive factors included:*

- Higher sales
- Cost savings from productivity improvement initiatives, including the closure of two European plants during the first six months of 2004
- A lower effective tax rate
- Foreign currency translation

#### *Negative factors included:*

- Restructuring and asset impairment charges (totaling \$35.2 million pretax) taken in the first six months of 2004, almost entirely due to the Jackstädt GmbH ("Jackstädt") integration
- Declining selling prices during the first half of the year
- Incremental spending on growth initiatives, including the development of our radio frequency identification ("RFID") business
- Higher pension, medical and insurance costs
- The impact of rising raw material costs, partially offset by associated selling price increases
- Segment mix (faster growth in the segments with lower operating margin)

*As a result of the divestiture of our package label converting business in Europe in October 2003 (discussed below in "Acquisitions and Divestitures"), the discussions which follow generally reflect summary results from our continuing operations unless otherwise noted. However, the net income and net income per share discussions include the impact of discontinued operations.*

During the fourth quarter of 2004, we reorganized our reporting segments to reflect the growth in our retail information services business, which now represents over 10 percent of our total sales. This reorganization is in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," and provides enhanced transparency of our operational results. The new segments are based upon the types of products, markets served by each segment, methods of manufacturing and distribution, and the economic characteristics of the businesses in each segment. This change has had no effect on the way we operate or manage our businesses.

#### *The newly reorganized segments are:*

- Pressure-sensitive Materials – manufactures and sells pressure-sensitive roll label materials, films for graphic applications,

reflective highway safety products, performance polymers (largely adhesives used to manufacture pressure-sensitive materials), and extruded films

- Office and Consumer Products – manufactures and sells a variety of office and consumer products including labels, binders, dividers, sheet protectors, and writing instruments
- Retail Information Services – designs, manufactures and sells a wide variety of price marking and brand identification products, including tickets, tags and labels, and related supplies and equipment

In addition to our reportable segments, we have other specialty converting businesses comprised of several businesses that produce specialty tapes, highly engineered labels and other converted products.

**Summary Results by Operating Segment**  
*Pressure-sensitive Materials (56 percent of net sales)*

Our Pressure-sensitive Materials segment reported a 17 percent increase in sales in 2004 compared to 2003. Approximately two-thirds of the incremental sales was due to an increase in core unit volume, primarily reflecting stronger sales in North America and the emerging markets of Asia, Latin America and Eastern Europe. Volume growth in this segment was also due to market share gains and new applications, including new film products, as well as the benefit from an extra week in the 2004 fiscal year. The remaining one-third of the sales increase was due to the favorable impact of foreign currency translation.

Operating income (operating income refers to income before interest and taxes) for this segment increased \$42 million or 24 percent compared to 2003, reflecting cost savings from productivity improvement initiatives, including the closure of two European plants during the first six months of 2004. Operating income was negatively impacted by rising raw material costs which were partially offset by selling price increases implemented during the second half of the year. Operating income for this segment included a pretax charge of approximately \$34 million in 2004 compared to approximately \$14 million in 2003, related to restructuring costs and asset impairment charges associated with the Jackstädt integration.

*Office and Consumer Products (22 percent of net sales)*

Our Office and Consumer Products segment reported a slight increase in sales in 2004 compared to 2003. Sales in this segment were constrained by the previously announced share loss with one major customer and loss of sales from discontinued product lines, declining prices in the first half of the year, and the continued shift from branded to private label products. These decreases were offset by the favorable impact of foreign currency translation,

accelerated purchases by customers in advance of our 2005 selling price increases, and an extra week in the 2004 fiscal year.

Operating income for the Office and Consumer Products segment decreased \$2 million or 1 percent, due to lower selling prices and higher raw material costs, partially offset by cost savings from productivity improvement initiatives.

*Retail Information Services (12 percent of net sales)*

The Retail Information Services segment reported a 15 percent increase in sales in 2004 compared to 2003 reflecting core unit volume growth in Asia and geographic expansion in Latin America, as well as relatively weak results in 2003 related to slow industry conditions. Additionally, higher sales in this segment reflected the benefit of new products and applications, sales from small acquisitions made during the year, and the favorable impact of foreign currency translation.

Operating income for this segment increased \$24 million or 98 percent due to higher sales and cost savings from productivity improvement initiatives. Additionally, operating income for this segment in 2003 included a pretax charge of approximately \$7 million, related to restructuring costs and asset impairment charges.

*Other specialty converting businesses (10 percent of net sales)*

Other specialty converting businesses reported a 12 percent increase in sales in 2004 compared to 2003 due to core unit volume growth, as well as the favorable impact of foreign currency translation, partially offset by loss of sales from discontinued product lines. Operating income for these businesses increased \$8 million or 18 percent due to higher sales.

**Sales Growth by Region**

Excluding the impact of acquisitions, divestitures, and foreign currency translation, we estimate sales growth in major regions of operation as follows:

	2004	2003
U.S.	5%	1%
Europe	5%	4%
Asia	26%	15%
Latin America	19%	15%

**Impact of Currency Exchange Rates**

International operations generate approximately 50 percent of our net sales before the elimination of sales between regions. As a result, we are exposed to foreign currency exchange rate risk, and changes in foreign currency exchange rates impact our financial results. Foreign currency translation represented approximately \$207 million of the change in sales between 2004 and 2003 (approximately \$.08 of the change in our diluted earnings per share). Foreign currency translation represented approximately

\$235 million of the change in sales between 2003 and 2002 (approximately \$.14 of the change in our diluted earnings per share). The benefit from foreign currency translation reflected the strength of the Euro, British pound ("GBP"), Australian dollar and Canadian dollar against the U.S. dollar.

#### **Acquisitions and Divestitures**

During the third quarter of 2004, we acquired Rinke Etiketten, a privately held company in Germany, with annual sales of approximately \$25 million in 2003. The impact of this acquisition on our net sales was approximately \$9 million during 2004. This acquisition supports the growth in our Retail Information Services segment.

In October 2003, we completed the sale of our package label converting business in Europe, which consisted of two package label converting facilities in Denmark and a package label converting facility in France, which combined represented approximately \$30 million in sales in the first nine months of 2003. The results from this business have been accounted for as discontinued operations for 2003 and 2002.

#### **Cost Reduction Actions**

During the first six months of 2004, we completed the integration of the 2002 acquisition of Jackstädt into our other existing businesses. We closed a manufacturing facility in France during the first quarter and a manufacturing facility in Italy during the second quarter, and recorded restructuring charges associated with severance and asset impairments for each of these periods.

In the second quarter of 2004, we recorded pretax charges of \$13.8 million for severance and asset impairment charges. Ninety-five percent of these charges was associated with the completion of the Jackstädt integration. These charges were in addition to pretax charges in the first quarter of 2004 totaling \$21.4 million, also related to the Jackstädt integration.

In the fourth quarter of 2003, we recorded pretax charges totaling \$34.3 million associated with productivity improvement initiatives, as well as the integration of the Jackstädt acquisition described above. The productivity improvement initiatives included headcount reductions of approximately 420 positions, approximately half of which impacted the Office and Consumer Products segment. The remainder impacted the Pressure-sensitive Materials and Retail Information Services segments.

In connection with all of the integration and other cost reduction actions described above, we realized an estimated \$45 million of savings in 2004. Annualized savings associated with these actions are anticipated to be approximately \$50 million to \$60 million.

During the first quarter of 2005, we announced the pending closure of our Gainesville, Georgia label converting plant, which is

expected to provide an estimated \$8 million of annualized savings as we move production to lower cost facilities. Over the next few quarters, we will recognize restructuring charges and other transition costs associated with this action, estimated to be between \$9 million to \$11 million. The realization of savings from this action is expected to begin in the fourth quarter of 2005.

See also Note 10 "Components of Other Income and Expense," to the Consolidated Financial Statements for further detail.

#### **Operating Expenses, Interest and Taxes**

Marketing, general and administrative expenses increased 8 percent to \$1.11 billion in 2004 compared to \$1.03 billion in 2003 due to:

- Higher spending associated with volume growth
- Impact of foreign currency translation
- Additional spending on long-term growth initiatives, including RFID applications and expansion in Asia
- Higher pension, medical and insurance costs

Marketing, general and administrative expenses as a percent of sales have improved to 20.8 percent in 2004 compared to 21.7 percent in 2003, due to:

- Higher sales in 2004
- Benefit of productivity improvement initiatives
- Segment mix (faster growth in segments with lower operating expenses as a percent of sales)

Interest expense was \$58.5 million for 2004, which was unchanged from 2003.

The effective tax rate was 25.1 percent for the full year 2004 compared to 27.5 percent for the full year 2003. The decrease was due to changes in the geographic mix of income and the effect of favorable tax audit settlements. The favorable tax audit settlements reduced tax expense by approximately \$8 million during 2004.

#### **Free Cash Flow**

Free cash flow for 2004 increased \$204.5 million to \$338 million compared to \$133.5 million in 2003, due to higher net income and net changes in assets and liabilities, as well as lower cash spending on capital in 2004. While total capital expenditures for 2004 totaled approximately \$206 million, the amount in the Consolidated Statement of Cash Flows was approximately \$27 million lower due to the timing of actual cash payments. See "Liquidity" below for more information. Free cash flow refers to cash flow from operating activities less spending on property, plant and equipment.

Management utilizes free cash flow as a measurement tool to assess the cash flow available for other corporate purposes, such as dividends and debt service.

(In millions)	2004	2003	2002
Net cash provided by operating activities	\$ 516.9	\$ 334.9	\$ 511.0
Purchase of property, plant and equipment	(178.9)	(201.4)	(150.4)
Free cash flow	\$ 338.0	\$ 133.5	\$ 360.6

### Industry Investigations

In April 2003, we were notified by the U.S. Department of Justice's Antitrust Division ("DOJ") that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to us in connection with the investigation. In May 2004, the European Commission ("EC") initiated inspections and obtained documents from our pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, we were notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. We are cooperating with these investigations. We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. We are also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. We have discovered instances of improper conduct by certain employees in our European operations that constituted an infringement of EC competition law. Accordingly, we expect that the EC will impose a fine on us when its investigation is completed. We are unable to predict the effect of these matters at this time, although the effect could well be adverse and material. These matters are reported in Note 8 "Contingencies," to the Consolidated Financial Statements.

### Outlook

In 2005, we anticipate core unit volume growth in the range of 4 percent to 7 percent, driven in part by strong growth in the emerging markets of Asia, Latin America and Eastern Europe, subject to changes in global economic and market conditions. We expect a positive impact from price and mix, as well as a benefit from foreign currency translation. We anticipate that our selling price increases and ongoing productivity initiatives will offset rising raw material costs during the year.

We expect to continue improving profitability as a result of our pricing actions, the successful consolidation of our roll materials business in Europe during 2004, and anticipated cost savings from our ongoing productivity initiatives, including Six Sigma.

Offsetting these improvements to profitability during 2005, we expect to incur higher costs associated with our growth initiatives, including RFID. We expect increases in annual pension and medical costs to be in the range of \$17 million to \$18 million before taxes for 2005, due in part to an estimated increase of \$13 million for pension expense. The projected increase in pension expense reflects the adjustment of our actuarial assumptions for both the U.S. and international plans. For example, our long-term rate of return on plan assets and discount rate were lowered by 25 basis points for the U.S. pension plans to 8.75 percent and 6.0 percent, respectively. Our estimate of pension expense will be impacted by changes in foreign currency translation.

We estimate that interest expense will be between \$50 million to \$60 million for 2005, assuming expected interest rate increases, offset by projected reductions in debt.

We anticipate an annual tax rate in the range of 25 percent to 27 percent for 2005, with potentially wide variances from quarter to quarter. On October 22, 2004, the American Jobs Creation Act of 2004 was adopted. We are presently assessing various provisions of this Act, including the provision for a one-time repatriation of accumulated foreign earnings. Our current intention is to continue to reinvest our undistributed foreign earnings indefinitely, and therefore no related deferred tax liability has been recorded at this time.

To comply with the provisions of the reissued SFAS No. 123 "Share-Based Payment," we expect to begin recognizing expense for stock options beginning in the third quarter of 2005. We estimate that our after-tax stock option expense will be \$8 million to \$10 million for the second half of 2005.

### ANALYSIS OF RESULTS OF OPERATIONS

(In millions)	2004	2003	2002
Net sales	\$ 5,340.9	\$ 4,762.6	\$ 4,155.9
Cost of products sold	3,761.4	3,304.6	2,820.3
Gross profit	1,579.5	1,458.0	1,335.6
Marketing, general and administrative expense	1,112.4	1,034.1	904.5
Interest expense	58.5	58.5	44.7
Other expense, net	35.2	30.5	32.1
Income from continuing operations before taxes	373.4	334.9	354.3
Taxes on income	93.7	92.1	104.5
Income from continuing operations	279.7	242.8	249.8
Income from discontinued operations, net of tax (including gain on disposal of \$19.7, net of tax of \$5.8 in 2003)	—	25.1	7.4
Net income	\$ 279.7	\$ 267.9	\$ 257.2



### 2004 vs. 2003

Sales increased 12 percent to \$5.34 billion in 2004, compared to \$4.76 billion in 2003. The increase in sales in 2004 was a result of:

- Core unit volume growth
- Favorable impact of foreign currency translation (approximately \$207 million)
- Sales from 2004 acquisitions (approximately \$12 million)

Core unit volume growth was attributable in part to growth in emerging markets, the impact of the Horizons growth program, the impact of an extra week in the 2004 fiscal year, and accelerated purchases by Office and Consumer Products customers in advance of the 2005 selling price increases. These increases were partially offset by the impact in 2004 of loss of sales from discontinued product lines (approximately \$45 million) and share loss with one major customer in late 2003 (estimated to be \$30 million).

Gross profit margins for 2004 and 2003 were 29.6 percent and 30.6 percent, respectively. The decrease in 2004 was due to:

- Declining selling prices during the first half of the year (estimated to be \$38 million)
- Rising raw material costs, net of selling price increases (estimated to be \$10 million)
- Segment mix (faster growth in segments with lower gross profit margin as a percent of sales)

The impact of these negative factors was partially offset by our ongoing initiatives for margin improvement, including the completion of the integration of the Jackstädt business.

Marketing, general and administrative expense as a percent of sales was 20.8 percent in 2004 and 21.7 percent in 2003. The ratio in 2004 decreased due to higher sales, the benefit from productivity improvement initiatives and segment mix (faster growth in segments with lower operating expenses as a percent of sales). Expenses increased approximately \$78 million due to:

- Higher spending associated with volume growth
- Impact of foreign currency translation
- Additional spending on long-term growth initiatives, including the development of our RFID business and expansion in Asia
- Higher pension, medical and insurance costs

We recorded pretax charges totaling \$35.2 million in 2004, of which 95 percent related to the completion of the Jackstädt

integration actions. These charges consisted of approximately \$23.6 million for severance and approximately \$11.6 million for asset impairment charges.

We recorded pretax charges totaling \$34.3 million in the fourth quarter of 2003 related to restructuring and net losses associated with several product line divestitures, consisting of:

- Severance (approximately \$22 million)
- Impairment and planned disposition of property, plant and equipment and lease cancellation costs (approximately \$8 million)
- Net losses associated with several product line divestitures and other associated costs (approximately \$4 million)

During the second quarter of 2003, we recorded a \$9 million pretax gain from settlement of a lawsuit, partially offset by net losses of approximately \$5 million from disposition of fixed assets, asset impairments and costs associated with a plant closure.

Refer to Note 10 "Components of Other Income and Expense," to the Consolidated Financial Statements for more information.

Interest expense was \$58.5 million for 2004, which was unchanged from 2003.

Income before taxes, as a percent of sales, was 7 percent in both 2004 and 2003.

The effective tax rate was 25.1 percent in 2004 and 27.5 percent in 2003. The decrease was due to changes in the geographic mix of income and the effect of favorable tax audit settlements. The favorable tax audit settlements reduced tax expense by approximately \$8 million during 2004.

Net income from discontinued operations was \$25.1 million for 2003, which included a gain on sale of \$19.7 million, net of tax of \$5.8 million. Income from discontinued operations included net sales of approximately \$44 million in 2003. Refer to the Discontinued Operations section of Note 1 "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

### 2003 vs. 2002

Sales increased 15 percent to \$4.76 billion in 2003, compared to \$4.16 billion in 2002. The increase in sales in 2003 was a result of:

- Incremental sales from the acquisitions of Jackstädt in May 2002 and RVL Packaging, Inc. ("RVL") and L&E Packaging ("L&E") in November 2002 (estimated to be \$310 million; the impact of incremental sales in 2003 from the 2002 acquisitions can only be estimated because the Jackstädt, RVL and L&E operations were integrated with our existing businesses)

- Favorable impact of foreign currency translation (approximately \$235 million)
- Growth in existing businesses (approximately \$106 million)

These increases were partially offset by a reduction in sales from divested lines of business (2002 sales of approximately \$45 million).

Gross profit margins for 2003 and 2002 were 30.6 percent and 32.1 percent, respectively. The decrease in 2003 was due to:

- Segment mix (faster growth in segments with lower gross profit margin as a percent of sales)
- A more competitive pricing environment (including the impact of the weaker GBP relative to the Euro, approximately \$10 million)
- Start-up costs for new manufacturing equipment in Europe (approximately \$9 million)
- Higher manufacturing costs associated with a reduction in average order size in the retail information services business (approximately \$4 million)
- Unusual costs related to back-to-school orders for office products during the third quarter (approximately \$3 million)

Marketing, general and administrative expense as a percent of sales was 21.7 percent in 2003 and 21.8 percent in 2002. The ratio decreased in 2003 partially due to increased sales, although the absolute amount of expenses increased due to:

- Incremental expenses resulting from the acquisitions during 2002
- Higher pension, insurance and employee benefit costs
- Legal costs associated with the U.S. Department of Justice investigation of the label stock industry
- Incremental costs associated with growth initiatives during the year
- Impact of foreign currency translation

We recorded charges totaling \$34.3 million in the fourth quarter of 2003 and \$32.1 million during 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures.

Refer to Note 10 "Components of Other Income and Expense," to the Consolidated Financial Statements for more information.

Interest expense for 2003 and 2002 was \$58.5 million and \$44.7 million, respectively. Interest expense in 2003 increased due to higher debt levels resulting from the acquisitions completed in 2002, as well as higher interest rates following the refinancing of \$400 million of our variable short-term borrowings through the issuance of \$250 million 10-year and \$150 million 30-year senior notes in January 2003. In connection with the issuance of the 10-year senior notes, we settled the related forward starting interest rate swap at a loss of approximately \$32.5 million, which is currently being amortized over the term of the related debt.

Income before taxes, as a percent of sales, was 7 percent in 2003 and 8.5 percent in 2002. The percentage decrease in 2003 reflected lower gross profit as a percent of sales and higher interest expense, which was partially offset by lower marketing, general and administrative expense as a percent of sales.

The effective tax rate was 27.5 percent in 2003 and 29.5 percent in 2002. The decrease in effective tax rate in 2003 was due to the benefit of structural and operational changes and the geographic mix of income.

Net income from discontinued operations was \$25.1 million for 2003, which included a gain on sale of \$19.7 million, net of tax of \$5.8 million, compared to \$7.4 million in 2002. Income from discontinued operations included net sales of approximately \$44 million for nine months in 2003 compared to \$51 million for twelve months in 2002. Refer to the Discontinued Operations section of Note 1 "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

**Net Income and Earnings Per Share**

(In millions, except share amounts)	2004	2003	2002
Net income	\$ 279.7	\$ 267.9	\$ 257.2
Net income per common share	2.80	2.70	2.61
Net income per common share, assuming dilution	2.78	2.68	2.59

Net income for 2004 increased 4.4 percent compared to 2003. Net income for 2003 increased 4.2 percent compared to 2002. Net income, as a percent of sales, was 5.2 percent, 5.6 percent and 6.2 percent in 2004, 2003 and 2002, respectively.

Net income per common share for 2004 increased 3.7 percent compared to 2003. Net income per common share for 2003 increased 3.4 percent compared to 2002. Net income per common share, assuming dilution, for 2004 increased 3.7 percent compared to 2003. Net income per common share, assuming dilution, for 2003 increased 3.5 percent compared to 2002.

## RESULTS OF OPERATIONS BY OPERATING SEGMENT

**Pressure-sensitive Materials:**

(In millions)	2004	2003	2002
Net sales including intersegment sales	\$ 3,177.8	\$ 2,748.1	\$ 2,350.8
Less intersegment sales	(169.3)	(175.5)	(166.2)
Net sales	\$ 3,008.5	\$ 2,572.6	\$ 2,184.6
Income before interest and taxes	219.0	176.6	177.7

**2004 vs. 2003**

Our Pressure-sensitive Materials segment reported increased sales and operating income for 2004 compared to 2003. Sales increased approximately \$436 million or 17 percent to \$3.01 billion due to higher sales in our roll materials business (approximately \$365 million) and graphics and reflective business (approximately \$61 million). Included in these increases was the favorable impact of foreign currency translation (approximately \$146 million). Operating income increased approximately \$42 million or 24 percent.

The increased sales in our roll materials business reflected core unit volume growth, including an extra week in the 2004 fiscal year. In North America, strong growth in new film products and selling price increases contributed to sales growth of approximately 9 percent. In Europe, strong growth in the emerging markets of Eastern Europe and the benefit of selling price increases contributed to sales growth of approximately 9 percent in local currency. Strong market growth and share gain contributed to sales growth in local currency in the Asian and Latin American regions of approximately 18 percent and 16 percent, respectively. Sales growth in our graphics and reflective business reflected market growth, new applications and customers, and geographic expansion.

The increase in operating income reflected higher sales and cost savings from productivity improvement initiatives, including two plant closures related to the Jackstädt integration. Operating income also reflected the favorable impact of foreign currency translation (approximately \$6 million). Partially offsetting these increases were pretax charges of approximately \$34 million in 2004, compared to approximately \$14 million in 2003 related to restructuring, asset impairments and lease cancellations associated with the Jackstädt integration. Additionally, this segment experienced rising raw material costs throughout the year. Although selling price increases partially offset these increased costs, the net impact reduced operating income.

**2003 vs. 2002**

The Pressure-sensitive Materials segment reported increased sales and decreased operating income for 2003 compared to 2002. Sales increased approximately \$388 million or 18 percent to \$2.57 billion due to higher sales in the roll materials business

(approximately \$309 million) and graphics and reflective business (approximately \$89 million). Included in these increases was the favorable impact of foreign currency translation (approximately \$166 million). Also reflected in these increases were incremental sales from the Jackstädt acquisition in May 2002 (estimated to be \$150 million), as well as strong sales in the roll materials business in Asia, Latin America and Eastern Europe. Higher sales in the graphics and reflective business also included the benefit from new product launches and applications, as a result of our Horizons growth initiatives during 2003.

Operating income decreased approximately \$1 million or 1 percent. The decrease reflected a competitive pricing environment, including the impact of the weaker GBP relative to the Euro, and start-up costs for new manufacturing equipment in Europe, partially offset by the favorable impact of foreign currency translation. Operating income also reflected a charge of approximately \$14 million in 2003 compared with approximately \$22 million in 2002 related to restructuring, asset impairments and lease cancellation costs.

**Office and Consumer Products:**

(In millions)	2004	2003	2002
Net sales including intersegment sales	\$ 1,174.7	\$ 1,170.4	\$ 1,145.3
Less intersegment sales	(2.2)	(2.3)	(2.3)
Net sales	\$ 1,172.5	\$ 1,168.1	\$ 1,143.0
Income before interest and taxes	186.4	188.5	184.1

**2004 vs. 2003**

Our Office and Consumer Products segment reported increased sales and decreased operating income for 2004 compared to 2003. Sales increased approximately \$4 million or less than 1 percent to approximately \$1.17 billion, due to the favorable impact of foreign currency translation (approximately \$35 million) and higher than usual volume in the fourth quarter of 2004 due in part to customers shifting the timing of purchases in anticipation of selling price increases announced for 2005 and an extra week in the 2004 fiscal year (estimated to be \$25 million to \$30 million combined). These increases were partially offset by share loss with one major customer in late 2003 (estimated \$30 million impact in 2004) and loss of sales from a discontinued product line (approximately \$14 million), reduced prices, and the continued erosion in market share of our Avery-brand products, in favor of private label brands.

Operating income decreased approximately \$2 million or 1 percent to approximately \$186 million, due to lower selling prices and rising raw material prices. Partially offsetting these effects were the benefit from continued cost reduction efforts and the charge of approximately \$1 million in 2004 compared to approximately \$13 million in 2003 for restructuring and net losses associated with product line divestitures.

### 2003 vs. 2002

Our Office and Consumer Products segment reported increased sales and operating income for 2003 compared to 2002. Sales increased approximately \$25 million or 2 percent to approximately \$1.17 billion due to the favorable impact of foreign currency translation, partially offset by the weak economic conditions impacting end-user demand related to white collar unemployment and reductions in direct mail marketing, as well as continued erosion in market share of our Avery-brand products in favor of private label brands, and the share loss with one major customer.

Operating income increased approximately \$4 million to approximately \$189 million, due to increased sales and increased cost reduction efforts. Partially offsetting the increase was a charge of approximately \$13 million in 2003 compared to approximately \$7 million in 2002 for restructuring, asset impairments and lease cancellations. Operating income also reflected unusual costs related to back-to-school orders during the third quarter of 2003 and incremental costs associated with growth initiatives.

#### Retail Information Services:

(In millions)	2004	2003	2002
Net sales including			
intersegment sales	\$ 644.9	\$ 560.2	\$ 378.3
Less intersegment sales	(8.8)	(7.5)	(3.4)
Net sales	\$ 636.1	\$ 552.7	\$ 374.9
Income before interest and taxes	47.8	24.2	29.1

### 2004 vs. 2003

Our Retail Information Services segment reported increased sales and operating income for 2004 compared to 2003. Sales increased approximately \$83 million or 15 percent to approximately \$636 million due to core unit volume growth and the impact of current year acquisitions (approximately \$12 million), partially offset by loss of sales from product line divestitures (approximately \$13 million). Included in this increase was the favorable impact of foreign currency translation (approximately \$12 million). Contributors to sales growth included new customers, continued geographic expansion, new product introductions, as well as relatively weak results in 2003 (related to slow industry conditions).

Operating income increased \$24 million or 98 percent due to sales growth and the successful integration of the 2002 acquisitions of RVL and L&E. Also contributing to the increase was a charge of approximately \$7 million in 2003 for restructuring, asset impairments and lease cancellations.

### 2003 vs. 2002

The Retail Information Services segment reported increased sales and decreased operating income for 2003 compared to 2002. Sales increased approximately \$178 million or 47 percent to approximately \$553 million reflecting the incremental sales from the RVL and L&E acquisitions in November 2002 (estimated to be \$160 million), as well as growth in the Asian markets.

Operating income decreased approximately \$5 million or 17 percent due to higher manufacturing costs related to a decrease in average order size and incremental costs associated with growth initiatives, as well as a charge of approximately \$7 million in 2003 compared to approximately \$3 million in 2002 for restructuring and asset impairments.

#### Other specialty converting businesses:

(In millions)	2004	2003	2002
Net sales including			
intersegment sales	\$ 540.6	\$ 483.7	\$ 468.9
Less intersegment sales	(16.8)	(14.5)	(15.5)
Net sales	\$ 523.8	\$ 469.2	\$ 453.4
Income before interest and taxes	51.5	43.7	40.3

### 2004 vs. 2003

Other specialty converting businesses reported increased sales and operating income for 2004 compared to 2003. Sales increased approximately \$55 million or 12 percent to approximately \$524 million, due to volume growth, partially offset by the loss of sales from divested product lines (approximately \$15 million). Included in these increases was the favorable impact of foreign currency translation (approximately \$14 million). Operating income increased approximately \$8 million or 18 percent due to higher sales. Operating income reflected a charge of approximately \$2 million in 2003 for net losses associated with product line divestitures.

### 2003 vs. 2002

Other specialty converting businesses reported increased sales and operating income for 2003 compared to 2002. Sales increased approximately \$16 million or 4 percent to approximately \$469 million due to volume growth in the specialty tapes business, partially offset by the loss of sales from divested product lines (approximately \$30 million). Included in these changes was the favorable impact of foreign currency translation (approximately \$17 million). Operating income increased approximately \$3 million or 8 percent due to higher sales. Operating income reflected a charge of approximately \$2 million in 2003 for net losses associated with product line divestitures.



## FINANCIAL CONDITION

## LIQUIDITY

**Cash Flow Provided by Operating Activities**

(In millions)	2004	2003	2002
Net income from continuing operations	\$ 279.7	\$ 242.8	\$ 249.8
Depreciation and amortization	188.2	179.3	150.8
Income taxes (deferred and accrued)	31.2	(22.8)	28.4
Asset impairment and net loss on sale of assets	12.4	7.7	20.7
Trade accounts receivable	(1.4)	(40.8)	(41.5)
Inventories	(1.2)	(37.4)	(16.5)
Accounts payable and accrued liabilities	26.9	46.3	141.7
Long-term retirement benefits and other liabilities	(27.6)	(33.9)	(28.2)
Other, net	8.7	(6.3)	5.8
Net cash provided by operating activities	\$ 516.9	\$ 334.9	\$ 511.0

For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation and the impact of acquisitions and divestitures.

**2004**

Cash flow provided by operating activities was impacted by higher net income, changes in working capital and tax timing differences. Cash flow provided by income taxes was a result of the timing of refunds received, payments made, the current year tax accrual and changes in deferred taxes. Cash flow provided by accounts payable and accrued liabilities is due to the timing of payments and increased activity to support higher sales in the Pressure-sensitive Materials and Retail Information Services segments. Cash flow used for long-term retirement benefits and other liabilities reflected contributions of approximately \$36 million to our retirement plans during 2004.

**2003**

Cash flow provided by operating activities was impacted by changes in working capital and tax timing differences. The cash flow used for taxes on income was primarily due to a \$30 million payment for taxes in the fourth quarter of 2003, as a result of payment timing differences compared to the prior year. Cash flow used for accounts receivable was due to the timing of sales late in the fourth quarter of 2003. This was partially offset by a decrease in the average number of days sales outstanding, from 61 in 2002 to 60 in 2003. Cash flow used for inventory was due to continued growth in Asia, as well as intentional inventory build up in Europe to mitigate potential supply chain disruptions associated with the Jackstädt integration actions. The cash flow provided by accounts payable and accrued liabilities was due to increased inventory purchases,

as well as extended payment terms with suppliers, partially offset by a reduction in payroll and benefits, as a result of lower bonus and vacation accruals. The cash flow used for long-term retirement benefits and other liabilities reflected a contribution of approximately \$31 million to our retirement plans during 2003.

**Cash Flow Used in Investing Activities**

Net cash flow used in investing activities was \$216.9 million in 2004, \$165.6 million in 2003 and \$575.3 million in 2002.

**Capital Spending**

Capital expenditures in 2004 were \$205.7 million compared to capital expenditures of \$201.4 million in 2003. Due to the timing of payments, the related cash used for capital expenditures was approximately \$179 million in 2004. Our major capital projects in 2004 included expansion of capacity in Asia and Latin America, productivity improvement in our North American roll materials operations and equipment related to the development of our RFID business.

Expenditures related to capitalized software and other intangibles were \$21.8 million in 2004 and \$22.8 million in 2003.

**Acquisitions and Divestitures**

In 2004, payments for acquisitions of \$15 million were for several small private companies in the Retail Information Services segment, primarily for the acquisition of Rinke Etiketten, based in Germany.

In 2003, payments for acquisitions of \$6.9 million were primarily due to the final settlement of certain contingencies related to the achievement of performance targets associated with the 2001 acquisition of Dunsirn Industries, Inc. Proceeds from sale of business of \$58.8 million were related to the sale of our package label converting business in Europe during 2003.

**Cash Flow (Used in) Provided by Financing Activities**

Net cash flow (used in) provided by financing activities was \$(247.1 million) in 2004, \$(166.7 million) in 2003 and \$68.7 million in 2002.

**Borrowings and Repayment of Debt**

In August 2004, we issued \$150 million in floating rate senior notes due 2007 under our 2001 shelf registration statement filed with the Securities and Exchange Commission ("SEC"). These notes are callable at par after one year.

Total commercial paper borrowings at year end 2004 were \$290.9 million, with a weighted-average interest rate of 2.21 percent, compared to \$281.7 million at year end 2003. The outstanding borrowings at year end 2004 were classified as long-term because we have the ability and intent to refinance this debt under our available revolving credit agreement.

For 2004, our borrowings outstanding under foreign short-term lines of credit were \$70.8 million with a weighted-average interest rate of 7.3 percent, compared to \$82.9 million outstanding at year end 2003.

In January 2004, we issued \$60 million of one-year callable commercial notes at a variable rate of 1.3 percent. In April 2004, we issued \$90 million of one-year callable commercial notes at a rate of 1.3 percent, which replaced the April 2003 one-year callable commercial notes. In August 2004, we called the \$90 million notes issued in April 2004. The remaining \$60 million was outstanding at year end with an interest rate of 2.5 percent. In February 2005, these notes were repaid.

We had medium-term notes of \$233 million and \$318 million at year end 2004 and 2003, respectively. Medium-term notes have maturities from 2005 through 2025 and accrue interest at fixed rates ranging from 5.9 percent to 7.3 percent.

In February 2004, we paid the obligation related to the 1999 transaction with Steinbeis Holding GmbH ("Steinbeis") for approximately \$106 million. This obligation was a result of the combination of our office products business in Europe with Zweckform Büro-Produkte GmbH. See Note 4 "Debt," to the Consolidated Financial Statements.

#### *Shareholders' Equity*

Our shareholders' equity increased to \$1.55 billion at year end 2004 from \$1.32 billion at year end 2003. We paid a total of \$164.6 million in dividends in 2004 compared to \$160.2 million in 2003. Our annual dividend per share increased to \$1.49 in 2004 from \$1.45 in 2003. Additionally, net proceeds from the exercise of stock options were approximately \$19 million in 2004 compared to approximately \$6 million in 2003.

#### *Effect of Foreign Currency Translation*

International operations generate approximately 50 percent of our net sales, before the elimination of sales between regions. Our future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. Foreign currency translation represented approximately \$207 million of the change in sales between 2004 and 2003 (approximately \$.08 of the change in our diluted earnings per share). Foreign currency translation represented approximately \$235 million of the change in sales between 2003 and 2002 (approximately \$.14 of the change in our diluted earnings per share). The benefit from foreign currency translation reflected the strength of the Euro, British pound, Australian dollar and Canadian dollar against the U.S. dollar. The impact of foreign currency fluctuations on net income is smaller than the impact on net sales, because our products are generally sourced in the currencies in which they are sold. As a result, the impact of foreign exchange rates on sales is

matched with a partially offsetting impact on reported expenses, thereby reducing the impact of foreign currency fluctuations on net income. To reduce our exposure to those expenses in foreign currencies that do not match the related sales, we enter into foreign exchange forward, option and swap contracts, where available and appropriate.

All translation gains and losses for operations in hyperinflationary economies were included in our net income. Operations are treated as being in a hyperinflationary economy for accounting purposes, based on the cumulative inflation rate over the past three years. Operations in hyperinflationary economies consist of our operations in Turkey for 2004, 2003 and 2002 and the Dominican Republic in 2004. These operations were not significant to our consolidated financial position or results of operations.

#### *Analysis of Selected Balance Sheet Accounts*

##### *Long-lived Assets*

Goodwill increased \$40 million during 2004 due to foreign currency translation (approximately \$33 million) and additional goodwill associated with the acquisitions of Rinke Etiketten and other small private companies (approximately \$13 million), partially offset by tax assessments related to the RVL acquisition (reduction of approximately \$5 million).

Other intangibles resulting from business acquisitions, net of accumulated amortization, decreased \$6 million during 2004 due to amortization expense recorded during 2004 (approximately \$14 million). This decrease was partially offset by foreign currency translation (approximately \$6 million) and other acquisitions during 2004 (approximately \$2 million).

Other assets increased approximately \$63 million during 2004 due to increases in deferred tax assets (approximately \$29 million), cash surrender value of corporate owned life insurance contracts (approximately \$17 million) and pension assets (approximately \$14 million).

##### *Other Current Liabilities*

Other current liabilities (accrued payroll and employee benefits, trade rebates and other) decreased approximately \$83 million during 2004 reflecting the payment of the Steinbeis obligation (\$101.5 million at year-end 2003) and net payments related to severance from the 2004 and 2003 cost reduction actions (approximately \$13 million). These decreases were partially offset by additional accrued trade rebates (approximately \$24 million).

##### *Other Shareholders' Equity Accounts*

The market value of shares held in the employee stock benefit trusts increased by \$58 million during 2004 due to changes in stock price, partially offset by the issuance of shares from the trusts.

Shares issued under our stock and incentive plans for 2004 were valued at approximately \$34 million.

As of year end 2004, a cumulative 37.2 million shares of our common stock had been repurchased since 1991, and 3.2 million shares remain available for repurchase under the Board of Directors' authorization.

### **Analysis of Selected Financial Ratios**

We utilize certain financial ratios to assess our financial condition and operating performance, as discussed in detail below.

#### *Working Capital Ratio*

Working capital (current assets minus current liabilities), as a percent of net sales was 2.9 percent for 2004 compared to (1.2) percent for 2003, due to a decrease in short-term debt and the current portion of long-term debt and payment of the Steinbeis obligation. Working capital from continuing operations, as a percent of net sales (which is a non-GAAP measure), was 6.7 percent for 2004 compared to 7.1 percent for 2003, as shown below. We utilize the working capital from continuing operations ratio as a measurement tool to assess our working capital requirements, because it excludes the impact of fluctuations due to our financing activities. The timing of financing activities is not necessarily related to our current operations and would tend to distort the working capital ratio from period to period. Our objective is to minimize our investment in working capital from operations by reducing this ratio, to maximize cash flow and return on investment.

Working capital from continuing operations consists of:

(In millions)	2004	2003
(A) Working capital (current assets minus current liabilities)	\$ 155.1	\$ (56.1)
Reconciling items:		
Short-term and current portion of long-term debt	204.5	292.6
Steinbeis obligation (see Note 4 "Debt")	–	101.5
(B) Working capital from continuing operations	359.6	338.0
(C) Net sales	5,340.9	4,762.6
Working capital, as a percent of net sales (A) ÷ (C)	2.9%	(1.2)%
Working capital from continuing operations as a percent of net sales (B) ÷ (C)	6.7%	7.1%

The improvement in working capital from continuing operations in 2004, as a percent of sales, was due to higher balances in accounts payable (approximately \$71 million) and other current liabilities (approximately \$16 million). These increases were partially offset by higher balances in cash and cash equivalents (approximately \$55 million) and accounts receivable (approximately \$54 million). Included in the changes in working capital balances from the

prior year was the impact of changes in foreign currency translation. Higher balances in accounts payable were due to increased capital and inventory purchases late in 2004. The increase in cash and cash equivalents was due to the timing of cash receipts late in the fourth quarter of 2004. Higher accounts receivable balances at the end of 2004 reflected an increase in sales, partially offset by the timing of cash receipts late in the fourth quarter of 2004.

#### *Accounts Receivable Ratio*

The average number of days sales outstanding in accounts receivable was 60 days for both 2004 and 2003, calculated using a four-quarter average accounts receivable balance.

#### *Inventory Ratio*

Inventory turnover increased from 8.4 in 2003 to 8.5 in 2004, calculated using a four-quarter average inventory balance. In 2004, cost of products sold used in the ratio was calculated using a 52-week year for comparability.

#### *Debt Ratios*

Our total debt to total capital was 43.9 percent at year end 2004 compared to 47.2 percent at year end 2003. This decrease was due to higher equity balances at the end of 2004.

The fair value of our debt is estimated based on the discounted amount of the related cash flows using the current rates offered to us for debt of the same remaining maturities. At year end 2004 and 2003, the fair value of our total debt, including short-term borrowings, was \$1.24 billion and \$1.21 billion, respectively.

Our various loan agreements in effect at year end require that we maintain specified ratios of consolidated debt and consolidated interest expense in relation to certain measures of income. In 2004, our ratios were within required ranges. Specifically, under the loan agreements, the ratio of consolidated debt to consolidated earnings before other expense (see Note 10 "Components of Other Income and Expense," to the Consolidated Financial Statements), interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. Our ratio at year end 2004 was 1.8 to 1.0. Our consolidated earnings before other expense, interest and taxes, as a ratio to consolidated interest, may not be less than 3.5 to 1.0. Our ratio at year end 2004 was 8.0 to 1.0.

#### *Shareholder's Equity Ratios*

Our return on average shareholders' equity was 19.9 percent in 2004, 22.3 percent in 2003 and 25.7 percent in 2002. Return on average total capital was 13.4 percent in 2004, 14.3 percent in 2003 and 15.8 percent in 2002. These ratios are computed using actual net income and a five-quarter average denominator for balance sheet accounts. Decreases in these returns in 2004 compared to 2003 were primarily due to higher equity and long-term debt balances.



## CAPITAL RESOURCES

Our sources of capital resources include cash flows from operations and debt financing. We maintain adequate financing arrangements at competitive rates. These financing arrangements consist

of our commercial paper programs in the U.S. and Europe, committed and uncommitted bank lines of credit in the countries where we operate, callable commercial notes and long-term debt, including medium-term notes.

### Capital from Debt

Our total debt increased approximately \$31 million in 2004 to \$1.21 billion compared to \$1.18 billion at year end 2003 reflecting the effect of foreign currency translation.

Our committed credit availability at year end 2004 was as follows:

(In millions)	Total Amounts Committed	Amount of Commitment Expiration				
		2005	2006	2007	2008	2009
Revolving credit facilities – committed, unused	\$ 565.6	\$ 40.6	–	–	–	\$ 525.0
Standby letters of credit outstanding:						
General	18.0	18.0	–	–	–	–
Deferred compensation	63.0	–	–	–	–	63.0
<b>Total</b>	<b>\$ 646.6</b>	<b>\$ 58.6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>\$ 588.0</b>

In July 2004, we entered into a revolving credit agreement with 10 domestic and foreign banks for a total commitment of \$525 million, expiring July 16, 2009. This revolving credit agreement replaces our previous agreements for a \$250 million credit facility that would have expired July 1, 2006 and a \$200 million 364-day credit facility that would have expired December 3, 2004, both of which were terminated in connection with our new revolving credit agreement. We use the financing available under the new agreement as a commercial paper back-up facility and to finance other corporate requirements. The terms of the new agreement are generally similar to the previous agreements. There was no debt outstanding under this agreement as of year end 2004.

In addition, we have a 364-day revolving credit facility with one foreign bank to provide up to Euro 30 million (\$40.6 million) in borrowings through May 25, 2005. We may annually extend the revolving period and due date with the approval of the bank. It is the intention of management to renegotiate an extension of this agreement during 2005. Financing under this agreement is used to finance cash requirements in Europe. There was no debt outstanding under this agreement as of year end 2004.

We had standby letters of credit outstanding of \$81 million and \$195.5 million at the end of 2004 and 2003, respectively.

Our uncommitted lines of credit were approximately \$360 million at year end 2004. Our uncommitted lines of credit do not have a commitment expiration date, and may be cancelled by the banks or us at any time.

In the fourth quarter of 2004, we filed a shelf registration statement with the SEC to permit the issuance of up to \$500 million in debt and equity securities. Proceeds from the shelf offering may be used for general corporate purposes, including repaying,

redeeming or repurchasing existing debt, and for working capital, capital expenditures and acquisitions. This registration statement replaced the 2001 shelf registration, which had a remaining \$50 million of issuance capacity. No securities were issued at year-end 2004 under the new registration statement.

Credit ratings are a significant factor in our ability to raise short-term and long-term financing. When determining a credit rating, the rating agencies place significant weight on our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team.

The credit ratings assigned to us also impact the interest rates on our commercial paper and other borrowings. Our credit ratings as of year end 2004 are as follows:

	Short-term	Long-term	Outlook
Standard & Poor's Rating Service	A-2	A-	Negative
Moody's Investor Service	P2	A3	Stable

### Capital from Equity

We had \$124.1 million in common stock (with \$1 par value), \$766.1 million in capital in excess of par and 100.1 million shares outstanding at the end of 2004. Additionally, we had total retained earnings of \$1.89 billion, which included \$279.7 million of net income, less dividends paid of \$164.6 million in 2004.

Our accumulated other comprehensive loss decreased \$74.9 million in 2004 primarily due to an \$87.9 million benefit from foreign currency translation during the year, partially offset by an additional minimum pension liability of \$14.9 million, net of tax, for both our U.S. and international pension plans. The increase in minimum pension liability was a result of changes in assumptions and changes in plan assets and liabilities at the end of 2004.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At year end 2004, our contractual obligations were as follows:

(In millions)	Payments Due by Period						
	Total	2005	2006	2007	2008	2009	Thereafter
Contractual Obligations							
Short-term lines of credit	\$ 70.8	\$ 70.8	—	—	—	—	—
Callable commercial notes	60.0	60.0	—	—	—	—	—
Long-term debt	1,080.9	73.7	\$ 1.1	\$ 210.7	\$ 51.5	\$ 291.5	\$ 452.4
Interest on long-term debt <sup>(1)</sup>	455.2	43.8	35.3	32.7	27.3	24.6	291.5
Operating leases	195.3	53.3	40.7	29.0	19.5	13.7	39.1
Pension and postretirement benefit contributions	25.0	25.0	—	—	—	—	—
Total contractual obligations	\$ 1,887.2	\$ 326.6	\$ 77.1	\$ 272.4	\$ 98.3	\$ 329.8	\$ 783.0

(1) Interest on floating rate debt was estimated using the index rate in effect as of January 1, 2005.

We enter into operating leases primarily for office and warehouse space and equipment for electronic data processing and transportation. The terms of our leases do not impose significant restrictions or unusual obligations. Minimum annual rental commitments on operating leases having initial or remaining noncancellable lease terms in excess of one year are included in the above table.

We did not include purchase obligations or open purchase orders at year end 2004 in the table of contractual obligations above, because it is impracticable for us to either obtain such information or provide a reasonable estimate due to the decentralized nature of our purchasing systems.

We have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at thirteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed upon. We are participating with other PRPs at all such sites, and anticipate that our share of cleanup costs will be determined pursuant to remedial agreements to be entered into in the normal course of negotiations with the EPA or other governmental authorities.

We have accrued liabilities for all such sites, including sites in which governmental agencies have designated us as a PRP, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites which could be identified in the future for cleanup could be higher than the liability currently accrued. Amounts currently accrued are not significant to our consolidated financial position, and based upon current information, we believe that it is unlikely that the final resolution of these matters will signif-

icantly impact our consolidated financial position, results of operations or cash flows.

We provide for an estimate of costs that may be incurred under our basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of products. Factors that affect our warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy our warranty obligation and availability of insurance coverage. As these factors are impacted by actual experience and future expectations, we assess the adequacy of the recorded warranty liability and adjust the amounts as necessary.

In April 2003, we were notified by the DOJ that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to us in connection with the investigation. In May 2004, the EC initiated inspections and obtained documents from our pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, we were notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. We are cooperating with these investigations. We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. We are also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. We have discovered instances of improper conduct by certain employees in our European operations that constituted an infringement of EC competition law. We accordingly expect that the EC will impose a fine on us when its investigation is completed. We are unable to

predict the effect of these matters at this time, although the effect could well be adverse and material. These matters are reported in Note 8 "Contingencies," to the Consolidated Financial Statements.

We and our subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, we believe that the resolution of these other matters will not materially affect us.

We participate in receivable financing programs, both domestically and internationally, with several financial institutions whereby we may request advances from these financial institutions. At January 1, 2005, we guaranteed approximately \$18 million of these advances.

In February 2003, we entered into a five-year operating lease on equipment that contains a residual value guarantee of \$10.6 million. We do not expect the residual value of the equipment to vary significantly from the amount guaranteed.

We guaranteed up to approximately \$20 million of certain of our foreign subsidiaries' obligations to their suppliers as of January 1, 2005.

In connection with the L&E acquisition, we issued 743,108 shares at \$63.08 per share. In the event the value of our common shares falls below the price of the shares that were issued to L&E (adjusted for dividends received), during the period from January 1, 2005 through December 31, 2007, we may be obligated to pay the difference in value, in the form of cash or common shares, to L&E at our option.

In connection with the RVL acquisition, we are obligated to make an additional payment in early 2005 of approximately \$1 million related to the achievement of certain performance targets.

#### **2005 Capital Spending Plan**

We expect capital expenditures for 2005 to be approximately \$200 million, funded through operating cash flows. Major projects in 2005 include investments for growth in Asia and Latin America, equipment and other investments for the RFID business, and both productivity and growth projects related to our North American roll materials operations.

#### **RELATED PARTY TRANSACTIONS**

From time to time, we enter into transactions in the normal course of business with related parties. We believe that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of our directors, Peter W. Mullin, is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC"), and PWM Insurance Services, Inc. ("PWM"), executive compensation

and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM (collectively referred to as the "Mullin Companies"). During 2004, 2003 and 2002, we paid premiums to insurance companies for life insurance placed by the Mullin Companies in connection with several of our employee benefit plans. The Mullin Companies have advised us that MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.1 million, \$1.1 million and \$1.3 million in 2004, 2003 and 2002, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$.8 million, \$.7 million and \$.9 million in 2004, 2003 and 2002, respectively. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC) to administer benefit plans and provide benefit statements to participants under several of our employee benefit plans. The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which we placed through the Mullin Companies in 2004 and prior years, are issued by insurance companies that participate in reinsurance agreements entered into between these insurance companies and a wholly-owned subsidiary of MFH. Reinsurance returns earned by MFH can be negative or positive, depending upon the results of MFH's aggregate reinsurance pool, which is determined annually by MFH. The Mullin Companies have advised us that in 2004, they participated in reinsurance gains of MFH, of which approximately \$.2 million of net gains were ascribed by MFH to our life insurance policies referred to above, and in which gains, Mr. Mullin had direct and indirect interests of approximately \$.2 million. None of these transactions were significant to our financial position or results of operations.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

Critical accounting policies are those that are important to the portrayal of our financial condition and results, and which require us to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. We believe that critical accounting policies include accounting for revenue recognition, accounts receivable allowances and customer complaint reserves, inventory reserves,



long-lived asset impairments, pensions and postretirement benefits and income taxes.

#### **Revenue Recognition**

Sales are recognized when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable, and collection is reasonably assured. Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances.

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

#### **Accounts Receivable Allowances and Customer Complaint Reserves**

We are required to make judgments as to the collectibility of accounts receivable based on established aging policy, historical experience and future expectations. The allowances for doubtful accounts and sales returns represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. We record these allowances based on estimates related to the following factors: (i) customer specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on our historical experience, for issues not yet identified. No single customer represented 10 percent or more of our net sales or trade receivables at year end 2004 and 2003. However, approximately 15 percent of our trade receivables at year end 2004 and 2003 were from eight customers of our Office and Consumer Products segment. The financial position and operations of these customers are monitored on an ongoing basis.

#### **Inventory Reserves**

Inventories are stated at the lower of cost or market value and are categorized as raw materials, work-in-progress or finished goods. Inventory reserves are recorded for damaged, obsolete, excess and slow-moving inventory. We use estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product and the length of time the product has been included in inventory.

#### **Long-lived Asset Impairments**

We record impairment charges when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. Changes in market conditions and management strategy have historically caused us to reassess the carrying amount of our long-lived assets.

#### **Pensions and Postretirement Benefits**

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefits plans are evaluated by management in consultation with outside actuaries who are relied upon as experts. In the event that we determine that changes are warranted in the assumptions used, such as the discount rate, expected long term rate of return, or health care costs, future pension and post-retirement benefit expenses could increase or decrease.

#### **Income Taxes**

Deferred tax liabilities or assets reflect temporary differences between the amounts of assets and liabilities for financial and tax reporting purposes. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized.

When establishing a valuation allowance, we consider future sources of income such as forecasted earnings, the mix of earnings in the jurisdictions in which we operate, and prudent and feasible tax planning. In the event we determine that we would not be able to realize our deferred tax assets in the future, the valuation adjustment to the deferred tax assets is charged to earnings in the period in which we make such a determination. Likewise, if later it is determined that it is more likely than not that the deferred tax assets would be realized, we would reverse the previously provided valuation allowance.

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances

existing at that time. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate on a quarterly basis.

#### RECENT ACCOUNTING REQUIREMENTS

During 2004, we adopted several accounting and financial disclosure requirements by the Financial Accounting Standards Board ("FASB"), Emerging Issues Task Force ("EITF") and Financial Interpretations by the FASB, none of which has had a significant impact on our financial results of operations and financial position. (Refer to Note 1 "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information).

#### RISK FACTORS (SAFE HARBOR STATEMENT)

The matters discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events, which may or may not occur. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "may," "plan," "project," "will," and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause actual results to differ materially from expected results, performance or achievements of the Company expressed or implied by such forward-looking statements.

Certain of such risks and uncertainties are discussed in more detail in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended January 1, 2005, and include, but are not limited to, risks and uncertainties relating to investment in development activities and new production facilities, timely development and successful market acceptance of new products, fluctuations in cost and availability of raw materials, impact of competitive products and pricing, business mix shift, credit risks, ability to obtain adequate financing arrangements, fluctuations in pension, insurance and employee benefit costs, successful integration of acquisitions, projections related to estimated cost savings from productivity improvement actions, successful implementation of

new manufacturing technologies and installation of manufacturing equipment, customer and supplier concentrations, financial condition and inventory strategies of customers, changes in customer order patterns, increased competition, loss of significant contract(s) or customer(s), legal proceedings, including the DOJ criminal investigation, as well as the EC and Canadian Department of Justice investigations, into industry competitive practices and any related proceedings or lawsuits pertaining to these investigations or to the subject matter thereof (including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation, as well as a likely fine by the EC in respect of certain employee misconduct in Europe), changes in governmental regulations, fluctuations in interest rates, fluctuations in foreign currency exchange rates and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism, natural disasters, impact of epidemiological events on the economy, the Company's customers and suppliers, and other factors.

The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) potential adverse developments in legal proceedings and/or investigations regarding competitive activities; (2) the degree to which higher raw material costs can be passed on to customers through selling price increases, without a significant loss of volume; (3) the impact of economic conditions on underlying demand for the Company's products, particularly in the U.S. and Western Europe; and (4) availability and cost of certain components used to manufacture adhesives used in some products sold by the Company, an extended shortage of which could disrupt production, resulting in a potentially significant loss of revenue and earnings.

Any forward-looking statements should also be considered in light of the factors detailed in Exhibit 99.1 in the Company's Annual Report on Form 10-K for the year ended January 1, 2005.

The Company's forward-looking statements represent judgment only on the dates such statements were made. By making any forward-looking statements, the Company assumes no duty to update them to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

## MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

### ***Risk Management***

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

Our policy is not to purchase or hold foreign currency, interest rate or commodity contracts for trading purposes.

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

Our objective in managing our exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows. To achieve our objectives, we may periodically use interest rate contracts to manage net exposure to interest rate changes related to our borrowings. In connection with the issuance of the \$250 million 10-year senior notes in 2003, we settled a forward starting interest rate swap at a loss of approximately \$32.5 million. The loss is currently being amortized to interest expense over 10 years, which corresponds to the term of the related debt.

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

In the normal course of operations, we also face other risks that are either nonfinancial or nonquantifiable. Such risks principally include changes in economic or political conditions, other risks associated with foreign operations, commodity price risk and litigation risks, which are not represented in the analyses that follow.

### ***Foreign Exchange Value-At-Risk***

We use a Value-At-Risk ("VAR") model to determine the estimated maximum potential one-day loss in earnings associated with both our foreign exchange positions and contracts. This approach assumes that market rates or prices for foreign exchange positions and contracts are normally distributed. The VAR model estimates were made assuming normal market conditions. Firm commitments, accounts receivable and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were included in the model. Forecasted transactions, which certain of these instruments are intended to hedge, were excluded from the model. The VAR was estimated using a variance-covariance methodology based on historical volatility for each currency. The volatility and correlation used in the calculation were based on two-year historical data obtained from one of our domestic banks. A 95 percent confidence level was used for a one-day time horizon.

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

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was approximately \$2 million at year end 2004.

### ***Interest Rate Sensitivity***

An assumed 19 basis point move in interest rates (10 percent of our weighted-average interest rate on floating rate debt) affecting our variable-rate borrowings would have had an immaterial effect on our 2004 earnings.



## Consolidated Balance Sheet

(Dollars in millions)	2004	2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 84.8	\$ 29.5
Trade accounts receivable, less allowances of \$62.8 and \$54.2 for 2004 and 2003, respectively	887.4	833.2
Inventories, net	433.2	406.1
Deferred taxes	31.9	34.6
Other current assets	105.1	142.6
Total current assets	1,542.4	1,446.0
Property, plant and equipment, net	1,381.0	1,294.0
Goodwill	757.0	716.6
Other intangibles resulting from business acquisitions, net	145.8	151.3
Other assets	573.1	510.2
	<b>\$ 4,399.3</b>	<b>\$ 4,118.1</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 204.5	\$ 292.6
Accounts payable	619.2	548.5
Accrued payroll and employee benefits	165.7	156.9
Accrued trade rebates	158.6	134.4
Other accrued liabilities	162.2	278.6
Income taxes payable	77.1	91.1
Total current liabilities	1,387.3	1,502.1
Long-term debt	1,007.2	887.7
Long-term retirement benefits and other liabilities	365.1	335.5
Non-current deferred taxes	91.0	74.1
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value, authorized – 400,000,000 shares at year end 2004 and 2003; issued – 124,126,624 shares at year end 2004 and 2003; outstanding – 100,113,127 shares and 99,569,383 shares at year end 2004 and 2003, respectively	124.1	124.1
Capital in excess of par value	766.1	703.7
Retained earnings	1,887.6	1,772.5
Cost of unallocated ESOP shares	(9.7)	(11.6)
Employee stock benefit trusts, 10,343,648 shares and 10,897,033 shares at year end 2004 and 2003, respectively	(619.1)	(595.4)
Treasury stock at cost, 13,669,849 shares and 13,660,208 shares at year end 2004 and 2003, respectively	(597.6)	(597.0)
Accumulated other comprehensive loss	(2.7)	(77.6)
Total shareholders' equity	1,548.7	1,318.7
	<b>\$ 4,399.3</b>	<b>\$ 4,118.1</b>

See Notes to Consolidated Financial Statements

## Consolidated Statement of Income

(In millions, except per share amounts)	2004 <sup>(1)</sup>	2003	2002
Net sales	\$ 5,340.9	\$ 4,762.6	\$ 4,155.9
Cost of products sold	3,761.4	3,304.6	2,820.3
Gross profit	1,579.5	1,458.0	1,335.6
Marketing, general and administrative expense	1,112.4	1,034.1	904.5
Interest expense	58.5	58.5	44.7
Other expense, net	35.2	30.5	32.1
Income from continuing operations before taxes	373.4	334.9	354.3
Taxes on income	93.7	92.1	104.5
Income from continuing operations	279.7	242.8	249.8
Income from discontinued operations, net of tax (including gain on disposal of \$19.7, net of tax of \$5.8 in 2003)	—	25.1	7.4
Net income	\$ 279.7	\$ 267.9	\$ 257.2
Per share amounts:			
Net income per common share:			
Continuing operations	\$ 2.80	\$ 2.45	\$ 2.54
Discontinued operations	—	.25	.07
Net income per common share	\$ 2.80	\$ 2.70	\$ 2.61
Net income per common share, assuming dilution:			
Continuing operations	\$ 2.78	\$ 2.43	\$ 2.51
Discontinued operations	—	.25	.08
Net income per common share, assuming dilution	\$ 2.78	\$ 2.68	\$ 2.59
Dividends	\$ 1.49	\$ 1.45	\$ 1.35
Average shares outstanding:			
Common shares	99.9	99.4	98.5
Common shares, assuming dilution	100.5	100.0	99.4
Common shares outstanding at year end	100.1	99.6	99.3

(1) Results for fiscal year 2004 reflect a 53-week period.

See Notes to Consolidated Financial Statements

## Consolidated Statement of Shareholders' Equity

(Dollars in millions, except per share amounts)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares	Employee stock benefit trusts	Treasury stock	Accumulated other com- prehensive income (loss)	Total
<b>Fiscal year ended 2001</b>	\$ 124.1	\$ 707.2	\$ 1,556.1	\$ (13.7)	\$ (674.5)	\$ (633.4)	\$ (136.4)	\$ 929.4
Comprehensive income:								
Net income			257.2					257.2
Other comprehensive loss:								
Foreign currency translation adjustment							11.7	11.7
Minimum pension liability adjustment, net of tax of \$29.2							(53.9)	(53.9)
Effective portion of gains or losses on cash flow hedges, net of tax of \$10.8							(26.3)	(26.3)
Other comprehensive loss							(68.5)	(68.5)
Total comprehensive income								188.7
Treasury stock issued of .7 million shares for L&E acquisition						46.9		46.9
Repurchase of .2 million shares for treasury, net of shares issued						(10.4)		(10.4)
Stock issued under option plans, including \$26.5 of tax and dividends paid on stock held in stock trusts		(3.5)			52.3			48.8
Dividends: \$1.35 per share			(148.5)					(148.5)
ESOP transactions, net				1.5				1.5
Employee stock benefit trusts market value adjustment		36.5			(36.5)			—
<b>Fiscal year ended 2002</b>	124.1	740.2	1,664.8	(12.2)	(658.7)	(596.9)	(204.9)	1,056.4
Comprehensive income:								
Net income			267.9					267.9
Other comprehensive income:								
Foreign currency translation adjustment							150.7	150.7
Minimum pension liability adjustment, net of tax of \$12.6							(27.8)	(27.8)
Effective portion of gains or losses on cash flow hedges, net of tax of \$(1.9)							4.4	4.4
Other comprehensive income							127.3	127.3
Total comprehensive income								395.2
Repurchase of 875 shares for treasury, net of shares issued						(.1)		(.1)
Stock issued under option plans, including \$19.5 of tax and dividends paid on stock held in stock trusts		11.9			13.5			25.4
Dividends: \$1.45 per share			(160.2)					(160.2)
ESOP transactions, net				.6	1.4			2.0
Employee stock benefit trusts market value adjustment		(48.4)			48.4			—
<b>Fiscal year ended 2003</b>	124.1	703.7	1,772.5	(11.6)	(595.4)	(597.0)	(77.6)	1,318.7
Comprehensive income:								
Net income			279.7					279.7
Other comprehensive income:								
Foreign currency translation adjustment							87.9	87.9
Minimum pension liability adjustment, net of tax of \$14.6							(14.9)	(14.9)
Effective portion of gains or losses on cash flow hedges, net of tax of \$2.5							1.9	1.9
Other comprehensive income							74.9	74.9
Total comprehensive income								354.6
Repurchase of 9,641 shares for treasury, net of shares issued						(.6)		(.6)
Stock issued under option plans, including \$19.2 of tax and dividends paid on stock held in stock trusts		4.4			34.3			38.7
Dividends: \$1.49 per share			(164.6)					(164.6)
ESOP transactions, net				1.9				1.9
Employee stock benefit trusts market value adjustment		58.0			(58.0)			—
<b>Fiscal year ended 2004</b>	\$ 124.1	\$ 766.1	\$ 1,887.6	\$ (9.7)	\$ (619.1)	\$ (597.6)	\$ (2.7)	\$ 1,548.7

See Notes to Consolidated Financial Statements



## Consolidated Statement of Cash Flows

(In millions)	2004 <sup>(1)</sup>	2003	2002
<b>Operating Activities</b>			
Net income	\$ 279.7	\$ 267.9	\$ 257.2
Less: Income from discontinued operations, net	—	25.1	7.4
Income from continuing operations	279.7	242.8	249.8
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	147.2	143.9	125.1
Amortization	41.0	35.4	25.7
Deferred taxes	93.1	(5.2)	22.2
Asset impairment and net loss on sale of assets of \$2.5, \$.1 and \$3.2 in 2004, 2003 and 2002, respectively	12.4	7.7	20.7
Other non-cash items, net	(.5)	(2.4)	5.5
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures:			
Trade accounts receivable	(1.4)	(40.8)	(41.5)
Inventories	(1.2)	(37.4)	(16.5)
Other current assets	9.2	(3.9)	.3
Accounts payable and accrued liabilities	26.9	46.3	141.7
Taxes on income	(61.9)	(17.6)	6.2
Long-term retirement benefits and other liabilities	(27.6)	(33.9)	(28.2)
Net cash provided by operating activities	516.9	334.9	511.0
<b>Investing Activities</b>			
Purchase of property, plant and equipment	(178.9)	(201.4)	(150.4)
Purchase of software and other assets	(21.8)	(22.8)	(20.1)
Payments for acquisitions	(15.0)	(6.9)	(397.4)
Proceeds from sale of assets	8.2	15.4	9.4
Proceeds from sale of business	—	58.8	—
Other	(9.4)	(8.7)	(16.8)
Net cash used in investing activities	(216.9)	(165.6)	(575.3)
<b>Financing Activities</b>			
Additional borrowings	300.2	417.9	697.0
Payments of debt	(419.3)	(447.7)	(508.5)
Dividends paid	(164.6)	(160.2)	(148.5)
Purchase of treasury stock	(.7)	(.3)	(10.8)
Proceeds from exercise of stock options, net	19.1	5.5	22.1
Other	18.2	18.1	17.4
Net cash (used in) provided by financing activities	(247.1)	(166.7)	68.7
Effect of foreign currency translation on cash balances	2.4	4.1	(.7)
Increase in cash and cash equivalents	55.3	6.7	3.7
Cash and cash equivalents, beginning of year	29.5	22.8	19.1
Cash and cash equivalents, end of year	\$ 84.8	\$ 29.5	\$ 22.8

(1) Results for fiscal year 2004 reflect a 53-week period.

See Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Avery Dennison Corporation (the "Company") is a worldwide manufacturer of pressure-sensitive materials, office products and a variety of tickets, tags and other converted products. The Company's end markets include consumer products and other retail items (including apparel), logistics and shipping, industrial and durable goods, office products, transportation, and medical/health care.

#### Segment Reporting

During the fourth quarter of 2004, the Company reorganized its reporting segments to reflect the growth in the retail information services business, which now represents over 10 percent of total sales. This reorganization is in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures about Segments of an Enterprise and Related Information," and provides enhanced transparency of its operational results. The segments were determined based upon the types of products produced, markets served by each segment, methods of manufacturing and distribution, and economic characteristics of the businesses in each segment. The change has had no effect on the way the Company operates or manages its businesses.

The newly reorganized segments are:

- **Pressure-sensitive Materials** – manufactures and sells pressure-sensitive roll label materials, films for graphic applications, reflective highway safety products, performance polymers (largely adhesives used to manufacture pressure-sensitive materials), and extruded films
- **Office and Consumer Products** – manufactures and sells a variety of office and consumer products including labels, binders, dividers, sheet protectors, and writing instruments
- **Retail Information Services** – designs, manufactures and sells a wide variety of price marking and brand identification products, including tickets, tags and labels, and related supplies and equipment

In addition to the new reportable segments, the Company has other specialty converting businesses comprised of several businesses that produce specialty tapes and highly engineered labels and other converted products.

The Pressure-sensitive Materials segment contributes approximately 56 percent of the Company's total sales, while the Office and Consumer Products segment and the Retail Information Services segment contribute approximately 22 percent and 12 percent,

respectively, of the Company's total sales. Approximately 80 percent of sales are generated in the United States and Europe.

See also Note 12 "Segment Information," for further details.

#### Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. All intercompany accounts, transactions and profits are eliminated. Investments in certain affiliates (20 percent to 50 percent ownership) are accounted for by the equity method of accounting. Investments representing less than 20 percent ownership are accounted for by the cost method of accounting.

#### Financial Presentation

Certain prior year amounts have been reclassified to conform with the 2004 financial statement presentation.

#### Discontinued Operations

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark, as well as a package label converting facility in France, to CCL Industries, Inc. Accordingly, the results for this business were accounted for as discontinued operations in the consolidated financial statements for 2003 and 2002 presented herein.

The cash proceeds from the sale were \$58.8 million, from which the Company recognized a gain of \$19.7 million in the fourth quarter of 2003, net of taxes of \$5.8 million. Goodwill of \$11.7 million was included in the calculation of the gain on sale.

Summarized, combined statement of income for discontinued operations:

(In millions)	2003	2002
Net sales	\$ 44.1	\$ 51.0
Income before taxes	\$ 7.9	\$ 10.5
Taxes on income	2.5	3.1
Income from operations, net of tax	5.4	7.4
Gain on sale of discontinued operations	25.5	–
Tax on gain from sale	5.8	–
Income from discontinued operations, net of tax	\$ 25.1	\$ 7.4

#### Fiscal Year

The Company's 2004 fiscal year reflected a 53-week period ending January 1, 2005. Fiscal years 2003 and 2002 reflected 52-week periods ending December 27, 2003 and December 28, 2002, respectively. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

### Use of Estimates

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

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits in banks, and short-term investments with maturities of three months or less when purchased. The carrying amounts of these assets approximate fair value due to the short maturity of the instruments. Cash paid for interest and taxes was as follows:

(In millions)	2004	2003	2002
Interest, net of capitalized amounts	\$ 61.8	\$ 49.5	\$ 44.4
Income taxes, net of refunds	68.6	122.2	91.6

In 2004, non-cash activities included accruals for capital expenditures of approximately \$27 million due to the timing of payments.

In 2002, non-cash activities included the issuance of approximately \$47 million in Avery Dennison common shares for the L&E acquisition and the assumption of approximately \$100 million in debt from the Jackstädt acquisition. Refer to Note 2 "Acquisitions," for further information.

### Accounts Receivable

The Company records trade accounts receivable at the invoiced amount. The allowance for doubtful accounts represents allowances for trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable values. In 2004 and 2003, the Company recorded expenses of \$30.7 million and \$25.8 million, respectively, related to the allowances for trade accounts receivable. The Company records these allowances based on estimates related to the following factors:

- Customer specific allowances
- Amounts based upon an aging schedule
- An estimated amount, based on our historical experience

No single customer represented 10 percent or more of the Company's net sales or trade receivables at year end 2004 and 2003. However, at year end 2004 and 2003, approximately 15 percent of trade accounts receivable were from eight customers of the Company's Office and Consumer Products segment. The

Company does not require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis.

### Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using methods that approximate both the first-in, first-out ("FIFO") and last-in, first-out ("LIFO") methods. Inventories valued using the LIFO method comprised 32 percent and 30 percent of inventories before LIFO adjustment at year end 2004 and 2003, respectively. Inventories at year end were as follows:

(In millions)	2004	2003
Raw materials	\$ 140.3	\$ 124.8
Work-in-progress	95.1	92.7
Finished goods	212.7	204.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	448.1	422.1
Less LIFO adjustment	(14.9)	(16.0)
	\$ 433.2	\$ 406.1

### Property, Plant and Equipment

Major classes of property, plant and equipment are stated at cost and were as follows:

(In millions)	2004	2003
Land	\$ 61.7	\$ 57.1
Buildings and improvements	633.6	579.3
Machinery and equipment	1,884.0	1,714.3
Construction-in-progress	140.4	149.6
	2,719.7	2,500.3
Accumulated depreciation	(1,338.7)	(1,206.3)
	\$ 1,381.0	\$ 1,294.0

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

### Software

The Company capitalizes software costs in accordance with American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and are included in "Other assets" in the Consolidated Balance Sheet. Capitalized software is amortized on a straight-line basis over the estimated



useful life of the software, which does not exceed ten years. Capitalized software costs were as follows:

(In millions)	2004	2003
Cost	\$ 219.4	\$ 206.2
Accumulated amortization	(103.3)	(87.8)
	<u>\$ 116.1</u>	<u>\$ 118.4</u>

### Impairment of Long-lived Assets

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. Historically, changes in market conditions and management strategy have caused the Company to reassess the carrying amount of its long-lived assets.

### Goodwill and Other Intangibles Resulting from Business Acquisitions

The Company accounts for all business combinations in accordance with SFAS No. 141, "Business Combinations." All business combinations are accounted for by the purchase method, and the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired is considered goodwill. As a result, the Company discloses goodwill separately from other intangible assets and, as of the beginning of fiscal 2002, has recorded no amortization of goodwill. Other acquisition intangibles are identified using the criteria included in this Statement, including trademarks and tradenames, patented and other acquired technology, customer relationships and other intangibles.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," at the beginning of fiscal 2002. Based on the changes to the reporting segments in 2004, the Company revised its reporting units for the purposes of performing the impairment tests for goodwill and other intangible assets; these units now consist of Pressure-sensitive Materials, Office and Consumer Products, Retail Information Services, specialty tapes, and industrial and automotive products. For the purposes of performing the required impairment tests, a present value (discounted cash flow) method was used to determine the fair value of the reporting units with goodwill. No goodwill and other intangible assets are associated with the specialty tapes reporting unit. The Company performed its annual impairment test in the fourth quarter of 2004, with an assessment that no impairment had occurred. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with

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

### Foreign Currency Translation

All asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenues and expenses are translated at the weighted-average currency rate for the fiscal year. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2004, 2003 and 2002 and the Dominican Republic in 2004. Gains and losses resulting from foreign currency transactions are included in income currently, except for gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements which are recorded directly to a component of other comprehensive income.

Transaction and translation losses decreased net income in 2004, 2003 and 2002 by \$8.2 million, \$.9 million and \$3.5 million, respectively.

### Financial Instruments

The Company enters into certain foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of its operations outside the U.S. The Company enters into certain interest rate contracts to help manage its exposure to interest rate fluctuations. The Company also enters into certain natural gas futures contracts to hedge price fluctuations for a portion of its anticipated domestic purchases. The maximum length of time in which the Company hedges its exposure to the variability in future cash flows for forecasted transactions is generally 12 months.

On the date the Company enters into a derivative contract, it determines whether the derivative will be designated as a hedge. Those derivatives not designated as hedges are recorded on the balance sheet at fair value, with changes in the fair value recognized currently in earnings. Those derivatives designated as hedges are classified as either (1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (a "fair value" hedge); or (2) a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge). The Company generally does not purchase or hold any foreign currency, interest rate or commodity contracts for trading purposes.

The Company assesses, both at the inception of the hedge and on an ongoing basis, whether hedges are highly effective. If it is determined that a hedge is not highly effective, the Company

prospectively discontinues hedge accounting. For cash flow hedges, the effective portion of the related gains and losses is recorded as a component of other comprehensive income, and the ineffective portion is reported currently in earnings. Amounts in accumulated other comprehensive loss are reclassified into earnings in the same period during which the hedged forecasted transaction is consummated. In the event the anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the instrument in earnings currently. Changes in fair value hedges are recognized currently in earnings. Changes in the fair value of underlying hedged items (such as unrecognized firm commitments) are also recognized currently in earnings and offset the changes in the fair value of the derivative.

For classification in the Statement of Cash Flows, hedge transactions are classified in the same category as the item hedged, primarily in operating activities.

#### Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable, and collection is reasonably assured. Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales.

#### Shipping and Handling Costs

Shipping and handling costs consist primarily of transportation charges incurred to move finished goods to customers. These costs are included in "Cost of products sold" for the Pressure-sensitive Materials segment and specialty tapes business (included with other specialty converting businesses). These costs are included in "Marketing, general and administrative expense" for the Office and Consumer Products segment, Retail Information Services segment and industrial and automotive products business (included with other specialty converting businesses). Shipping and handling costs included in "Marketing, general and administrative expense" were \$52.4 million, \$50.4 million and \$46.4 million for 2004, 2003 and 2002, respectively.

#### Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were \$11.2 million, \$8.2 million and \$8.3 million for 2004, 2003 and 2002, respectively. The Company's policy is to expense advertising costs as incurred.

#### Research and Development

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

2004, 2003 and 2002 was \$82.3 million, \$74.8 million and \$74.5 million, respectively.

#### Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. As these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

Product warranty liabilities were as follows:

(In millions)	2004	2003
Balance at beginning of year	\$ 2.5	\$ 1.4
Accruals for warranties issued	2.1	3.2
Payments	(2.3)	(2.1)
Balance at end of year	\$ 2.3	\$ 2.5

#### Stock-Based Compensation

The Company's policy is to price all stock option grants at fair market value on the date of grant. Under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company uses the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

In accordance with the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosures," the following table reflects pro forma net income and earnings per share had the Company elected to adopt the fair value approach of SFAS No. 123:

(In millions, except per share amounts)	2004	2003	2002
Net income, as reported	\$ 279.7	\$ 267.9	\$ 257.2
Compensation expense, net of tax	(18.7)	(19.4)	(16.5)
Pro forma net income	\$ 261.0	\$ 248.5	\$ 240.7
Earnings per share, as reported	\$ 2.80	\$ 2.70	\$ 2.61
Earnings per share, assuming dilution, as reported	2.78	2.68	2.59
Pro forma earnings per share	\$ 2.61	\$ 2.50	\$ 2.44
Pro forma earnings per share, assuming dilution	2.60	2.49	2.42

## Environmental Expenditures

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the remaining asset life. The Company reviews, on a quarterly basis, its estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated the Company as a potentially responsible party. When it is probable that obligations have been incurred and where a minimum cost or a reasonable estimate of the cost of compliance or remediation can be determined, the applicable amount is accrued. For other potential liabilities, the timing of accruals coincides with the related ongoing site assessments. Potential insurance reimbursements are not recorded or offset against the liabilities and liabilities are not discounted.

## Investment Tax Credits

Investment tax credits are accounted for in the period earned in accordance with the flow-through method.

## Taxes on Income

Deferred tax liabilities or assets reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce the Company's deferred tax assets to the amount that is more likely than not to be realized.

When establishing a valuation allowance, the Company considers future sources of income such as forecasted earnings, the mix of earnings in the jurisdictions in which the Company operates, and prudent and feasible tax planning. In the event the Company determines that it would not be able to realize the deferred tax assets in the future, the valuation adjustment to the deferred tax assets is charged to earnings in the period in which the Company makes such a determination. Likewise, if later it is determined that it is more likely than not that the deferred tax assets would be realized, the Company would reverse the previously provided valuation allowance.

The Company calculates its current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns generally filed during the following year. Adjustments based on filed returns are recorded when identified in the subsequent year.

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities. The Company's estimate of the potential outcome of any uncertain tax

issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimated tax liabilities in the period the assessments are made or resolved, which may impact the Company's effective tax rate on a quarterly basis.

## Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2004	2003	2002
(A) Income from continuing operations	\$ 279.7	\$ 242.8	\$ 249.8
(B) Income from discontinued operations	–	25.1	7.4
(C) Net income available to common shareholders	\$ 279.7	\$ 267.9	\$ 257.2
(D) Weighted-average number of common shares outstanding	99.9	99.4	98.5
Additional common shares issuable under employee stock options using the treasury stock method and contingently issuable shares under an acquisition agreement	.6	.6	.9
(E) Weighted-average number of common shares outstanding assuming the exercise of stock options and contingently issuable shares under an acquisition agreement	100.5	100.0	99.4
Income from continuing operations per common share (A) ÷ (D)	\$ 2.80	\$ 2.45	\$ 2.54
Income from discontinued operations per common share (B) ÷ (D)	–	.25	.07
Net income per common share (C) ÷ (D)	\$ 2.80	\$ 2.70	\$ 2.61
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	\$ 2.78	\$ 2.43	\$ 2.51
Income from discontinued operations per common share, assuming dilution (B) ÷ (E)	–	.25	.08
Net income per common share, assuming dilution (C) ÷ (E)	\$ 2.78	\$ 2.68	\$ 2.59

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of stock options excluded from the computation were 1.4 million, 3.8 million and .2 million for 2004, 2003 and 2002, respectively.

### Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was \$354.6 million and \$395.2 million for 2004 and 2003, respectively.

The components of accumulated other comprehensive loss at year end were as follows:

(In millions)	2004	2003
Foreign currency translation adjustment	\$ 127.2	\$ 39.3
Minimum pension liability	(110.9)	(96.0)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(19.0)	(20.9)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (2.7)</b>	<b>\$ (77.6)</b>

Cash flow and firm commitment hedging instrument activity in other comprehensive income (loss), net of tax, was as follows:

(In millions)	2004	2003
Beginning accumulated derivative loss	\$ (20.9)	\$ (25.3)
Net loss (gain) reclassified to earnings	6.1	(1.4)
Net change in the revaluation of hedging transactions	(4.2)	5.8
<b>Ending accumulated derivative loss</b>	<b>\$ (19.0)</b>	<b>\$ (20.9)</b>

In connection with the issuance of the \$250 million 10-year senior notes in January 2003 (see Note 4 "Debt," for further detail), the Company settled a forward starting interest rate swap at a loss of approximately \$32.5 million. This unrecognized loss is being amortized to interest expense over 10 years, which corresponds to the term of the related debt. The related interest expense recognized during 2004 and 2003 was approximately \$2.5 million and \$2.4 million, respectively.

### Recent Accounting Requirements

In December 2004, the Financial Accounting Standards Board ("FASB") reissued SFAS No. 123, "Share-Based Payment." This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements effective as of the beginning of the first interim or annual reporting period beginning after June 15, 2005. The Company will

adopt this Statement when it becomes effective. The Company estimates that the after-tax stock option expense for the second half of 2005 will be \$8 million to \$10 million.

In December 2004, the FASB issued Staff Position No. FAS 109-1, "Application of FASB Statement No. 109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." This Staff Position provides guidance on the application of SFAS No. 109, "Accounting for Income Taxes," to the provision of the American Jobs Creation Act of 2004 (the "Act") that provides a tax deduction on qualified production activities. The FASB staff believes that the deduction should be accounted for as a special deduction in accordance with SFAS No. 109. This Staff Position is effective immediately. Pursuant to the Act, the Company will be able to benefit from a tax deduction for qualified production activities in 2005. The Company will follow the provisions of this guidance when applicable.

In December 2004, the FASB issued Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." The Act provides for a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision). This Staff Position provides accounting and disclosure guidance for the repatriation provision and is effective immediately. The Company is currently assessing the provisions related to the one-time repatriation of accumulated foreign earnings. At this time, the Company's intention is to continue to reinvest its undistributed foreign earnings indefinitely.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criteria of "so abnormal." In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently reviewing the requirements of SFAS No. 151 and will adopt this Statement when it becomes effective.

In September 2004, the consensus of Emerging Issues Task Force ("EITF") Issue No. 04-10, "Applying Paragraph 19 of FASB Statement No. 131, 'Disclosures about Segments of an Enterprise and Related Information,' in Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds," was published. EITF Issue No. 04-10 addresses how an enterprise



should evaluate the aggregation criteria of SFAS No. 131 when determining whether operating segments that do not meet the quantitative thresholds may be aggregated in accordance with SFAS No. 131. The provisions of EITF Issue No. 04-10 were effective for fiscal years ending after October 13, 2004.

In September 2004, the consensus of EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination," was published. This Issue applies when two parties that have a pre-existing contractual relationship enter into a business combination. Specifically, the Issue is whether a consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of a pre-existing contractual relationship exists, thus requiring accounting separate from the business combination. The provisions of this consensus were effective for business combinations after October 13, 2004. The Company will follow the provisions of this Issue when appropriate.

In May 2004, the FASB issued Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," that provides guidance on the accounting for the effects of the new law regarding prescription drug benefits under Medicare for sponsors of postretirement health care benefits. Under the guidance, a subsidy could be provided to the Company if it is concluded that its prescription drug benefits available under the plan are actuarially equivalent to Medicare Part D. The Company has concluded that the prescription drug benefits available under the plan are actuarially equivalent to Medicare Part D; however, based on the Company's current estimates, the subsidy would not be significant to the Company's financial position.

In December 2003, the FASB reissued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106." This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement retains the disclosure requirements contained in the original SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revised Statement also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement

plans. Certain new provisions were effective for financial statements with fiscal years ending after December 15, 2003, while other provisions were effective for fiscal years ending after June 15, 2004. See Note 6 "Pensions and Other Postretirement Benefits," for disclosures required under the revised SFAS No. 132.

In December 2003, the FASB reissued Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51." The Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support. The provisions of this Interpretation were effective for interim periods ending after March 15, 2004. The adoption of this Interpretation has not had a significant impact on the Company's financial results of operations and financial position.

#### **Related Party Transactions**

From time to time, the Company enters into transactions in the normal course of business with related parties. Management believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of the Company's directors, Peter W. Mullin, is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC"), and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM (collectively referred to as the "Mullin Companies"). During 2004, 2003 and 2002, the Company paid premiums to insurance companies for life insurance placed by the Mullin Companies in connection with several of the Company's employee benefit plans. The Mullin Companies have advised the Company that MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.1 million, \$1.1 million and \$1.3 million in 2004, 2003 and 2002, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$.8 million, \$.7 million and \$.9 million in 2004, 2003 and 2002, respectively. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC) to administer benefit plans and provide benefit statements to participants under several of the Company's employee benefit plans. The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which the Company placed through the Mullin Companies in 2004 and prior years, are issued by insurance companies that participate in reinsurance agreements entered into between these insurance companies and a wholly-owned subsidiary of MFH. Reinsurance returns earned by

MFH can be negative or positive, depending upon the results of MFH's aggregate reinsurance pool, which is determined annually by MFH. The Mullin Companies have advised the Company that in 2004, they participated in reinsurance gains of MFH, of which approximately \$.2 million of net gains were ascribed by MFH to the Company's life insurance policies referred to above, and in which gains, Mr. Mullin had direct and indirect interests of approximately \$.2 million. None of these transactions were significant to the financial position or results of operations of the Company.

## NOTE 2. ACQUISITIONS

In 2004, the Company completed the acquisition of several small private companies, including Rinke Etiketten, based in Germany, at a total cost of approximately \$15 million. Goodwill recognized for these transactions amounted to \$13.2 million and identified amortizable intangible assets amounted to \$1.8 million. This goodwill is not expected to be deductible for U.S. tax purposes. The final allocation of identifiable intangible assets and fixed assets for Rinke Etiketten is currently being assessed by a third-party valuation expert. The results of operations for these companies have been included in the Company's Retail Information Services segment as of the acquisition dates.

In August 2003, the Company made a \$1.9 million payment in final settlement of all future performance-related obligations pursuant to the amended stock purchase agreement with the former shareholders of Dunsirn Industries, Inc. ("Dunsirn"), a company acquired in 2001. In February 2003, the Company paid an additional \$4.4 million related to meeting certain performance targets included in the 2001 stock purchase agreement with the shareholders of Dunsirn. These payments increased the excess of the cost-basis over the fair value of net tangible assets acquired related to Dunsirn to approximately \$37 million, with the change entirely attributable to goodwill. The operations of Dunsirn are included within the Company's Pressure-sensitive Materials segment.

The aggregate cost of acquired companies and contingent payments was approximately \$15 million and \$9 million in 2004 and 2003, respectively. Goodwill resulting from these business acquisitions was approximately \$13 million and \$7 million in 2004 and 2003, respectively. Intangibles resulting from these business acquisitions were approximately \$2 million and \$1 million in 2004 and 2003, respectively. These amounts do not include acquisition adjustments in the subsequent years following acquisition. Other acquisitions during 2004 and 2003 not described above were also not significant to the consolidated financial position of the

Company. Pro forma results for acquisitions in 2004 and 2003 are not presented, as the acquired businesses did not have a significant impact on the Company's results of operations for those years.

On November 5, 2002, the Company acquired RVL Packaging, Inc. ("RVL"), a provider of brand identification products to apparel manufacturers and retailers. On the same day, the Company also acquired the assets of L&E Packaging ("L&E"), one of RVL's suppliers. Both transactions included the acquisition of certain related entities. The RVL and L&E operations have been included in the Company's Retail Information Services segment as of the acquisition date. The final allocation of the purchase price for RVL and L&E has been made and is included in these financial statements. The completion of this allocation required certain adjustments involving goodwill during 2003. Additionally, certain tax assessments related to the acquisition of RVL required certain adjustments involving goodwill during 2004. Refer to Note 3 "Goodwill and Other Intangibles Resulting from Business Acquisitions," for further information.

In connection with the L&E acquisition, the Company issued 743,108 shares at \$63.08 per share. In the event the value of the Company's common shares falls below the price of the shares that were issued to L&E (adjusted for dividends received), during the period from January 1, 2005 through December 31, 2007, the Company may be obligated to pay the difference in value, in the form of cash or common shares, to L&E at the Company's option.

In connection with the RVL acquisition, the Company is obligated to make an additional payment in early 2005 of approximately \$1 million related to the achievement of certain performance targets. Because performance targets were not met in 2003, based on the same agreement, no additional payment was made in 2004.

On May 17, 2002, the Company acquired Jackstädt GmbH ("Jackstädt"), a manufacturer of pressure-sensitive adhesive materials. Jackstädt's results of operations have been included in the Company's Pressure-sensitive Materials segment as of the acquisition date. The final allocation of the purchase price has been made and is included in these financial statements. The completion of this allocation required certain adjustments involving goodwill during 2003. Refer to Note 3 "Goodwill and Other Intangibles Resulting from Business Acquisitions," for further information.

The Company has recognized certain costs related to exit activities and integration costs attributable to the Jackstädt acquisition. These costs totaling approximately \$25 million were recognized as

part of the assumed liabilities and included in "Other accrued liabilities" in the Consolidated Balance Sheet. The costs were primarily related to severance costs for involuntary terminations of approximately 560 employees of Jackstädt, to be paid through the end of 2005. At year end 2004, approximately \$.3 million of the \$25 million remained accrued. All of the employees affected by these actions had left the Company at the end of 2003. Also included were lease exit costs and costs to terminate contracts with sales agents.

The following represents the unaudited pro forma results of operations for the Company as though the acquisitions of Jackstädt, RVL and L&E had occurred at the beginning of 2002. The pro forma results included interest expense on additional debt that would have been needed to finance the purchases, amortization of intangibles that would have been acquired, and certain adjustments that

would have been required to conform to the Company's accounting policies. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

(Unaudited)

(In millions, except per share amounts)

	2002
Net sales from continuing operations	\$ 4,539.0
Net income	\$ 260.4
Net income per common share	\$ 2.64
Net income per common share, assuming dilution	2.62

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

Changes in the net carrying amount of goodwill from continuing operations for 2003 and 2004, by reportable segment, are as follows:

(In millions)	Pressure-sensitive Materials	Office and Consumer Products	Retail Information Services	Other specialty converting businesses	Total
Balance as of December 28, 2002	\$ 292.3	\$ 144.0	\$ 180.7	\$ 1.2	\$ 618.2
Goodwill acquired during the period	6.3	—	.7	—	7.0
Acquisition adjustments (see Note 2 "Acquisitions")	20.4	.2	11.9	—	32.5
Divestiture	—	—	—	(.9)	(.9)
Translation adjustments	41.9	16.3	1.6	—	59.8
Balance as of December 27, 2003	360.9	160.5	194.9	.3	716.6
Goodwill acquired during the period	—	—	13.2	—	13.2
Acquisition adjustments (see Note 2 "Acquisitions")	—	—	(5.3)	—	(5.3)
Translation adjustments	20.1	9.9	2.5	—	32.5
Balance as of January 1, 2005	\$ 381.0	\$ 170.4	\$ 205.3	\$ .3	\$ 757.0

The following table sets forth the Company's other intangible assets resulting from business acquisitions at January 1, 2005 and December 27, 2003, which continue to be amortized:

(In millions)	2004		2003		Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Amortizable other intangible assets:					
Tradenames and trademarks	\$ 45.7	\$ 25.8	\$ 19.9	\$ 18.5	\$ 24.2
Patented and other acquired technology	65.4	16.8	48.6	13.0	52.4
Customer relationships	92.7	16.6	76.1	11.3	72.8
Other intangibles	4.6	3.4	1.2	2.5	1.9
Total	\$ 208.4	\$ 62.6	\$ 145.8	\$ 45.3	\$ 151.3

Amortization expense on other intangible assets resulting from business acquisitions was \$13.8 million for 2004, \$13.3 million for 2003, and \$9.7 million for 2002. The weighted-average amortization periods for intangible assets resulting from business acquisitions are eleven years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-two years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for acquired intangible assets for each of the next five fiscal years is expected to be approximately \$14 million, \$13 million, \$10 million, \$8 million and \$8 million, respectively.

#### NOTE 4. DEBT

Long-term debt and its respective weighted-average interest rates at January 1, 2005 consisted of the following:

(In millions)	2004	2003
Medium-term notes		
Series 1993 at 6.7% – due 2005	\$ 23.0	\$ 28.0
Series 1994 at 7.7% – due 2004	–	80.0
Series 1995 at 7.3% – due 2005 through 2025	100.0	100.0
Series 1997 at 6.6% – due 2007	60.0	60.0
Series 1998 at 5.9% – due 2008	50.0	50.0
Senior notes due 2013 at 4.9%	250.0	250.0
Senior notes due 2033 at 6.0%	150.0	150.0
Senior notes due 2007 at a floating rate of 2.5%	150.0	–
Other long-term borrowings	7.0	7.7
Variable rate commercial paper borrowings		
at 2.21% classified as long-term	290.9	250.0
Less amount classified as current	(73.7)	(88.0)
	<u>\$ 1,007.2</u>	<u>\$ 887.7</u>

The Company's medium-term notes have maturities from 2005 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2005 through 2009 are \$73.7 million (classified as current), \$1.1 million, \$210.7 million, \$51.5 million and \$291.5 million, respectively, with \$452.4 million maturing thereafter.

In January 2003, the Company refinanced some of its variable rate commercial paper borrowings through the offering of \$250 million of 4.9 percent senior notes due 2013 and \$150 million of 6 percent senior notes due 2033. The aggregate \$400 million refinancing was issued under the Company's shelf registration statement filed with the Securities and Exchange Commission ("SEC") in the third quarter of 2001, permitting the Company to issue up to \$600 million

in debt and equity securities. In August 2004, the Company issued \$150 million in floating interest rate senior notes due 2007, under the 2001 shelf registration. These notes are callable at par by the Company after one year.

In the fourth quarter of 2004, the Company filed a shelf registration statement with the SEC to permit the issuance of up to \$500 million in debt and equity securities. Proceeds from the shelf offering may be used for general corporate purposes, including repaying, redeeming or repurchasing existing debt, and for working capital, capital expenditures and acquisitions. This registration statement replaced the 2001 shelf registration discussed above, which had a remaining \$50 million of issuance capacity. No securities were issued at year end 2004 under the new registration statement.

Variable rate commercial paper borrowings at January 1, 2005 were \$290.9 million with a weighted-average interest rate of 2.21 percent. These variable rate commercial paper borrowings were classified as long-term debt, because the Company has the ability and intent to refinance this debt under its \$525 million revolving credit agreement, discussed below.

In January 2004, the Company issued \$60 million of one-year callable commercial notes at a variable rate of 1.3 percent. In April 2004, the Company issued \$90 million of one-year callable commercial notes at a rate of 1.3 percent, which replaced the April 2003 one-year callable commercial notes. In August 2004, the Company called the \$90 million notes issued in April 2004. The remaining \$60 million was outstanding at year end with an interest rate of 2.5 percent.

At January 1, 2005, the Company had \$70.8 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 7.3 percent.

In July 2004, the Company entered into a revolving credit agreement with 10 domestic and foreign banks for a total commitment of \$525 million, expiring July 16, 2009. This revolving credit agreement replaces the Company's previous agreements for a \$250 million credit facility that would have expired July 1, 2006 and a \$200 million 364-day credit facility that would have expired December 3, 2004, both of which were terminated in connection with the new revolving credit agreement. Financing available under the new agreement is used as a commercial paper back-up facility and is also available to finance other corporate requirements. The terms of the new agreement are generally similar to the previous agreements. There was no debt outstanding under this agreement as of year end 2004.



In addition, the Company has a 364-day revolving credit facility with one foreign bank to provide up to Euro 30 million (\$40.6 million) in borrowings through May 25, 2005. The Company may annually extend the revolving period and due date with the approval of the bank. Financing under this agreement is used to finance cash requirements in Europe. There was no debt outstanding under this agreement as of year end 2004.

Uncommitted lines of credit were \$359.7 million at year end 2004. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

At January 1, 2005, the Company had available short-term financing arrangements totaling \$329.5 million.

Commitment fees relating to the financing arrangements are not significant.

The Company's total interest costs in 2004, 2003 and 2002 were \$61.8 million, \$64.6 million and \$48.6 million, respectively, of which \$3.3 million, \$6.1 million and \$3.9 million, respectively, were capitalized as part of the cost of assets.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on consolidated debt and consolidated interest expense in relation to certain measures of income. Under the loan agreements, the ratio of consolidated debt to consolidated earnings before other expense (see Note 10 "Components of Other Income and Expense"), interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2004 was 1.8 to 1.0. Consolidated earnings before other expense, interest and taxes, as a ratio to consolidated interest, may not be less than 3.5 to 1.0. The Company's ratio at year end 2004 was 8.0 to 1.0.

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debt of the same remaining maturities. At year end 2004 and 2003, the fair value of the Company's total debt, including short-term borrowings, was \$1.24 billion and \$1.21 billion, respectively.

The Company had standby letters of credit outstanding of \$81 million and \$195.5 million at the end of 2004 and 2003, respectively. The aggregate contract amount of all outstanding standby letters of credit approximated fair value.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products

businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. This obligation of \$101.5 million was included in "Other accrued liabilities" in the Consolidated Balance Sheet at December 27, 2003. The entire obligation was paid by the Company in February 2004.

#### NOTE 5. FINANCIAL INSTRUMENTS

For purposes of this footnote, the terms "cash flow hedge," "derivative instrument," "fair value," "fair value hedge," "financial instrument," "firm commitment," "ineffective," and "highly effective" are used as these terms are defined in SFAS No. 133, as amended.

During 2004, the amount recognized in earnings related to cash flow hedges that were ineffective was not significant. The reclassification from other comprehensive income to earnings for settlement or ineffectiveness was a net loss of \$6.1 million and a net gain of \$1.4 million during 2004 and 2003, respectively. A net loss of approximately \$5.6 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

In connection with the issuance of the \$250 million 10-year senior notes in January 2003, the Company settled a forward starting interest rate swap at a loss of \$32.5 million. This loss is being amortized to interest expense over a 10-year period, which corresponds to the term of the related debt.

The carrying value of the foreign exchange forward and natural gas futures contracts approximated the fair value, which, based on quoted market prices of comparable instruments, was a net liability of \$7.7 million and a net asset of \$2.3 million at the end of 2004 and 2003, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of \$.1 million at the end of 2003. The carrying value of the foreign exchange option contracts approximated the fair market value.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately \$9 million over a five-year period. In June 2003, this swap contract expired resulting in a loss of \$.6 million.

The counterparties to foreign exchange and natural gas forward, option and swap contracts consist of a large number of major international financial institutions. The Company centrally monitors its positions and the financial strength of its counterparties. Therefore, although the Company may be exposed to losses in the event of nonperformance by these counterparties, it does not anticipate any such losses.

## NOTE 6. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

**Defined Benefit Plans and Postretirement Health Benefits**

The Company sponsors a number of defined benefit plans covering substantially all U.S. employees, employees in certain other countries and non-employee directors. It is the Company's policy to make contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, as the Company's actuarial consultants determine and advise to be appropriate. Plan assets are generally invested in diversified portfolios that consist primarily of equity and fixed income securities. Benefits payable to employees are based primarily on years of service and employees' pay during their employment with the Company. Certain benefits provided by one of the Company's U.S. defined benefit plans may be paid, in part, from an employee stock ownership plan.

The Company provides postretirement health benefits to certain U.S. retired employees up to the age of 65 under a cost-sharing arrangement, and provides supplemental Medicare benefits to certain U.S. retirees over the age of 65. The Company's policy is to fund the cost of the postretirement benefits on a cash basis.

Assets of the Company's U.S. plans are invested in a diversified portfolio that consists primarily of equity and fixed income securities. Furthermore, equity investments are diversified across U.S.

and non-U.S. stocks, including growth, value and small and large capitalization stocks. The Company's target plan asset investment allocation in the U.S. is 75 percent in equity securities and 25 percent in fixed income securities, subject to periodic fluctuations in the respective asset classes above.

Assets of the Company's international plans are invested in accordance with local accepted practice, with asset allocations and investments varying by country and plan. Investments utilized by the various plans include equity securities, fixed income securities, real estate and insurance contracts.

The Company determines the long-term rate of return for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into consideration that assets with higher volatility typically generate a greater return over the long run. Additionally, current market conditions, such as interest rates, are evaluated and peer data is reviewed to check for reasonability and appropriateness.

The Company uses a November 30 measurement date for the majority of its U.S. plans and a fiscal year end measurement date for its international plans.

The Company has adopted the disclosure requirements of the reissued SFAS No. 132.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	Pension Benefits				U.S. Postretirement Health Benefits	
	2004		2003		2004	2003
(In millions)	U.S.	Int'l	U.S.	Int'l		
<b>Change in benefit obligation:</b>						
Benefit obligation at beginning of year	\$ 412.8	\$ 335.4	\$ 365.6	\$ 257.9	\$ 43.1	\$ 47.6
Service cost	16.8	10.4	12.3	8.5	1.4	1.4
Interest cost	25.5	18.2	25.0	15.2	2.2	2.9
Participant contribution	—	3.5	—	2.7	—	—
Amendments	13.1	6.3	—	(4.1)	—	(15.2)
Actuarial loss (gain)	20.3	.8	31.8	14.7	(1.6)	9.9
Plan transfer <sup>(1)</sup>	3.7	—	4.2	—	—	—
Benefits paid	(23.5)	(10.3)	(26.1)	(8.2)	(3.5)	(3.5)
Special termination benefits	—	1.4	—	—	—	—
Net transfer in <sup>(2)</sup>	—	7.0	—	4.8	—	—
Pension curtailment	—	(.6)	—	—	—	—
Foreign currency translation	—	35.8	—	43.9	—	—
Benefit obligation at end of year	\$ 468.7	\$ 407.9	\$ 412.8	\$ 335.4	\$ 41.6	\$ 43.1
Accumulated benefit obligation at end of year	\$ 463.1	\$ 390.2	\$ 406.9	\$ 314.3		

(1) Plan transfer represents transfer from the Company's Savings plan.

(2) Net transfer in represents valuation of an additional pension plan.

	Pension Benefits				U.S. Postretirement Health Benefits	
	2004		2003		2004	2003
(In millions)	U.S.	Int'l	U.S.	Int'l		
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of year	\$ 417.4	\$ 264.5	\$ 366.9	\$ 209.6	—	—
Actual return on plan assets	52.2	20.4	46.9	17.1	—	—
Plan transfer <sup>(1)</sup>	3.7	—	4.2	—	—	—
Employer contribution	26.6	9.8	25.5	5.5	\$ 3.5	\$ 3.5
Participant contribution	—	3.5	—	2.7	—	—
Benefits paid	(23.5)	(10.3)	(26.1)	(7.2)	(3.5)	(3.5)
Net transfer in <sup>(2)</sup>	—	3.2	—	—	—	—
Foreign currency translation	—	28.2	—	36.8	—	—
Fair value of plan assets at end of year	\$ 476.4	\$ 319.3	\$ 417.4	\$ 264.5	\$ —	\$ —
<b>Funded status of the plans:</b>						
Plan assets in excess of (less than) benefit obligation	\$ 7.7	\$ (88.6)	\$ 4.6	\$ (71.0)	\$ (41.6)	\$ (43.1)
Unrecognized net actuarial loss	108.1	132.8	101.1	120.3	19.1	21.4
Unrecognized prior service cost	9.7	7.6	(3.3)	.9	(12.9)	(13.8)
Unrecognized net asset	(.2)	(6.1)	(.7)	(7.1)	—	—
Net amount recognized	\$ 125.3	\$ 45.7	\$ 101.7	\$ 43.1	\$ (35.4)	\$ (35.5)
<b>Amounts recognized in the Consolidated Balance Sheet consist of:</b>						
Prepaid benefit cost	\$ 121.4	\$ 52.7	\$ 116.9	\$ 45.8	—	—
Accrued benefit liability	(84.6)	(94.1)	(91.4)	(69.5)	\$ (35.4)	\$ (35.5)
Intangible asset	6.8	1.4	4.4	.9	—	—
Other comprehensive income	81.7	85.7	71.8	65.9	—	—
Net amount recognized	\$ 125.3	\$ 45.7	\$ 101.7	\$ 43.1	\$ (35.4)	\$ (35.5)

(1) Plan transfer represents transfer from the Company's Savings plan.

(2) Net transfer in represents valuation of an additional pension plan.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for U.S. plans were \$311 million, \$308.3 million and \$223.8 million, respectively, at year end 2004 and \$281.7 million, \$277.5 million and \$186.3 million, respectively, at year end 2003.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for international plans were \$202.4 million, \$196.4 million and \$106.7 million, respectively, at year end 2004 and \$162.9 million, \$156.6 million and \$92 million, respectively, at year end 2003.

	Pension Benefits						U.S. Postretirement Health Benefits		
	2004		2003		2002		2004	2003	2002
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
<b>Weighted-average assumptions used for determining year end obligations:</b>									
Discount rate	6.00%	4.91%	6.25%	5.31%	7.00%	5.47%	5.75%	6.25%	7.00%
Rate of increase in future compensation levels	3.61	2.68	3.62	2.54	3.61	2.63	—	—	—

The following table sets forth the components of net periodic benefit cost (income):

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2004		2003		2002		2004	2003	2002
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
<b>Components of net periodic benefit cost (income):</b>									
Service cost	\$ 16.8	\$ 10.4	\$ 12.3	\$ 8.5	\$ 9.4	\$ 6.4	\$ 1.4	\$ 1.4	\$ .9
Interest cost	25.5	18.2	25.0	15.2	24.0	12.2	2.1	2.9	2.9
Expected return on plan assets	(42.4)	(21.2)	(40.3)	(19.1)	(41.0)	(16.8)	—	—	—
Recognized net actuarial loss (gain)	3.5	2.5	(.3)	1.3	(2.1)	.5	.7	.6	—
Amortization of prior service cost	.1	.2	.1	.4	.2	.4	(.9)	(.3)	.1
Amortization of transition obligation or asset	(.5)	(1.3)	(.5)	(1.1)	(.7)	(1.1)	—	—	—
Curtailment	—	.8	—	—	(.2)	(.2)	—	—	—
Net periodic benefit cost (income)	\$ 3.0	\$ 9.6	\$ (3.7)	\$ 5.2	\$ (10.4)	\$ 1.4	\$ 3.3	\$ 4.6	\$ 3.9

	Pension Benefits						U.S. Postretirement Health Benefits		
	2004		2003		2002		2004	2003	2002
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
<b>Weighted-average assumptions used for determining net periodic cost:</b>									
Discount rate	6.25%	5.31%	7.00%	5.47%	7.25%	5.88%	6.25%	7.00%	7.25%
Expected long-term rate of return on plan assets	9.00	6.48	9.00	6.83	9.50	7.07	—	—	—
Rate of increase in future compensation levels	3.62	2.54	3.61	2.63	4.10	3.67	—	—	—

For measurement purposes, a 9 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005. The rate is expected to decrease to 6 percent by 2008.

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

(In millions)	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	\$ .4	\$ (.4)
Effect on postretirement benefit obligation	4.0	(3.5)

As a result of changes in assumptions during 2004 and 2003, the accumulated benefit obligation in certain plans exceeded the fair value of the underlying pension plan assets and accrued pension liabilities. The Company's Consolidated Balance Sheet reflects an additional minimum pension liability of \$12.2 million and \$20.9 million in 2004 and 2003, respectively, for U.S. pension plans and an additional minimum pension liability of \$20.2 million and \$14.1 million in 2004 and 2003, respectively, for international pension plans.

These transactions generated a change in intangible pension assets of \$2.4 million and \$(1.0 million), respectively, in 2004 and 2003 for U.S. pension plans and \$.5 million and \$(4.3 million) in 2004 and 2003, respectively, for international pension plans with a charge to equity for the remainder.

The weighted-average asset allocations for the Company's pension plans at year end 2004 and 2003, by asset category are as follows:

	2004		2003	
	U.S.	Int'l	U.S.	Int'l
Equity securities	79%	60%	78%	59%
Fixed income securities	21	37	22	37
Other	—	3	—	4
Total	100%	100%	100%	100%

The Company expects to contribute a minimum of \$14.8 million and \$6.9 million to its U.S. pension plans and international pension plans, respectively, and approximately \$3.3 million to its postretirement benefit plan in 2005.



Benefit payments, which reflect expected future services are as follows:

(In millions)	Pension Benefits		U.S. Post-retirement Health Benefits
	U.S.	Int'l	
2005	\$ 26.8	\$ 11.9	\$ 3.3
2006	28.0	12.1	3.1
2007	28.5	13.3	3.0
2008	29.3	14.6	2.7
2009	29.8	16.6	2.4
2010–2014	155.4	96.6	11.5

#### Defined Contribution Plans

The Company sponsors various defined contribution plans worldwide with the largest being the one covering its U.S. employees, including a 401(k) savings plan. The Company matches participant contributions to the 401(k) savings plan based on a formula within the plan. The Avery Dennison Corporation Employee Savings Plan ("Savings Plan") has a leveraged employee stock ownership plan ("ESOP") feature, which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consists primarily of stock contributions from the ESOP to participant accounts.

ESOP expense is accounted for under the cost of shares allocated method. Total ESOP expense (income) for 2004, 2003 and 2002 was \$.7 million, \$.7 million and \$(.1 million), respectively. Company contributions to pay interest or principal on ESOP borrowings were \$1.1 million, \$1.1 million and \$.8 million in 2004, 2003 and 2002, respectively.

Interest costs incurred by the ESOP for 2004, 2003 and 2002 were \$.3 million, \$.3 million and \$.5 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.3 million, \$1.5 million and \$1.6 million for 2004, 2003 and 2002, respectively.

The cost of shares allocated for the ESOP to 2004, 2003 and 2002 was \$2.1 million, \$2.2 million and \$1.6 million, respectively. Of the total shares held by the ESOP, 3.2 million shares were allocated and .8 million shares were unallocated at year end 2004, and 3.7 million shares were allocated and 1.0 million shares were unallocated at year end 2003.

#### Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2004 and 2003, the Company had accrued \$145.4 million and \$129.4 million, respectively, for its obligations under these plans. These obligations are funded by insurance policies and standby letters of credit. As of year end 2004 and 2003, these obligations were secured by standby letters of credit of \$63 million and \$75 million, respectively. The Company's expense, which includes Company contributions and interest expense, was \$13.8 million, \$11 million and \$10 million for 2004, 2003 and 2002, respectively. A portion of the interest on certain Company contributions may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

To assist in the funding of these plans, the Company purchases corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of the participant. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet, was \$140.8 million and \$124.1 million at year end 2004 and 2003, respectively.

#### NOTE 7. COMMITMENTS

Minimum annual rental commitments on operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

Year	(In millions)
2005	\$ 53.3
2006	40.7
2007	29.0
2008	19.5
2009	13.7
Thereafter	39.1
Total minimum lease payments	\$ 195.3

Operating leases relate primarily to office and warehouse space, equipment for electronic data processing and transportation. The terms of these leases do not impose significant restrictions or unusual obligations. There are no significant capital leases.

Rent expense for 2004, 2003 and 2002 was \$67 million, \$65 million and \$60 million, respectively.

## NOTE 8. CONTINGENCIES

**Industry Investigations**

On April 14, 2003, the Company announced that it had been advised that the U.S. Department of Justice was challenging the proposed merger of UPM-Kymmene ("UPM") and the Morgan Adhesives ("MACtac") division of Bemis Co., Inc. ("Bemis") on the basis of its belief that in certain aspects of the label stock industry "the competitors have sought to coordinate rather than compete." The Company also announced that it had been notified that the U.S. Department of Justice had initiated a criminal investigation into competitive practices in the label stock industry.

On April 15, 2003, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Northern District of Illinois seeking to enjoin the proposed merger ("DOJ Merger Complaint"). The complaint, which set forth the U.S. Department of Justice's theory of its case, included references not only to the parties to the merger, but also to an unnamed "Leading Producer" of North American label stock, which is the Company. The complaint asserted that "UPM and the Leading Producer have already attempted to limit competition between themselves, as reflected in written and oral communications to each other through high level executives regarding explicit anticompetitive understandings, although the extent to which these efforts have succeeded is not entirely clear to the United States at the present time."

In connection with the U.S. Department of Justice's investigation into the proposed merger, the Company produced documents and provided testimony by Messrs. Neal, Scarborough and Simcic (CEO, President and Group Vice President – Roll Materials Worldwide, respectively). On July 25, 2003, the United States District Court for the Northern District of Illinois entered an order enjoining the proposed merger. UPM and Bemis thereafter agreed to terminate the merger agreement. The court's decision incorporated a stipulation by the U.S. Department of Justice that the paper label industry is competitive.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action in the United States District Court for the Northern District of Illinois against the Company, UPM, Bemis and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consoli-

dated for pretrial purposes. On January 21, 2004, plaintiff Pamco Tape & Label voluntarily dismissed its complaint, leaving a total of ten named plaintiffs. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. The Company intends to defend these matters vigorously.

On May 6, 2003, Sekuk Global Enterprises filed a purported stockholder class action in the United States District Court for the Central District of California against the Company and Messrs. Neal, O'Bryant and Skovran (CEO, CFO and Controller, respectively) seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. Subsequently, another similar action was filed in the same court. On September 24, 2003, the court appointed a lead plaintiff and approved lead and liaison counsel and ordered the two actions consolidated as the "In Re Avery Dennison Corporation Securities Litigation." Pursuant to court order and the parties' stipulation, plaintiff filed a consolidated complaint in mid-February 2004. The court approved a briefing schedule for defendants' motion to dismiss the consolidated complaint, with a contemplated hearing date in June 2004. In January 2004, the parties stipulated to stay the consolidated action, including the proposed briefing schedule, pending the outcome of the government investigation of alleged anticompetitive conduct by the Company. The court has approved the parties' stipulation to stay the consolidated actions and scheduled the next status conference for March 28, 2005. There has been no discovery and no trial date has been set. The Company intends to defend these matters vigorously.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint was filed in the Superior Court for Maricopa County, Arizona on November 6, 2003. Plaintiffs voluntarily dismissed the Arizona complaint without prejudice on October 4, 2004. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect

purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Webtego on February 16, 2005, in the Court of Common Pleas for Cuyahoga County, Ohio, and by D.R. Ward Construction Co. on February 17, 2005, in the Superior Court for Maricopa County, Arizona. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. The Company intends to defend these matters vigorously.

On August 15, 2003, the U.S. Department of Justice issued a subpoena to the Company in connection with its criminal investigation into competitive practice in the label stock industry. The Company is cooperating in the investigation, and has produced documents in response to the subpoena.

On June 8, 2004, Pamco Tape & Label filed in the Superior Court for the County of San Francisco, California, a purported class action on behalf of direct purchasers in California of self-adhesive label stock, against the Company, Bemis, UPM and Raflatrac, seeking actual damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. The Company intends to defend this matter vigorously.

On May 25, 2004, officials from the European Commission ("EC"), assisted by officials from national competition authorities, launched unannounced inspections of and obtained documents from the Company's pressure-sensitive materials facilities in the Netherlands and Germany. The investigation apparently seeks evidence of unlawful anticompetitive activities affecting the European paper and forestry products sector, including the label stock market. The Company is cooperating with the investigation.

Based on published press reports, certain other European producers of paper and forestry products received similar visits from European authorities. One such producer, UPM, stated that it had decided to disclose to competition authorities "any conduct that has not comported with applicable competition laws," and that it had received conditional immunity in the European Union and Canada with respect to certain conduct it has previously disclosed to them, contingent on full cooperation.

In the course of its internal examination of matters pertinent to the EC's investigation of anticompetitive activities affecting the European paper and forest products sector, the Company discovered instances of improper conduct by certain employees in its European operations. This conduct violated the Company's policies and in some cases constituted an infringement of EC competition law. As a result, the Company expects that the EC will fine the

Company when its investigation is completed. The EC has wide discretion in fixing the amount of a fine, up to a maximum fine of 10 percent of a company's annual revenue. Because the Company is unable to estimate either the timing or the amount or range of any fine, the Company has made no provision for a fine in its financial statements. However, the Company believes that the fine could well be material in amount. There can be no assurance that additional adverse consequences to the Company will not result from the conduct discovered by the Company or other matters under EC or other laws. The Company is cooperating with authorities, continuing its internal examination, and taking remedial actions.

On July 9, 2004, the Competition Law Division of the Department of Justice of Canada notified the Company that it was seeking information from the Company in connection with a label stock investigation. The Company is cooperating with the investigation.

The Board of Directors has created an ad hoc committee comprised of independent directors to oversee the foregoing matters.

The Company is unable to predict the effect of these matters at this time, although the effect could well be adverse and material.

## Environmental

The Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at thirteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites which could be identified in the future for cleanup could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company and, based upon current information, management believes it is unlikely that the final resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

## Other

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, management believes that the resolution of these other matters will not materially affect the Company.

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At January 1, 2005, the Company had guaranteed approximately \$18 million.

The Company guaranteed up to approximately \$20 million of certain foreign subsidiaries' obligations to their suppliers as of January 1, 2005.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. This obligation of \$101.5 million was included in "Other accrued liabilities" in the Consolidated Balance Sheet at December 27, 2003. The Company paid the entire obligation in February 2004 for \$105.8 million, which included the impact of foreign currency translation.

In February 2003, the Company entered into a five-year operating lease on equipment that contains a residual value guarantee of \$10.6 million. Management does not expect the residual value of the equipment to vary significantly from the amount guaranteed.

## NOTE 9. SHAREHOLDERS' EQUITY

### Common Stock and Common Stock Repurchase Program

The Company's Certificate of Incorporation authorizes five million shares of \$1 par value preferred stock (none outstanding), with respect to which the Board of Directors may fix the series and terms of issuance, and 400 million shares of \$1 par value voting common stock.

In December 1997, the Company redeemed the outstanding preferred stock purchase rights and issued new preferred stock purchase rights, declaring a dividend of one such right on each outstanding share of common stock, and since such time, the Company has issued such rights with each share of common stock that has been subsequently issued. When exercisable, each new right will entitle its holder to buy one one-hundredth of a share

of Series A Junior Participating Preferred Stock at a price of \$150 per one one-hundredth of a share until October 31, 2007. The rights will become exercisable if a person acquires 20 percent or more of the Company's common stock or makes an offer, the consummation of which will result in the person's owning 20 percent or more of the Company's common stock. In the event the Company is acquired in a merger, each right entitles the holder to purchase common stock of the acquiring company having a market value of twice the exercise price of the right. Likewise, if a person or group acquires 20 percent or more of the Company's common stock, each right entitles the holder to purchase the Company's common stock with a market value equal to twice the exercise price of the right. The rights may be redeemed by the Company at a price of one cent per right at any time prior to a person's or group's acquiring 20 percent of the Company's common stock. The 20 percent threshold may be reduced by the Company to as low as 10 percent at any time prior to a person's acquiring a percent of Company stock equal to the lowered threshold.

The Board of Directors has authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At year end 2004, approximately 3.2 million shares remain available for repurchase pursuant to this authorization.

### Stock Option and Incentive Plans

The Board of Directors previously authorized the issuance of up to 18 million shares to be used for the issuance of stock options and the funding of other Company obligations arising from various employee benefit plans. The remaining shares available are held in the Company's Employee Stock Benefit Trust ("ESBT"). The ESBT common stock is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

The Company maintains various stock option and incentive plans which are fixed employee stock-based compensation plans. Under the plans, incentive stock options and stock options granted to directors may be granted at not less than 100 percent of the fair market value of the Company's common stock on the date of the grant, whereas nonqualified options granted to employees may be issued at prices no less than par value. The Company's policy is to price stock option grants at fair market value on the date of the grant. Options generally vest ratably over a two-year period for directors, or over a four-year period for employees. Options for certain officers may cliff-vest over a 3- to 9.75-year period based on the Company's performance. Unexercised options expire ten years from the date of grant.



The following table sets forth stock option information relative to these plans (options in thousands):

	2004		2003		2002	
	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options
Outstanding at beginning of year	\$ 52.66	7,951.9	\$ 51.10	6,942.4	\$ 46.07	6,843.1
Granted	59.22	2,381.7	55.66	1,490.8	62.80	1,384.4
Exercised	36.02	(586.5)	26.09	(267.1)	33.50	(1,050.1)
Forfeited or expired	58.38	(243.4)	56.41	(214.2)	51.88	(235.0)
Outstanding at year end	55.18	9,503.7	52.66	7,951.9	51.10	6,942.4
Options exercisable at year end	\$ 50.14	3,684.6	\$ 46.64	3,428.1	\$ 41.91	2,939.3

The following table summarizes information on fixed stock options outstanding at January 1, 2005 (options in thousands):

	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
Range of exercise prices					
\$ 23.63 to 49.97	1,498.0	3.1	\$ 40.72	1,469.1	\$ 40.62
50.03 to 59.75	6,672.2	8.0	56.88	1,965.7	55.61
60.29 to 67.31	1,333.5	7.8	62.90	249.8	63.11
\$ 23.63 to 67.31	9,503.7	7.2	\$ 55.18	3,684.6	\$ 50.14

The weighted-average fair value per share of options granted during 2004, 2003 and 2002 was \$11.18, \$11.71 and \$16.94, respectively. Option grant date fair values were determined using the Black-Scholes option pricing model. The underlying assumptions used were as follows:

	2004	2003	2002
Risk-free interest rate	3.86%	3.86%	4.43%
Expected stock price volatility	19.81	21.41	29.06
Expected dividend yield	3.01	2.59	2.14
Expected option term	7 years	7 years	7 years

#### NOTE 10. COMPONENTS OF OTHER INCOME AND EXPENSE

In the second quarter of 2004, the Company recorded a pretax charge of \$13.8 million relating to restructuring costs, asset impairments and planned disposition of property, plant and equipment, and lease cancellation costs primarily associated with the completion of the Company's integration of the Jackstädt acquisition in the Company's Pressure-sensitive Materials segment, as well as cost reduction actions in the Office and Consumer Products segment and Retail Information Services segment.

The charge included severance and related costs of \$7.7 million (\$7 million for approximately 175 positions in the Pressure-sensitive Materials segment, \$.5 million for approximately 5 positions in the Office and Consumer Products segment and \$.2 million for approximately 15 positions in the Retail Information Services segment),

which represent cash paid or to be paid to employees terminated under these actions. At January 1, 2005, \$.4 million remained accrued for severance and related costs (included in "Other accrued liabilities" in the Consolidated Balance Sheet), and of the approximately 195 positions affected under these actions, approximately 185 employees (approximately 170 employees from the Pressure-sensitive Materials segment, approximately 5 employees from the Office and Consumer Products segment and approximately 10 employees from the Retail Information Services segment) had left the Company. The remaining employees impacted by these actions are expected to leave the Company by 2005 and final payments to the terminated employees will be made during 2005.

Also included in the \$13.8 million pretax charge was a charge of \$6.1 million for asset impairments and planned disposition of property, plant and equipment, lease cancellation costs and other associated costs in the Pressure-sensitive Materials segment. Asset impairments were based on the market values for similar assets. Of the total charge, \$4.5 million related to asset impairments and planned disposition of property, plant and equipment (\$2.8 million of buildings and land and \$1.7 million of machinery and equipment), \$.2 million related to lease cancellation costs and \$1.4 million for other associated costs. The Company completed the payments for the lease cancellation costs in September 2004.

In the first quarter of 2004, the Company recorded a pretax charge of \$21.4 million relating to restructuring costs and asset impairment charges as part of the Company's integration of the Jackstädt acquisition in the Company's Pressure-sensitive Materials segment. Asset impairments were based on the market values for similar assets. The charge included severance and related costs of \$15.9 million, which represent cash paid or to be paid to employees terminated under these actions, involving the elimination of approximately 210 positions. These employees had left the Company in 2004 and final payments to the terminated employees will be made in 2005. At January 1, 2005, \$3.2 million remained accrued for severance and related costs (included in the "Other accrued liabilities" in the Consolidated Balance Sheet). Also included in the charge was \$2.9 million related to impairment of software and \$2.6 million related to impairment and planned disposition of machinery and equipment.

In the fourth quarter of 2003, the Company recorded a pretax charge of \$34.3 million relating to integration actions and productivity improvement initiatives, as well as net losses associated with several product line divestitures. The charge included severance and related costs of \$22 million related to the elimination of approximately 530 positions worldwide (\$10.3 million for approximately 180 positions in the Pressure-sensitive Materials segment, \$8.7 million for approximately 255 positions in the Office and Consumer Products segment, \$2.6 million for approximately 80 employees in the Retail Information Services segment and \$.4 million for approximately 15 positions in Corporate). Severance and related costs represent cash paid or to be paid to employees terminated under these actions. At January 1, 2005, \$1.3 million remained accrued for severance and related costs (included in "Other accrued liabilities" in the Consolidated Balance Sheet) and of the approximately 530 positions affected under these actions, approximately 495 employees (approximately 255 employees from the Office and Consumer Products segment, approximately 145 employees from the Pressure-sensitive Materials segment, approximately 80 employees in the Retail Information Services segment and approximately 15 Corporate employees) had left the Company. The remaining employees impacted by these actions are expected to leave the Company in 2005 and final payments to the terminated employees will be made in 2006.

Also included in the \$34.3 million pretax charge was \$8.2 million for asset impairments and planned disposition of property, plant and equipment, lease cancellation costs and other associated costs. Asset impairments were based on the market values for similar assets. Of the total charge, \$4.2 million related to impairment of production software assets in the Retail Information Services segment, \$3.4 million (\$3.2 million in the Pressure-sensitive Materials segment and \$.2 million in the Retail Information Services segment) related to asset impairments and planned disposition of property, plant and equipment (\$2.5 million for buildings and land and \$.9 million for machinery and equipment), \$.3 million related to lease cancellation costs and \$.3 million for other associated costs. The Company completed the payments for the lease cancellation costs in 2004.

Other expense, net (approximately \$30.5 million), for 2003 also included a \$9 million pretax gain from the settlement of a lawsuit during the second quarter of 2003, partially offset by net losses of approximately \$5 million from disposition of fixed assets, asset impairments and costs associated with a plant closure.

In the fourth quarter of 2002, the Company recorded a \$10.7 million pretax charge (\$4.7 million in the Pressure-sensitive Materials segment, \$4.4 million in the Office and Consumer Products segment and \$1.6 million in the Retail Information Services segment) relating to cost reduction actions and the reorganization of manufacturing and administrative facilities. This charge represented severance and related costs associated with the elimination of approximately 300 positions worldwide. The positions eliminated included approximately 70 employees in the Pressure-sensitive Materials segment, approximately 180 employees in the Office and Consumer Products segment and approximately 50 positions in the Retail Information Services segment. The employees terminated under these actions had left the Company and final payments were made in 2004.

In the third quarter of 2002, the Company recorded lease cancellation costs of \$3.9 million. The Company expects to pay the lease cancellation costs through 2011.

The table below details lease cancellation cost activities:

(In millions)	Total
Balance as of December 28, 2002	\$ 3.7
Additional accrual	.3
Cancellation costs paid	(.9)
Balance as of December 27, 2003	3.1
Additional accrual	.2
Cancellation costs paid	(1.8)
Balance as of January 1, 2005	\$ 1.5

#### NOTE 11. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2004	2003	2002
Current:			
U.S. federal tax	\$ 35.7	\$ 48.4	\$ 43.0
State taxes	6.0	8.3	3.3
International taxes	65.0	55.6	39.1
	106.7	112.3	85.4
Deferred:			
U.S. federal tax	8.7	5.0	8.3
State taxes	2.7	—	2.7
International taxes	(24.4)	(16.9)	11.2
	(13.0)	(11.9)	22.2
Taxes on income	\$ 93.7	\$ 100.4	\$ 107.6

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

(In millions)	2004	2003	2002
Computed tax at 35% of income from			
continuing operations before taxes	\$ 130.6	\$ 117.2	\$ 124.0
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	6.9	5.4	3.8
Foreign earnings taxed at different rates	(41.7)	(31.8)	(25.3)
Valuation allowance	15.3	9.8	13.2
Tax credits	(6.6)	(4.5)	(6.9)
Tax audit settlements	(7.9)	—	—
Other items, net	(2.9)	(4.0)	(4.3)
Taxes on income from continuing operations	93.7	92.1	104.5
Taxes on income and gain on sale of discontinued operations	—	8.3	3.1
Taxes on income	\$ 93.7	\$ 100.4	\$ 107.6

Consolidated income before taxes for U.S. and international operations was as follows:

(In millions)	2004	2003	2002
U.S.	\$ 166.4	\$ 152.0	\$ 194.4
International	207.0	182.9	159.9
Income from continuing operations before taxes	373.4	334.9	354.3
Income from discontinuing operations before taxes	—	33.4	10.5
Income before taxes	\$ 373.4	\$ 368.3	\$ 364.8

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries of approximately \$1.03 billion and \$918.6 million at year ended 2004 and 2003, respectively, because such earnings are considered to be reinvested indefinitely outside the U.S. If these earnings were repatriated to the U.S., the Company would be required to accrue and pay additional taxes based on the current tax rates in effect. However, the additional taxes would be substantially offset by income tax credits.

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. The Company is currently assessing the various provisions of this Act, including the provision for a one-time repatriation of certain foreign earnings. However, the Company does not expect to be able to complete its evaluation of the repatriation requisites until after the U.S. Congress or the Treasury Department provide additional clarifying language on key elements of the provision. The Company's current intention is to continue to reinvest its undistributed foreign earnings indefinitely.

Operating loss carryforwards of foreign subsidiaries for 2004 and 2003 are \$252.5 million and \$125.6 million, respectively; credit carryforwards related to foreign investment tax credits totaled \$3.5 million. Net operating losses of \$150 million will start expiring after 2009 and beyond, while net operating losses of \$102.5 million can be carried forward indefinitely. The foreign investment tax credit carryforwards begin to expire in 2013. The Company has established a valuation allowance for the net operating loss and credit carryforwards not expected to be utilized. Fully-valued state credit carryforwards amounted to \$3.3 million at the end of 2004.

Total tax benefits resulting from the exercise of employee stock option programs recorded in stockholders' equity for 2004 and 2003 was approximately \$4 million for both years.

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded

for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that give rise to the Company's deferred tax assets and liabilities were as follows:

(In millions)	2004	2003
Accrued expenses not currently deductible	\$ 30.4	\$ 27.1
Net operating losses and foreign tax credit carryforwards	73.4	34.1
Postretirement and postemployment benefits	50.9	43.2
Pension costs	3.8	9.0
Depreciation and amortization	(150.3)	(138.2)
Inventory reserves	11.3	11.0
Other	4.3	3.3
Valuation allowance	(49.9)	(27.4)
Total net deferred tax liabilities	\$ (26.1)	\$ (37.9)

The Company is subject to ongoing tax examinations by the Internal Revenue Service ("IRS") and other tax authorities in various jurisdictions. United States federal income tax returns filed by the Company through December 31, 2000, have been examined and closed by the IRS.

#### NOTE 12. SEGMENT INFORMATION

As described in Note 1 "Summary of Significant Accounting Policies," the Company reorganized its reporting segments during the fourth quarter of 2004. Accordingly, the financial information presented below reflects restated information for both 2003 and 2002 for comparability.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales are recorded at or near market prices and are eliminated in determining consolidated sales. The Company evaluates performance based on income from operations before interest expense and taxes. General corporate expenses are also excluded from the computation of income from operations.

The Company does not disclose total assets by operating segment since the Company does not produce and review such information internally. The Company does not disclose revenues from external customers for each product because it is impracticable to do so. As the Company's reporting structure is not organized by country, results by individual country are not provided because it is impracticable to do so.



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

(In millions)	2004 <sup>(1)</sup>	2003 <sup>(2)</sup>	2002 <sup>(3)</sup>
<b>Net sales to unaffiliated customers:</b>			
Pressure-sensitive Materials	\$ 3,008.5	\$ 2,572.6	\$ 2,184.6
Office and Consumer Products	1,172.5	1,168.1	1,143.0
Retail Information Services	636.1	552.7	374.9
Other specialty converting businesses	523.8	469.2	453.4
<b>Net sales to unaffiliated customers</b>	<b>\$ 5,340.9</b>	<b>\$ 4,762.6</b>	<b>\$ 4,155.9</b>

**Intersegment sales:**

Pressure-sensitive Materials	\$ 169.3	\$ 175.5	\$ 166.2
Office and Consumer Products	2.2	2.3	2.3
Retail Information Services	8.8	7.5	3.4
Other specialty converting businesses	16.8	14.5	15.5
Eliminations	(197.1)	(199.8)	(187.4)
<b>Intersegment sales</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Income from operations before taxes:**

Pressure-sensitive Materials	\$ 219.0	\$ 176.6	\$ 177.7
Office and Consumer Products	186.4	188.5	184.1
Retail Information Services	47.8	24.2	29.1
Other specialty converting businesses	51.5	43.7	40.3
Corporate administrative and research and development expenses	(72.8)	(39.6)	(32.2)
Interest expense	(58.5)	(58.5)	(44.7)
<b>Income before taxes</b>	<b>\$ 373.4</b>	<b>\$ 334.9</b>	<b>\$ 354.3</b>

**Capital expenditures:**

Pressure-sensitive Materials	\$ 116.9	\$ 134.3	\$ 91.9
Office and Consumer Products	19.6	17.0	22.0
Retail Information Services	38.3	26.7	15.3
Other specialty converting businesses	17.3	18.9	11.9
Corporate	13.6	4.5	9.3
<b>Capital expenditures<sup>(4)</sup></b>	<b>\$ 205.7</b>	<b>\$ 201.4</b>	<b>\$ 150.4</b>

**Depreciation expense:**

Pressure-sensitive Materials	\$ 82.1	\$ 79.5	\$ 64.0
Office and Consumer Products	25.3	25.7	24.0
Retail Information Services	15.3	13.7	11.4
Other specialty converting businesses	17.6	18.2	19.5
Corporate	6.9	6.8	6.2
<b>Depreciation expense</b>	<b>\$ 147.2</b>	<b>\$ 143.9</b>	<b>\$ 125.1</b>

(1) Results for 2004 include a pretax charge of \$35.2 for restructuring costs, asset impairment and lease cancellation charges, of which the Pressure-sensitive Materials segment recorded \$34.5, the Office and Consumer Products segment recorded \$.5 and the Retail Information Services segment recorded \$.2. See Note 10, "Components of Other Income and Expense," for further information.

(2) Results for 2003 include a net pretax charge of \$30.5 for asset impairments, restructuring costs, lease cancellation costs and net losses associated with several product line divestitures, partially offset by gain from settlement of a lawsuit during the second quarter of 2003, of which the Pressure-sensitive Materials segment recorded \$13.6, the Office and Consumer Products segment recorded \$12.5, the Retail Information Services segment recorded \$7, the other specialty converting businesses recorded \$2.5 and Corporate recorded \$(5.1). See Note 10, "Components of Other Income and Expense," for further information.

(3) Results for 2002 include a pretax charge of \$32.1 for asset impairments, restructuring and lease cancellation charges, of which the Pressure-sensitive Materials segment recorded \$22, the Office and Consumer Products segment recorded \$7.3 and the Retail Information Services segment recorded \$2.8. See Note 10, "Components of Other Income and Expense," for further information.

(4) While capital expenditures totaled \$205.7 for 2004, the amount in the Consolidated Statement of Cash Flows was approximately \$27 lower due to the timing of the actual payments (which will impact 2005 Consolidated Statement of Cash Flows).

Financial information relating to the Company's continuing operations by geographic area is set forth below:

(In millions)	2004	2003	2002
<b>Net sales:</b>			
U.S.	\$ 2,619.0	\$ 2,497.9	\$ 2,438.5
International	2,937.4	2,479.9	1,895.8
Intergeographic	(215.5)	(215.2)	(178.4)
<b>Net sales</b>	<b>\$ 5,340.9</b>	<b>\$ 4,762.6</b>	<b>\$ 4,155.9</b>

**Property, plant and equipment, net:**

U.S.	\$ 606.2	\$ 614.2	\$ 659.4
International	774.8	679.8	525.0
<b>Property, plant and equipment, net</b>	<b>\$ 1,381.0</b>	<b>\$ 1,294.0</b>	<b>\$ 1,184.4</b>

Revenues are attributed to geographic areas based on the location to which the product is shipped. The Company's international operations, conducted primarily in Europe, are on the FIFO basis of inventory cost accounting. U.S. operations use both FIFO and LIFO. Export sales from the United States to unaffiliated customers are not a material factor in the Company's business.

## NOTE 13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per share data)	First Quarter <sup>(1)</sup>	Second Quarter <sup>(2)</sup>	Third Quarter	Fourth Quarter <sup>(3)</sup>
<b>2004</b>				
Net sales from				
continuing operations	\$ 1,246.7	\$ 1,324.0	\$ 1,336.2	\$ 1,434.0
Gross profit from				
continuing operations	366.5	390.6	389.4	433.0
Net income	52.6	68.5	75.0	83.6
Net income per				
common share	.53	.69	.75	.84
Net income per common				
share, assuming dilution	.52	.68	.75	.83
<b>2003<sup>(4)</sup></b>				
Net sales from				
continuing operations	\$ 1,135.2	\$ 1,192.2	\$ 1,204.1	\$ 1,231.1
Gross profit from				
continuing operations	358.4	371.4	355.5	372.7
Net income	70.8	71.3	66.5	59.3
Net income per				
common share	.71	.72	.67	.60
Net income per common				
share, assuming dilution	.71	.71	.67	.59

(1) Results in the first quarter 2004 include a \$21.4 pretax charge for restructuring costs and asset impairment charges.

(2) Results in the second quarter 2004 include a \$13.8 pretax charge for restructuring costs, asset impairment and lease cancellation charges. Results in the second quarter 2003 include a \$9 pretax gain from the settlement of a lawsuit.

(3) Results in the fourth quarter 2003 include a \$34.3 pretax charge for restructuring costs, asset impairment and lease cancellation charges and net losses associated with several product line divestitures.

(4) Net income and net income per share in 2003 include discontinued operations.

## NOTE 14. SUBSEQUENT EVENT

During the first quarter of 2005, the Company announced the pending closure of its Gainesville, Georgia label converting plant. Over the next few quarters, the Company expects to recognize restructuring charges and other transition costs associated with this action, estimated to be between \$9 million to \$11 million.

## Statement of Management Responsibility for Financial Statements

The consolidated financial statements and accompanying information were prepared by and are the responsibility of management. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts that are based on management's best estimates and judgments.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through an Audit Committee, which consists solely of outside directors (see page 74). The Committee meets periodically with financial management, internal auditors and the independent registered public accounting firm to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent registered public accounting firm and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.

## Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control – Integrated Framework*, management has concluded that internal control over financial reporting was effective as of January 1, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of January 1, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.



Philip M. Neal  
Chairman and  
Chief Executive Officer



Daniel R. O'Bryant  
Senior Vice President, Finance  
and Chief Financial Officer

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Avery Dennison Corporation:

We have completed an integrated audit of Avery Dennison Corporation's January 1, 2005 consolidated financial statements and of its internal control over financial reporting as of January 1, 2005 and audits of its December 27, 2003 and December 28, 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### *Consolidated financial statements*

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at January 1, 2005 and December 27, 2003, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

### *Internal control over financial reporting*

Also, in our opinion, management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Company maintained effective internal control over financial reporting as of January 1, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Los Angeles, California  
March 11, 2005  
Avery Dennison 2004



## Directors and Officers

### BOARD OF DIRECTORS

**Philip M. Neal**<sup>3, 6, 7</sup>

Chairman and  
Chief Executive Officer  
Avery Dennison Corporation  
Board member since 1990

**Dean A. Scarborough**<sup>3, 4, 7</sup>

President and  
Chief Operating Officer  
Avery Dennison Corporation  
Board member since 2000

**Charles D. Miller**<sup>3, 6, 7</sup>

Retired Chairman and  
Chief Executive Officer  
Avery Dennison Corporation  
Board member since 1975

**Frank V. Cahouet**<sup>1, 3, 5, 6, 7</sup>

Retired Chairman and  
Chief Executive Officer  
Mellon Financial Corporation  
Board member since 1983

**Richard M. Ferry**<sup>1, 3, 5, 6, 7</sup>

Founder Chairman  
Korn/Ferry International,  
an international executive  
search firm  
Board member since 1985

**Peter W. Mullin**<sup>3, 6, 7</sup>

Chairman  
Mullin Consulting, Inc.,  
an executive compensation,  
benefit planning and corporate  
insurance consulting firm  
Board member since 1988

**Kent Kresa**<sup>2, 3, 4, 7</sup>

Chairman Emeritus  
Northrop Grumman Corporation,  
an aeronautical and defense  
systems manufacturer  
Board member since 1999

**David E. I. Pyott**<sup>1, 2, 4, 5, 7</sup>

Chairman, President and  
Chief Executive Officer  
Allergan, Inc.,  
a global health care company  
Board member since 1999

**Bruce E. Karatz**<sup>2, 4, 7</sup>

Chairman and  
Chief Executive Officer  
KB Home,  
a home construction and  
finance company  
Board member since 2001

**Julia A. Stewart**<sup>1, 3, 4, 7</sup>

President,  
Chief Executive Officer and  
Chief Operating Officer  
IHOP Corp.,  
a restaurant chain  
Board member since 2003

**Peter K. Barker**<sup>2, 3, 7</sup>

Retired Partner  
Goldman, Sachs & Company,  
an investment banking firm  
Board member since 2003

**John T. Cardis**<sup>7</sup>

Retired Partner  
Deloitte & Touche USA LLP,  
an audit, tax, consulting and  
financial advisory services firm  
Board member since 2004

**Rolf Börjesson**<sup>7</sup>

Chairman  
Rexam PLC,  
a consumer packaging and  
beverage can manufacturer  
Board member since 2005

Director Emeritus

**H. Russell Smith**

- 1 – Member of Compensation and Executive Personnel Committee
- 2 – Member of Audit Committee
- 3 – Member of Finance Committee
- 4 – Member of Ethics and Conflict of Interest Committee
- 5 – Member of Nominating and Governance Committee
- 6 – Member of Executive Committee
- 7 – Member of Strategic Planning Committee

### CORPORATE OFFICERS

**Philip M. Neal**

Chairman and  
Chief Executive Officer

**Dean A. Scarborough**

President and  
Chief Operating Officer

**Robert G. van Schoonenberg**

Executive Vice President  
General Counsel and Secretary

**Daniel R. O'Bryant**

Senior Vice President  
Finance and  
Chief Financial Officer

**Christian A. Simcic**

Group Vice President  
Roll Materials Worldwide

**Timothy S. Clyde**

Group Vice President  
Worldwide Office Products

**Simon D. Coulson**

Group Vice President  
Retail Information Services

**Robert M. Malchione**

Senior Vice President  
Corporate Strategy and  
Technology

**J. Terry Schuler**

Senior Vice President  
Human Resources

**Diane B. Dixon**

Senior Vice President  
Worldwide Communications  
and Advertising

**Michael A. Skovran**

Vice President and Controller

**Stephen A. Mynott**

Vice President  
Global Operations

**Karyn E. Rodriguez**

Vice President and  
Treasurer

**Kenneth A. Wolinsky**

Vice President and  
Chief Information Officer

**Ahmed Rubaie**

Vice President  
Taxes

## DIVISION OFFICERS

**Timothy G. Bond**

Vice President  
General Manager  
Office Products  
North America

**Teddy P. Chung**

Vice President  
General Manager  
Materials Asia Pacific

**Ali H. Clemens**

Vice President  
General Manager  
InfoChain Express  
Retail Information Services

**John L. Collins**

Vice President  
General Manager  
Roll Materials Europe  
Northern Region

**Mark E. Cooper**

Vice President  
General Manager  
Retail Information Services  
Europe

**Johan Delvaux**

Vice President  
General Manager  
Specialty Tape Division Europe

**Angelo Depietri**

Vice President  
General Manager  
Roll Materials Europe,  
Eastern Europe and  
International South

**Kieran F. Drain**

Vice President  
General Manager  
Performance Polymers

**Andrew Effron**

Vice President  
General Manager  
Woven Labels,  
Information and Brand  
Management Services  
Retail Information Services

**William M. Goldsmith**

Vice President  
General Manager  
Industrial and Automotive  
Products North America

**Georges Gravanis**

Vice President  
General Manager  
Roll Materials Europe  
Southern Region

**Terrence L. Hemmelgarn**

Vice President  
General Manager  
Information and Brand  
Management Services  
Americas  
Retail Information Services

**Linda M. Jacober**

Vice President  
Strategy and Business  
Development  
Retail Information Services

**Michael S. Johansen**

Vice President  
General Manager  
Specialty Tape Division U.S.

**Josef Kagon**

Vice President  
Worldwide Graphics and  
Reflective

**Kamran Kian**

Vice President  
General Manager  
Materials Australia and  
New Zealand

**Hans Guenther Klenk**

Vice President  
General Manager  
Office Products Europe

**George T. Lai**

Vice President  
General Manager  
Retail Information  
Services Asia

**Constant Yip Wai Lam**

Vice President  
Managing Director  
Information and Brand  
Management Services Asia  
Retail Information Services

**Stephen R. Landon**

Vice President  
General Manager  
Performance Films Division

**Dagang Li**

Vice President  
General Manager  
Materials Greater China

**Kim P. Macaulay**

Vice President  
General Manager  
Brand Identification  
North America  
Retail Information Services

**David R. Martin**

Vice President  
General Manager  
Premium Packaging and  
Pharmaceutical Division  
Fasson Roll North America

**Mathew S. Mellis**

Vice President  
Radio Frequency  
Identification and  
Specialty Converting

**Richard S. Olszewski**

Vice President  
General Manager  
Fasson Roll North America

**Francisco C. Peschard**

Vice President  
General Manager  
Information Processing  
and Systems Division  
Fasson Roll North America

**Ferdinand Pranchh**

Vice President  
General Manager  
Reflective Products Division

**John C. Quinn**

Vice President  
General Manager  
Solution Enabling Products  
Retail Information Services

**Martin Rapp**

Vice President  
General Manager  
Roll Materials Europe  
Central Region

**Michael W. Roughton**

Vice President  
General Manager  
Graphics North America

**Helen M. Saunders**

Vice President  
General Manager  
Graphics Division Europe

**James P. Schmitt**

Vice President  
International Manufacturing

**Jef Smets**

Vice President  
Worldwide Specialty Tape

**C. Bradley Steven**

Vice President  
General Manager  
Product Identification  
Fasson Roll North America

**Donald W. Stoebe**

Vice President  
General Manager  
Roll Materials Europe

**John Wurzbarger**

Vice President  
General Manager  
Materials South America

**Kevin E. Young**

Vice President  
General Manager  
Apparel Marking Systems  
Retail Information Services

Corporate Information

Counsel

Latham & Watkins LLP  
Los Angeles, California

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP  
Los Angeles, California

Transfer Agent-Registrar

EquiServe Trust Company, N.A.  
P.O. Box 43023  
Providence, RI 02940-3023  
(877) 498-8861  
(800) 952-9245 (hearing impaired number)  
www.equiserve.com (Web site)

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:30 p.m. on April 28, 2005, in the Conference Center of Avery Dennison's Charles D. Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

The DirectSERVICE™ Investment Program

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by writing to The DirectSERVICE™ Investment Program, c/o EquiServe (include a reference to Avery Dennison in the correspondence), P.O. Box 43081, Providence, RI 02940-3081, or calling (877) 498-8861, or logging onto their Web site at <http://www.equiserve.com>.

Direct Deposit of Dividends

Avery Dennison shareholders may deposit quarterly dividend checks directly into their checking or savings accounts. For more information, call Avery Dennison's transfer agent and registrar, EquiServe Trust Company, N.A., at (800) 870-2340.

Other Information

The Company is including, as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal year 2004 filing with the Securities and Exchange Commission ("SEC"), certificates of the Chief Executive Officer and Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the Company submitted to the New York Stock Exchange ("NYSE"), the Company's annual written affirmation on May 20, 2004, along with the Chief Executive Officer's certificate that he is

not aware of any violation by the Company of NYSE's Corporate Governance listing standards.

A copy of the Company's Annual Report on Form 10-K, as filed with the SEC, will be furnished to shareholders and interested investors free of charge upon written request to the Secretary of the Corporation. Copies also may be obtained from the Company's web site, [www.averydennison.com](http://www.averydennison.com), in the "Investors" section.

Corporate Headquarters

Avery Dennison Corporation  
Miller Corporate Center  
150 North Orange Grove Boulevard  
Pasadena, California 91103  
Phone: (626) 304-2000  
Fax: (626) 792-7312

Mailing Address:

P.O. Box 7090  
Pasadena, California 91109-7090

Stock and Dividend Data

Common shares of Avery Dennison are listed on the NYSE.

Ticker symbol: AVY

	2004		2003	
	High	Low	High	Low
Market Price				
First Quarter	\$ 64.50	\$ 55.49	\$ 63.51	\$ 51.95
Second Quarter	64.94	58.63	61.07	47.75
Third Quarter	64.40	58.56	55.81	48.85
Fourth Quarter	65.78	54.90	56.25	50.28

Prices shown represent closing prices on the NYSE

Dividends Per Common Share	2004	2003
First Quarter	\$ .37	\$ .36
Second Quarter	.37	.36
Third Quarter	.37	.36
Fourth Quarter	.38	.37
Total	\$ 1.49	\$ 1.45

Number of shareholders of

record as of year end	10,750	11,287
-----------------------	--------	--------

Avery, Avery Fun Stamps, Avery Photo ID System, Avery Personal Label Printer, Avery PRS Selection System, Avery QuickPeel, Avery Sign Kit, Avery Dennison, Avloy, ComfortTag, Fasson, InfoChain Express and RFID Ticket Express are trademarks or service marks of Avery Dennison Corporation. All other brands and product names are trademarks of their respective companies.

more

# information

## OUR CAPABILITIES WORLDWIDE

[www.averydennison.com](http://www.averydennison.com)

## UP-TO-DATE STOCK INFORMATION AND OTHER COMPANY NEWS

Call (800) 334-2190 and follow the voice prompt to obtain information on Avery Dennison earnings, stock price, dividends and other activities.

## AVERY-BRAND OFFICE AND CONSUMER PRODUCTS

On the Internet at [www.avery.com](http://www.avery.com)

Or call our Consumer Service Center at (800) 462-8379.

## FASSON-BRAND PRODUCTS

[www.fasson.com](http://www.fasson.com)

## INVESTOR QUESTIONS

Contact Investor Relations at (626) 304-2000

Or send inquiries via email to [investorcom@averydennison.com](mailto:investorcom@averydennison.com)

## CAREER OPPORTUNITIES

Search for job openings and apply online at

[www.averydennison.apply2jobs.com](http://www.averydennison.apply2jobs.com)

©2005 Avery Dennison Corporation. All rights reserved.





translating ideas  
transformando ideas  
transformando ideias  
การพัฒนาความคิด  
trasformare le idee  
变想法为现实  
ideen umsetzen  
ideeën ontwikkelen  
アイデアの転用  
idées en marche



Avery Dennison Corporation  
Miller Corporate Center 150 North Orange Grove Boulevard Pasadena, California 91103  
[www.averydennison.com](http://www.averydennison.com)