



News Release

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**For Immediate Release**

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## **AVERY DENNISON REPORTS FIRST QUARTER 2005 RESULTS**

PASADENA, Calif. – April 26, 2005 – Avery Dennison Corporation (NYSE:AVY) today reported first quarter diluted earnings per share of \$0.57, compared with \$0.52 per share for the first quarter of 2004, which are in line with the Company's previously announced revised expectations. The first quarter 2005 results include severance and transition costs of approximately \$0.04 per share related to a previously announced plant closure, while the prior-year first quarter earnings include a negative impact of \$0.16 per share from restructuring costs and asset impairment charges related to the integration of an acquisition.

“Although we started the year with strong sales growth, demand slowed significantly as the quarter progressed. Sales weakened across most businesses and regions late in the quarter,” said Philip M. Neal, chairman and chief executive officer of Avery Dennison. “We are clearly disappointed in the results for the quarter. While we are continuing to fund growth programs with significant potential, we have implemented a number of immediate actions throughout the Company to sharply reduce expenses.”

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Key results for the first quarter of 2005 include:

- Earnings per share, on a diluted basis, were \$0.57, compared with \$0.52 per share in the same quarter a year ago. While the Company successfully raised prices to fully offset raw material cost increases, the quarter's results were negatively affected by lower-than-anticipated unit volume growth, higher-than-anticipated spending related to growth activities and an increase in inventory reserves related to a new product launch, as well as other factors. First quarter 2005 earnings include a negative impact of \$0.04 per share from severance and transition costs related to a plant closure, while the prior-year first quarter earnings include a negative impact of \$0.16 per share from restructuring costs and asset impairment charges related to the integration of an acquisition. (See *Attachment A-3: "Preliminary Reconciliation of GAAP to Non-GAAP Measures"*).
- Net income was \$57.7 million, compared with \$52.6 million in the first quarter of 2004.
- Reported sales grew 8 percent from prior-year levels, reaching \$1.3 billion for the first quarter of 2005, compared with \$1.2 billion in the first quarter of 2004. The impact of currency translation contributed approximately 40 percent of the sales growth during the quarter, while price and mix contributed approximately 30 percent.
- Core unit volume grew approximately 2 percent over the prior-year first quarter, which was approximately two to three points below the

Company's expectations at the start of the year, reflecting a slowdown in the pressure-sensitive materials and retail information services segments late in the quarter.

- Gross profit margin declined 60 basis points compared with the first quarter of 2004 due to the increase in inventory reserves related to a new product launch and spending related to the Company's RFID (radio frequency identification) business. Higher raw material costs were fully offset by selling price increases.
- Marketing, general and administrative expenses increased by \$34 million compared with the first quarter of 2004. Approximately one-third of this increase is attributable to currency translation, the acquisition of Rinke Etiketten in late 2004, and other volume-related spending. Another approximately one-third of the higher spending was due to expenses associated with the Company's longer-term growth initiatives, including RFID, while the balance reflected a variety of factors, including higher pension expense and bad debt write-offs.
- Excluding restructuring and transition costs, asset impairment charges and gain on sale of assets, operating margin declined 150 basis points compared with the first quarter of 2004, due to the factors affecting gross profit margin as well as marketing, general and administrative expenses, which are described above. (See Attachment A-3: "Preliminary Reconciliation of GAAP to Non-GAAP Measures").
- The tax rate for the first quarter was 26 percent, in line with the Company's previously announced expectations.

Segment results

The Company's Pressure-sensitive Materials segment reported sales of approximately \$789 million, reflecting growth of more than 8 percent over the first quarter of 2004. Approximately 50 percent of the segment revenue growth reflects unit volume growth and a positive contribution from price and mix. The balance of the growth is attributable to the impact of currency translation, primarily the Euro. The North American pressure-sensitive roll materials business posted revenue growth of approximately 4 percent, with the benefit of price increases more than offsetting a decline in volume. The volume decline affected all segments within the North American pressure-sensitive roll materials business with the exception of films, which continued to benefit from growth in the beverage label market. The Company announced that it is investing approximately \$30 million to add a new production line for film materials to meet the growing demand for pressure-sensitive labels by beer producers.

Before the effect of currency translation, sales in the European pressure-sensitive roll materials business also grew approximately 4 percent, with modest increases in unit volume and favorable price and mix. While the rate of sales growth for the roll materials business in emerging markets slowed compared with the very strong growth achieved in the fourth quarter of 2004, sales in these markets grew 13 percent in the first quarter, before the impact of currency translation. The graphics and reflective materials business posted low single-digit sales growth, excluding the impact of currency translation. Excluding restructuring costs, asset impairment charges and gain on sale of assets, operating margin for the segment increased to 8.9 percent compared with 8.1 percent in the prior-year quarter, due to productivity improvement initiatives, including plant closures completed in Europe during the first

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half of 2004. The benefit of price increases offset higher raw material costs. (See *Attachment A-4: "Reconciliation of GAAP to Non-GAAP Supplementary Information"*).

The Office and Consumer Products segment reported sales of approximately \$259 million, reflecting an increase of more than 2 percent over the prior-year first quarter. The revenue increase for the segment was largely due to the impact of currency translation. As expected, the benefit of price increases was offset by a volume decline associated with customers building inventory in the fourth quarter of 2004 in anticipation of the higher prices. The Company's January 1 price increase in the office and consumer products business fully covered cumulative raw material cost inflation. Excluding restructuring and transition costs related to a plant closure, operating margin for the segment declined to 12.6 percent compared with 14.7 percent in the first quarter of 2004. The year-on-year decline in margin is largely attributable to an increase in inventory reserves related to a new product. (See *Attachment A-4: "Reconciliation of GAAP to Non-GAAP Supplementary Information"*).

The retail information services segment reported sales of approximately \$157 million, reflecting an increase of approximately 14 percent. Nearly half of the growth is due to the positive impact of currency translation and the Rinke acquisition, with the balance due to core unit volume growth. Operating margin declined to 3.7 percent in the first quarter, compared with 6.5 percent in the year-ago first quarter. The decline in operating margin reflects higher spending on growth programs and modest raw material cost inflation, as well as price erosion.

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Businesses in the other specialty converting group reported sales of approximately \$141 million. The Company said that its RFID business has achieved its goal of being production-ready at the end of the first quarter. Avery Dennison has completed construction of its new high-speed production line for manufacturing RFID inlays and the business is positioned to meet expected growth in demand for RFID applications.

### Outlook

Based on first quarter results and preliminary trends in the second quarter, Avery Dennison is updating its reported revenue growth target for the full year to 5 percent to 6 percent, down from its previous guidance of 6 percent to 10 percent. The Company said it is adjusting its earnings-per-share guidance for the full year to a range of \$2.85 to \$3.15 per share, from its previously announced expectation in the range of \$3.15 to \$3.50 per share. The Company also said that it anticipates earnings for the second and third quarters combined to be in the range of \$1.45 to \$1.65 per share. The Company indicated that its revised guidance assumes lower unit volume growth than originally anticipated for the year, along with continued raw material inflation through the second quarter, offset by the benefit of targeted cost reductions.

“We are absolutely committed to improving our operating margin during the remainder of the year,” said Neal. “We have instituted stringent spending restrictions in every corner of the Company in order to achieve our goals.”

“Our long-term business fundamentals continue to be strong. We have great businesses with excellent long-term growth potential and we have a dedicated team

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of managers who are determined to get us back on track. The events of this past quarter have not changed our optimistic view of the future,” said Neal.

Avery Dennison is a global leader in pressure-sensitive labeling materials, office products and retail tag, ticketing and branding systems. Based in Pasadena, Calif., Avery Dennison is a FORTUNE 500 company with 2004 sales of \$5.3 billion. Avery Dennison employs approximately 21,400 individuals in 47 countries worldwide who apply the Company’s technologies to develop, manufacture and market a wide range of products for both consumer and industrial markets.

Products offered by Avery Dennison include Avery-brand office products and graphics imaging media, Fasson-brand self-adhesive materials, peel-and-stick postage stamps, reflective highway safety products, labels for a wide variety of automotive, industrial and durable goods applications, brand identification and supply chain management products for the retail and apparel industries, and specialty tapes and polymers.

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#### Forward-Looking Statements

*Certain information presented in this news release may constitute “forward-looking” statements. These statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to fluctuations in cost and availability of raw materials; ability of the Company to achieve targeted cost reductions; foreign exchange rates; worldwide and local economic conditions; selling prices; impact of legal proceedings, including the U.S. 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); impact of epidemiological events on the economy and the Company’s customers and suppliers; successful integration of acquired companies; financial condition and inventory strategies of customers; development, introduction and acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company’s SEC filings.*

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*The financial information presented in this news release represents preliminary financial results.*

*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 price increases, without a significant loss of volume; (3) the impact of economic conditions on underlying demand for the Company's products; (4) ability of the Company to achieve targeted cost reductions; and (5) 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.*

**For more information and to listen to a live broadcast or an audio replay of the  
1st Quarter conference call with analysts, visit the Avery Dennison  
Web site at [www.investors.averydennison.com](http://www.investors.averydennison.com)**

### Forward-Looking Statements

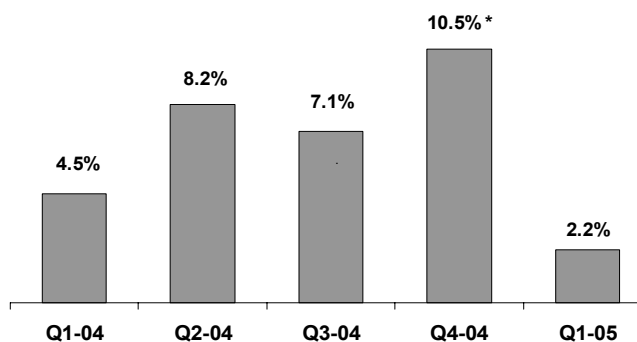
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### Sales Growth (from continuing operations)

#### Estimated Core Volume Growth



Acquisitions, Net of Divestitures	negl.	negl.	negl.	0.5%	0.4%
Price/Mix	-2%	-1%	negl.	+ 2%	+ 2%
Currency	7.6%	3.9%	3.5%	3.7%	2.9%
Reported Sales	10%	11%	11%	17%	8%

\* Extra week of sales and pre-buy activity contributed an estimated 3.5 to 4.5 points of growth in the quarter.

Margin Analysis			
(excl. restructuring charges and transition costs, asset impairment charges, and gain on asset sales)			
	<b>Q1-05</b>	<b>Q4-04</b>	<b>Q1-04</b>
Gross Profit Margin (Total Company)	28.8%	30.2%	29.4%
<b>Operating Margin*:</b>			
Pressure-Sensitive Materials	8.9%	7.8%	8.1%
Office and Consumer Products	12.6%	19.7%	14.7%
Retail Information Services	3.7%	7.0%	6.5%
Other Businesses	1.8%	7.8%	10.3%
Total Company	7.2%	8.7%	8.7%
<i>Impact of RFID on reported margin:</i>	<i>(0.5)%</i>	<i>(0.6)%</i>	<i>(0.2)%</i>
Total Company Excluding RFID	7.7%	9.3%	8.9%
* Earnings before interest and taxes divided by net sales			

Key Factors Impacting Margin
<ul style="list-style-type: none"> <li>• The gross profit margin decline was generally in line with expectations           <ul style="list-style-type: none"> <li>– Year-on-year, the gross profit margin decline reflects the combined impact of higher RFID spending, an inventory write-off related to a new product launch, and plant transition costs. Price increases offset raw material inflation</li> <li>– On a sequential basis, the benefit of price increases was more than offset by the decline in volume and mix, reflecting normal seasonality and price increase-related pre-buy activity by customers of the office and consumer products segment</li> <li>– Unusual factors impacting gross profit margin in the quarter included the inventory write-off and transition costs associated with the previously announced plant closure</li> </ul> </li> <li>• Marketing, general and administrative (MG&amp;A) expenses, expressed as a percentage of sales, were higher than expected, up 100 basis points compared to prior year and 20 basis points sequentially           <ul style="list-style-type: none"> <li>– Compared to prior year, absolute MG&amp;A spending increased by approximately \$34 million, due in roughly equal proportions to the following three factors:               <ul style="list-style-type: none"> <li>» Currency translation, acquisition of Rinke Etiketten in late 2004, and other volume-related spending</li> <li>» Higher spending on longer-term growth initiatives, including RFID</li> <li>» Other factors, including higher pension expense and bad debt write-offs</li> </ul> </li> <li>– Sequentially, MG&amp;A declined by \$16 million due to lower volume-related costs as well as efforts to reduce spending from the unusually high Q4 level</li> </ul> </li> </ul>

## Q1-2005 Sector Overview

### **PRESSURE-SENSITIVE MATERIALS**

- Reported sales up approximately 8%
  - Approximately half of the reported sales increase is attributable to unit volume growth and positive contribution from price and mix
  - Balance represents changes in currency exchange rates, primarily the Euro
- Sales growth by major business, *before currency effects*:
  - 4% growth for Fasson roll materials in North America, where benefit of price increases more than offset a decline in volume; volume decline affected all business segments except films, which continued to benefit from penetration of beer label application
  - 4% growth for roll materials in Europe, driven by modest volume growth and positive price and mix
  - Double-digit growth for roll materials in Asia
  - Mid-single digit growth for roll materials in Latin America
  - Low-single digit growth for global graphics and reflective business
- Excluding restructuring and asset impairment charges and gain on sale of assets, operating margin increased 80 basis points compared to the prior year to 8.9%, reflecting impact of price increases (which offset higher raw material costs) and productivity improvement initiatives, including last year's plant closures in Europe

## Q1-2005 Sector Overview (continued)

### **OFFICE AND CONSUMER PRODUCTS**

- Reported sales up approximately 2%, primarily due to currency
  - Positive price/mix (approximately 1%) offset unit volume decline, in line with expectations for the quarter
- Excluding restructuring charges and transition costs related to a plant closure, operating margin declined by approximately 210 basis points compared to the prior year to 12.6%, largely due to an inventory write-off related to a new product launch
- Secured 100% acceptance of January 1, 2005 price increase, both in North America and Europe, fully covering cumulative raw material inflation
- Product mix negatively impacted margin, due to an approximately 10% decline in sales of high margin label products associated with the fourth quarter pre-buy (in advance of price increase). In addition, rebates were higher compared to prior year, reflecting rate changes that went into effect last year
- Net result of price, mix, and raw material increases represented 170 basis points of margin decline compared to prior year. This decline, combined with higher growth related spending, was offset by the benefit of productivity initiatives implemented during 2004

## Q1-2005 Sector Overview (continued)

**RETAIL INFORMATION SERVICES**

- Reported sales up 14%
  - Core unit volumes up approximately 8%
  - Currency and Rinke acquisition contributed balance of growth for the quarter
- Traditional late-March order surge did not take place
- Operating margin declined by 280 basis points compared to prior year to 3.7%, reflecting higher growth-related spending, price erosion, and modest material cost inflation

**OTHER**

- Reported sales up 11%
  - Core unit volumes up approximately 9%
  - Currency contributed balance of growth for the quarter
- Operating margin declined by 850 basis points compared to prior year to 1.8%, reflecting higher RFID spending, material cost inflation, and other factors

## RFID Update

- Industry development of Gen 2 chips is generally on schedule
- We were the first to publicly demonstrate Gen 2 tags earlier this month at the RFID Journal Live show in Chicago
- Our Gen 2 tags have tested well with readers from at least four firms – a positive sign with respect to interoperability of the new chips and our tag designs
- We achieved a key milestone in bringing our new inlay manufacturing process on line – now producing quality material ready for commercial use
- Some end users are delaying new initiatives, or slowing pace of expansion for existing programs, pending availability of Gen 2 tags in volume
- With slower ramp-up in industry demand, we now anticipate less than \$10 million in revenue for the year, mostly in the second half, with a net operating loss of approximately \$32 million (slightly better than previous guidance)
- We continue to target break-even for the business sometime in 2007

### First Quarter Balance Sheet and Cash Flow

Millions, except as noted	2005	2004
Cash flow from operations	\$ (2.7)	\$ 65.5
Payment for capital expenditures	\$ 43.9	\$ 37.9
Free Cash Flow <sup>(1)</sup>	\$(46.6)	\$ 27.6
Share repurchase	\$ -	\$ (0.3)
Dividends	\$ 41.9	\$ 40.9
Total debt to total capital	44.4%	49.0%

<sup>(1)</sup> Cash flow from operations less payment for capital expenditures

### Revised 2005 Earnings Guidance: Key Considerations

- We are assuming modest unit volume growth for the full year:
  - Approximately 2% core volume growth assumed for Q2 and Q3
  - Assuming modest pick-up in the fourth quarter, offset by year-on-year comparison effects of last year's extra week and the timing of holidays (resulting in assumed net volume decline of 2% in Q4)
  - Net result of these assumptions implies core unit volume growth of approximately 1% for the full year
- Other key revenue assumptions for the full year:
  - 2.5 to 3 points of growth from currency, based on current exchange rates
  - 1.5 points of growth from price/mix
  - 0.5 points for the next two quarters from Rinke acquisition
- Foregoing assumptions drive adjusted reported sales growth guidance of 5-6% (down from previous guidance of 6-10%)
- In light of slower assumed top-line growth, we are aggressively pursuing cost reductions and cost delays throughout the Company
- We have adjusted our earnings per share guidance to \$2.85 to \$3.15 for the full year (down from our previous guidance of \$3.15 to \$3.50)