

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 1, 2005

OR

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

For the transition period from _____ to _____

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

150 North Orange Grove Boulevard
Pasadena, California
(Address of principal executive offices)

91103
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common stock, \$1 par value	New York Stock Exchange Pacific Exchange
Preferred Share Purchase Rights	New York Stock Exchange Pacific Exchange

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

Not applicable.

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the act). Yes No

The aggregate market value of voting stock held by non-affiliates as of June 25, 2004, was approximately \$6,322,270,607.

Number of shares of common stock, \$1 par value, outstanding as of February 28, 2005: 110,456,775.

The following documents are incorporated by reference into the Parts of this report below indicated:

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended January 1, 2005 (the "2004 Annual Report")	Parts I, II
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 28, 2005 (the "2005 Proxy Statement")	Parts III, IV

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FISCAL YEAR 2004 FORM 10-K ANNUAL REPORT
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PART I

Item 1. BUSINESS

Avery Dennison Corporation (“Avery Dennison,” the “Company,” “Registrant,” “Issuer,” which may be referred to as “we” or “us”) was incorporated in 1977 in the state of Delaware as Avery International Corporation, the successor corporation to a California corporation of the same name, which was incorporated in 1946. In 1990, Registrant merged one of its subsidiaries into Dennison Manufacturing Company (“Dennison”), as a result of which Dennison became a wholly-owned subsidiary of Registrant, and in connection with which Registrant’s name was changed to Avery Dennison Corporation. *Our homepage on the internet is www.averydennison.com. You can learn more about us by visiting our website. Our website address provided in this annual report on Form 10-K is not intended to function as a hyperlink and the information on our website is not and should not be considered part of this report and is not incorporated by reference in this document.*

Our businesses include the production of pressure-sensitive materials, office products and a variety of tickets, tags, labels and other converted products. Some pressure-sensitive materials are “converted” into labels and other products through embossing, printing, stamping and die-cutting, and some are sold in unconverted form as base materials, tapes and reflective sheeting. We also manufacture and sell a variety of office products and other converted products and other items not involving pressure-sensitive components, such as binders, organizing systems, markers, fasteners, business forms, reflective highway safety products, as well as tickets, tags, and imprinting equipment for retail and apparel manufacturers.

A pressure-sensitive, or self-adhesive, material is one that adheres to a surface by press-on contact. It generally consists of four elements: a face material, which may be paper, metal foil, plastic film or fabric; an adhesive, which may be permanent or removable; a release coating; and a backing material to protect the adhesive against premature contact with other surfaces, and which can also serve as the carrier for supporting and dispensing individual labels. When the products are to be used, the release coating and protective backing are removed, exposing the adhesive, and the label or other face material is pressed or rolled into place.

Self-adhesive materials may initially cost more than materials using heat or moisture activated adhesives, but the use of self-adhesive materials often provides cost savings because of their easy and instant application, without the need for adhesive activation. They also provide consistent and versatile adhesion, with minimal adhesive deterioration and are available in a large selection of materials in nearly any size, shape and color.

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 (refer to Item 7 “Management’s Discussion and Analysis of Results of Operations and Financial Condition” for further information). This change has had no effect on the way we operate or manage our businesses.

The newly reorganized segments are:

- Pressure-sensitive Materials
- Office and Consumer Products
- Retail Information Services

In addition to our reporting segments, we have other specialty converting businesses comprised of several businesses that produce specialty tapes and highly engineered labels and other converted products. In September 2004, we established a new business focused on the manufacturing and marketing of radio frequency identification (“RFID”) inlays and tags. This division will leverage our existing distribution by marketing RFID inlays and tags to our label converter customers, who supply converted pressure-sensitive labels to diverse end-user markets. Sales from the RFID business will be reported as part of other specialty converting businesses beginning in the first quarter of 2005. For 2004, this business was included with corporate administrative and research and development expenses.

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The Pressure-sensitive Materials segment contributes approximately 56 percent of our total sales, while the Office and Consumer Products segment and the Retail Information Services segment contribute approximately 22 percent and 12 percent, respectively, of our total sales. Approximately 75 percent of our sales are generated in the United States and Western Europe, before the elimination of sales between regions.

International operations constitute a significant portion of our business and represent approximately 50 percent of our sales. We continue to expand our operations, focusing particularly on Asia, Latin America and Eastern Europe. As of January 1, 2005, we operated over 150 manufacturing and distribution facilities located in 42 countries, and employed approximately 21,400 persons worldwide.

We are subject to certain risks referred to in Exhibit 99.1 hereto, including those normally attending international and domestic operations, such as changes in economic or political conditions, currency fluctuations, exchange control regulations and the effect of international relations and domestic affairs of foreign countries on the conduct of business, legal proceedings, and the availability and pricing of raw materials.

Except as set forth below, no material part of our business is dependent upon a single customer or a few customers. However, sales and related accounts receivable of our U.S. office and consumer products business are concentrated in a small number of customers, principally discount office products superstores, mass marketers and distributors (see "Critical Accounting Policies and Estimates" of Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition"). United States export sales are not a significant part of our business. Backlogs are not considered material in the industries in which we compete.

Corporate Governance and Available Information Related to SEC Filings

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge by way of a third-party hyperlink service through our website, www.averydennison.com (in the "Investors" section), as soon as reasonably practical after electronic filing or furnishing of such material with the SEC. We make available at the website our (i) Corporate Governance Guidelines, (ii) Code of Ethics and Business Conduct, which applies to our directors and employees, (iii) Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (iv) the charters of the Audit, Compensation and Executive Personnel, and Nominating and Governance Committees of our Board of Directors, and (v) Audit Committee Complaint Handling Procedures. These materials are also available free of charge in print to stockholders who request them by writing to: Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103.

Our Board of Directors has designated Frank V. Cahouet as the Board's presiding director to preside at executive sessions of the Board. During 2004, the Board held seven executive sessions with only non-management directors during regularly scheduled Board meetings. Stockholders and other interested parties may write to our presiding director concerning matters other than accounting and auditing matters c/o Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103. Stockholders may also write to Kent Kresa, Chairman of the Audit Committee, regarding accounting and auditing matters c/o Secretary at the same address.

Pressure-sensitive Materials Segment

The Pressure-sensitive Materials segment manufactures and sells Fasson-, JAC- and Avery Dennison-brand pressure-sensitive base materials, graphic films, reflective highway safety products, and performance polymers. The business of this segment is generally not seasonal, except for certain highway safety products. Base materials consist primarily of papers, plastic films, metal foils and fabrics, which are coated with Company-developed and

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purchased adhesives, and then laminated with specially coated backing papers and films. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. Base materials are sold to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications on a worldwide basis.

Graphic products consist of a variety of films and other products sold to the automotive, architectural, commercial sign, digital printing, and other related markets. We also sell durable cast and reflective films to the construction, automotive, fleet transportation, sign and industrial equipment markets, scrim-reinforced vinyl material for banner sign applications, and reflective films and highway safety products for traffic and safety applications. In addition, we sell specialty print-receptive films to the industrial label market, metallic dispersion products to the packaging industry and proprietary woodgrain film laminates for housing exteriors and automotive applications. Our graphics businesses are organized on a worldwide basis to serve the expanding commercial graphic arts market, including wide-format digital printing applications. We also manufacture and sell proprietary films that are used for outdoor, weather-resistant applications.

Performance polymer products include a range of solvent- and emulsion-based acrylic polymer adhesives, protective coatings and other polymer additives for internal use, as well as for sale to other companies.

In this segment, our larger competitors are Raflatac, a subsidiary of UPM; MACtac, a division of the Bemis Company; and 3M Company (for graphic and reflective products). Entry of competitors into the field of pressure-sensitive adhesives and materials may be limited by capital requirements and a need for technical knowledge. We believe that our relative size and scale of operations, our ability to serve our customers with a broad line of quality products and service programs, our distribution and brand strength, and the development and commercialization of new products are among the more significant factors in developing and maintaining our competitive position.

Office and Consumer Products Segment

The Office and Consumer Products segment manufactures and sells a wide range of Avery brand products and label products. The business of this segment is seasonal, with higher volume related to the back-to-school season.

This segment's products are generally sold through office products superstores, mass market distributors, wholesalers and dealers. We manufacture and sell a wide range of Avery brand products for office, school and home uses: printable media, such as copier, ink-jet and laser printer labels, related computer software, ink-jet and laser printer card and index products, and organization, filing and presentation products, such as binders, dividers and sheet protectors. We also offer a wide range of other stationery products, including writing instruments, markers, adhesives and specialty products under brand names, such as Avery, Marks-A-Lot and HI-LITER. The extent of product offerings varies by geographic market.

In this segment, our larger competitors are Fortune Brands, Inc. and Esselte Corporation. We believe that our brand strength, large installed base of software that facilitates the use of many of our products, our ability to serve our customers with a broad line of quality products, and the development and commercialization of new products are among the more significant factors in developing and maintaining our competitive position.

Retail Information Services Segment

The Retail Information Services segment designs, manufactures and sells a wide variety of price marking and brand identification products for retailers, apparel manufacturers, distributors and industrial customers on a worldwide basis. This business is seasonal, with higher volumes in advance of the back-to-school and holiday shopping periods.

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Our brand identification products include woven and printed labels, graphic tags and barcode tags. Our information management products include price tickets, carton labels and printing applications for supply chain and security management. And our solution enabling products include barcode printers, molded plastic fastening and application devices and security management products.

In September 2004, we completed the acquisition of Rinke Etiketten, a privately held company based in Sprockhövel, Germany, to support growth in this segment.

In this segment, our largest competitor is Paxar Corporation. We believe that our ability to serve our customers with product innovation, a comprehensive brand identification and information management product line, our global distribution network, and technical foundation, are among the more significant factors in developing and maintaining our competitive position.

Other Specialty Converting Businesses

Other specialty converting businesses include specialty tapes and industrial and automotive products businesses. These businesses manufacture and sell specialty tapes, highly engineered films, pressure-sensitive postage stamps and other converted products. These businesses are generally not seasonal, except for certain automotive products due to typical summer plant shutdowns by automotive manufacturers.

The specialty tapes business manufactures and sells single- and double-coated tapes and adhesive transfer tapes for use in non-mechanical fastening, bonding and sealing systems in various industries, which are sold to industrial and medical original equipment manufacturers, converters, and disposable diaper producers worldwide. These products are sold in roll form and are available in a wide range of face materials, sizes, thicknesses and adhesive properties.

Our industrial and automotive products businesses primarily consist of custom pressure-sensitive and heat-seal labels for the automotive and durable goods industries. These products are sold primarily to original equipment manufacturers. We also manufacture and sell self-adhesive battery labels to a battery manufacturer, and self-adhesive stamps to the U.S. Postal Service. Specialty automotive film products are used for interior and exterior vehicle finishes.

We compete with a number of diverse businesses. Our largest competitor for this group of businesses is 3M Company in the specialty tapes business. Entry of competitors into these specialty converting businesses may be limited by capital and technical requirements. We believe that our ability to serve our customers with quality products and the development and commercialization of new products are among the more significant factors in developing and maintaining our competitive position.

Research and Development

Many of our current products are the result of our research and development efforts. In 2004, 2003 and 2002, our expenses were \$82.3 million, \$74.8 million and \$74.5 million, respectively, for research, design and testing of new products and applications by our operating units and the Avery Research Center (the "Research Center") located in Pasadena, California. A significant number of our research and development activities are conducted at the Research Center, which supports each of our operating segments.

Our operating units' research efforts are directed primarily toward developing new products and operating techniques and improving product performance, often in close association with customers. The Research Center supports our operating units' patent and product development work, and focuses on improving adhesives, materials and coating processes, as well as related product applications and ventures. These efforts often focus on projects relating to printing and coating technologies and adhesive, release and ink chemistries.

The loss of individual patents or licenses would not be material to us taken as a whole, nor to our operating segments individually. Our principal trademarks are Avery, Fasson, Avery Dennison and the Company's symbol. These trademarks are significant in the markets in which our products compete.

Three-Year Summary of Segment Information

Certain financial information on our reporting segments and other specialty converting businesses for the three years ended January 1, 2005, which appear in Note 12 "Segment Information," in the Notes to Consolidated Financial Statements beginning on page 69 of our 2004 Annual Report to Shareholders, are incorporated herein by reference.

Other Matters

We use various raw materials, primarily paper, plastic films and resins, and specialty chemicals, which we purchase from a variety of commercial and industrial sources and which are subject to price fluctuations. Although from time to time shortages could occur, these raw materials currently are generally available.

We produce a majority of our self-adhesive materials using water-based emulsion and hot-melt adhesive technologies. However, a portion of our manufacturing process for self-adhesive materials utilizes certain organic solvents which, unless controlled, would be emitted into the atmosphere. Emissions of these substances are regulated by agencies of federal, state, local and foreign governments. We invest in solvent capture and control units, as well as solvent-free systems to regulate emissions, in connection with the acquisition of new manufacturing equipment and facilities.

We have developed adhesives and adhesive processing systems. Emulsion adhesives, hot-melt adhesives or solventless silicone systems have been installed in our facilities in Peachtree City, Georgia; Fort Wayne and Greenfield, Indiana; and Quakertown, Pennsylvania; as well as in other plants in the United States, Argentina, Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, India, Korea, Luxembourg, Malaysia, Mexico, The Netherlands, South Africa, Thailand and United Kingdom.

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

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

Item 2. PROPERTIES

As of January 1, 2005, we operated over thirty principal manufacturing facilities in excess of 100,000 square feet. The following sets forth the locations of such principal facilities and the operating segments for which they are presently used:

Pressure-sensitive Materials Segment

Domestic	Peachtree City, Georgia; Greenfield and Fort Wayne, Indiana; Fairport Harbor, Mentor and Painesville, Ohio; Quakertown, Pennsylvania; and Neenah, Wisconsin.
Foreign	Melbourne, Australia; Vinhedo, Brazil; Ajax, Canada; Kunshan, China; Champ-sur-Drac, France; Gotha and Schwelm, Germany; Rodange, Luxembourg; Johannesburg, South Africa; Rayong, Thailand; Hazerswoude, The Netherlands; and Cramlington, United Kingdom

Office and Consumer Products Segment

Domestic	Chicopee, Massachusetts; and Meridian, Mississippi
Foreign	Oberlaindern, Germany; and Juarez and Tijuana, Mexico

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Retail Information Services Segment

Domestic	Greensboro, North Carolina; and Fitchburg, Massachusetts
Foreign	Hong Kong and Nansha, China

Other Specialty Converting Businesses

Domestic	Lowell and Schererville, Indiana; Strongsville and Painesville, Ohio; and Clinton, South Carolina
Foreign	Turnhout, Belgium

In addition to our principal manufacturing facilities described above, our other principal facilities include our corporate headquarters facility and research center in Pasadena, California, and offices located in Brea, and Westlake Village, California; Framingham, Massachusetts; Concord, Ohio; Hong Kong, China; Wuppertal, Germany; Leiden, The Netherlands; and Zug, Switzerland.

All of our principal properties identified above are owned except certain facilities in Brea and Westlake Village, California; Juarez, Mexico; and Zug, Switzerland, which are leased.

All buildings owned or leased are considered suitable and generally adequate for our present needs. We expand production capacity and provide facilities as needed to meet increased demand. Owned buildings and plant equipment are insured against major losses from fire and other usual business risks. We are not aware of any material defects in title to, or significant encumbrances on our properties except for certain mortgage liens.

Item 3. LEGAL PROCEEDINGS

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.

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,

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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 consolidated 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

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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 Raflatac, 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.

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.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF AVERY DENNISON(1)

Name	Age	Served as Executive Officer since	Former Positions and Offices with Avery Dennison	
Philip M. Neal Chairman and Chief Executive Officer (also Director of Avery Dennison)	64	January 1974	1998-2000	President and Chief Executive Officer
Dean A. Scarborough(2) President and Chief Operating Officer (also Director of Avery Dennison)	49	August 1997	1999-2000	Group V.P., Fasson Roll Worldwide
Robert G. van Schoonenberg Executive Vice President, General Counsel and Secretary	58	December 1981	1997-2000	S.V.P., General Counsel and Secretary
Daniel R. O'Bryant Senior Vice President, Finance and Chief Financial Officer	47	January 2001	1999-2000	V.P. and General Manager, Product Identification Division, Fasson Roll N.A.
			2000-2001	V.P. and General Manager, Fasson Roll N.A.
Diane B. Dixon Senior Vice President, Worldwide Communications and Advertising	53	December 1985	1997-2000	V.P., Worldwide Communications and Advertising
Robert M. Malchione Senior Vice President, Corporate Strategy and Technology	47	August 2000	1997-2000	V.P., Boston Consulting Group(3)
			2000-2001	S.V.P., Corporate Strategy
Karyn E. Rodriguez Vice President and Treasurer	45	June 2001	1999-2001	Assistant Treasurer, Corporate Finance and Investments
Michael A. Skovran Vice President and Controller	46	January 2002	1998-2001	V.P., Finance, Worldwide Office Products
Christian A. Simcic Group Vice President, Roll Materials Worldwide	48	May 2000	1997-2000	V.P. and Managing Director, Asia Pacific
Timothy S. Clyde Group Vice President, Office Products Worldwide	42	February 2001	1999-2000	V.P. and General Manager, OF&P Division, Office Products N.A.
			2000-2001	V.P. and General Manager Office Products N.A.
Simon D. Coulson Group Vice President, Retail Information Services	41	June 2004	1997-2000	V.P. and General Manager, VIP Converted Products, N.A. & Asia
			2000-2001	V.P., VIP Converted Products
			2001-2004	V.P., Retail Information Services

(1) All officers are elected to serve a one-year term and until their successors are elected and qualify.

(2) Mr. Scarborough has been elected President and Chief Executive Officer effective May 1, 2005; Mr. Neal will continue to serve as Chairman of the Board.

(3) Business experience during past 5 years prior to service with the Company.

PART II**Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a)(b) The information called for by this item appears on page 76 of our 2004 Annual Report to Shareholders and on page 12 of the 2005 Proxy Statement, and is incorporated herein by reference.

(c) Purchases of Equity Securities by Issuer

During the period from 1990 through 1999, our Board of Directors authorized the repurchase of an aggregate 40.4 million shares of our outstanding common stock (the "Program"). The last Board of Directors' authorization of 5 million shares occurred in October 1999, and has no expiration. The acquired shares may be reissued under our stock option and incentive plans or used for other corporate purposes. Included in the total shares repurchased were 10,800 shares that were delivered (actually or constructively) to us by participants exercising stock options during the fourth quarter of 2004 under our stock option plans, in payment of the option exercise price and/or to satisfy withholding tax obligations.

The following table sets forth the monthly repurchases of our common stock:

<i>(Shares in thousands, except per share amounts)</i> Fourth Quarter	Total shares repurchased	Average price per share	Remaining shares available for repurchases under the Program
September 26, 2004—October 23, 2004	—	—	3,152.6
October 24, 2004—November 27, 2004	2.8	\$ 16.25	3,152.6
November 28, 2004—January 1, 2005	10.2	\$ 45.69	3,150.4
Quarterly total	13.0	\$ 39.34	3,150.4

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of the Company's last five fiscal years appears on page 26 of our 2004 Annual Report to Shareholders and is incorporated herein by reference.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
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.

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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 reporting 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.

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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:

	<u>2004</u>	<u>2003</u>
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.

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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 on page 66 of our 2004 Annual Report to Shareholders 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.

	2004	2003	2002
(In millions)			
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,

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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 on page 63 in our 2004 Annual Report to Shareholders.

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

	2004	2003	2002
<i>(In millions)</i>			
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

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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 on page 66 of our 2004 Annual Report to Shareholders 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 on page 48 of our 2004 Annual Report to Shareholders 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)

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- 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 on page 66 of our 2004 Annual Report to Shareholders 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 on page 48 of our 2004 Annual Report to Shareholders for more information.

Net Income and Earnings Per Share

	<u>2004</u>	<u>2003</u>	<u>2002</u>
(In millions, except share amounts)			
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

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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:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
(In millions)			
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	<u>\$3,008.5</u>	<u>\$2,572.6</u>	<u>\$2,184.6</u>
Income before interest and taxes	<u>219.0</u>	<u>176.6</u>	<u>177.7</u>

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

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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:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
(In millions)			
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.

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Retail Information Services:

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

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:

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

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.

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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

	2004	2003	2002
(In millions)			
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.

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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.

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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 on page 57 of our 2004 Annual Report to Shareholders.

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).

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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:

	2004	2003
(In millions)		
(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

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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 on page 66 of our 2004 Annual Report to Shareholders), 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.

Shareholders' 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.

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

	Total Amounts Committed	Amount of Commitment Expiration				
		2005	2006	2007	2008	2009
(In millions)						
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
Total	\$ 646.6	\$ 58.6	—	—	—	\$ 588.0

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.

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Our accumulated other comprehensive loss decreased \$74.9 million in 2004 primarily due to a \$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 included:

(In millions) Contractual Obligations	Payments Due by Period						
	Total	2005	2006	2007	2008	2009	Thereafter
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(1)	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 significantly 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

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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 on page 63 in our Annual Report to Shareholders.

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.

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

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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;

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(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 postretirement 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 on page 48 of our 2004 Annual Report to Shareholders for more information).

RISK FACTORS (SAFE HARBOR STATEMENT)

Except for historical information contained herein, 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 or performance 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 hereto, which is incorporated by reference 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.

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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in the Company's 2004 Annual Report to Shareholders on pages 44 through 73 (including the Consolidated Financial Statements and the Notes thereto appearing on pages 44 through 71, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting on page 72, and the Report of Independent Registered Public Accounting Firm on page 73) and is incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

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

Management's Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15(d)-15(f) of the Exchange Act). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's management concluded that its internal control over financial reporting was effective as of January 1, 2005. (See Management's Report on Internal Control Over Financial Reporting on page 72 in the Company's 2004 Annual Report to Shareholders.)

Management's assessment of the effectiveness of the Company's 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 of Independent Registered Public Accounting Firm on page 73 in the Company's 2004 Annual Report to Shareholders, and is incorporated herein by reference.

Changes in Internal Control over Financial Reporting. There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors called for by this item is incorporated by reference from pages 2-4 and 7 of the 2005 Proxy Statement, filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. Information concerning executive officers called for by this item appears in Part I of this report. The information concerning late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from page 16 of the 2005 Proxy Statement.

We have adopted a Code of Ethics (the “Code”). The Code applies to our Chief Executive Officer, Chief Financial Officer and Controller. Our Code is available on the Company’s website, www.averydennison.com, in the “Investors” section. We will satisfy disclosure requirements under Item 10 of Form 8-K regarding any amendment to, or waiver from, any provision of the Code that applies to these officers disclosing the nature of such amendment or waiver on our website or in a current report on Form 8-K. Our Code of Ethics and Business Conduct, which applies to our directors and employees and is available on our website in the “Investors” section. *The Company’s website address provided above is not intended to function as a hyperlink, and the contents of the website are not a part of this Form 10-K, nor are they incorporated by reference herein.*

Item 11. EXECUTIVE COMPENSATION

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Items 11, 12, 13 and 14 is incorporated by reference from pages 5 through 25 of the 2005 Proxy Statement, filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedule and Exhibits

(1) (2) Financial statements and financial statement schedule filed as part of this report are listed in the accompanying Index to Financial Statements and Financial Statement Schedule.

(3) Exhibits filed as a part of this report are listed in the Exhibit Index, which follows the financial statements and schedules referred to above. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) is identified in the Exhibit Index.

(b) Those Exhibits and the Index thereto, required to be filed by Item 601 of Regulation S-K, are attached hereto.

(c) Those financial statement schedules required by Regulation S-X, which are excluded from the Company's 2004 Annual Report by Rule 14a-3(b)(1) and which are required to be filed as financial statement schedule to this report, are indicated in the accompanying Index to Financial Statements and Financial Statement Schedule.

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ CHARLES D. MILLER</p> <hr/> <p>Charles D. Miller</p>	Director	March 17, 2005
<hr/> <p>/s/ PETER W. MULLIN</p> <hr/> <p>Peter W. Mullin</p>	Director	March 17, 2005
<hr/> <p>/s/ DAVID E. I. PYOTT</p> <hr/> <p>David E. I. Pyott</p>	Director	March 17, 2005
<hr/> <p>/s/ JULIA A. STEWART</p> <hr/> <p>Julia A. Stewart</p>	Director	March 17, 2005

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULE

	Reference (page)	
	Form 10-K Annual Report	Annual Report to Shareholders
Data incorporated by reference from the attached portions of the 2004 Annual Report to Shareholders of Avery Dennison Corporation:		
Consolidated Balance Sheet at January 1, 2005 and December 27, 2003	—	44
Consolidated Statement of Income for 2004, 2003 and 2002	—	45
Consolidated Statement of Shareholders' Equity for 2004, 2003 and 2002	—	46
Consolidated Statement of Cash Flows for 2004, 2003 and 2002	—	47
Notes to Consolidated Financial Statements	—	48-71
Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting	—	72
Report of Independent Registered Public Accounting Firm	—	73

The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in certain affiliates (20 percent to 50 percent) are accounted for by the equity method of accounting. Investments representing less than 20 percent are accounted for using the cost method of accounting.

With the exception of the Consolidated Financial Statements, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon listed in the above index, and certain information referred to in Items 1, 5 and 6, which information is included in the Company's 2004 Annual Report to Shareholders and is incorporated herein by reference, the Company's 2004 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

	Form 10-K Annual Report	Annual Report to Shareholders
Data submitted herewith:		
Report of Independent Registered Public Accounting Firm on Financial Statement Schedule	S-2	—
Schedule II—Valuation and Qualifying Accounts and Reserves	S-3	—
Consent of Independent Registered Public Accounting Firm	S-4	—

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors
of Avery Dennison Corporation

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated March 11, 2005 appearing in the 2004 Annual Report to Shareholders of Avery Dennison Corporation (which report, consolidated financial statements and assessment are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
March 11, 2005

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)

	Balance at Beginning of Year	Additions			Balance at End of Year
		Charged to Costs and Expenses	From Acquisitions	Deductions From Reserves	
2004					
Allowance for doubtful accounts	\$ 29.9	\$ 16.5	\$.6	\$ (11.5)	\$ 35.5
Allowance for sales returns	24.3	14.2	—	(11.2)	27.3
Inventory reserve	49.8	20.8	1.6	(21.8)	50.4
2003					
Allowance for doubtful accounts	\$ 25.1	\$ 10.4	\$.6	\$ (6.2)	\$ 29.9
Allowance for sales returns	20.8	15.4	—	(11.9)	24.3
Inventory reserve	40.8	24.3	3.4	(18.7)	49.8
2002					
Allowance for doubtful accounts	\$ 17.7	\$ 13.2	\$ 5.6	\$ (11.4)	\$ 25.1
Allowance for sales returns	19.5	17.0	.6	(16.3)	20.8
Inventory reserve	34.8	14.9	7.9	(16.8)	40.8

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File Nos. 333-38905, 333-64558, 333-103204 and 333-120239) and Form S-8 (File Nos. 33-1132, 33-3645, 33-41238, 33-45376, 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 333-107371, 333-107372 and 333-109814) of Avery Dennison Corporation of our report dated March 11, 2005 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the 2004 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 11, 2005 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
March 14, 2005

AVERY DENNISON CORPORATION
EXHIBIT INDEX
For the Year Ended January 1, 2005

INCORPORATED BY REFERENCE:

<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document¹</u>
(3.1)	Restated Certificate of Incorporation, filed August 2, 2002 with the Office of Delaware Secretary of State	3(i)	Third Quarterly report for 2002 on Form 10-Q, filed November 12, 2002
(3.2)	By-laws, as amended	3.2.1	Third Quarterly report for 2004 on Form 10-Q filed November 4, 2004
(4.1)	Rights Agreement dated as of October 23, 1997		Current Report on Form 8-K, filed October 23, 1997
(4.2)	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "Indenture")		Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991
(4.2.1)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture	4.3	Current Report on Form 8-K, filed March 25, 1991
(4.2.2)	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture")	4.4	Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993
(4.2.3)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture, as amended by the Supplemental Indenture	4.5	Current Report on Form 8-K, filed April 7, 1993
(4.2.4)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series B" under the Indenture, as amended by the Supplemental Indenture	4.6	Current Report on Form 8-K, filed March 29, 1994
(4.2.5)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the Indenture, as amended by the Supplemental Indenture	4.7	Current Report on Form 8-K, filed May 12, 1995
(4.2.6)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the Indenture, as amended by the Supplemental Indenture	4.8	Current Report on Form 8-K, filed December 16, 1996

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document¹</u>
(4.3)	Indenture dated July 3, 2001 between Registrant and J.P.Morgan Trust Company, National Association (successor to Chase Manhattan Bank and Trust Company, National Association), as trustee (“2001 Indenture”)	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
(4.3.1)	Officers’ Certificate establishing two series of Securities entitled “4.875% Notes due 2013” and “6.000% Notes due 2033”, respectively, each under the 2001 Indenture	4.2	Current Report on Form 8-K, filed January 16, 2003
(4.3.2)	4.875% Notes Due 2013	4.3	Current Report on Form 8-K, filed January 16, 2003
(4.3.3)	6.000% Notes Due 2033	4.4	Current Report on Form 8-K, filed January 16, 2003
(4.3.4)	First Supplemental Indenture dated July August 9, 2004, between Registrant and J.P.Morgan Trust Company, National Association (successor to Chase Manhattan Bank and Trust Company, National Association), as trustee “Supplemental Indenture”)	4.3	Current Report on Form 8-K, filed August 9, 2004
(4.3.5)	Officers’ Certificate establishing Form of Notes due 2007 under the Supplemental Indenture	4.2	Current Report on Form 8-K, filed August 9, 2004
(4.3.6)	LIBOR plus 0.23% Notes Due 2007	4.4	Current Report on Form 8-K, filed August 9, 2004
(4.4)	Indenture, dated November 4, 2004, between Registrant and J.P. Morgan Trust Company, National Association (“2004 Indenture”)	4.3	Registration Statement on Form S-3 (File No. 333-120239), filed November 5, 2004
(10.1)	Revolving Credit Agreement, dated July 16, 2004	10.1	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004
(10.3)	*Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.5)	*Executive Medical and Dental Plan (description)	10.5	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.6)	*Executive Financial Counseling Service (description)	10.6	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.8.2)	*Agreement with P.M. Neal	10.8.2	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004
(10.8.3)	*Agreement with R.G. van Schoonenberg	10.8.3	1996 Annual Report on Form 10-K, filed March 28, 1997

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document¹</u>
(10.8.4)	*Form of Employment Agreement	10.8.4	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004
(10.9)	*Executive Group Life Insurance Plan	10.9	1982 Annual Report on Form 10-K, filed February 25, 1983
(10.10)	*Form of Indemnity Agreement between Registrant and certain directors and officers	10.10	1986 Annual Report on Form 10-K, filed on February 27, 1987
(10.10.1)	*Form of Indemnity Agreement between Registrant and certain directors and officers	10.10.1	1993 Annual Report on Form 10-K, filed March 18, 1994
(10.11)	*Supplemental Executive Retirement Plan, amended and restated (“SERP”)	10.11.1	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004
(10.11.2)	*Letter of Grant to P. M. Neal under SERP	10.11.2	1998 Annual Report on Form 10-K, filed March 31, 1999
(10.11.3)	*Appendix A to Letter of Grant to P. M. Neal under SERP	10.11.3	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004
(10.11.4)	*Letter of Grant to R.G. van Schoonenberg under SERP	99.1	Current Report on Form 8-K, filed February 2, 2005
(10.11.5)	*Letter of Grant to D.R. O’Bryant under SERP	99.2	Current Report on Form 8-K, filed February 2, 2005
(10.12)	*Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.13)	*Retirement Plan for Directors, amended and restated	10.13.1	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.15)	*Director Equity Plan, amended and restated (“Director Plan”)	10.15.4	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.15.1)	*Form of Non-Employee Director Stock Option Agreement under Director Plan	10.15.1	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.16)	*Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan (“EVDCP”)	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.16.1)	*Amendment No. 1 to EVDCP	10.16.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.17)	*Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.18)	*Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan (“DVDCP”)	10.18	1994 Annual Report on Form 10-K, filed March 30, 1995

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document¹</u>
(10.18.1)	*Amendment No. 1 to DVDCP	10.18.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.19)	*1990 Stock Option and Incentive Plan (“1990 Plan”)	10.19	1989 Annual Report on Form 10-K, filed February 27, 1990
(10.19.1)	*Amendment No. 1 to 1990 Plan	10.19.1	1993 Annual Report on Form 10-K, filed March 18, 1994
(10.19.2)	*Amendment No. 2 to 1990 Plan	10.19.5	1996 Annual Report on Form 10-K, filed March 28, 1997
(10.19.3)	*Employee Stock Option and Incentive Plan, amended and restated (“Stock Option Plan”)	10.19.6	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.19.4)	*Amendment No. 1 to Stock Option Plan	10.19.4	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.19.5)	*Forms of NQSO Agreement under Stock Option Plan	10.19.5	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.21)	*Stock Incentive Plan, amended and restated (“Stock Incentive Plan”)	10.21.2	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.21.1)	*Forms of NQSO Agreement under the Stock Incentive Plan	10.21.3	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.27)	*Executive Long-Term Incentive Plan, amended and restated (“LTIP”)	10.27.1	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.28)	*Complete Restatement and Amendment of Executive Deferred Retirement Plan (“EDRP”)	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.28.1)	*Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.28.2)	*Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
(10.29)	*Executive Leadership Compensation Plan, amended and restated (“ELCP”)	10.29.2	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.30)	*Senior Executive Leadership Compensation Plan, amended and restated (“SELCP”)	10.30.2	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.31)	*Executive Variable Deferred Retirement Plan, amended and restated (“EVDRP”)	10.31.5	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.31.1)	*2004 EVDRP	4.1	Registration Statement on Form S-8 (File No. 333-109814), filed October 20, 2003
(10.32)	*Benefits Restoration Plan, amended and restated (“BRP”)	10.32.1	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.33)	*Restated Trust Agreement for Employee Stock Benefit Trust	10.33.1	1997 Annual Report on Form 10-K, filed March 26, 1998

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document¹</u>
(10.33.1)	*Common Stock Purchase Agreement	10.2	Current Report on Form 8-K, filed October 25, 1996
(10.33.2)	*Restated Promissory Note	10.33.3	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.34)	*Amended and Restated Capital Accumulation Plan (“CAP”)	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.34.1)	*Trust under CAP	4.2	Registration Statement on Form S-8 (File No. 333-38707), filed October 24, 1997
(10.34.2)	*Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.34.3)	*Amendment No. 2 to CAP	10.34.3	2001 Annual Report on Form 10-K, filed March 4, 2002
(99.2)	*Stock Ownership Policy	99.2	2003 Annual Report on Form 10-K, filed March 11, 2004

¹ Unless otherwise noted, the File Number for all documents is File No. 1-7685.

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

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SUBMITTED HEREWITH:

<u>Exhibit No.</u>	<u>Item</u>
3.2	Bylaws, as amended on December 2, 2004
10.18.2	*2005 DVDCP
10.19.6	*Employee Stock Option and Incentive Plan, amended and restated
10.19.7	*Forms of NQSO Agreement under Stock Option Plan
10.29.1	*ELCP, amended and restated
10.31.2	*2005 EVDRP
12	Computation of Ratio of Earnings to Fixed Changes
13	Portions of Annual Report to Shareholders for fiscal year ended January 1, 2005
21	List of Subsidiaries
23	Consent of Independent Registered Public Accounting Firm (see page S-4)
24	Power of Attorney
31.1	Philip M. Neal Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Daniel R. O'Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Philip M. Neal Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Daniel R. O'Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

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

**STATEMENT AND AGREEMENT REGARDING
LONG-TERM DEBT OF REGISTRANT**

Except as indicated above, Registrant has no instrument with respect to long-term debt under which securities authorized thereunder equal or exceed 10% of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish a copy of its long-term debt instruments to the Commission upon request.

**BYLAWS
OF
AVERY DENNISON CORPORATION**

**ARTICLE I
OFFICES**

Section 1. Registered Office.

The registered office of Avery Dennison Corporation (hereinafter called the "corporation") in the State of Delaware shall be at 1209 Orange Street, in the City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be The Corporation Trust Company.

Section 2. Principal Office.

The principal executive office for the transaction of the business of the corporation is hereby fixed and located in Los Angeles County, California. The board of directors is hereby granted full power and authority to change said principal executive office from one location to another within or without the State of California.

Section 3. Other Offices.

The corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine, or the business of the corporation may require.

**ARTICLE II
STOCKHOLDERS**

Section 1. Place of Meetings.

Meetings of stockholders shall be held at any place, if any, within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

Section 2. Annual Meetings of Stockholders.

The annual meeting of stockholders shall be held on the last Thursday in April of each year at 1:30 p.m. of said day, or on such other day, which shall not be a legal holiday, and at such other time as shall be determined by the board of directors. Any previously scheduled annual meeting of stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such annual meeting of stockholders.

Section 3. Special Meetings.

A special meeting of the stockholders may be called at any time by the board of directors, or by a majority of the directors or by a committee authorized by the board to do so. Any previously scheduled special meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders. Business transacted at any special meeting of the stockholders shall be limited to the purpose stated in the notice of meeting.

Section 4. Notice of Stockholders' Meetings.

All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting being noticed. The notice shall specify the place, date and hour of the meeting and (i) in case of a special meeting, the purpose or purposes for which the meeting is called, or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, management intends to present for election.

Section 5. Manner of Giving Notice; Affidavit of Notice.

Notice of any meeting of stockholders shall be given either personally or by mail or telegraphic or other written communication or by electronic transmission, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Whenever notice is required to be given to any stockholder to whom (1) notice of 2 consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such 2 consecutive annual meetings, or (2) all, and at least 2, payments (if sent by first-class mail) of dividends or interests or securities during a 12 month period, have been mailed addressed to such person at such person's address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice shall not be required. If any such person shall deliver to the corporation a written notice setting forth such person's then current address, the requirement that notice be given to such person shall be reinstated. If mailed, notice shall be deemed to have been given at the time when delivered personally or deposited in the United States mail or sent by telegram or other means of written communication.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting shall be executed by the secretary, assistant secretary or any transfer agent of the corporation giving such notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. Quorum.

The presence in person or by proxy of the holders of a majority of the voting power of the outstanding shares entitled to vote at any meeting of stockholders shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. Adjourned Meeting and Notice Thereof.

Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the Chairman of the meeting, but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 6 of this Article II.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting. Notice of any such adjourned meeting, if required, shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. Voting.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the

Chairman of the meeting. Any stockholder entitled to vote on any matter (other than the election of directors) may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal; but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. If a quorum is present, the affirmative vote of the majority voting power of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders, unless the vote of a greater percentage or voting by classes is required by the General Corporation Law of the State of Delaware (the "General Corporation Law") or the certificate of incorporation or the certificate of designations of preferences as to any preferred stock, or the rules and regulations of any stock exchange applicable to the corporation, or applicable law or pursuant to any rule or regulation applicable to the corporation or its securities.

At a stockholders' meeting involving the election of directors, no stockholder shall be entitled to cumulate (i.e., cast for any one or more candidates a number of votes greater than the number of the stockholder's shares). The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 9. Waiver of Notice or Consent by Absent Stockholders.

The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, not present in person or by proxy, gives a waiver of notice or a consent to the holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents or approvals shall be filed with the corporate records or made part of the minutes of the meeting.

Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if such objection is expressly made at the meeting.

Section 10. No Stockholder Action by Written Consent Without a Meeting.

Stockholders may take action only at a regular or special meeting of stockholders.

Section 11. Record Date for Stockholder Notice and Voting.

For purposes of determining the holders entitled to notice of any meeting or to vote, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of any such meeting, and in such case only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

Section 12. Proxies.

Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by proxy. Without limiting the manner in which a proxy may be granted, a stockholder may grant a proxy in the following manners: (i) by executing a writing authorizing another person or persons to act for such stockholder as proxy or (ii) by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to a person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person

who will be the holder of the proxy to receive such transmission, provided however that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. A written proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or electronic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing or electronic transmission delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of three years from the date of such proxy, unless otherwise provided in the proxy.

Section 13. Inspectors of Election; Opening and Closing the Polls.

The board of directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 14. Nomination and Stockholder Business Bylaw.

(A) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting, (b) by or at the direction of the board of directors or (c) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business

that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made (including the text of any resolutions proposed for consideration and in the event that such business includes an amendment to the Bylaws, the language of the proposed amendment); and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting. The corporation may require any proposed nominee to furnish such other information as the corporation may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the board of directors or (b) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) of this Bylaw shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to be elected at an annual or special meeting of stockholders and only such business shall be conducted

at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(2)(c)(iv) of this Bylaw), to declare that such defective proposal or nomination shall be disregarded. Notwithstanding the foregoing provisions of this Bylaw, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock, if any, to elect directors pursuant to any applicable provision of the certificate of incorporation.

ARTICLE III

DIRECTORS

Section 1. Powers.

Subject to the provisions of the Delaware General Corporation Law and any limitations in the certificate of incorporation and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the power and authority to:

(a) Select and remove all officers, agents and employees of the corporation, prescribe such powers and duties for them as may not be inconsistent with law, the certificate of incorporation or these bylaws, fix their compensation, and require from them security for faithful service.

(b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or foreign country and conduct business within or outside the State of California; designate any place within or without the State of California for the holding of any stockholders' meeting or meetings, including annual meetings; adopt, make and use a corporate seal, and prescribe the forms of certificates of stock, and alter the form of such seal and of such certificates from time to time as in their judgment they may deem best, provided that such forms shall at all times comply with the provisions of law.

(c) Authorize the issuance of shares of stock of the corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done or services actually rendered, debts or securities canceled or tangible or intangible property actually received.

(d) Borrow money and incur indebtedness for the purpose of the corporation, and cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, or other evidences of debt and securities therefor.

Section 2. *Number and Qualification of Directors.*

The number of directors of the corporation shall be Thirteen (13) until changed by a bylaw amending this Section 2, duly adopted by the board of directors or by the stockholders.

Section 3. *Election and Term of Office of Directors.*

Subject to Section 15 below, one class of the directors shall be elected at each annual meeting of the stockholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of stockholders held for that purpose. All directors shall hold office until their respective successors are elected. Irrespective of the provisions of Section 15 of this Article III and of the preceding sentence, a director shall automatically be retired on the date of the expiration of the first annual meeting following his 72nd birthday.

Section 4. *Vacancies and Newly Created Directorships.*

Vacancies and newly created directorships in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Each director elected to fill a vacancy shall hold office for the remainder of the term of the person whom he or she succeeds, unless otherwise determined by the board of directors, and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, retirement, resignation, disqualification or removal of any director, or if the authorized number of directors be increased.

Any director may resign or voluntarily retire upon giving written notice to the chairman of the board, the president, the secretary or the board of directors. Such retirement or resignation shall be effective upon the giving of the notice, unless the notice specifies a later time for its effectiveness. If such retirement or resignation is effective at a future time, the board of directors may elect a successor to take office when the retirement or resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office. No director may be removed during his term except for cause.

Section 5. *Place of Meetings and Telephonic Meetings.*

Regular meetings of the board of directors may be held at any place within or without the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or without the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or other communication equipment, so long as all directors participating in such meeting can hear one another, and all such directors shall be deemed to be present in person at such meeting.

Section 6. *Annual Meetings.*

Immediately following each annual meeting of stockholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers and transaction of other business. Notice of this meeting shall not be required.

Section 7. Other Regular Meetings.

Other regular meetings of the board of directors shall be held at such time as shall from time to time be determined by the board of directors. Such regular meetings may be held without notice provided that notice of any change in the determination of time of such meeting shall be sent to all of the directors. Notice of a change in the determination of the time shall be given to each director in the same manner as for special meetings of the board of directors.

Section 8. Special Meetings.

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone or by electronic transmission to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at his or her address as it is shown upon the records of the corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered personally, or by telephone, telegram or other form of electronic transmission, it shall be delivered personally, or by telephone or to the telegraph company or transmitted by other electronic transmission at least forty-eight (48) hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. Quorum.

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 10. Waiver of Notice.

The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present gives a waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.

Section 11. Adjournment.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. Notice of Adjournment.

Notice of the time and place of an adjourned meeting need not be given if the time and place thereof are announced at the adjourned meeting, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. Action Without Meeting.

Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent to such action in compliance with applicable law.

Section 14. Fees and Compensation of Directors.

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for such services.

Section 15. Classification of Directors.

The board of directors shall be and is divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of directors by three, and if a fraction is also contained in such quotient then if such fraction is one-third (1/3) the extra director shall be a member of Class III and if the fraction is two-thirds (2/3) one of the extra directors shall be a member of Class III and the other shall be a member of Class II. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected.

In the event of any increase or decrease in the authorized number of directors, (a) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal, and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the board of directors to such class or classes as shall, so far as possible, bring the number of directors in the respective classes into conformity with the formula in this Section 15, as applied to the new authorized number of directors.

**ARTICLE IV
COMMITTEES**

Section 1. Committees of Directors.

The board of directors may, by resolution adopted by the board of directors, designate one or more committees, including an executive committee, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

- (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law to be submitted to the stockholders for approval; or
- (b) adopting, amending or repealing any bylaw of the corporation.

Section 2. Meetings and Action of Committees.

Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment) and 13 (action without meetings), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined by resolution of the board of directors as well as the committee, special meetings of committees may also be called by resolution of the board of directors, and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V
OFFICERS

Section 1. Officers.

The officers of the corporation shall be the chairman of the board, the president, a vice president, a secretary and a treasurer. The corporation may also have, at the discretion of the board of directors, one or more additional vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. Election of Officers.

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen annually by the board of directors, and each shall hold his office until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified.

Section 3. Subordinate Officers, etc.

The board of directors may appoint, and may empower the chairman of the board to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the board of directors may from time to time determine.

Section 4. Removal and Resignation of Officers.

Any officer may be removed, either with or without cause, by the board of directors, at any regular or special meeting thereof, or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies in Office.

A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 6. Chairman of the Board.

The chairman of the board shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and affairs of the corporation.

Section 7. President.

The president shall be the chief operating officer of the corporation and shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the corporation as may from time to time be assigned to him by the chairman of the board or by the board of directors, or as may be prescribed by the bylaws.

Section 8. Vice Presidents.

In the absence or disability of the president, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the bylaws.

Section 9. Secretary.

The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors may order, a book of minutes of all meetings and actions of directors, committees of directors and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a stock register, or a duplicate register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required by the bylaws or by law to be given, and he shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by the bylaws.

Section 10. Treasurer.

The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all reasonable times to inspection by any director.

The treasurer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the chairman of the board and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

Section 11. Assistant Secretaries and Assistant Treasurers.

Any assistant secretary may perform any act within the power of the secretary, and any assistant treasurer may perform any act within the power of the treasurer, subject to any limitations which may be imposed in these bylaws or in board resolutions.

**ARTICLE VI
INDEMNIFICATION OF DIRECTORS, OFFICERS,
EMPLOYEES AND OTHER AGENTS**

Section 1. Indemnification and Insurance.

(A) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee of agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the

corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgements, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (C) of this Bylaw, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Bylaw shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within 20 days after the receipt by the corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Bylaw or otherwise.

(B) To obtain indemnification under this Bylaw, a claimant shall submit to the corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this paragraph (B), a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (1) if requested by the claimant, by Independent Counsel (as hereinafter defined), or (2) if no request is made by the claimant for a determination by Independent Counsel, (i) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (ii) by a committee of Disinterested Directors designated by Disinterested Directors, even though less than a quorum, or (iii) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtained or even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the claimant, or (iv) if a quorum of Disinterested Directors so directs, by the stockholders of the corporation. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the claimant, the Independent Counsel shall be selected by the Board of Directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a "Change of Control" as defined in the 1996 Stock Incentive Plan, in which case the Independent Counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the Board of Directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

(C) If a claim under paragraph (A) of this Bylaw is not paid in full by the corporation within 30 days after a written claim pursuant to paragraph (B) of this Bylaw has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim, including attorney's fees. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standard of conduct which makes it permissible under the General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General

Corporation Law, nor an actual determination by the corporation (including its Board of Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(D) If a determination shall have been made pursuant to paragraph (B) of this Bylaw that the claimant is entitled to indemnification, the corporation shall be bound by such determination in any judicial proceeding commenced pursuant to paragraph (C) of this Bylaw.

(E) The corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to paragraph (C) of this Bylaw that the procedures and presumptions of this Bylaw are not valid, binding and enforceable and shall stipulate in such proceeding that the corporation is bound by all the provisions of this Bylaw.

(F) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Bylaw shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or Disinterested Directors or otherwise. No repeal or modification of this Bylaw shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

(G) The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law. To the extent that the corporation maintains any policy or policies providing such insurance, each such director or officer, and each such agent or employee to which rights to indemnification have been granted as provided in paragraph (H) of this Bylaw, shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage thereunder for any such director, officer, employee or agent.

(H) The corporation may, to the extent authorized from time to time by the Board of Directors or the Chief Executive Officer, grant rights to indemnification, and rights to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the corporation to the fullest extent of the provisions of this Bylaw with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

(I) If any provision or provisions of this Bylaw shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Bylaw (including, without limitation, each portion of any paragraph of this Bylaw containing any such provisions held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Bylaw (including, without limitation, each such portion of any paragraph of this Bylaw containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

(J) For purposes of this Bylaw:

(1) "Disinterested Director" means a director of the corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

(2) "Independent Counsel" means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the corporation or the claimant in an action to determine the claimant's rights under this Bylaw.

(K) Any notice, request or other communication required or permitted to be given to the corporation under this Bylaw shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the Secretary of the corporation and shall be effective only upon receipt by the Secretary.

Section 2. *Fiduciaries of Corporate Employee Benefit Plan.*

This Article VI does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation as defined in Section 1 of this Article VI. Nothing contained in this Article VI shall limit any right to indemnification to which such a trustee, investment manager or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by Section 410 of the Employee Retirement Income Security Act of 1974, as amended, other than this Article VI.

ARTICLE VII**RECORDS AND REPORTS****Section 1. *Maintenance and Inspection of Stock Register.***

The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed, and as determined by resolution of the board of directors, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder.

A stockholder or stockholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation may (i) inspect and copy the records of stockholders' names and addresses and stockholders during usual business hours upon five days prior written demand upon the corporation, and/or (ii) obtain from the transfer agent of the corporation, upon written demand and upon the tender of such transfer agent's usual charges for such list, a list of the stockholders' names and addresses, who are entitled to vote for the election of directors, and their shareholdings as of the most recent record date for which such list has been compiled or as of a date specified by the stockholder subsequent to the date of demand. Such list shall be made available to such stockholder or stockholders by the transfer agent on or before the later of five (5) days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

The record of stockholders shall be open to inspection upon the written demand of any stockholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as the holder of a voting trust certificate. Any inspection and copying under this Section 1 may be made in person or by an agent or attorney of the stockholder or holder of a voting trust certificate making such demand.

Section 2. *Maintenance and Inspection of Bylaws.*

The corporation shall keep at its principal executive office the original or a copy of the bylaws as amended to date, which shall be open to inspection by the stockholders at all reasonable times during office hours.

Section 3. *Maintenance and Inspection of Other Corporate Records.*

The accounting books and records and minutes of proceedings of the stockholders and the board of directors and any committee or committees of the board of directors shall be kept at such place or places designated by the board of directors, or, in the absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. Such minutes and accounting books and records shall be open to inspection upon the written demand of any stockholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as a holder of a voting trust certificate. Such inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. The foregoing rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

Section 4. Inspection by Directors.

Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

ARTICLE VIII**GENERAL CORPORATE MATTERS****Section 1. Record Date for Purposes Other Than Notice and Voting.**

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action, and in such case only stockholders of record on the date so fixed are entitled to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such action, whichever is later.

Section 2. Checks, Drafts, Evidences of Indebtedness.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. Corporate Contracts and Instruments; How Executed.

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 4. Stock Certificates.

A certificate or certificates for shares of the capital stock of the corporation shall be issued to each stockholder when any such shares are fully paid. All certificates shall be signed in the name of the corporation by the chairman of the board or the president or vice president and by the treasurer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Section 5. Lost Certificates.

Except as hereinafter in this Section 5 provided, no new stock certificate shall be issued in lieu of an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may in case any stock certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, upon such terms and conditions as the board of

directors may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 6. Representation of Stock of Other Corporations.

The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all stock of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all stock by the corporation in any other corporation or corporations may be exercised by any such officer in person or by any person authorized to do so by proxy duly executed by said officer.

Section 7. Construction and Definitions.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law shall govern the construction of the bylaws. Without limiting the generality of the foregoing, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

Section 8. Fiscal Year.

The fiscal year of the corporation shall commence the first day of the calendar year.

Section 9. Seal.

The seal of the corporation shall be round and shall bear the name of the corporation and words and figures denoting its organization under the laws of the State of Delaware and year thereof, and otherwise shall be in such form as shall be approved from time to time by the board of directors.

**ARTICLE IX
AMENDMENTS**

Section 1. Amendment by Stockholders.

New bylaws may be adopted or these bylaws may be amended or repealed by the vote of not less than 80% of the total voting power of all shares of stock of the corporation entitled to vote in the election of directors, considered for purposes of this Section 1 as one class.

Section 2. Amendment by Directors.

Subject to the rights of the stockholders as provided in Section 1 of this Article IX, to adopt, amend or repeal bylaws, bylaws may be adopted, amended or repealed by the board of directors.

Amended December 2, 2004

AVERY DENNISON CORPORATION
2005 DIRECTORS VARIABLE DEFERRED COMPENSATION PLAN

ARTICLE I - PURPOSE

The 2005 Directors Variable Deferred Compensation Plan ("Plan") is adopted by Avery Dennison Corporation, a Delaware Corporation (the "Company"), effective as of December 1, 2004. The Plan provides a deferred compensation plan for non-employee Directors of the Company. The Plan applies to all Participants and/or Beneficiaries of the Plan and deferrals thereunder commencing on or after December 1, 2004, as well as any unvested balances as of November 30, 2004. The Plan is intended to comply, and it is anticipated that the provisions of the Plan will be amended to comply, with the provisions of Section 409A of the Internal Revenue Code, as added by the American Jobs Creation Act of 2004, and any regulations or other written administrative guidance issued or to be issued thereunder ("Section 409A").

ARTICLE 2 – DEFINITIONS AND CERTAIN PROVISIONS**2.1 Administrator.**

"Administrator" means the administrator appointed by the Committee to handle the day-to-day administration of the Plan pursuant to Article 9.

2.2 Allocation Election Form.

"Allocation Election Form" means the form on which a Participant elects the Declared Rate(s) to be credited as earnings or losses to such Participant's Deferral Account.

2.3 Annual Deferral.

"Annual Deferral" means the amount of Director's Fees that the Participant elects to defer for a calendar year.

2.4 Beneficiary.

"Beneficiary" means the person or persons or entity designated as such by a Participant pursuant to Article 8.

2.5 Benefit.

"Benefit" means a Retirement Benefit, Survivor Benefit, Termination Benefit, or Disability Benefit or other benefit permitted under Section 409A.

2.6 Change of Control

"Change of Control" means a Change in Control Event as defined in the regulations or other administrative guidance under Section 409A.

2.7 Code

"Code" shall mean the Internal Revenue Code of 1986, as amended.

2.8 Committee.

"Committee" means the deferred compensation plan committee appointed to administer the Plan pursuant to Article 9.

2.9 Declared Rate.

"Declared Rate" means the notional rates of return (which may be positive or negative) of the individual investment options selected by a Participant for such Deferral Account referred to in Article 6.

2.10 Deferral Account.

"Deferral Account" means the notional account established for record keeping purposes for a Participant pursuant to Section 4.4.

2.11 Director's Fees

"Director's Fees" means the retainers and meeting fees payable to a Director for service as a director of the Company, which may be deferred hereunder.

2.12 Disability Benefit.

“Disability Benefit” means the Benefit payable to a Participant in accordance with Section 7.4 after the Participant has become Disabled.

2.13 Disabled.

“Disabled” means, in the case of a Participant, that the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

2.14 Distribution.

“Distribution” means any payment to a Participant or Beneficiary according to the terms of this Plan.

2.15 Enrollment Period.

“Enrollment Period” means the period(s) designated from year to year by the Administrator for enrollments.

2.16 Exchange Act.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.17 Normal Retirement.

“Normal Retirement” means the termination of a Participant’s status as a director with the Company for reasons other than death on or after the Participant attains age 60.

2.18 Participant.

“Participant” means a non-employee Director who has filed a completed and executed Participation Election Form with the Administrator, and who is participating in the Plan in accordance with the provisions of Articles 3 and 4.

2.19 Participation Election Form.

“Participation Election Form” means the written agreement or commitment to make a deferral submitted by the Participant to the Administrator pursuant to Article 4 of the Plan. The Participation Election Form may take the form of an electronic communication followed by appropriate confirmation according to procedures established by the Administrator.

2.20 Plan.

“Plan” means this 2005 Directors Variable Deferred Compensation Plan, a non-qualified elective deferred compensation plan, as the same may be amended from time to time.

2.21 Plan Year.

“Plan Year” means the year beginning December 1 and ending the following November 30.

2.22 Rabbi Trust.

“Rabbi Trust” means the trust described in Section 12.12.

2.23 Retirement Benefit.

“Retirement Benefit” means the Benefit payable to a Participant when the Participant has satisfied the requirements Normal Retirement pursuant to Article 7.

2.24 Section 409A.

“Section 409A” means section 409A of the Code, as added by the American Jobs Creation Act of 2004, and any regulations and other written administrative guidance issued from time to time thereunder.

2.25 Settlement Date.

“Settlement Date” means a date upon which a Benefit payment is due and payable to a Participant or Beneficiary. This date will be within 90 days of, or as soon as possible after, the Valuation Date, subject to Section 409A.

2.26 Survivor Benefit.

“Survivor Benefit” means those Plan Benefits that become payable upon the death of a Participant pursuant to Section 7.6.

2.27 Termination Benefit.

“Termination Benefit” means the lump sum amount payable to a Participant who ceases to be a Director pursuant to the provisions of Section 7.5.

2.28 Valuation Date.

“Valuation Date” means the date on which the Deferral Account is valued for Distribution purposes. This date shall be the last day of the month in which an event occurs that triggers a Benefit payment.

ARTICLE 3 – PARTICIPATION

3.1 Participation.

The Administrator shall notify Participants generally not less than 30 days (or such lesser period as may be practicable under the circumstances) prior to any deadline for filing a Participation Election Form.

3.2 Participation Election.

An Director shall become a Participant in the Plan no later than the first day of the Plan Year coincident with or next following the date the Director has filed a Participant Election Form with the Administrator. To be effective, the Director must submit the Participant Election Form during an Enrollment Period or any other such time as determined by the Administrator.

Directors, who join the Company after the first day of the Plan Year, may become Participants provided such Director files a Participant Election Form with the Administrator within 30 days of commencement of service as a Director.

3.3 Continuation of Participation.

A Participant who has elected to participate in the Plan by submitting a Participant Election Form shall continue as a Participant in the Plan until the entire balance of the Participant’s Deferral Account has been distributed to the Participant.

ARTICLE 4 – PARTICIPANT DEFERRALS

4.1 Annual Deferral.

On the Participation Election Form, and subject to the restrictions set forth herein, the Director shall designate the amount of Director’s Fees to be deferred for the following calendar year, provided that any deferral election shall be made not later than the last day of the calendar year preceding the calendar year in which such Director’s Fees are earned.

4.2 Minimum Deferral.

The minimum amount of Annual Deferral that may be deferred shall be ten (10%) percent of a Participant’s Director’s Fees.

4.3 Maximum Deferral.

The standard maximum amount of Annual Deferral that may be deferred shall be 100% of the Director’s Fees. The maximum deferral amount is established at the discretion of the Administrator.

4.4 Deferral Accounts.

Solely for record keeping purposes, the Company shall maintain a Deferral Account for each Participant. The amount of a Participant’s Annual Deferral pursuant to this Article 4 shall be credited by the Company to the Participant’s Deferral Account as of the last day of the calendar quarter during which Director’s Fees otherwise would have been paid. All Distributions will be debited to the Deferral Account on the Valuation Date.

4.5 Interest on Deferral Accounts.

The Participant’s Deferral Account shall be credited with a rate of return (positive or negative) based on the Declared Rate(s) that he elects. The rate of return (positive or negative) will be credited and compounded daily.

4.6 Statement of Accounts.

The Administrator shall provide to each Participant periodic statements (not less than annually) setting forth the Participant's deferrals, Declared Rate(s) (credits or debits), distributions and Deferral Account balance.

4.7 Errors in Benefit Statement or Distributions.

In the event an error is made in a benefit statement, such error shall be corrected on the next benefit statement following the date such error is discovered. In event of an error in a Distribution, the Participant's Deferral Account shall, immediately upon the discovery of such error, be adjusted to reflect such under or over payment and, if possible, the next Distribution shall be adjusted upward or downward to correct such prior error. If the remaining balance of a Participant's Deferral Account is insufficient to cover an erroneous overpayment, the Company may, at its discretion, offset other amounts payable to the Participant from the Company (including but not limited to Director's Fees) to recoup the amount of such overpayment(s).

4.8 Valuation of Accounts.

The value of a Deferral Account as of any date shall equal the amounts theretofore credited or debited to such account, plus the interest deemed to be earned on such account in accordance with this Article 4 through the day preceding such date.

4.9 Vesting.

The Participant shall be 100% vested at all times in the Participant's Deferral Account.

ARTICLE 5 – DISCRETIONARY COMPANY CREDITS

The Company, in its sole discretion, may credit to selected Participants' Deferral Accounts a discretionary amount or match in an amount determined by the Company. These amounts and subsequent earnings are subject to vesting schedules established by the Administrator.

ARTICLE 6 – INVESTMENT OPTIONS

6.1 Participant Election of Declared Rates.

A Participant may elect on the Allocation Election Form any combination of Declared Rates in one (1%) percent increments, as long as the total does not exceed one hundred (100%) percent of the deferrals. A Participant may change the Declared Rate(s) election once a month by filing a written notice (which may include an electronic notification) with the Administrator (or to a service provider designated by the Company, such as Mullin Consulting, which provides administrative services for the Plan and the Participants), up to the last day of the month, with such change(s) effective as of the first day of the next month. Such elections will apply to current deferrals and/or to the remaining Deferral Account Balance, as indicated by the Participant. The Company may modify these procedures to provide greater flexibility (e.g., smaller percentage increments or more frequent reallocations) to Participants. The Company will not necessarily invest Deferral Account balances in the investment funds represented by the Declared Rates, even though the actual performance of the investment fund(s) that is/are chosen to measure specific Declared Rate(s) will determine the rate of return (positive or negative) on the Participant's Deferral Account.

6.2 Declared Rates.

A Participant may select from Declared Rates currently representing twelve (12) investment funds, which may from time to time be established under the Plan and the number of which may be expanded by the Committee; it being the intention that at all times Participants will have at least nine (9) core investment fund choices comparable in focus, type and quality to those listed on Exhibit A. The Declared Rates provide a rate of return (positive or negative) that are based on the actual net performance of the Declared Rate(s) selected by the Participant. The Declared Rates credited to Participant Deferral Accounts will be the actual net performance of the Declared Rates, to which will be added a basis point credit, which credit (when added to the actual net performance of the Declared Rates) will together be approximately equivalent on average to crediting the actual gross performance of the Declared Rates less 20 basis points.

ARTICLE 7 – BENEFITS

7.1 Retirement Benefit.

A Participant is eligible for a Retirement Benefit under this Plan upon the satisfaction of the requirements for Normal Retirement.

7.2 Benefit Election Alternatives.

The Retirement Benefit will be paid beginning on the Settlement Date, and in the manner which the Participant elects no later than twelve months prior to the originally scheduled commencement of the distribution, consistent with procedures established by the Company and with the requirements of Section 409A. To the extent required under Section 409A, an election by a Participant to change the form or timing of an initial or subsequent distribution must defer the commencement of Retirement Benefits for at least 5 years.

7.3 Installment Payments.

All installment payments will be calculated on an annual basis but paid at such intervals as may be determined by the Committee, subject to the provisions of Section 7.2 above, provided that such intervals shall not be less frequent than quarterly. If a Participant elects to receive his Retirement Benefit in installment payments, the payments will be based on the Deferral Account balance at the beginning of the payment period. The payments will be recalculated annually by dividing the Participant's current Deferral Account balance as of the last day of the plan year by the number of remaining years in the payment period based on the Participant's retirement payment election. The rate of return (positive or negative) during any payment year will be credited during the year on the unpaid Deferral Account balance at the applicable Declared Rate(s). A retired Participant may continue to change his Declared Rate(s) pursuant to Section 6.1.

7.4 Disability Benefit.

If a Participant becomes Disabled, the Participant may request a Disability Benefit.

7.5 Termination Benefit.

If a Participant ceases to be a Director for any reason other than death, Disability or Normal Retirement, the Company shall pay to the Participant in one lump sum an amount (the "Termination Benefit") equal to the value of the Deferral Account. The Participant shall be entitled to no further Benefits under this Plan.

7.6 Survivor Benefits.

- (a) Pre-Retirement. If a Participant dies and has not yet commenced receiving Retirement Benefit payments, a Survivor Benefit will be paid to his Beneficiary in annual installments over ten years unless a different payment schedule is required under Section 409A. The aggregate Survivor Benefit will be equal to the Deferral Account balance plus the Declared Rate(s). The annual Survivor Benefit payments shall be re-determined each year based upon the value of the Deferral Account at that time.
- (b) Post-Retirement. If a Participant dies after payment of Retirement Benefits has commenced, his Beneficiary will be entitled to receive the remainder of the payments not yet paid to the Participant in accordance with the election of the Participant then in effect unless a different payment schedule is required under Section 409A.

7.7 Change of Control.

A Participant may make an irrevocable election at the time of making a deferral election to take a distribution in the event of a Change of Control prior to the Participant's termination of status as a Director. A distribution on Change of Control shall be equal to the total balance of the Deferral Account or Accounts specified by the Participant including notional earnings credited thereon through the Valuation Date and shall be paid in the form of a single lump sum payable no later than the last day of the month following the month in which such Change of Control occurs, subject to Section 409A.

7.8 Valuation Date.

Unless otherwise provided by the Administrator, the Valuation Date for determining Deferral Account balances shall be the last day of the month in which an event occurs that triggers a Benefit payment.

7.9 Settlement Date.

Unless otherwise provided by the Administrator, the Settlement Date for Benefit payments shall be within 90 days or as soon as possible following the Valuation Date, except as might otherwise be required under Section 409A.

ARTICLE 8 – BENEFICIARY DESIGNATION

Each Participant and Beneficiary shall have the right, at any time, to designate any person or persons as Beneficiary or Beneficiaries to whom payment under this Plan shall be made in the event of death of the Participant or Beneficiary, as the case may be, prior to complete distribution of the Benefits due under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrator during the Participant's or Beneficiary's lifetime, as the case may be, on a form prescribed by the Administrator.

The filing of a new Beneficiary designation form will cancel and revoke all Beneficiary designations previously filed. Any finalized divorce or marriage (other than a common law marriage) of a Participant or Beneficiary, as the case may be, subsequent to the date of filing of a Beneficiary designation form shall revoke such designation unless (i) in the case of divorce the previous spouse or a trust for said previous spouse was not designated as Beneficiary, or (ii) in the case of marriage the Participant's new spouse or a trust for said new spouse had previously been designated as Beneficiary.

If a Participant or Beneficiary, as the case may be, fails to designate a Beneficiary as provided above, or if the Participant's Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new Beneficiary designation, or if all designated Beneficiaries predecease the Participant or Beneficiary, as the case may be, or die prior to complete distribution of the Participant's Benefits, then the Administrator shall direct the distribution of such Benefits to the estate of the Participant or Beneficiary, as the case may be.

ARTICLE 9 – ADMINISTRATION OF THE PLAN

A deferred compensation plan committee ("Committee") consisting of three or more members shall be appointed by the Company's Chief Executive Officer to administer the Plan and establish, adopt, or revise such rules and procedures as it may deem necessary or advisable for the administration of the Plan and to interpret the provisions of the Plan, with any such interpretations to be conclusive. All decisions of the Committee shall be by vote of at least a majority of its members and shall be final and binding. Members of the Committee shall be eligible to participate in the Plan while serving as members of the Committee, but a member of the Committee shall not vote or act upon any matter that relates solely to such member's interest in the Plan as a Participant. The current members of the Committee are the Chief Executive Officer; the Chief Financial Officer; the Senior Vice President, Human Resources; the Executive Vice President, General Counsel and Secretary; the Vice President and Treasurer; the Vice President, Compensation and Benefits; the Vice President, Associate General Counsel and Assistant Secretary; the Vice President and Controller; the Manager, Corporate Finance and Investments, and the Director, Financial Reporting at the Company's Miller Corporate Center. The Committee has designated the Vice President, Compensation and Benefits as the Administrator to carry out the day-to-day administration of the Plan.

ARTICLE 10 – AMENDMENT OR TERMINATION OF PLAN

The Company, at the direction of its Chief Executive Officer, may amend the Plan; provided, however, that (i) no such amendment shall be effective to decrease the Benefits accrued by any Participant or Beneficiary of a deceased Participant (including, but not limited to, the rate of interest credited to the Deferral Accounts); (ii) no such amendment shall decrease the minimum number of Declared Rates set forth in Section 6.2; (iii) Section 7.1 may not be amended; (iv) the definition of Declared Rate may not be amended; except as allowed in Article 6, (v) the other substantive provisions of the Plan related to the calculation of Benefits or the manner or timing of payments to be made under the Plan shall not be amended so as to prejudice the rights of any Participant or Beneficiary, and (vi) amendments shall be not be inconsistent with Section 409A.

Notwithstanding any terms herein to the contrary, the Company may not terminate the Plan; provided however that the Company shall not have any obligation to, but may, in its discretion, allow additional deferrals into this Plan.

ARTICLE 11 – MAINTENANCE OF ACCOUNTS

The Company shall keep, or cause to be kept, all such books of account, records and other data as may be necessary or advisable in its judgment for the administration of this Plan, and to reflect properly the affairs thereof, and to determine the nature and amount of the interests of the respective Participants in each Deferral Account.

Separate accounts or records for the respective Participants' Deferred Accounts shall be maintained for operational and accounting purposes, but no such account or record shall be considered as creating a lien of any nature whatsoever on or as segregating any of the assets with respect to the accounts under this Plan from any other funds or property of the Company.

ARTICLE 12 – MISCELLANEOUS

12.1 Applicable Law.

The Plan shall be governed and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely therein, and applicable substantive provisions of federal law, including the AJCA.

12.2 Captions.

The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

12.3 Limitation.

A Participant and the Participant's Beneficiary shall assume all risks in connection with the performance of any Declared Rate and any decrease in value of the Deferral Accounts, and the Company, any of its officers, employees, or directors, the Committee and the Administrator shall not be liable or responsible therefor.

12.4 Notice.

Any notice or filing required or permitted to be given to the Administrator under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Company, directed to the attention of the Administrator with a copy to the Executive Vice President, General Counsel and Secretary of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

12.5 Obligations to Company.

If a Participant becomes entitled to a Distribution of Benefits under the Plan, and if at such time the Participant has outstanding any debt, obligation, or other liability representing an amount owing to the Company, then the Company may offset such amount owed to it against the amount of Benefits otherwise distributable. Such determination shall be made by the Committee.

12.6 Limits on Transfer.

Other than by will, the laws of descent and distribution, or legal or judicial process related to dissolution of marriage, no right title or interest of any kind in the Plan shall be transferable or assignable by a Participant or the Participant's Beneficiary or be subject to alienation, anticipation, encumbrance, garnishment, attachment, levy, execution or other legal or equitable process, nor subject to the debts, contracts, alimony, liabilities or engagements, or torts of any Participant or Participant's Beneficiary. Any attempt to alienate, sell, transfer, assign, pledge, garnish, attach or take any other action subject to legal or equitable process or encumber or dispose of any interest in the Plan shall be void.

12.7 Satisfaction of Claims.

Payments to any Participant or Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full or partial satisfaction of claims against the Company for the compensation or other amounts deferred and relating to the Deferral Account to which the payments relate.

12.8 Unfunded Status of Plan; Creation of Trusts.

The Plan is intended to constitute an “unfunded” plan for deferred compensation and Participants shall rely solely on the unsecured promise of the Company for payment hereunder. With respect to any payment not yet made to a Participant under the Plan, nothing contained in the Plan shall give a Participant any rights that are greater than those of a general unsecured creditor of the Company. Consistent with the provisions of this Section 12.8, the Company has established the Trust referred to in Section 12.12 and may establish other similar trusts, or make other arrangements to meet the Company’s obligations under the Plan, which trusts or other arrangements shall be consistent with the “unfunded” status of the Plan.

12.9 Compliance.

The Plan, in form and operation, is intended to comply with Section 409A. To the extent that the terms of the Plan are inconsistent with Section 409A, then the terms of the Plan will be automatically deemed to be amended and construed so as to be in compliance.

12.10 Tax Withholding.

The Participant or Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other tax requirements applicable to the crediting and payment of Benefits under the Plan. If no other arrangements are made, the Company shall have the right to deduct from amounts otherwise credited or payable in settlement of a Deferral Account any sums that federal, state, local or foreign tax law requires to be withheld with respect to such credit or payment.

12.11 Participant Cooperation.

Each Participant shall cooperate with the Company by furnishing any and all information requested by the Company in order to facilitate the payment of Benefits hereunder, taking such physical examinations as the Company may deem necessary and taking such other relevant action as may be requested by the Company. If a Participant refuses so to cooperate, the Company shall have no further obligation to the Participant under the Plan, other than payment to such Participant of the cumulative deferrals theretofore made pursuant to this Plan. If a Participant commits suicide during the two (2) year period beginning on the first day on which he participates in the Plan or if the Participant makes any material misstatement of information or nondisclosure of medical history, then no Benefits will be payable hereunder to such Participant of the deferrals theretofore made pursuant to this Plan, provided, that in the Company’s sole discretion, Benefits may be payable in an amount reduced to compensate the Company for any loss, cost, damage or expense suffered or incurred by the Company as a result in any way of any such action, misstatement or nondisclosure.

12.12 Unsecured General Creditor.

The Company has established the Avery Dennison Corporation Directors Compensation Trust (“Rabbi Trust”). The assets of the Rabbi Trust shall be subject to the claims of the Company’s creditors. To the extent any Benefits provided under the Plan are actually paid from the Rabbi Trust, the Company shall have no further obligation with respect thereto, but to the extent not so paid, such Benefits shall remain the obligation of, and shall be paid by, the Company. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in or to any specific property or assets of Company, nor shall they be beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, or the proceeds therefrom owned or which may be acquired by Company (“Policies”). Apart from the Rabbi Trust, such Policies or other assets of Company shall not be held under any trust for the Benefit of Participants, their Beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of Company under this Plan. Any and all of the Company’s assets and Policies shall be, and remain, the general, un-pledged, unrestricted assets of Company. Company’s obligations under the Plan shall be merely an unfunded and unsecured promise of Company to pay money in the future.

12.13 Waiver of Stay, Extension and Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company from paying all or any portion of the Benefits due hereunder, wherever such laws may be enacted, now or at any time hereafter in force, or which may affect the administration or performance of this Plan; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the realization of any Benefits to which the Participants hereunder are entitled, but will suffer and permit the realization of all such Benefits as though no such law

had been enacted. The provisions of this Section 12.13 are not intended, however, to prevent compliance of the Plan with the provisions of Section 409A.

12.14 Status.

The establishment and maintenance of, or allocations and credits to, the Deferral Accounts of any Participant shall not vest in any Participant any right, title or interest in and to any Plan assets or Benefits except at the time or times and upon the terms and conditions and to the extent expressly set forth in the Plan and in accordance with the terms of the Rabbi Trust.

12.15 Validity.

In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

12.16 Waiver of Breach.

The waiver by any party of any breach of any provision of the Plan by any other party shall not operate or be construed as a waiver of any subsequent breach.

12.17 Gender, Singular & Plural.

All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

ARTICLE 13 – EFFECTIVE DATE

The effective date of this Plan is December 1, 2004.

EXHIBIT A
EVDRP DECLARED RATES

Pacific Select Fund	Fund Manager
Money Market	Pacific Life
Managed Bond	Pacific Investment Management Company (PIMCO)
Equity Index	Mercury Advisors
International Equity	Brandes Investment Partners, L.P.
Growth LT	Janus Capital Corporation
Small-Cap Index	Mercury Advisors
Large-Cap Value	Salomon Brothers
Diversified Research	Capital Guardian
Emerging Markets	Oppenheimer
Fixed Account	N/A – not a managed fund
Capital Appreciation	Frontier
Core Growth	Turner Investment Partners

AVERY DENNISON CORPORATION
EMPLOYEE STOCK OPTION AND INCENTIVE PLAN
amended and restated

The purposes of this Plan are as follows:

- (1) To provide additional incentive for Employees to further the growth, development and financial success of the Company by personally benefiting through the ownership of Company stock and/or rights, which recognize such growth, development and financial success.
- (2) To enable the Company to recruit and retain Employees considered essential to the long range success of the Company by offering them an opportunity to own stock in the Company and/or rights, which will reflect the growth, development and financial success of the Company.

ARTICLE 1 DEFINITIONS

Wherever the following terms are used in this Plan they shall have the meaning specified below, unless the context clearly indicates otherwise.

1.1 Award

“*Award*” shall mean a Dividend Equivalent, Option, Restricted Stock, Restricted Stock Unit, or Stock Appreciation Right granted under this Plan.

1.2 Award Agreement

“*Award Agreement*” shall mean an agreement setting forth the terms and conditions of an Award.

1.3 Awardee

“*Awardee*” shall mean a person who has received an Award under the Plan.

1.4 Beneficiary

“*Beneficiary*” shall have the meaning given in Article 11.8.

1.5 Board

“*Board*” shall mean the Board of Directors of the Company.

1.6 Cause

“*Cause*” shall mean, with respect to any Awardee’s Termination of Employment, unless otherwise provided by the Committee, (i) “Cause” as defined in any Individual Agreement or Award Agreement to which the applicable Awardee is a party, or (ii) if there is no such Individual Agreement or Award Agreement or if it does not define Cause: (A) conviction of the Awardee for committing a felony under federal law or the law of the state in which such action occurred, (B) willful and deliberate failure on the part of the Awardee to perform his employment duties in any material respect, or (C) prior to a Change in Control, such other serious events as shall be determined by the Committee. Prior to a Change of Control, the Committee shall, unless otherwise provided in an Individual Agreement with a particular Awardee, have the discretion to determine whether “Cause” exists, and its determination shall be final.

1.7 Change in Control

“*Change in Control*” has the meanings set forth in Article 9.2.

1.8 CEO

“CEO” shall mean the Chief Executive Officer of the Company.

1.9 Code

“Code” shall mean the Internal Revenue Code of 1986, as amended.

1.10 Committee

“Committee” shall mean committee of the Board designated to administer the Plan as contemplated by Article 10.1.

1.11 Commission

“Commission” shall mean the Securities and Exchange Commission or any successor agency.

1.12 Common Stock

“Common Stock” shall mean the common stock of the Company.

1.13 Company

“Company” shall mean Avery Dennison Corporation or any successor company.

1.14 COO

“COO” shall mean the Chief Operating Officer of the Company.

1.15 Covered Employee

“Covered Employee” shall mean an Awardee designated by the Committee in connection with any Award as an individual who is or may be a “covered employee” within the meaning of Section 162(m)(3) of the Code in the year in which an Award is expected to be taxable to such Awardee.

1.16 Director

“Director” shall mean a member of the Board.

1.17 Disability

“Disability” shall mean, with respect to any Awardee, unless otherwise provided by the Committee, (i) “Disability” as defined in any Individual Agreement or Award Agreement to which the Awardee is a party, or (ii) if there is no such Individual Agreement or it does not define “Disability,” permanent and total disability as defined in Section 22(c)3 of the Code.

1.18 Disaffiliation

“Disaffiliation” shall mean, with respect to any Subsidiary, the Subsidiary’s ceasing to be a Subsidiary for any reason (including, without limitation, as a result of a public offering, or a spin-off or sale by the Company, of the majority of the stock of the Subsidiary).

1.19 Dividend Equivalent

“Dividend Equivalent” shall mean a right to receive a number of shares of Common Stock or an amount of cash, determined as provided in Article 8.1 hereof.

1.20 Early Retirement

“Early Retirement” shall mean retirement from active employment with the Company, or a Subsidiary, pursuant to the early retirement provisions of the applicable pension plan of such employer or as otherwise determined by the Committee.

1.21 Employee

“Employee” shall mean any officer or other employee of the Company, or of any corporation, which is then a Subsidiary.

1.22 Expiration Date

“Expiration Date” shall have the meaning given in Article 4.3.

1.23 Exchange Act

“*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

1.24 Fair Market Value

“*Fair Market Value*” of a share of Common Stock as of a given date shall be (i) the mean between the highest and lowest selling price of a share of Common Stock during normal business hours on the principal exchange on which shares of Common Stock are then trading, if any, on such date, or if shares were not traded on such date, then the weighted average of the means between the highest and lowest sales upon the nearest date before and the nearest date after such valuation date; or (ii) if Common Stock is not traded on an exchange, the mean between the closing representative bid and asked prices for the Common Stock during normal business hours on such date as reported by NASDAQ or, if NASDAQ is not then in existence, by its successor quotation system; or (iii) if Common Stock is not publicly traded, the Fair Market Value of a share of Common Stock as established by the Committee acting in good faith.

1.25 Incentive Stock Option

“*Incentive Stock Option*” shall mean an Option that both meets the requirements to be an “incentive stock option” under Section 422A of the Code and is designated as an Incentive Stock Option by the Committee.

1.26 including or includes

“*including*” or “*includes*” shall mean including without limitation, or includes, without limitation.

1.27 Individual Agreement

“*Individual Agreement*” shall mean an employment, severance or similar agreement between an Awardee and the Company or one of its Subsidiaries.

1.28 Involuntary Termination

“*Involuntary Termination*” shall mean Termination of Employment other than for Cause, death, Disability, Retirement or voluntary termination by the Awardee.

1.29 Non-Qualified Stock Option

“*Non-Qualified Stock Option*” shall mean an Option that either is not an Incentive Stock Option or is designated as a Non-Qualified Stock Option by the Committee.

1.30 Normal Retirement

“*Normal Retirement*” shall mean retirement from active employment with the Company, or a Subsidiary at or after age 62.

1.31 Option

“*Option*” shall mean a stock option granted pursuant to this Plan.

1.32 Optionee

“*Optionee*” shall mean an Employee granted an Option under this Plan.

1.33 Performance Goals

“*Performance Goals*” shall mean the performance goals established by the Committee in connection with the grant of Restricted Stock or Restricted Stock Units. In the case of Qualified Performance-Based Awards, (i) such goals shall be based on the attainment of specified levels of one or more of the following measures: earnings per share, sales, net income, net income after tax, gross income, operating income, cash generation, economic value added, unit volume, return on equity, return on assets, change in working capital, return on capital or stockholder return, and (ii) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations.

1.34 Plan

“*Plan*” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.35 Qualified Performance-Based Award

“*Qualified Performance-Based Award*” shall mean an Award of Restricted Stock or Restricted Stock Units designated as such by the Committee at the time of grant, based upon a determination that (i) the Awardee is or may be a “covered employee” within the meaning of Section 162(m)(3) of the Code in the year in which the Company would expect to be able to claim a tax deduction with respect to such Restricted Stock and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption. Notwithstanding any other provision of the Plan, no Award shall be considered a Qualified Performance-Based Award unless it is granted subject to or after obtaining stockholder approval satisfying the requirements of Section 162(m)(4)(C)(ii) of the Code and the Treasury Regulations thereunder.

1.36 Restricted Stock

“*Restricted Stock*” shall mean Common Stock issued pursuant to Article 7.

1.37 Restricted Stock Unit

“*Restricted Stock Unit*” shall mean a right to receive Common Stock or a cash payment based on the value of Common Stock granted pursuant to Article 7.

1.38 Retirement

“*Retirement*” shall mean Normal or Early Retirement.

1.39 Rule 16b-3

“*Rule 16b-3*” shall mean Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

1.40 Secretary

“*Secretary*” shall mean the Secretary of the Company.

1.41 Section 162(m) Exemption

“*Section 162(m) Exemption*” shall mean the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

1.42 Stock Appreciation Right

“*Stock Appreciation Right*” shall mean a stock appreciation right granted under this Plan.

1.43 Subsidiary

“*Subsidiary*” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, as well as partnerships and limited liability companies, in which the Company holds a 33 percent or more interest.

1.44 Termination of Employment

“*Termination of Employment*” of an Awardee shall mean the termination of the employee-employer relationship between the Awardee and the Company or a Subsidiary for any reason, including a termination by resignation, discharge, death, Disability or Retirement; but excluding (a) terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary and (b) temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and Subsidiaries. In addition, an Awardee employed by a Subsidiary shall be deemed to incur a Termination of Employment upon a Disaffiliation of that Subsidiary, unless the Awardee immediately thereafter becomes or remains an Employee of the Company or one of its continuing Subsidiaries. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

1.45 Gender and Number

“Gender and Number” Wherever the masculine gender is used it shall include the feminine and neuter, and wherever a singular pronoun is used it shall include the plural, unless the context clearly indicates otherwise.

ARTICLE 2 SHARES SUBJECT TO PLAN

2.1 Shares Subject to Plan

As of December 31, 2004, there were 635,835 shares available for future Awards under the Plan. As of the Effective Date, as defined in Article 11.13 below and subject to stockholder approval, the aggregate number of shares deliverable pursuant to Awards shall be increased by 4,500,000 for a total of 5,135,835 shares. Shares of Common Stock issued under the Plan may be authorized and unissued shares, previously outstanding shares held as treasury shares, or treasury shares that have been transferred to and held in a grantor trust of the Company.

2.2 Unexercised Options and Other Rights

If any Option, or other right to acquire shares of Common Stock under any other Award expires or is cancelled without having been fully exercised, the number of shares subject to such Option or other right, but as to which such Option or other right was not exercised prior to its expiration or cancellation, may again be optioned, granted or awarded hereunder, subject to the limitations of Article 2.1.

ARTICLE 3 GRANTING OF OPTIONS

3.1 Eligibility

Options may be granted to Employees of the Company or of a Subsidiary.

3.2 Granting of Options

The Committee shall from time to time, in its discretion:

- (i) Select the Employees who will be granted Options;
- (ii) Determine the number of shares to be subject to such Options granted to the selected Employees; provided, however, that no Employee shall be granted Options covering in excess of 400,000 shares during any calendar year; and
- (iii) Determine the terms and conditions of such Options, consistent with this Plan (including whether they are Incentive Stock Options or Non-Qualified Stock Options).

ARTICLE 4 TERMS OF OPTIONS

4.1 Option Agreement

Each Option and the terms and conditions thereof shall be evidenced by an Award Agreement, which shall be executed by the Optionee and an authorized officer of the Company. Upon grant of an Option, the Committee shall instruct the Secretary to issue an Award Agreement evidencing such Option, and to deliver such Award Agreement to the Optionee.

4.2 Option Price

The exercise price per share of the shares subject to each Option shall be not less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted. Once Options are granted, they may not be repriced, and this Article 4.2 may not be amended without the consent of the stockholders.

4.3 Option Term

The term of an Option shall be set by the Committee in its discretion. The last day of the term of the Option shall be the Option’s “Expiration Date.”

4.4 Option Vesting

(a) The period during which the right to exercise an Option in whole or in part vests in the Optionee shall be set by the Committee (and Option vesting shall be set forth in Award Agreements), and the Committee may determine that an Option may not be exercised in whole or in part for a specified period after it is granted. At any time after grant of an Option the Committee may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the period during which an Option vests or extend the period during which it may be exercised (but not beyond the Expiration Date thereof).

(b) No portion of an Option, which is unexercisable at Termination of Employment, shall thereafter become exercisable.

4.5 Exercise of Options after Termination of Employment

(a) *Termination by Death.* Unless otherwise determined by the Committee, if an Optionee has a Termination of Employment by reason of the Optionee's death, any Option held by such Optionee may thereafter be exercised by the Optionee's Beneficiaries, to the extent then exercisable, or on such accelerated basis as the Committee may determine, for a period of 12 months (or such other period as the Committee may specify in the applicable Award Agreement) from the date of such death or until the Expiration Date thereof, whichever period is the shorter.

(b) *Termination by Reason of Disability.* Unless otherwise determined by the Committee, if an Optionee has a Termination of Employment by reason of the Optionee's Disability, any Option held by such Optionee may thereafter be exercised by the Optionee, to the extent it was exercisable immediately before the Termination of Employment, or on such accelerated basis as the Committee may determine, for a period of three years (or such shorter period as the Committee may specify in the applicable Award Agreement) from the date of such Termination of Employment or until the Expiration Date thereof, whichever period is the shorter; *provided, however,* that if the Optionee dies within such period, any unexercised Stock Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the Expiration Date thereof, whichever period is the shorter.

(c) *Termination by Reason of Retirement.* Unless otherwise determined by the Committee in an Award Agreement, if an Optionee has a Termination of Employment by reason of the Optionee's Retirement, any Option held by such Optionee may thereafter be exercised by the Optionee, to the extent it was exercisable at the time of such Retirement, or on such accelerated basis as the Committee may determine, as follows: (i) if the Optionee has been before such Retirement, the CEO or the COO, for the period ending on the Expiration Date of such Option; (ii) if the Optionee has been before such Retirement, a participant in the Company's Long Term Incentive Program or any successor thereto, other than the CEO or the COO, for the period ending on the earlier of the fifth anniversary of such Retirement or the Expiration Date of such Option; and (iii) in all other cases, for a period ending on the earlier of the third anniversary of such Retirement or the Expiration Date of such Stock Option; *provided, however,* that if the Optionee dies within such period any unexercised Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the Expiration Date of such Option, whichever period is the shorter.

(d) *Other Termination.* Unless otherwise determined by the Committee: (i) if an Optionee incurs a Termination of Employment for Cause, all Options held by such Optionee shall thereupon terminate; and (ii) if an Optionee incurs a Termination of Employment for any reason, other than death, Disability, Retirement or for Cause, any Stock Option held by such Optionee, to the extent then exercisable, or on such accelerated basis as the Committee may determine, may be exercised for the lesser of 6 months from the date of such Termination of Employment or until the Expiration Date of such Stock Option; *provided, however,* that if the Optionee dies within such period, any unexercised Stock Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the Expiration Date of such Stock Option, whichever period is the shorter.

(e) *Transferability of Stock Options.* No Option shall be transferable by the Optionee other than (i) by designation of a Beneficiary, by will or by the laws of descent and distribution, or (ii) as otherwise expressly permitted under the applicable Award Agreement including, if so permitted, pursuant to a gift to such Optionee's family, whether directly or indirectly or by means of a trust or partnership or otherwise. All Options shall be exercisable, subject to the terms of this Plan, only by the Optionee, by the guardian or legal representative of the Optionee if the Optionee is incapacitated, by the Optionee's Beneficiaries, legal representative or heirs after the Optionee's death, or any person to whom such option is transferred pursuant to clause (ii) of the preceding sentence.

(f) *Cashing Out of Stock Option.* On receipt of written notice of exercise, the Committee may elect to cash out all or part of the portion of the shares of Common Stock for which a Stock Option is being exercised by paying the Optionee an amount, in cash or Common Stock, equal to the excess of the Fair Market Value of the Common Stock over the option price times the number of shares of Common Stock for which the Option is being exercised on the effective date of such cash-out.

ARTICLE 5 EXERCISE OF OPTIONS

5.1 Partial Exercise

An Option may be exercised in whole or in part at any time after it has become vested and exercisable and before its Expiration Date, subject to Article 4. However, an Option shall not be exercisable with respect to fractional shares and the Committee or the Company may impose a minimum number of shares for which a partial exercise will be permitted.

5.2 Manner of Exercise

All or a portion of an exercisable Option may be exercised upon delivery to the Secretary or his office of all of the following:

(a) A written notice complying with the applicable rules established by the Committee or the Company, stating that the Option, or a portion thereof, is being exercised, and signed by the Optionee or other person then entitled to exercise the Option or such portion;

(b) Full payment for the shares and taxes described in Article 11.7 with respect to which the Option, or portion thereof, is exercised in whole or in part by (i) cash; (ii) certified or bank check or such other instrument as the Company may accept; (iii) delivery (either by surrender of the shares or by attestation) of shares unrestricted Common Stock already owned by the Optionee of the same class as the Common Stock subject to the Stock Option (based on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); *provided, however*, that such already-owned shares either were acquired by the Optionee in an open-market transaction or have been held by the Optionee for at least six months at the time of exercise; (iv) if permitted by the Committee, the surrender of shares of Common Stock then issuable upon exercise of the Option; or (v) if permitted by the Committee, by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker acceptable to the Company to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the option price, and, if requested, by the amount of any federal, state, local or foreign withholding taxes; and

(c) In the event that the Option shall be exercised by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option.

ARTICLE 6 STOCK APPRECIATION RIGHTS

6.1 Grant and Exercise

(a) Stock Appreciation Rights may be granted in conjunction with all or part of any Option granted under the Plan, either at or after the time of grant of such Option. A Stock Appreciation Right shall terminate and no longer be exercisable upon the termination or exercise of the related Option.

(b) A Stock Appreciation Right may be exercised by an Optionee in accordance with Article 6.2(b) by surrendering the applicable portion of the related Option in accordance with procedures established by the Committee or the Company. Upon such exercise and surrender, the Optionee shall be entitled to receive an amount determined in the manner prescribed in Article 6.2(b). Options that have been so surrendered shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

6.2 Terms and Conditions

Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(a) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Options to which they relate are exercisable in accordance with the provisions of the Plan.

(b) Upon the exercise of a Stock Appreciation Right, an Optionee shall be entitled to receive an amount in cash, shares of Common Stock or both, in value equal to the excess of the Fair Market Value of one share of Common Stock over the option price per share specified in the related Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee or the Company having the right to determine the form of payment. To the extent that a Stock Appreciation Right is exercised and settled in Common Stock, the number of shares available for future Awards under the Plan shall be reduced by the number of Stock Appreciation Rights that are exercised (and not the number of shares actually issued upon settlement of the Award).

(c) Stock Appreciation Rights shall be transferable only to permitted transferees of the underlying Option in accordance with the provisions of the Plan.

ARTICLE 7 RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1 Administration

Shares of Restricted Stock and Awards of Restricted Stock Units may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the Employees to whom and the time or times at which grants of Restricted Stock and Restricted Stock Units will be awarded, the number of shares to be awarded to any Awardee, the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Article 7.3. The total number of shares of Restricted Stock and the total number of shares represented by Restricted Stock Units and Dividend Equivalents granted under the Plan shall not exceed 300,000.

7.2 Awards and Certificates

(a) Shares of Restricted Stock shall be evidenced in such manner, as the Committee or the Company may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of shares of Restricted Stock shall be registered in the name of such Awardee and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

“The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Avery Dennison Corporation Employee Stock Option and Incentive Plan and an Award Agreement. Copies of such Plan and Agreement are on file at the offices of Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, CA 91103.”

The Committee or the Company may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the Awardee shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

(b) Restricted Stock Units shall represent the right to receive, at a specified time or times, either a specified number of shares of Common Stock, or a cash payment equal to the Fair Market Value of a specified number of shares of Common Stock, as the Committee or the Company shall determine.

7.3 Terms and Conditions

The terms and conditions of an Award of Restricted Stock or Restricted Stock Units as established by the Committee shall be set forth in an Award Agreement, including the following:

(a) The Committee may, in connection with the grant, designate an Award of Restricted Stock or Restricted Stock Units as a Qualified Performance-Based Award, in which event it shall condition the grant or vesting (generally, during a period of three years), as applicable, of such Award upon the attainment of Performance Goals. If the Committee does not designate an Award of Restricted Stock or Restricted Stock Units as a Qualified Performance-Based Award, it may also condition the grant or vesting thereof upon the attainment of Performance Goals. Regardless of whether an Award of Restricted Stock or Restricted Stock Units is a Qualified Performance-Based Award, the Committee may also condition the grant or vesting thereof upon the continued service of the Awardee. The conditions for grant or vesting and the other provisions of Awards of Restricted Stock or Restricted Stock Units (including any applicable Performance Goals) need not be the same with respect to each Awardee. The Committee may at any time, in its sole discretion, accelerate or waive, in whole or in part, any of the foregoing restrictions; provided, however, that in the case of an Award that is a Qualified Performance-Based Award, the applicable Performance Goals have been satisfied. The total number of shares represented by Qualified Performance Based Award granted under the Plan shall not exceed 300,000.

(b) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Award for which such Awardee's continued service is required (the "Restriction Period"), and until the later of (i) the expiration of the Restriction Period and (ii) the date the applicable Performance Goals (if any) are satisfied, the Awardee shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock or an Award of Restricted Stock Units; provided that the foregoing shall not prevent an Awardee from pledging Restricted Stock as security for a loan, the sole purpose of which is to provide funds to pay the option price for Stock Options.

(c) Except as provided in this paragraph (c) and Articles 7.3(a) and 7.3(b) and the applicable Award Agreement, the Awardee shall have, with respect to shares of Restricted Stock (but not Restricted Stock Units), all of the rights of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the shares and the right to receive any cash dividends. Unless otherwise determined by the Committee and subject to the next sentence, (A) cash dividends on the class or series of Common Stock that are the subject of the Award of Restricted Stock or Restricted Stock Units shall be automatically deferred and reinvested in additional Restricted Stock or Restricted Stock Units, as applicable, held subject to the vesting of the underlying Award, and (B) dividends payable in Common Stock shall be paid in the form of additional Restricted Stock or Restricted Stock Units, as applicable, held subject to the vesting of the underlying Award. Notwithstanding the foregoing or any provision of an Award Agreement, reinvestment of dividends in additional Restricted Stock or Restricted Stock Units shall only be permissible if sufficient shares of Common Stock are available under the Plan for such reinvestment (taking into account then outstanding Awards).

(d) Except to the extent otherwise provided in the applicable Award Agreement and Articles 7.3(a), 7.3(b), 7.3(e) and 10.1(b), upon an Awardee's Termination of Employment for any reason during the Restriction Period or before the applicable Performance Goals are satisfied, all shares of Restricted Stock and all Restricted Stock Units still subject to restriction shall be forfeited by the Awardee.

(e) Except to the extent otherwise provided in Article 9.1(b), in the event an of an Awardee's Retirement or Termination of Employment other than for Cause, the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions (other than, in the case of Restricted Stock with respect to which an Awardee is a Covered Employee, satisfaction of the applicable Performance Goals unless the Termination of Employment was by reason of the Awardee's death, Disability or Involuntary Termination) with respect to any or all of such Awardee's shares of Restricted Stock.

(f) If and when any applicable Performance Goals are satisfied and the Restriction Period expires without a prior forfeiture of the Restricted Stock, unlegended certificates for such shares shall be delivered to the Awardee upon surrender of the legended certificates.

ARTICLE 8 DIVIDEND EQUIVALENTS

8.1 Dividend Equivalents

Dividend Equivalents may be granted under this Plan either alone or in conjunction with any other Award. Dividend Equivalents shall represent the right to receive cash payments, shares of Common Stock, or a combination thereof, having a value equal to the dividends declared on Common Stock during a specified period, and subject to such other terms and conditions as the Committee shall determine.

ARTICLE 9 CHANGE IN CONTROL PROVISIONS

9.1 Impact of Event

Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:

(a) Any Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested, and shall remain exercisable until their Expiration Date notwithstanding any Termination of Employment of the relevant Optionee other than a Termination of Employment for Cause.

(b) The restrictions and deferral limitations applicable to any Restricted Stock or Restricted Stock Units shall lapse, and such Restricted Stock or Restricted Stock Units shall become free of all restrictions and become fully vested and transferable.

(c) Any restrictions or deferral or forfeiture limitations applicable to any Dividend Equivalents shall lapse.

9.2 Definition of Change in Control

For purposes of the Plan, a "Change in Control" shall mean the happening of any of the following events:

(a) An acquisition by any individual, entity or group (within the meaning of Article 13.4(a) or 14.4(b) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (A) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Article 9.2; or

(b) A change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Article 9.2, that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(c) The consummation of a reorganization, merger or consolidation or sale involving the Company or a disposition of all or substantially all of the assets of the Company ("Corporate Transaction"); excluding however, such a Corporate Transaction pursuant to which (i) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting

Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including a corporation, which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (iii) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(d) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

ARTICLE 10 ADMINISTRATION

10.1 Committee

The Plan shall be administered by the Compensation and Executive Personnel Committee of the Board or such other committee of the Board, as may from time to time be selected by the Board.

10.2 Powers of Committee

(a) The Committee shall have the authority to conduct the general administration of this Plan in accordance with its provisions. The Committee shall have the power to make Awards and set the terms and conditions for such Awards (including the option price, any vesting condition, restriction or limitation (which may be related to the performance of the Awardee, the Company or any Subsidiary) and any vesting acceleration or forfeiture waiver regarding any Award and the shares of Common Stock relating thereto, based on such factors as the Committee shall determine; to modify, amend or adjust the terms and conditions of any Award, at any time or from time to time, including Performance Goals; *provided, however*, that the Committee may not adjust upwards the amount payable with respect to a Qualified Performance-Based Award or waive or alter the Performance Goals associated therewith except as specifically permitted by the Plan; to determine to what extent and under what circumstances Common Stock and other amounts payable with respect to an Award shall be deferred; and to determine under what circumstances an Award may be settled in cash or Common Stock under Articles 5, 6, 8 and 9, as applicable. The Committee shall have the power to interpret this Plan and the Awards made hereunder, to adopt such rules and procedures for the administration, interpretation, and application of this Plan as are consistent therewith, and to interpret, amend or revoke any such rules and procedures. Any Award under this Plan need not be the same with respect to each Awardee.

(b) Any determination made by the Committee or pursuant to delegated authority pursuant to the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company, Awardees and Beneficiaries.

10.3 Action by Committee

(a) The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting, or by a memorandum, minutes or other written instrument signed by the Chairman of the Committee or by a majority of the Committee. The Committee may delegate to (i) the CEO the authority to make decisions pursuant to, and interpretations of, the Plan (provided that no such delegation may be made that would cause Awards or other transactions under the Plan to cease to be exempt from Section 16(b) of the Exchange Act or cause Qualified Performance-Based Awards to fail to qualify for the Section 162(m) exemption), including the authority to grant Awards to any Employee who is not an "officer" of the Company (within the meaning of Rule

16a-1(f) promulgated under the Exchange Act, as amended), subject to any limitations the Committee may impose, and (ii) the CEO or Secretary, or both, or any or all of the administrative and interpretive duties and authority of the Committee under the Plan.

(b) Any authority granted to the Committee under this Plan may also be exercised by the full Board, except to the extent that the grant or exercise of such authority would cause any Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

10.4 Compensation; Professional Assistance; Good Faith Actions

Expenses and liabilities that members of the Committee incur in connection with the administration of this Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers, or other persons. The Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Awardees and Beneficiaries, the Company, and all other interested persons. No members of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to this Plan or any Award, and all members of the Committee shall be fully protected by the Company in respect of any such action, determination or interpretation.

ARTICLE 11 MISCELLANEOUS PROVISIONS

11.1 Not Transferable

Except as specifically provided in the Plan with respect to Options and Stock Appreciation Rights, as provided in Article 11.8 regarding designation of Beneficiaries, and as may be otherwise provided in the applicable Award Agreement: (i) Awards may not be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution; (ii) no Award or interest or right therein shall be subject to the debts, contracts or engagements of the Awardee or his Beneficiaries and successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy); and (iii) any attempted disposition of an Award shall be null and void and of no effect.

11.2 Unfunded Status of Plan

It is presently intended that the Plan constitutes an “unfunded” plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provided that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the “unfunded” status of the Plan.

11.3 General Provisions

(a) The Committee or the Company may require each person purchasing or receiving shares of Common Stock pursuant to an Award, as a condition to delivery of such shares, to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof and to provide such other representations and such documents as the Committee or the Company deems necessary or appropriate to effect compliance with all applicable laws. Such shares may be delivered by book entry or in certificate form, with such legends or other notations as the Committee or the Company deems appropriate to reflect any restrictions on transfer.

(b) Notwithstanding any other provision of the Plan or any Award Agreement, the Company shall not be required to issue or deliver any shares of Common Stock under the Plan prior to fulfillment of all of the following conditions:

(i) Listing or approval for listing upon notice of issuance of such shares on the New York Stock Exchange, Inc., or such other securities exchange as may at the time be the principal market for the Common Stock;

(ii) Any registration or other qualification of such shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification that the Committee or the Company deems necessary or advisable;

(iii) Obtaining any other consent, approval, or permit from any state or federal governmental agency that the Committee or the Company determines to be necessary or advisable;

(iv) The lapse of such reasonable period of time following the exercise of an Option or Stock Appreciation Right or the vesting or other event that results in the settlement of an Award, as the Committee or the Company may establish from time to time for reasons of administrative convenience; and

(v) The receipt by the Company of full payment (if any) for such shares and the satisfaction of any tax withholding obligations relating thereto.

An Awardee shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any shares of Common Stock that may become deliverable pursuant to an Award unless and until such shares have been delivered to the Awardee.

(c) In the event an Award is granted to an Employee who is employed outside the United States and who is not compensated from a payroll maintained in the United States, the Committee or the Company may modify the provisions of the Plan as they pertain to such Award or Awardee to comply with applicable foreign law, and/or related regulations or requirements.

(d) The Committee may (but need not) establish rules under which Awardees may be permitted to elect to defer receipt of cash or shares in settlement of Restricted Stock Units for a specified period or until a specified event, either under an existing plan of the Company or otherwise.

11.4 Amendment, Suspension, or Termination of this Plan

The Board may amend, suspend or terminate the Plan at any time prior to a Change of Control, but no such amendment, suspension or termination shall impair the rights of Awardees under Awards previously granted without the Awardee's consent, and provided further that no material amendments will be made to the terms of the Plan without the approval of the Company's stockholders.

The Committee may amend the terms of any Award after it is granted, prospectively or retroactively, but no such amendment shall reprice an option, cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption or impair the rights of the Awardee without the Awardee's consent.

11.5 Adjustments upon Changes in Common Stock

In the event of a stock dividend, stock split, reverse stock split, share combination, recapitalization, merger, consolidation, acquisition of property or shares, separation, spin-off, reorganization, stock rights offering, liquidation, Disaffiliation of a Subsidiary or similar event, the Committee shall make such adjustments (if any) as it deems appropriate and equitable, in its discretion, to the following:

- (a) the aggregate number of shares of Common Stock available under Article 2.1 and Article 7.1, and the limits on grants of Options under Article 3.2 and grants of Qualifying Performance-Based Awards under Articles 7 and 8;
- (b) the number of shares of Common Stock covered by outstanding Awards;
- (c) the option price of outstanding Options, and
- (d) such other adjustments to outstanding Awards as the Committee may determine to be appropriate and equitable.

Such adjustments may include, without limitation, (i) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee in its sole discretion, (ii) the substitution of other property (including, without

limitation, other securities) for the Stock covered by outstanding Awards, and (iii) in connection with any Disaffiliation of a Subsidiary, arranging for the assumption, or replacement with new awards, of Awards held by Awardees employed by the affected Subsidiary by the Subsidiary or an entity that controls the Subsidiary following the Disaffiliation.

11.6 Approval of Plan by Stockholders

This Plan, as amended and restated, was approved by the Board on February 24, 2005, and will be submitted for the approval by the Company's stockholders at the annual meeting of stockholders on April 28, 2005.

11.7 Tax Withholding

No later than the date as of which an amount first becomes includible in the gross income of an Awardee for federal income tax purposes with respect to any Award under the Plan, such an Awardee shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement; provided, however, that not more than the legally required minimum withholding may be settled with Common Stock. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to such an Awardee. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

11.8 Beneficiaries

The Committee or the Company shall establish such procedures as it deems appropriate for Awardees to designate one or more persons (each, a "Beneficiary") to whom any amounts payable under this Plan in the event of the applicable Awardee's death are to be paid and/or by whom any rights of the applicable Awardee's, after the Awardee's death, may be exercised. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Committee or the Company.

11.10 Effect of Plan

The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company (a) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary, or (b) to grant or assume options or other rights otherwise than under this Plan in connection with any proper corporate purpose, including the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association. Nothing in this Plan or in any Award Agreement shall confer upon any Awardee any right to continue in the employ of the Company or any Subsidiary or interfere with or restrict in any way the rights of the Company and the Subsidiaries, which are hereby expressly reserved, to discharge any Awardee at any time for any reason whatsoever, with or without Cause.

11.11 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Plan.

11.12 Governing Law

This Plan and any Award Agreements hereunder shall be administered, interpreted and enforced under the laws of the State of Delaware, without reference to the principle of conflict of laws.

11.13 Effective Date

This Plan, as amended and restated, shall be effective as of April 28, 2005, subject to the approval of stockholders of the Company as contemplated by Article 11.6. This Plan was previously approved by stockholders on April 24, 2003.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated December 2, 2004, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan; and

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors (hereinafter referred to as the "Committee"), appointed to administer said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee has advised the Company of its determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I - DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

"Beneficiary" shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee's rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

"Change of Control" shall have the same meaning given in Article 10.2 of the Plan.

1.3 Option

"Option" shall mean the option to purchase common stock of the Company granted under this Agreement.

1.4 Plan

The "Plan" shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

The masculine pronoun shall include the feminine and neuter, and the singular and plural, where the context so indicates.

* Refer to attached Notice

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty nine and 18500/10000 dollars (\$59.185) per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted (unless the Employee retires before the end of such period and the Employee satisfies the requirements of the last paragraph of Subsection 3.1(a)). Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with

* Refer to attached Notice

the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option will vest (become available for exercise) nine years and nine months from the date the Option was granted. However, if certain conditions are met, the Option will become eligible for accelerated or early vesting three years from the date the Option was granted or on subsequent anniversary dates thereafter.

Such early or accelerated vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the sixty-seventh (67%) percentile of the return on total capital for the peer group companies (as listed in the Company's proxy statement) for such third year (the performance test). (For example, the performance test for accelerated vesting for options granted in December 2003 will be based on the return on total capital for 2006).

To facilitate the peer group performance comparison needed to determine whether option vesting is accelerated, the figures for peer group companies return on total capital will be based upon the twelve-month performance for each company in the peer group closest to the Company's fiscal year end, using the most recent publicly available financial information for such companies.

If the Company meets the performance test described above, all prior non-vested Options eligible for accelerated vesting will become available for exercise as soon as possible following the Committee's certifications of the Company's performance as compared to the performance of the peer group companies.

If the Company fails to meet the performance test described above, all prior non-vested Options eligible for accelerated vesting will be subject to a similar performance test following the end of the next fiscal year. The test for accelerated vesting of Options will continue to "roll" forward in the manner described above until the Company passes the performance test, until nine years and nine months have elapsed from the date of grant, or until such Options otherwise vest as described herein.

Alternatively, Options, granted to employees as participants in the Long Term Incentive Plan, who (i) retire under the Company's retirement plan within sixty (60) days of the date of Termination of Employment, (ii) have worked for the Company for ten (10) or more years, and (iii) have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of Termination of Employment, provided that the Company has met the performance test (as described above) for the fiscal year ending prior to the employee's retirement.

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, and the Committee or the Company may in its discretion extend the Expiration Date of the Option to accommodate such exercise.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than twenty-five (25) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option, or alternatively, if the option exercise is executed through the Company's designated broker (including execution of stock option exercise electronically through the Web site of the Company's designated broker), then such notice shall not be required; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is

exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V – MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

* Refer to attached Notice.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated December 2, 2004, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan; and

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors (hereinafter referred to as the "Committee"), appointed to administer said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee has advised the Company of its determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I - DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

"Beneficiary" shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee's rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

"Change of Control" shall have the same meaning given in Article 10.2 of the Plan.

1.3 Option

"Option" shall mean the option to purchase common stock of the Company granted under this Agreement.

1.4 Plan

The "Plan" shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

The masculine pronoun shall include the feminine and neuter, and the singular and plural, where the context so indicates.

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

* Refer to attached Notice.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty nine and 18500/10000 dollars (\$59.185) per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted (unless the Employee retires before the end of such period and the Employee satisfies the requirements of the last paragraph of Subsection 3.1(a)). Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee’s proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

* Refer to attached Notice.

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option will vest (become available for exercise) nine years and nine months from the date the Option was granted. However, if certain conditions are met, the Option will become eligible for accelerated or early vesting three years from the date the Option was granted or on subsequent anniversary dates thereafter.

Such early or accelerated vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the sixty-seventh (67%) percentile of the return on total capital for the peer group companies (as listed in the Company's proxy statement) for such third year (the performance test). (For example, the performance test for accelerated vesting for options granted in December 2003 will be based on the return on total capital for 2006).

To facilitate the peer group performance comparison needed to determine whether option vesting is accelerated, the figures for peer group companies return on total capital will be based upon the twelve-month performance for each company in the peer group closest to the Company's fiscal year end, using the most recent publicly available financial information for such companies.

If the Company meets the performance test described above, all prior non-vested Options eligible for accelerated vesting will become available for exercise as soon as possible following the Committee's certifications of the Company's performance as compared to the performance of the peer group companies.

If the Company fails to meet the performance test described above, all prior non-vested Options eligible for accelerated vesting will be subject to a similar performance test following the end of the next fiscal year. The test for accelerated vesting of Options will continue to "roll" forward in the manner described above until the Company passes the performance test, until nine years and nine months have elapsed from the date of grant, or until such Options otherwise vest as described herein.

Alternatively, Options, granted to employees as participants in the Long Term Incentive Plan, who (i) retire under the Company's retirement plan within sixty (60) days of the date of Termination of Employment, (ii) have worked for the Company for ten (10) or more years, and (iii) have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of Termination of Employment, provided that the Company has met the performance test (as described above) for the fiscal year ending prior to the employee's retirement.

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, and the Committee or the Company may in its discretion extend the Expiration Date of the Option to accommodate such exercise.

- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), to the full term of the option, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than twenty-five (25) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option, or alternatively, if the option exercise is executed through the Company's designated broker (including execution of stock option exercise electronically through the Web site of the Company's designated broker), then such notice shall not be required; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

* Refer to attached Notice.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated December 2, 2004, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan; and

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors (hereinafter referred to as the "Committee"), appointed to administer said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee has advised the Company of its determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I - DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

"Beneficiary" shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee's rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

"Change of Control" shall have the same meaning given in Article 10.2 of the Plan.

1.3 Option

"Option" shall mean the option to purchase common stock of the Company granted under this Agreement.

1.4 Plan

The "Plan" shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

The masculine pronoun shall include the feminine and neuter, and the singular and plural, where the context so indicates.

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

* Refer to attached Notice.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty nine and 18500/10000 dollars (\$59.185) per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee’s proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

* Refer to attached Notice.

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

(a) The Option shall become exercisable in four cumulative installments as follows:

- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
- (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
- (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
- (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment which becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, and the Committee or the Company may in its discretion extend the Expiration Date of the Option to accommodate such exercise.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than twenty-five (25) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option, or alternatively, if the option exercise is executed through the Company's designated broker (including execution of stock option exercise electronically through the Web site of the Company's designated broker), then such notice shall not be required; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the tax liability; (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;

- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment of the exercise price and all taxes related to the exercise of the Option.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

By: _____ *

Optionee

Address*: _____

AVERY DENNISON CORPORATION

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

* Refer to attached Notice.

AWARD AGREEMENT ("THE AGREEMENT")

THIS AGREEMENT, dated December 2, 2004, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and * an employee of a Constituent Company, hereinafter referred to as "Employee."

WHEREAS, the Company wishes to afford the Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Avery Dennison Corporation Employee Stock Option and Incentive Plan (as amended and restated effective April 24, 2003) ("the Plan") 2003 UK Approved Rules ("the Sub-Plan"); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors (hereinafter referred to as the "Committee"), appointed to administer said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of the Company or a Constituent Company and as an incentive for increased efforts during such service;

WHEREAS, the Committee has advised the Company of its determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option grant, granted under the Sub-Plan.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I - DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Change of Control

"Change of Control" shall have the same meaning given in Article 10.2 of the Plan, as supplemented and amended by Rule 9 of the Sub-Plan.

1.2 Constituent Company

"Constituent Company" shall have the meaning given in Rule 1.1 of the Sub-Plan (as defined in Schedule 4 paragraph 3(3) of the Income Tax (Earnings and Pensions) Act 2003).

1.3 Option

"Option" shall mean the option to purchase common stock of the Company granted under the Agreement.

1.5 Pronouns

The masculine pronoun shall include the feminine and neuter, and the singular and plural, where the context so indicates.

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

* Refer to attached Notice.

1.7 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Constituent Company is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company a Constituent Company or another company in the same group as the Company, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Sub-Plan and shall also be subject to the terms and conditions set forth in the Plan and the Sub-Plan.

2.2 Option Price

The option price of the shares of stock shall be fifty nine and 18500/10000 dollars (US\$59.185) per share without commission or other charge, which was the equivalent of £30.751. (For informational purposes, on December 2, 2004 the exchange rate of £ to US\$, as reported by Bloomberg L.P., was £1.00 equals US\$1.9246).

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company a Constituent Company or another group company, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least twelve months from the date this Option is granted. Nothing in this Agreement or in the Plan or Sub-Plan shall confer upon the Employee any right to continue in the employment of the Company, a Constituent Company or another group company or shall interfere with or restrict in any way the rights of the Company, Constituent Company or another group company, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company, Constituent Company or another group company.

2.4 Adjustments in Option

The Committee or the Company shall make an appropriate and equitable adjustment to the Option only in circumstances specified in Rule 6 of the Sub-Plan. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee’s proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

(a) The Option shall become exercisable as follows:

- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.

* Refer to attached Notice.

- (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
- (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
- (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment which becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company, Constituent Company or another group company, subject to the following exceptions:

- (a) Termination by Death – if the Employee dies while the Option is exercisable under the terms of this Agreement the Option may be exercised by the Employee's personal representatives, to the extent then exercisable, for a period of 12 months from the date of death or until the expiration of the stated term of the Option, whichever period is the shorter.
- (b) Termination by Reason of Disability - If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) Termination by Reason of Retirement - If the Employee's employment is terminated due to his retirement the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) Other Termination - If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than twenty-five shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option, or alternatively, if the option exercise is executed through the Company's designated broker (including execution of stock option exercise electronically through the Web site of the Company's designated broker), then such notice shall not be required; and
- (b) Full payment to the Company of the aggregate exercise price for the shares with respect to which the Option or portion thereof is exercised must be made in cash (or by certified or bank cashier's check).
- (c) An exercise shall not be valid unless, in addition to receipt of a valid notice of exercise (hard copy, fax or email, as appropriate) and payment of the option price, the Company is satisfied that the Employee has entered into arrangements which are satisfactory to the Company, to pay all or any part of the British Federal, State, local and foreign taxes for which the Employee is liable and which are required by law to be withheld by the Constituent Company or any other member of the same group of companies as the Constituent Company on the exercise of the Option in accordance with Rule 7.4 of the Sub-Plan.

In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option must be provided.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and non assessable and will be allotted to the Employee within 30 days from the effective date of exercise in accordance with Rule 7.2 of the Sub-Plan. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan as amended by the Sub-Plan, and in the event of any conflict between this Agreement, the Plan and the Sub-Plan, the Sub-Plan shall prevail.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan, the Sub-Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.6 Construction

This Agreement and the Plan and Sub-Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

* Refer to attached Notice.

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

**AVERY DENNISON CORPORATION
EXECUTIVE LEADERSHIP COMPENSATION PLAN**

1. PURPOSE

The purposes of the Executive Leadership Compensation Plan, as amended and restated, (“ELCP” or the “Plan”) for Avery Dennison Corporation (the “Company”) are as follows:

- a. To attract and retain the best possible executive talent;
- b. To permit executives of the Company to share in its profits;
- c. To promote the success of the Company; and
- d. To link executive rewards closely to individual and Company performance.

2. DEFINITIONS

- a. Average Shareholders’ Equity. “Average Shareholders’ Equity” means the numerical average for a given year of ending Shareholders’ Equity for the Company’s five most recently completed fiscal quarters, including the last quarter of that year.
- b. Bonus Maximum. “Bonus Maximum” means a bonus payment of not more than \$1 million dollars.
- c. Cash Flow from Operations. “Cash Flow from Operations” means the Company’s net cash provided by operating activities.
- d. Code. “Code” means the Internal Revenue Code of 1986, as amended.
- e. Committee. “Committee” means the Compensation and Executive Personnel Committee of the Company’s Board of Directors.
- f. Company. “Company” means Avery Dennison Corporation.
- g. Economic Value Added. “Economic Value Added” means the Company’s net operating profit after taxes on income minus a capital charge based upon the Company’s weighted average cost of capital.
- h. ELCP. “ELCP” means the Executive Leadership Compensation Plan of the Company.
- i. EPS. “EPS” means the Company’s diluted earnings per share.
- j. Income Before Taxes on Income. “Income Before Taxes on Income” means the Company’s income before income taxes.
- k. MMBP. “MMBP” means the Middle Management Bonus Plan.
- l. Net Income. “Net Income” means the Company’s after-tax net income.
- m. Net Sales. “Net Sales” means the Company’s net sales.
- n. Performance Objective. “Performance Objective” means one of the following pre-established performance objectives as determined by the Committee for the Company, or as determined by the Chief Executive Officer for the groups, divisions and subsidiaries (“Business Units”) of the Company: ROS, ROTC, ROE, EPS, Sales Growth, Net Income, Net Sales, Cash Flow from Operations, Economic Value Added, and Total Shareholder Return.

- o. Participant. “Participant” means any employee of the Company or any of its subsidiaries who has been designated as a participant in the Plan in accordance with Article 3.
- p. Plan. “Plan” means the Executive Leadership Compensation Plan for Avery Dennison Corporation.
- q. Plan Year. “Plan Year” means the fiscal year of the Company.
- r. ROE. “ROE” means the percentage determined by dividing Net Income by Average Shareholders’ Equity.
- s. ROS. “ROS” means the percentage determined by dividing Net Income by Net Sales.
- t. ROTC. “ROTC” means the Company’s return on total capital.
- u. Sales Growth. “Sales Growth” means the Company’s increase in Net Sales from the prior Plan Year as compared to the current Plan Year.
- v. Shareholders’ Equity. “Shareholders’ Equity” means the Company’s total shareholders’ equity.
- w. Target Bonus. “Target Bonus” means with respect to a Participant for any Plan Year the bonus opportunity for the Participant in such Plan Year on account of services rendered to the Company during the immediately preceding Plan Year. The Target Bonus is expressed as a percentage of the Participant’s base salary in effect at the end of the Plan Year.
- x. Total Shareholder Return. “Total Shareholder Return” means the cumulative shareholder return on the Company’s common stock, including the reinvestment of dividends, as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between (1) the average of the Company’s closing stock price for the three months prior to the beginning of the measurement period and (2) the average of the Company’s closing stock price for the three months prior to the end of the measurement period, by (ii) the average of the Company’s closing stock price for the three months prior to the beginning of the measurement period.

3. PARTICIPATION

Participation in the Plan is limited to key executives of the Company who have been designated as Participants by the Chief Executive Officer, Vice President, Human Resources and the Vice President, Compensation and Benefits. Participants may include, but are not limited to: corporate, staff and division officers of the Company; non-officer general managers of businesses with greater than \$60 million in revenues; and key functional Managers.

4. ANNUAL BONUS OPPORTUNITY

Participants will have the opportunity to earn an annual variable bonus.

a. Target Bonus

The Target Bonus is established for each Participant and may be up to 80% of Base Salary.

b. Establishment of Performance Objectives; Bonus Payout

i. A Participant’s annual bonus payout is based on the Company’s (and, where appropriate, a group’s, division’s or subsidiary’s) performance versus pre-established Performance Objectives (as may be adjusted).

ii. Within the first 90 days of the beginning of each Plan Year, Performance Objectives for each Participant will be established. Specific Performance Objectives will vary based on the specific business strategy of the Company and the Business Unit, and may include such measures as:

- ROS
- ROTC
- ROE
- EPS
- Sales Growth
- Net Income
- Net Sales
- Cash Flow From Operations
- Economic Value Added
- Total Shareholder Return

iii. Bonus payouts will be determined based upon a schedule as approved by the Committee, or as determined by the Chief Executive Officer for the groups, divisions and subsidiaries of the Company.

iv. Bonus payouts will be determined based on the formula used to measure the Company's or the respective business unit(s) (as applicable) results for each Participant, and calculated in accordance with the Performance Objectives. The maximum annual bonus payout attributable to the financial performance of the Company or Business Unit is 200 % of the Participant's Target Bonus opportunity times the Participant's base salary in effect at the end of the year.

v. Individual MBOs are used to modify the bonus payout. This modifier is multiplied by the bonus payout calculated in section (iv) above to determine the Participant's total bonus payout. The MBO modifier ranges from 0-110%.

vi. The Committee may, in its sole discretion, increase or decrease bonus amounts that would otherwise be payable under the Plan.

vii. No bonus payment will exceed the Bonus Maximum for any Plan Year.

c. Bonus Determination in Cases of Prior Participation in MMBP

Participants who are eligible to receive a bonus under the MMBP during part of the Plan Year and are later designated as Participants under the Plan may receive a bonus under the Plan on a prorated basis.

d. Bonus Determination in Cases of Leave of Absence

If a Participant is on an approved leave of absence (including, without limitation, leaves caused by short-term disability) for more than one month during the Plan Year, then the employee will continue to participate for that Plan Year; provided that the Committee may, in its sole discretion, decrease the bonus that would otherwise be payable under the Plan on a prorated basis.

e. Bonus Determination in Cases of Termination

Participants who terminate prior to payment of the annual bonus for any reason other than death, disability, or retirement are not eligible to receive awards under this Plan, unless approved by the Chief Executive Officer or the Senior Vice President, Human Resources.

f. Other Bonus Programs

No Participant may participate in any other annual Company bonus plan, except as provided for herein.

5. TIMING OF PAYMENT OF BONUSES

The bonus awarded by the Committee for each Participant will be paid in cash and in full as soon as conveniently possible after such award by the Committee and calculation of the Company's (or the group's, division's or subsidiary's) achievement of the Performance Objectives, but in any event not later than three months from the last day of the Plan Year to which such bonus relates; provided that participants may have elected to defer the receipt of all or part of such bonus in accordance with established deferred compensation plans offered by the Company.

6. PLAN ADMINISTRATION

a. General Administration

The Committee will administer and interpret the provisions of the Plan, which interpretations will be conclusive and binding. The Committee's authority will include, but is not limited to:

i. Approving the Designation of Participants;

ii. Establishing and adjusting Performance Objectives (including the definitions therefor) for the Company;

provided that the Chief Executive Officer will establish and adjust the Performance Objectives (including the definitions therefor) for the groups, divisions and subsidiaries of the Company;

iii. Approving performance results and bonus payments; and

iv. Making exceptions to the provisions of the Plan made in good faith and for the benefit of the Company

b. Adjustments for Extraordinary Events

If an event occurs during a Plan Year that materially influences the performance measures of the Company and is deemed by the Committee to be extraordinary and out of the control of management, the Committee may, in its sole discretion, increase or decrease the Performance Objectives used to determine the annual bonus payout. Events warranting such action may include, but are not limited to, changes in accounting, tax or regulatory rulings and significant changes in economic conditions resulting in windfall gains or losses.

c. Amendment, Suspension, or Termination

The Committee may amend, suspend or terminate the Plan, in whole or in part, at any time, if, in the sole judgment of the Committee, such action is in the best interests of the Company. Notwithstanding the above, any such amendment, suspension or termination must be prospective in that it may not deprive Participants of that which they otherwise would have received under the Plan for the current Plan Year had the Plan not been amended, suspended or terminated.

7. MISCELLANEOUS PROVISIONS

a. Effective Date

The effective date of the Plan is January 1, 2005.

b. Titles

Section and Article titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

c. Employment Not Guaranteed

Nothing contained in the Plan nor any action taken in the administration of the Plan will be construed as a contract of employment or as giving a Participant any right to be retained in the service of the Company.

d. Validity

In the event that any provision of the Plan is held to be invalid, void or unenforceable, the same will not effect, in any respect whatsoever, the validity of any other provision of the Plan.

e. Withholding-Tax

The Company will withhold from all payments to be made under the Plan an amount sufficient to satisfy all federal, state and local tax withholding requirements.

f. Applicable Law

The Plan will be governed in accordance with the laws of the State of California.

AVERY DENNISON CORPORATION
2005 EXECUTIVE VARIABLE DEFERRED RETIREMENT PLAN

ARTICLE I - PURPOSE

The 2005 Executive Variable Deferred Retirement Plan ("Plan") is adopted by Avery Dennison Corporation, a Delaware Corporation (the "Company"), effective as of December 1, 2004. The Plan provides a deferred compensation plan for executive employees of the Company and its subsidiaries. The Plan applies to all Participants and/or Beneficiaries of the Plan and deferrals thereunder commencing on or after December 1, 2004, as well as any unvested balances as of November 30, 2004. The Plan is intended to comply, and it is anticipated that the provisions of the Plan will be amended to comply, with the provisions of Section 409A of the Internal Revenue Code, as added by the American Jobs Creation Act of 2004 and any regulations or other written administrative guidance issued or to be issued thereunder ("Section 409A").

ARTICLE 2 - DEFINITIONS AND CERTAIN PROVISIONS2.1 Administrator.

"Administrator" means the administrator appointed by the Committee to handle the day-to-day administration of the Plan pursuant to Article 9.

2.2 Allocation Election Form.

"Allocation Election Form" means the form on which a Participant elects the Declared Rate(s) to be credited as earnings or losses to such Participant's Deferral Account.

2.3 Annual Base Salary.

"Annual Base Salary" means an Eligible Employee's rate of salary at the time of deferral, or any other subsequent date as determined by the Administrator in his discretion. For Eligible Employees, who are sales representatives for the Company, Annual Base Salary (solely for the purpose of computing the maximum deferral under Section 4.3) will include any commissions earned by such Eligible Employee.

2.4 Annual Deferral.

"Annual Deferral" means the amount of Annual Base Salary and/or Bonus that the Participant elects to defer for a Plan Year.

2.5 Beneficiary.

"Beneficiary" means the person or persons or entity designated as such by a Participant pursuant to Article 8.

2.6 Benefit.

"Benefit" means a Retirement Benefit, Survivor Benefit, Termination Benefit, or Disability Benefit or other benefit permitted under Section 409A.

2.7 Bonus.

"Bonus" means the bonus to which the Participant is entitled under any bonus plan or incentive program (as determined by the Administrator), including any annual bonus plan or long-term incentive plan (LTIP).

2.8 Change of Control.

"Change of Control" means a Change in Control Event as defined in the regulations or other administrative guidance under Section 409A.

2.9 Code.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

2.10 Committee.

"Committee" means the deferred compensation plan committee appointed to administer the Plan pursuant to Article 9.

2.11 Declared Rate.

“Declared Rate” means the notional rates of return (which may be positive or negative) of the individual investment options selected by a Participant for such Deferral Account referred to in Article 6.

2.12 Deferral Account.

“Deferral Account” means the notional account established for record keeping purposes for a Participant pursuant to Section 4.4.

2.13 Disability Benefit.

“Disability Benefit” means the Benefit payable to a Participant in accordance with Section 7.4 after the Participant has become Disabled.

2.14 Disabled.

“Disabled” means, in the case of a Participant, that the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering Employees.

2.15 Distribution.

“Distribution” means any payment to a Participant or Beneficiary according to the terms of this Plan.

2.16 Early Retirement.

“Early Retirement” means the termination of a Participant’s employment with the Company for reasons other than death or disability on or after the Eligible Employee’s attaining age 55 with fifteen (15) years of service with the Company and before Normal Retirement.

2.17 Eligible Employee.

“Eligible Employee” means an Employee who is (i) a member of a select group of management, or a highly compensated employee who meets the annually indexed salary requirement determined by the Administrator.

2.18 Employee.

“Employee” means any person employed by the Company or its subsidiaries.

2.19 Employer.

“Employer” means the Company and any of its subsidiaries.

2.20 Enrollment Period.

“Enrollment Period” means the period(s) designated from year to year by the Administrator for enrollments. An Eligible Employee must submit a Participant Election Form.

2.21 ERISA.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.22 Exchange Act.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.23 Key Employee.

“Key Employee” has the meaning provided under Section 416(i) of the Code (without regard to paragraph (5) thereof), except as may be modified pursuant to Section 409A.

2.24 Normal Retirement.

“Normal Retirement” means the termination of a Participant’s employment with Employer for reasons other than death on or after the Participant attains age 62.

2.25 Participant.

“Participant” means an Eligible Employee who has filed a completed and executed Participation Election Form with the Administrator, and who is participating in the Plan in accordance with the provisions of Articles 3 and 4.

2.26 Participation Election Form.

“Participation Election Form” means the written agreement or commitment to make a deferral submitted by the Participant to the Administrator pursuant to Article 4 of the Plan. The Participant Election Form may take the form of an electronic communication followed by appropriate confirmation according to procedures established by the Administrator.

2.27 Plan.

“Plan” means this 2005 Executive Variable Deferred Retirement Plan, a non-qualified elective deferred compensation plan, as the same may be amended from time to time.

2.28 Plan Year.

“Plan Year” means the year beginning December 1 and ending the following November 30.

2.29 Rabbi Trust.

“Rabbi Trust” means the trust described in Section 12.14.

2.30 Retirement.

“Retirement” shall mean a termination of employment upon Early Retirement or Normal Retirement, provided that the Participant retires under the Retirement Plan.

2.31 Retirement Benefit.

“Retirement Benefit” means the Benefit payable to a Participant when the Participant has satisfied the requirements for Early Retirement or Normal Retirement pursuant to Article 7.

2.32 Retirement Plan.

“Retirement Plan” means the Retirement Plan(s) for the Employees of Avery Dennison Corporation, as amended from time to time.

2.33 Section 409A.

“Section 409A” means section 409A of the Code, as added by the American Jobs Creation Act of 2004, and any regulations and other written administrative guidance issued from time to time thereunder.

2.34 Settlement Date.

“Settlement Date” means a date upon which a Benefit payment is due and payable to a Participant or Beneficiary. This date will be within 90 days of, or as soon as possible after, the Valuation Date, subject to Section 409A.

2.35 Survivor Benefit.

“Survivor Benefit” means those Plan Benefits that become payable upon the death of a Participant pursuant to Section 7.6.

2.36 Termination Benefit.

“Termination Benefit” means the lump sum amount payable to a Participant who ceases to be an Employee pursuant to the provisions of Section 7.5.

2.37 Termination of Employment.

“Termination of Employment” means the cessation of an Eligible Employee’s employment with the Employer for any reason, whether voluntary or involuntary other than Retirement, Disability or death.

2.38 Valuation Date.

“Valuation Date” means the date on which the Deferral Account is valued for Distribution purposes. This date shall be the last day of the month in which an event occurs that triggers a Benefit payment.

ARTICLE 3 - PARTICIPATION

3.1 Participation.

The Administrator shall notify Eligible Employees generally not less than 30 days (or such lesser period as may be practicable under the circumstances) prior to any deadline for filing a Participation Election Form.

3.2 Participation Election.

An Eligible Employee shall become a Participant in the Plan no later than the first day of the Plan Year coincident with or next following the date the employee becomes an Eligible Employee, provided such Employee has filed a Participant Election Form with the Administrator. To be effective, the Eligible Employee must submit the Participant Election Form during an Enrollment Period or any other such time as determined by the Administrator.

New employees, who are Eligible Employees and who join the Company after the first day of the Plan Year, may become Participants provided such Employee files a Participant Election Form with the Administrator within 30 days of employment.

3.3 Continuation of Participation.

A Participant who has elected to participate in the Plan by submitting a Participant Election Form shall continue as a Participant in the Plan until the entire balance of the Participant's Deferral Account has been distributed to the Participant. In the event a Participant becomes ineligible to continue participation in the Plan, but remains an Employee of the Company, the Participant's Deferral Account shall be held and administered in accordance with the Plan until such time as Participant's Deferred Account is completely distributed.

ARTICLE 4 - PARTICIPANT DEFERRALS

4.1 Annual Deferral.

On the Participation Election Form, and subject to the restrictions set forth herein, the Eligible Employee shall designate the amount of Annual Base Salary and Bonus to be deferred for the following calendar year or such other period as the Committee may determine, provided that any deferral election shall be made not later than the last day of the calendar year preceding the calendar year in which such Annual Base Salary or Bonus are earned; and provided further that any deferral with respect to a performance-based long-term incentive plan or other performance-based benefit may be made up to 6 months before the end of the performance period. For this purpose, the Administrator shall determine whether a plan or benefit is performance based.

4.2 Minimum Deferral.

The minimum amount of Annual Deferral that may be deferred shall be two (2%) percent of a Participant's Annual Base Salary.

4.3 Maximum Deferral.

The standard maximum amount of Annual Deferral that may be deferred shall be 50% of an Eligible Employee's Annual Base Salary and 50% of an Eligible Employee's Bonus; provided that, with the approval of the Administrator, officers of the Company may defer up to 100% of their Annual Base Salary and/or Bonus. The maximum deferral amount is established at the discretion of the Administrator.

4.4 Deferral Accounts.

Solely for record keeping purposes, the Company shall maintain a Deferral Account for each Participant. The amount of a Participant's Annual Deferral pursuant to this Article 4 shall be credited by the Employer to the Participant's Deferral Account on the date(s) that such Annual Deferral would otherwise have been paid. The Deferral Account may be credited with Company contributions pursuant to Article 5. All Distributions will be debited to the Deferral Account on the Valuation Date.

4.5 Interest on Deferral Accounts.

The Participant's Deferral Account shall be credited with a rate of return (positive or negative) based on the Declared Rate(s) that he elects. The rate of return (positive or negative) will be credited and compounded daily.

4.6 Statement of Accounts.

The Administrator shall provide to each Participant periodic statements (not less than annually) setting forth the Participant's deferrals, Declared Rate(s) (credits or debits), distributions and Deferral Account balance.

4.7 Errors in Benefit Statement or Distributions.

In the event an error is made in a benefit statement, such error shall be corrected on the next benefit statement following the date such error is discovered. In event of an error in a Distribution, the Participant's Deferral Account shall, immediately upon the discovery of such error, be adjusted to reflect such under or over payment and, if possible, the next Distribution shall be adjusted upward or downward to correct such prior error. If the remaining balance of a Participant's Deferral Account is

insufficient to cover an erroneous overpayment, the Company may, at its discretion, offset other amounts payable to the Participant from the Company (including but not limited to salary, bonuses, expense reimbursements, severance benefits or other nonqualified employee benefit arrangements) to recoup the amount of such overpayment(s).

4.8 Valuation of Accounts.

The value of a Deferral Account as of any date shall equal the amounts theretofore credited or debited to such account, plus the interest deemed to be earned on such account in accordance with this Article 4 through the day preceding such date.

4.9 Vesting.

Except with respect to any discretionary credits made by the Company which may have a separate vesting schedule, the Participant shall be 100% vested at all times in the Participant's Deferral Account.

ARTICLE 5 – DISCRETIONARY COMPANY CREDITS

The Company, in its sole discretion, may credit to selected Participants' Deferral Accounts a discretionary amount or match in an amount determined by the Company. These amounts and subsequent earnings are subject to vesting schedules established by the Administrator.

ARTICLE 6 - INVESTMENT OPTIONS

6.1 Participant Election of Declared Rates.

A Participant may elect on the Allocation Election Form any combination of Declared Rates in one (1%) percent increments, as long as the total does not exceed one hundred (100%) percent of the deferrals. A Participant may change the Declared Rate(s) election once a month by filing a written notice (which may include an electronic notification) with the Administrator (or to a service provider designated by the Company, such as Mullin Consulting, which provides administrative services for the Plan and the Participants), up to the last day of the month, with such change(s) effective as of the first day of the next month. Such elections will apply to current deferrals and/or to the remaining Deferral Account Balance, as indicated by the Participant. The Company may modify these procedures to provide greater flexibility (e.g., smaller percentage increments or more frequent reallocations) to Participants. The Company will not necessarily invest Deferral Account balances in the investment funds represented by the Declared Rates, even though the actual performance of the investment fund(s) that is/are chosen to measure specific Declared Rate(s) will determine the rate of return (positive or negative) on the Participant's Deferral Account.

6.2 Declared Rates.

A Participant may select from Declared Rates currently representing twelve (12) investment funds, which may from time to time be established under the Plan and the number of which may be expanded by the Committee; it being the intention that at all times Participants will have at least nine (9) core investment fund choices comparable in focus, type and quality to those listed on Exhibit A. The Declared Rates provide a rate of return (positive or negative) that are based on the actual net performance of the Declared Rate(s) selected by the Participant. The Declared Rates credited to Participant Deferral Accounts will be the actual net performance of the Declared Rates, to which will be added a basis point credit, which credit (when added to the actual net performance of the Declared Rates) will together be approximately equivalent on average to crediting the actual gross performance of the Declared Rates less 20 basis points.

ARTICLE 7 - BENEFITS

7.1 Retirement Benefit.

A Participant is eligible for a Retirement Benefit under this Plan upon the satisfaction of the requirements for Normal Retirement or Early Retirement.

7.2 Benefit Election Alternatives.

The Retirement Benefit will be paid beginning on the Settlement Date, and in the manner which the Participant elects no later than twelve months prior to the originally scheduled commencement of the distribution, consistent with procedures established by the Company and with the requirements of Section 409A. To the extent required under Section 409A, an election by a Participant to change the form or timing of an initial or subsequent distribution must defer the commencement of Retirement Benefits for at least 5 years.

To the extent required under Section 409A, payments upon separation from service of a Key Employee shall be delayed for at least 6 months after separation from service.

7.3 Installment Payments.

All installment payments will be calculated on an annual basis but paid at such intervals as may be determined by the Committee, subject to the provisions of Section 7.2 above, provided that such intervals shall not be less frequent than quarterly. If a Participant elects to receive his Retirement Benefit in installment payments, the payments will be based on the Deferral Account balance at the beginning of the payment period. The payments will be recalculated annually by dividing the Participant's current Deferral Account balance as of the last day of the plan year by the number of remaining years in the payment period based on the Participant's retirement payment election. The rate of return (positive or negative) during any payment year will be credited during the year on the unpaid Deferral Account balance at the applicable Declared Rate(s). A retired Participant may continue to change his Declared Rate(s) pursuant to Section 6.1.

7.4 Disability Benefit.

If a Participant becomes Disabled, the Participant may request a Disability Benefit.

7.5 Termination Benefit.

If a Participant ceases to be an Employee for any reason other than death, Disability or Normal or Early Retirement, the Employer shall pay to the Participant in one lump sum an amount (the "Termination Benefit") equal to the value of the Deferral Account, subject to the last sentence of Section 7.2 above. The Participant shall be entitled to no further Benefits under this Plan.

7.6 Survivor Benefits.

(a) Pre-Retirement. If a Participant (prior to having reached age 55 with at least 15 years of service) dies and has not yet commenced receiving Retirement Benefit payments, a Survivor Benefit will be paid to his Beneficiary in annual installments over ten years unless a different payment schedule is required under Section 409A. If a Participant (after having reached age 55 with at least 15 years of service) dies and has not yet commenced receiving Retirement Benefit payments, a Survivor Benefit will be paid to his Beneficiary in annual installments over the period of time previously elected by the deceased Participant unless a different payment schedule is required under Section 409A. The aggregate Survivor Benefit will be equal to the Deferral Account balance plus the Declared Rate(s). The annual Survivor Benefit payments shall be re-determined each year based upon the value of the Deferral Account at that time.

(b) Post-Retirement. If a Participant dies after reaching age 55 with at least 15 years of service and after payment of Benefits has commenced, his Beneficiary will be entitled to receive the remainder of the payments not yet paid to the Participant in accordance with the election of the Participant then in effect unless a different payment schedule is required under Section 409A.

7.7 Change of Control or other Benefit.

A Participant may make an irrevocable election at the time of making a deferral election to take a distribution in the event of a Change of Control prior to the Participant's Termination of Employment. A distribution on Change of Control shall be equal to the total balance of the Deferral Account or Accounts specified by the Participant including notional earnings credited thereon through the Valuation Date and shall be paid in the form of a single lump sum payable no later than the last day of the month following the month in which such Change of Control occurs, subject to Section 409A.

Notwithstanding anything herein to the contrary, the Administrator may provide for any other distribution of Benefit to the extent permitted by Section 409A.

7.8 Valuation Date.

Unless otherwise provided by the Administrator, the Valuation Date for determining Deferral Account balances shall be the last day of the month in which an event occurs that triggers a Benefit payment.

7.9 Settlement Date.

Unless otherwise provided by the Administrator, the Settlement Date for Benefit payments shall be within 90 days or as soon as possible following the Valuation Date, except as might otherwise be required under Section 409A.

ARTICLE 8 - BENEFICIARY DESIGNATION

Each Participant and Beneficiary shall have the right, at any time, to designate any person or persons as Beneficiary or Beneficiaries to whom payment under this Plan shall be made in the event of death of the Participant or Beneficiary, as the case

may be, prior to complete distribution of the Benefits due under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrator during the Participant's or Beneficiary's lifetime, as the case may be, on a form prescribed by the Administrator.

The filing of a new Beneficiary designation form will cancel and revoke all Beneficiary designations previously filed. Any finalized divorce or marriage (other than a common law marriage) of a Participant or Beneficiary, as the case may be, subsequent to the date of filing of a Beneficiary designation form shall revoke such designation unless (i) in the case of divorce the previous spouse or a trust for said previous spouse was not designated as Beneficiary, or (ii) in the case of marriage the Participant's new spouse or a trust for said new spouse had previously been designated as Beneficiary.

If a Participant or Beneficiary, as the case may be, fails to designate a Beneficiary as provided above, or if the Participant's Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new Beneficiary designation, or if all designated Beneficiaries predecease the Participant or Beneficiary, as the case may be, or die prior to complete distribution of the Participant's Benefits, then the Administrator shall direct the distribution of such Benefits to the estate of the Participant or Beneficiary, as the case may be.

ARTICLE 9 - ADMINISTRATION OF THE PLAN

A deferred compensation plan committee ("Committee") consisting of three or more members shall be appointed by the Company's Chief Executive Officer to administer the Plan and establish, adopt, or revise such rules and procedures as it may deem necessary or advisable for the administration of the Plan and to interpret the provisions of the Plan, with any such interpretations to be conclusive. All decisions of the Committee shall be by vote of at least a majority of its members and shall be final and binding. Members of the Committee shall be eligible to participate in the Plan while serving as members of the Committee, but a member of the Committee shall not vote or act upon any matter that relates solely to such member's interest in the Plan as a Participant. The current members of the Committee are the Chief Executive Officer; the Chief Financial Officer; the Senior Vice President, Human Resources; the Executive Vice President, General Counsel and Secretary; the Vice President and Treasurer; the Vice President, Compensation and Benefits; the Vice President, Associate General Counsel and Assistant Secretary; the Vice President and Controller; the Manager, Corporate Finance and Investments, and the Director, Financial Reporting at the Company's Miller Corporate Center. The Committee has designated the Vice President, Compensation and Benefits as the Administrator to carry out the day-to-day administration of the Plan.

ARTICLE 10 - AMENDMENT OR TERMINATION OF PLAN

The Company, at the direction of its Chief Executive Officer, may amend the Plan; provided, however, that (i) no such amendment shall be effective to decrease the Benefits accrued by any Participant or Beneficiary of a deceased Participant (including, but not limited to, the rate of interest credited to the Deferral Accounts); (ii) no such amendment shall decrease the minimum number of Declared Rates set forth in Section 6.2; (iii) Section 7.1 may not be amended; (iv) the definition of Declared Rate may not be amended; except as allowed in Article 6, (v) the other substantive provisions of the Plan related to the calculation of Benefits or the manner or timing of payments to be made under the Plan shall not be amended so as to prejudice the rights of any Participant or Beneficiary, and (vi) amendments shall be not be inconsistent with Section 409A.

Notwithstanding any terms herein to the contrary, the Company may not terminate the Plan; provided however that the Company shall not have any obligation to, but may, in its discretion, allow additional deferrals into this Plan.

ARTICLE 11 - MAINTENANCE OF ACCOUNTS

The Company shall keep, or cause to be kept, all such books of account, records and other data as may be necessary or advisable in its judgment for the administration of this Plan, and to reflect properly the affairs thereof, and to determine the nature and amount of the interests of the respective Participants in each Deferral Account.

Separate accounts or records for the respective Participants' Deferred Accounts shall be maintained for operational and accounting purposes, but no such account or record shall be considered as creating a lien of any nature whatsoever on or as segregating any of the assets with respect to the accounts under this Plan from any other funds or property of the Company.

ARTICLE 12 - MISCELLANEOUS

12.1 Applicable Law.

Except to the extent preempted by ERISA, this Plan shall be governed and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely therein, and applicable substantive provisions of federal law, including the AJCA.

12.2 Captions.

The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

12.3 Employment Not Guaranteed.

Nothing contained in this Plan nor any action taken hereunder, shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Company.

12.4 Exempt ERISA Plan.

The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation Benefits for a select group of management or highly compensated employees within the meaning of Section 401 of ERISA, and therefore to be exempt from parts 2,3, and 4 of Title 1 of ERISA.

12.5 Limitation.

A Participant and the Participant's Beneficiary shall assume all risks in connection with the performance of any Declared Rate and any decrease in value of the Deferral Accounts, and the Company, any of its officers, employees, or directors, the Committee and the Administrator shall not be liable or responsible therefor.

12.6 Notice.

Any notice or filing required or permitted to be given to the Administrator under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Employer, directed to the attention of the Administrator with a copy to the Executive Vice President, General Counsel and Secretary of the Employer. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

12.7 Obligations to Employer.

If a Participant becomes entitled to a Distribution of Benefits under the Plan, and if at such time the Participant has outstanding any debt, obligation, or other liability representing an amount owing to the Employer, then the Employer may offset such amount owed to it against the amount of Benefits otherwise distributable. Such determination shall be made by the Committee.

12.8 Limits on Transfer.

Other than by will, the laws of descent and distribution, or legal or judicial process related to dissolution of marriage, no right title or interest of any kind in the Plan shall be transferable or assignable by a Participant or the Participant's Beneficiary or be subject to alienation, anticipation, encumbrance, garnishment, attachment, levy, execution or other legal or equitable process, nor subject to the debts, contracts, alimony, liabilities or engagements, or torts of any Participant or Participant's Beneficiary. Any attempt to alienate, sell, transfer, assign, pledge, garnish, attach or take any other action subject to legal or equitable process or encumber or dispose of any interest in the Plan shall be void.

12.9 Satisfaction of Claims.

Payments to any Participant or Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full or partial satisfaction of claims against the Company for the compensation or other amounts deferred and relating to the Deferral Account to which the payments relate.

12.10 Unfunded Status of Plan; Creation of Trusts.

The Plan is intended to constitute an "unfunded" plan for deferred compensation and Participants shall rely solely on the unsecured promise of the Company for payment hereunder. With respect to any payment not yet made to a Participant under the Plan, nothing contained in the Plan shall give a Participant any rights that are greater than those of a general unsecured creditor of the Company. Consistent with the provisions of this Section 12.10, the Company has established the Trust referred to in Section 12.14 and may establish other similar trusts, or make other arrangements to meet the Company's obligations under the Plan, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

12.11 Compliance.

The Plan, in form and operation, is intended to comply with Section 409A. To the extent that the terms of the Plan are inconsistent with Section 409A, then the terms of the Plan will be automatically deemed to be amended and construed so as to be in compliance.

12.12 Tax Withholding.

The Participant or Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the crediting and payment of Benefits under the Plan. If no other arrangements are made, the Company shall have the right to deduct from amounts otherwise credited or payable in settlement of a Deferral Account any sums that federal, state, local or foreign tax law requires to be withheld with respect to such credit or payment.

12.13 Participant Cooperation.

Each Participant shall cooperate with the Employer by furnishing any and all information requested by the Employer in order to facilitate the payment of Benefits hereunder, taking such physical examinations as the Employer may deem necessary and taking such other relevant action as may be requested by the Employer. If a Participant refuses so to cooperate, the Employer shall have no further obligation to the Participant under the Plan, other than payment to such Participant of the cumulative deferrals theretofore made pursuant to this Plan. If a Participant commits suicide during the two (2) year period beginning on the first day on which he participates in the Plan or if the Participant makes any material misstatement of information or nondisclosure of medical history, then no Benefits will be payable hereunder to such Participant of the deferrals theretofore made pursuant to this Plan, provided, that in the Employer's sole discretion, Benefits may be payable in an amount reduced to compensate the Employer for any loss, cost, damage or expense suffered or incurred by the Employer as a result in any way of any such action, misstatement or nondisclosure.

12.14 Unsecured General Creditor.

The Company has established the Avery Dennison Corporation Executive Compensation Trust ("Rabbi Trust"). The assets of the Rabbi Trust shall be subject to the claims of the Company's creditors. To the extent any Benefits provided under the Plan are actually paid from the Rabbi Trust, the Employer shall have no further obligation with respect thereto, but to the extent not so paid, such Benefits shall remain the obligation of, and shall be paid by, the Employer. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in or to any specific property or assets of Employer, nor shall they be beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, or the proceeds therefrom owned or which may be acquired by Employer ("Policies"). Apart from the Rabbi Trust, such Policies or other assets of Employer shall not be held under any trust for the Benefit of Participants, their Beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of Employer under this Plan. Any and all of the Employer's assets and Policies shall be, and remain, the general, un-pledged, unrestricted assets of Employer. Employer's obligations under the Plan shall be merely an unfunded and unsecured promise of Employer to pay money in the future.

12.15 Waiver of Stay, Extension and Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company from paying all or any portion of the Benefits due hereunder, wherever such laws may be enacted, now or at any time hereafter in force, or which may affect the administration or performance of this Plan; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the realization of any Benefits to which the Participants hereunder are entitled, but will suffer and permit the realization of all such Benefits as though no such law had been enacted. The provisions of this Section 12.15 are not intended, however, to prevent compliance of the Plan with the provisions of Section 409A.

12.16 Status.

The establishment and maintenance of, or allocations and credits to, the Deferral Accounts of any Participant shall not vest in any Participant any right, title or interest in and to any Plan assets or Benefits except at the time or times and upon the terms and conditions and to the extent expressly set forth in the Plan and in accordance with the terms of the Rabbi Trust.

12.17 Validity.

In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

12.18 Waiver of Breach.

The waiver by any party of any breach of any provision of the Plan by any other party shall not operate or be construed as a waiver of any subsequent breach.

12.19 Gender, Singular & Plural.

All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

ARTICLE 13 - EFFECTIVE DATE

The effective date of this Plan is December 1, 2004

EXHIBIT A**EVDRP DECLARED RATES**

<u>Pacific Select Fund</u>	<u>Fund Manager</u>
Money Market	Pacific Life
Managed Bond	Pacific Investment Management Company (PIMCO)
Equity Index	Mercury Advisors
International Equity	Brandes Investment Partners, L.P.
Growth LT	Janus Capital Corporation
Small-Cap Index	Mercury Advisors
Large-Cap Value	Salomon Brothers
Diversified Research	Capital Guardian
Emerging Markets	Oppenheimer
Fixed Account	N/A – not a managed fund
Capital Appreciation	Frontier
Core Growth	Turner Investment Partners

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

	2004	2003(2)	2002(2)
Earnings			
Income from continuing operations before taxes	\$373.4	\$334.9	\$354.3
Add: Fixed charges from continuing operations(1)	84.8	87.6	69.6
Amortization of capitalized interest	2.4	2.3	2.0
Less: Capitalized interest	(3.3)	(6.1)	(3.9)
	<u>\$457.3</u>	<u>\$418.7</u>	<u>\$422.0</u>
Fixed charges from continuing operations(1):			
Interest expense	\$ 58.5	\$ 58.5	\$ 44.7
Capitalized interest	3.3	6.1	3.9
Interest portion of leases	23.0	23.0	21.0
	<u>\$ 84.8</u>	<u>\$ 87.6</u>	<u>\$ 69.6</u>
Ratio of Earnings to Fixed Charges	<u>5.4</u>	<u>4.8</u>	<u>6.1</u>

- (1) The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, "earnings" consist of income before taxes plus fixed charges and amortization of capitalized interest, less capitalized interest from continuing operations. "Fixed charges" consist of interest expense, capitalized interest and the portion of rent expense (estimated to be 35%) on operating leases deemed representative of interest.
- (2) Certain prior year amounts have been reclassified to conform with the 2004 presentation.

AVERY DENNISON CORPORATION
FINANCIAL OVERVIEW

	2004	2003	2002
(In millions, except per share amounts)			
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

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	2004	2003
ASSETS		
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
	\$4,399.3	\$4,118.1
Liabilities and Shareholders' Equity		
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
	\$4,399.3	\$4,118.1

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

	<u>2004(1)</u>	<u>2003</u>	<u>2002</u>
(In millions, except per share amounts)			
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

	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 comprehensive income (loss)	Total
(Dollars in millions, except per share amounts)								
Fiscal year ended 2001	\$ 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)			—
Fiscal year ended 2002	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			—
Fiscal year ended 2003	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)			—
Fiscal year ended 2004	\$ 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(1)	2003	2002
OPERATING ACTIVITIES			
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	(0.5)	(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
INVESTING ACTIVITIES			
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)
FINANCING ACTIVITIES			
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	(0.7)	(0.3)	(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	(0.7)
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.

Note 1. Summary of Significant Accounting Policies (continued)

Summarized, combined statement of income for discontinued operations:

	2003	2002
(In millions)		
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:

	2004	2003	2002
(In millions)			
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.

Note 1. Summary of Significant Accounting Policies (continued)**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:

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

Property, Plant and Equipment

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

	2004	2003
(In millions)		
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
	<u>2,719.7</u>	<u>2,500.3</u>
Accumulated depreciation	(1,338.7)	(1,206.3)
	<u>\$ 1,381.0</u>	<u>\$ 1,294.0</u>

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:

	2004	2003
(In millions)		
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.

Note 1. Summary of Significant Accounting Policies (continued)

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.

Note 1. Summary of Significant Accounting Policies (continued)

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:

	2004	2003
(In millions)		
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:

	2004	2003	2002
(In millions, except per share amounts)			
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

Note 1. Summary of Significant Accounting Policies (continued)**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:

	2004	2003	2002
<i>(In millions, except per share amounts)</i>			
(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.

Note 1. Summary of Significant Accounting Policies (continued)

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:

	2004	2003
(In millions)		
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)
Total accumulated other comprehensive loss	\$ (2.7)	\$ (77.6)

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

	2004	2003
(In millions)		
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
Ending accumulated derivative loss	\$ (19.0)	\$ (20.9)

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.

Note 1. Summary of Significant Accounting Policies (continued)

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.

Note 2. Acquisitions (continued)

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		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Tradenames and trademarks	\$ 45.7	\$ 25.8	\$ 19.9	\$ 42.7	\$ 18.5	\$ 24.2
Patented and other acquired technology	65.4	16.8	48.6	65.4	13.0	52.4
Customer relationships	92.7	16.6	76.1	84.1	11.3	72.8
Other intangibles	4.6	3.4	1.2	4.4	2.5	1.9
Total	\$ 208.4	\$ 62.6	\$ 145.8	\$ 196.6	\$ 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:

	2004	2003
(In millions)		
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.

Note 4. Debt (continued)

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
	U.S.	Int'l	U.S.	Int'l		
(In millions)						
Change in benefit obligation:						
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 (1)	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(2)	—	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		

Note 6. Pensions and Other Postretirement Benefits (continued)

	Pension Benefits				U.S. Postretirement Health Benefits	
	2004		2003		2004	2003
	U.S.	Int'l	U.S.	Int'l		
(In millions)						
Change in plan assets:						
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 (1)	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(2)	—	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	\$ —	\$ —
Funded status of the plans:						
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)
Amounts recognized in the Consolidated Balance Sheet consist of:						
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			
Weighted-average assumptions used for determining year end obligations:									
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	—	—	—

Note 6. Pensions and Other Postretirement Benefits (continued)

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

	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			
(In millions)									
Components of net periodic benefit cost (income):									
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)	—	—	—
Curtailement	—	.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			
Weighted-average assumptions used for determining net periodic cost:									
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:

	One-percentage-point increase	One-percentage-point decrease
(In millions)		
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.

Note 6. Pensions and Other Postretirement Benefits (continued)

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

(In millions)	Pension Benefits		U.S. Postretirement 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 to the ESOP for 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 consolidated 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.

Note 8. Contingencies (continued)

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 Raflatac, 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.

Note 8. Contingencies (continued)

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.

Note 9. Shareholders' Equity (continued)**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):

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$ 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.

Note 10. Components of Other Income and Expense (continued)

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.

Note 10. Components of Other Income and Expense (continued)

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:

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

Note 11. Taxes Based on Income

Taxes based on income were as follows:

<u>(In millions)</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
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
	<hr/>	<hr/>	<hr/>
	106.7	112.3	85.4
<hr/>			
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
	<hr/>	<hr/>	<hr/>
	(13.0)	(11.9)	22.2
<hr/>			
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:

<u>(In millions)</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
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)
	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>
Taxes on income	\$ 93.7	\$ 100.4	\$ 107.6

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

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

Note 11. Taxes Based on Income (continued)

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:

<u>(In millions)</u>	<u>2004</u>	<u>2003</u>
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.

Note 12. Segment Information (continued)

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

(In millions)	2004(1)	2003(2)	2002(3)
Net sales to unaffiliated customers:			
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
Net sales to unaffiliated customers	\$5,340.9	\$4,762.6	\$4,155.9
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)
Intersegment sales	\$ —	\$ —	\$ —
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)
Income before taxes	\$ 373.4	\$ 334.9	\$ 354.3
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
Capital expenditures(4)	\$ 205.7	\$ 201.4	\$ 150.4
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
Depreciation expense	\$ 147.2	\$ 143.9	\$ 125.1

- (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).

Note 12. Segment Information (continued)

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

	2004	2003	2002
(In millions)			
Net sales:			
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)
Net sales	\$5,340.9	\$4,762.6	\$4,155.9
Property, plant and equipment, net:			
U.S.	\$ 606.2	\$ 614.2	\$ 659.4
International	774.8	679.8	525.0
Property, plant and equipment, net	\$1,381.0	\$1,294.0	\$1,184.4

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)

	First Quarter(1)	Second Quarter(2)	Third Quarter	Fourth Quarter(3)
(In millions, except per share data)				
2004				
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
2003(4)				
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.

/s/ PHILIP M. NEAL

/s/ DANIEL R. O'BRYANT

Philip M. Neal
Chairman and Chief Executive Officer

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

To 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.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
March 11, 2005

Corporate Information**Counsel**

Latham & Watkins LLP
Los Angeles, California

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent-Registrar

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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 may also be obtained from the Company's web site, 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

	2004		2003	
Dividends Per Common Share				
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

Name of Current Subsidiary	Jurisdiction in Which Organized
1. ADC PHILIPPINES, INC.	PHILIPPINES
2. ADESPAN S.R.L.	ITALY
3. ADESPAN U.K. LIMITED	UNITED KINGDOM
4. AEAC, INC.	U.S.A.
5. AUSTRACOTE PTY LTD.	AUSTRALIA
6. AVERY CORP.	U.S.A.
7. AVERY DE MEXICO S.A. DE C.V.	MEXICO
8. AVERY DENNISON-MAXELL K. K.	JAPAN
9. AVERY DENNISON HOLDINGS (MALTA) LIMITED	MALTA
10. AVERY DENNISON ACQUISITION GMBH	GERMANY
11. AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
12. AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD.	AUSTRALIA
13. AVERY DENNISON AUSTRALIA PTY LTD.	AUSTRALIA
14. AVERY DENNISON BELGIE BVBA	BELGIUM
15. AVERY DENNISON BV	NETHERLANDS
16. AVERY DENNISON CANADA INC.	CANADA
17. AVERY DENNISON CHILE S.A.	CHILE
18. AVERY DENNISON COLOMBIA S. A.	COLOMBIA
19. AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V.	MEXICO
20. AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V.	EL SALVADOR
21. AVERY DENNISON COORDINATION CENTER BVBA	BELGIUM
22. AVERY DENNISON C.A.	VENEZUELA
23. AVERY DENNISON DE ARGENTINA S.A.	ARGENTINA
24. AVERY DENNISON DEUTSCHLAND GMBH	GERMANY
25. AVERY DENNISON DO BRASIL LTDA.	BRAZIL
26. AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
27. AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG	GERMANY
28. AVERY DENNISON FINANCE BELGIUM BVBA	BELGIUM
29. AVERY DENNISON FINANCE FRANCE S. A. S.	FRANCE
30. AVERY DENNISON FINANCE GERMANY GMBH	GERMANY
31. AVERY DENNISON FINANCE LUXEMBOURG II SARL	LUXEMBOURG
32. AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L.	LUXEMBOURG
33. AVERY DENNISON FRANCE S.A.S.	FRANCE
34. AVERY DENNISON G HOLDINGS I COMPANY	U.S.A.
35. AVERY DENNISON G HOLDINGS III COMPANY	U.S.A.
36. AVERY DENNISON G INVESTMENTS I LIMITED	GIBRALTAR
37. AVERY DENNISON G INVESTMENTS III LIMITED	GIBRALTAR
38. AVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
39. AVERY DENNISON GROUP DANMARK APS	DENMARK
40. AVERY DENNISON GROUP SINGAPORE (PTE) LIMITED	SINGAPORE
41. AVERY DENNISON HOLDING AG	SWITZERLAND
42. AVERY DENNISON HOLDING GMBH	GERMANY
43. AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
44. AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS
45. AVERY DENNISON HOLDINGS LIMITED	AUSTRALIA
46. AVERY DENNISON HOLDINGS NEW ZEALAND LIMITED	NEW ZEALAND
47. AVERY DENNISON HONG KONG BV	NETHERLANDS
48. AVERY DENNISON HUNGARY LIMITED	HUNGARY
49. AVERY DENNISON IBERICA, S.A.	SPAIN
50. AVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L.	LUXEMBOURG
51. AVERY DENNISON INVESTMENTS THE NETHERLANDS BV	NETHERLANDS
52. AVERY DENNISON INVESTMENTS VI LIMITED	GIBRALTAR
53. AVERY DENNISON ITALIA S.R.L.	ITALY
54. AVERY DENNISON KOREA LIMITED	KOREA
55. AVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG

Name of Current Subsidiary	Jurisdiction in Which Organized
56. AVERY DENNISON MANAGEMENT GMBH	GERMANY
57. AVERY DENNISON MANAGEMENT KGAA	LUXEMBOURG
58. AVERY DENNISON MANAGEMENT S.A.R.L.	LUXEMBOURG
59. AVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
60. AVERY DENNISON MATERIALS GMBH	GERMANY
61. AVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
62. AVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
63. AVERY DENNISON MATERIALS NEW ZEALAND LIMITED	NEW ZEALAND
64. AVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
65. AVERY DENNISON MATERIALS SDN BHD	MALAYSIA
66. AVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
67. AVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
68. AVERY DENNISON NETHERLANDS INVESTMENT III BV	NETHERLANDS
69. AVERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
70. AVERY DENNISON NORDIC APS	DENMARK
71. AVERY DENNISON NORGE A/S	NORWAY
72. AVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM
73. AVERY DENNISON OFFICE PRODUCTS COMPANY	U.S.A.
74. AVERY DENNISON OFFICE PRODUCTS DE MEXICO, S.A. DE C.V.	MEXICO
75. AVERY DENNISON OFFICE PRODUCTS EUROPE GMBH	SWITZERLAND
76. AVERY DENNISON OFFICE PRODUCTS FRANCE S. A. S.	FRANCE
77. AVERY DENNISON OFFICE PRODUCTS ITALIA S.R.L.	ITALY
78. AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
79. AVERY DENNISON OFFICE PRODUCTS MANUFACTURING & TRADING LIMITED LIABILITY COMPANY (AVERY DENNISON LTD.)	HUNGARY
80. AVERY DENNISON OFFICE PRODUCTS PTY LIMITED	AUSTRALIA
81. AVERY DENNISON OFFICE PRODUCTS U.K. LTD.	UNITED KINGDOM
82. AVERY DENNISON OFFICE PRODUCTS (NZ) LIMITED	NEW ZEALAND
83. AVERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
84. AVERY DENNISON OSTERREICH GMB	AUSTRIA
85. AVERY DENNISON OVERSEAS CORPORATION	U.S.A.
86. AVERY DENNISON PERU S. R. L.	PERU
87. AVERY DENNISON POLSKA SP. Z O.O.	POLAND
88. AVERY DENNISON PRAHA SPOL. R. O.	CZECH REPUBLIC
89. AVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
90. AVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
91. AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
92. AVERY DENNISON RFID COMPANY	U.S.A.
93. AVERY DENNISON SCANDINAVIA APS	DENMARK
94. AVERY DENNISON SCHWEIZ AG	SWITZERLAND
95. AVERY DENNISON SECURITY PRINTING EUROPE APS	DENMARK
96. AVERY DENNISON SHARED SERVICES, INC.	U.S.A.
97. AVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
98. AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
99. AVERY DENNISON SUOMI OY	FINLAND
100. AVERY DENNISON SVERIGE AB	SWEDEN
101. AVERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S.	FRANCE
102. AVERY DENNISON TAIWAN LIMITED	TAIWAN
103. AVERY DENNISON U.K. LIMITED	UNITED KINGDOM
104. AVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G.	GERMANY
105. AVERY DENNISON VERWALTUNGS GMBH	GERMANY
106. AVERY DENNISON ZWECKFORM AUSTRIA GMBH	AUSTRIA
107. AVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GMBH	GERMANY
108. AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH	GERMANY
109. AVERY DENNISON ZWECKFORM UNTERSTUTZUNGSKASSE GMBH	GERMANY
110. AVERY DENNISON (ASIA) HOLDINGS LIMITED	MAURITIUS

Name of Current Subsidiary	Jurisdiction in Which Organized
111. AVERY DENNISON (BANGLADESH) LTD.	BANGLADESH
112. AVERY DENNISON (FIJI) LIMITED	FIJI
113. AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED	CHINA
114. AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED	CHINA
115. AVERY DENNISON (GUANGZHOU) CO. LTD.	CHINA
116. AVERY DENNISON (HONG KONG) LIMITED	HONG KONG
117. AVERY DENNISON (INDIA) PRIVATE LIMITED	INDIA
118. AVERY DENNISON (IRELAND) LIMITED	IRELAND
119. AVERY DENNISON (KUNSHAN) CO., LIMITED	CHINA
120. AVERY DENNISON (MALAYSIA) SDN. BHD.	MALAYSIA
121. AVERY DENNISON (QINGDAO) PACKAGING PRODUCTS COMPANY LIMITED	CHINA
122. AVERY DENNISON (SUZHOU) CO. LIMITED	CHINA
123. AVERY DENNISON (THAILAND) LTD.	THAILAND
124. AVERY DENNISON (VIETNAM) LIMITED	VIETNAM
125. AVERY DENNISON, S.A. DE C.V.	MEXICO
126. AVERY GRAPHIC SYSTEMS, INC.	U.S.A.
127. AVERY GUIDEX LIMITED	UNITED KINGDOM
128. AVERY HOLDING LIMITED	UNITED KINGDOM
129. AVERY HOLDING S.A.S.	FRANCE
130. AVERY PACIFIC LLC	U.S.A.
131. AVERY PROPERTIES PTY. LIMITED	AUSTRALIA
132. AVERY RESEARCH CENTER, INC.	U.S.A.
133. AVERY (CHINA) COMPANY LIMITED	CHINA
134. AVERY, INC.	U.S.A.
135. A.V. CHEMIE GMBH	SWITZERLAND
136. CELT SNC	FRANCE
137. DENNISON COMERCIO, IMPORTACAS E EXPORTACAO LTDA.	BRAZIL
138. DENNISON DEVELOPMENT ASSOCIATES	U.S.A.
139. DENNISON INTERNATIONAL COMPANY	U.S.A.
140. DENNISON IRELAND LIMITED	IRELAND
141. DENNISON MANUFACTURING COMPANY	U.S.A.
142. DMC DEVELOPMENT CORPORATION	U.S.A.
143. FASSON CANADA INC.	CANADA
144. FASSON PORTUGAL PRODUTOS AUTO-ADESIVOS LDA.	PORTUGAL
145. INDUSTRIAL DE MARCAS LTDA	COLOMBIA
146. JAC ASIA PACIFIC PTY LTD.	AUSTRALIA
147. JAC ASIA PACIFIC SDN BHD	MALAYSIA
148. JAC AUSTRALIA PTY LTD.	AUSTRALIA
149. JAC CARIBE C.S.Z.	DOMINICAN REPUBLIC
150. JAC DO BRASIL LTDA.	BRAZIL
151. JAC FRANCE SARL & CI	FRANCE
152. JAC NEW ZEALAND LIMITED	NEW ZEALAND
153. JAC USA, INC.	U.S.A.
154. JAC (U.K.) LIMITED	UNITED KINGDOM
155. JACKSTADT FRANCE SARL	FRANCE
156. JACKSTADT FRANCE SNC	FRANCE
157. JACKSTADT GMBH	GERMANY
158. JACKSTADT SOUTH AFRICA (PTY) LTD.	SOUTH AFRICA
159. JACKSTADT VERMOGENSVERWALTUNGS GMB	GERMANY
160. KNAUP ELEKTRO GMBH I.L.	GERMANY
161. L&E AMERICAS SERVICIOS, S. A. DE C.V.	MEXICO
162. L&E PACKAGING FAR EAST LIMITED	HONG KONG
163. MODERN MARK INTERNATIONAL LIMITED	HONG KONG
164. MONARCH INDUSTRIES, INC.	U.S.A.
165. PT AVERY DENNISON INDONESIA	INDONESIA
166. PT AVERY DENNISON PACKAGING INDONESIA	INDONESIA

Name of Current Subsidiary	Jurisdiction in Which Organized
167. RINKE DIS TISCARET LTD	TURKEY
168. RINKE ETIKET SERVIS SANAYI VE TICARET LTD SIRKETI	TURKEY
169. RINKE FAR EAST LTD	HONG KONG
170. RIPRO FAR EAST LTD	HONG KONG
171. RVL AMERICAS, S DE R.L. DE C.V.	MEXICO
172. RVL CENTRAL AMERICA, S. A.	GUATEMALA
173. RVL PACKAGING FAR EAST LIMITED	HONG KONG
174. RVL PACKAGING INDIA PRIVATE LIMITED	INDIA
175. RVL PACKAGING KOREA CO. LTD.	KOREA
176. RVL PACKAGING MIDDLE EAST F.Z.C.	UNITED ARAB EMIRATES
177. RVL PACKAGING SINGAPORE PTE LTD.	SINGAPORE
178. RVL PACKAGING TAIWAN LTD.	TAIWAN
179. RVL PACKAGING, INC.	U.S.A.
180. RVL PHILIPPINES, INC.	PHILIPPINES
181. RVL PRINTED LABEL FAR EAST LIMITED	HONG KONG
182. RVL PRINTED LABELS, LLC	U.S.A.
183. RVL SERVICE, S. DE R. L. DE C. V.	MEXICO
184. RVL TEXTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI	TURKEY
185. SECURITY PRINTING DIVISION, INC.	U.S.A.
186. SPARTAN INTERNATIONAL, INC.	U.S.A.
187. SPARTAN PLASTICS CANADA, LTD	CANADA
188. STIMSONITE AUSTRALIA PTY LIMITED	AUSTRALIA
189. STIMSONITE CORPORATION	U.S.A.
190. STIMSONITE DO BRASIL LTDA	BRAZIL
191. STIMSONITE EUROPA LIMITED	UNITED KINGDOM
192. STIMSONITE INTERNATIONAL, INC.	U.S.A.
193. TIADECO PARTICIPACOES, LTDA.	BRAZIL
194. UNIVERSAL PACKAGING & DESIGN PTE LTD.	SINGAPORE
195. UNIVERSAL PACKAGING & DESIGN, LTD.	HONG KONG
196. WORLDWIDE RISK INSURANCE, INC.	U.S.A.

POWER OF ATTORNEY

WHEREAS, Avery Dennison Corporation, a Delaware corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an Annual Report on Form 10-K for the fiscal year ended January 1, 2005; and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Daniel R. O'Bryant and Robert G. van Schoonenberg, and each of them, as attorneys-in-fact for and in the name, place and stead of the undersigned, and in the capacity of the undersigned as a director of the Company, to execute the above referenced Form 10-K and any amendments or supplements thereto, hereby giving and granting to said attorneys-in-fact, full power and authority to do and perform each and every act and thing required and necessary to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that each attorney-in-fact may or shall lawfully do or cause to be done by virtue of this Power of Attorney.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney on March 17, 2005.

Signature

Title

Date

/s/ PHILIP M. NEAL

Chairman and Chief Executive Officer;
Director

March 17, 2005

Philip M. Neal

/s/ DEAN A. SCARBOROUGH

President and Chief Operating Officer,
Director

March 17, 2005

Dean A. Scarborough

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/S/ PETER K. BARKER <hr/> Peter K. Barker	Director	March 17, 2005
/S/ FRANK V. CAHOUET <hr/> Frank V. Cahouet	Director	March 17, 2005
/S/ JOHN T. CARDIS <hr/> John T. Cardis	Director	March 17, 2005
/S/ RICHARD M. FERRY <hr/> Richard M. Ferry	Director	March 17, 2005
/S/ BRUCE E. KARATZ <hr/> Bruce E. Karatz	Director	March 17, 2005
/S/ KENT KRESA <hr/> Kent Kresa	Director	March 17, 2005
/S/ CHARLES D. MILLER <hr/> Charles D. Miller	Director	March 17, 2005
/S/ PETER W. MULLIN <hr/> Peter W. Mullin	Director	March 17, 2005
/S/ DAVID E. I. PYOTT <hr/> David E. I. Pyott	Director	March 17, 2005
/S/ JULIA A. STEWART <hr/> Julia A. Stewart	Director	March 17, 2005

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

CERTIFICATION

I, Philip M. Neal, certify that:

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

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and Chief Executive Officer

March 17, 2005

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

CERTIFICATION

I, Daniel R. O'Bryant, certify that:

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

/s/ DANIEL R. O'BRYANT

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

March 17, 2005

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended January 1, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2005

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and Chief Executive Officer

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended January 1, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2005

/s/ DANIEL R. O'BRYANT

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

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

CAUTIONARY STATEMENT FOR PURPOSES OF THE
“SAFE HARBOR” PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information provided by the Company may contain certain forward-looking information, as defined by the Private Securities Litigation Reform Act of 1995 (the “Act”). Words such as “aim,” “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “objective,” “plan,” “potential,” “project,” “shall,” “should,” “target,” “will,” and other expressions, which refer to future events, which may or may not occur, and trends, identify forward-looking statements that involve risks and uncertainties. Forward-looking information may relate to such matters as sales, unit volume, income, margins, earnings per share, return on equity, return on total capital, economic value added, capital expenditures, dividends, cash flow, debt to capital ratios, growth rates, future economic performance and trends, short- and long-term plans (including financing, operating and strategic plans) and objectives for future operations, as well as assumptions, expectations, projections and estimates relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called “safe harbor” provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in attempting to predict the outcome of future events. Therefore, actual results and trends may differ materially from those expressed or implied. Investors are therefore cautioned not to place undue reliance on any forward-looking statements as a prediction of future results. The Company assumes no obligation to update any forward-looking statements, other than as may be required by law.

The ability of the Company to attain management’s goals and objectives are materially dependent on numerous factors, including but not limited to, those set forth herein.

Operating results are importantly influenced by general economic conditions and growth (or contraction) of the principal economies in which the Company operates, including the United States, Canada, Europe, Latin America and the Asia-Pacific region. All economies in which the Company operates are cyclical and the rates of growth (or contraction) can vary substantially. Approximately fifty percent of the Company’s sales are in foreign currencies, which fluctuate in relation to one another and to the United States dollar. Fluctuations in currencies can cause transaction, translation and other losses to the Company, which can negatively impact the Company’s sales and earnings projections. The Company has operations in over 40 countries and its domestic and international operations are strongly influenced by matters beyond its control, including but not limited to changes in the political, social, economic, tax and regulatory environment (including tariffs) in the countries in which the Company conducts its operations.

As a manufacturer, the Company’s sales and profitability are also dependent upon availability and cost of raw materials and components, which are subject to price fluctuations, and the ability to control or pass on costs of raw materials and labor. Inflationary and other increases in the costs of raw materials and labor have occurred in the past and are expected to recur, and the Company’s performance depends in part on: its ability to reflect changes in costs in its selling prices for product; its productivity; and its focus on higher margin businesses. Past performance may or may not be replicable in the future.

The Company’s customers are widely diversified, but in certain portions of its business, industry concentration has increased the importance and decreased the number of significant customers. In particular, sales of the Company’s office and consumer products in the United States are concentrated in a few major customers, principally office product superstores, mass market distributors and wholesalers. These market conditions, including increased credit risks for these and other customers, and the possibility of related bad debt write-offs, increase pressures on the Company’s margins and profits.

The Company’s ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights and enforce patents is important to maintaining the Company’s growth, which ability cannot be assured.

Other factors, which are not exhaustive, include 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); customer or supplier business reorganizations or combinations; the ability and willingness of purchasers to substitute other products for the products that the Company manufactures or distributes; pricing, purchasing, financing and promotional decisions by intermediaries in the distribution channel, which could affect orders, or

end-user demand, for the Company's products; adoption of new, or change in, accounting policies and practices and the application of such policies and practices; ability to retain adequate levels of insurance coverage at acceptable rates; legal proceedings, (whether civil, such as environmental and product related, or criminal), settlements, judgments and investigations, including the Department of Justice ("DOJ") criminal investigation, as well as the European Commission ("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); developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses; reliability of utility services; disruptions in transportation networks; changes in governmental regulations; increased participation in potentially less stable emerging markets; 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, weather and other natural disasters; impact of computer viruses; 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.

The factors identified in this statement are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to be materially different from those that may be expressed or implied in any forward-looking statement made by, or on behalf, of the Company. Other factors not discussed in this statement could also have material adverse effects concerning forward-looking objectives or estimates.