

Every Day

2007 Annual Report

Avery Dennison

2007 Annual Report

Financial Overview

(Dollars in millions, except per share amounts)

	2007	2006	2005
Net sales from continuing operations	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Net income from continuing operations	\$ 303.5	\$ 358.5	\$ 292.2
Net income from continuing operations, as a percent of sales	4.8	6.4	5.3
Net income from continuing operations per common share, assuming dilution	\$ 3.07	\$ 3.57	\$ 2.91
Net income	\$ 303.5	\$ 373.2	\$ 226.8
Net income, as a percent of sales	4.8	6.7	4.1
Net income per common share, assuming dilution	\$ 3.07	\$ 3.72	\$ 2.26
Dividends per common share	1.61	1.57	1.53
Capital expenditures	186.3	153.2	171.6
Return on average shareholders' equity (percent)	16.5	22.7	14.5

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out ("LIFO") to first-in, first-out ("FIFO") for certain businesses operating in the U.S.

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It's easy to overlook a company so subtly woven into the fabric of the global marketplace. But every day, millions of people all over the world see Avery Dennison innovation in thousands of products—from beverage labels and business cards to retail tags and vehicle graphics. Avery Dennison products are everywhere you look.

Dear Fellow Shareholders:

In 2007, Avery Dennison continued to make great progress in the emerging markets and completed the largest acquisition in the Company's history — positioning us as the clear leader in the growing retail brand and information management market.

It was also a challenging year for the Company, reflecting the slowing U.S. economy and weakened demand for pressure-sensitive materials in the developed world.

Likewise, it was a disappointing year in terms of the Company's relative stock price performance. The Board and senior management of the Company remain committed to creating above-average shareholder value over the long term.

The actions we took this past year were in direct response to that overriding objective:

+ **We acquired Paxar to accelerate the growth and profitability of our overall portfolio by doubling the size of a core business that has the potential for above-average growth and returns.**

+ To respond to the changes in market conditions and the economic outlook, we intensified our drive for productivity and margin improvement, taking aggressive steps to reduce our cost structure. Over the past five quarters, we've announced actions to drive nearly \$50 million in savings from restructuring efforts alone. These savings are incremental to those we've targeted from the Paxar integration and other programs to drive out cost. By focusing on our cost structure, we not only build competitive advantage, but we position the Company for significant improvement in profitability and cash flow when the macro environment improves.

+ We continued to invest in our key growth platforms: the emerging markets and Radio Frequency Identification (RFID).

+ We continued to fund new product and application development for future growth, identifying product features, services and manufacturing process improvements to build on the strong and sustainable competitive advantages we have developed in each of our core businesses.

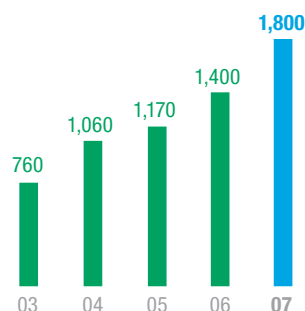
Financial Highlights

- + Net sales for 2007 were \$6.31 billion, compared to \$5.58 billion in 2006.
- + Net income for 2007 was \$303.5 million, or \$3.07 per share, including asset impairment charges, transition costs associated with the integration of Paxar, and other items, totaling \$83 million or \$0.84 per share.
- + On track to achieve between \$115 million and \$125 million of annual cost synergies from the Paxar integration by the end of 2009.

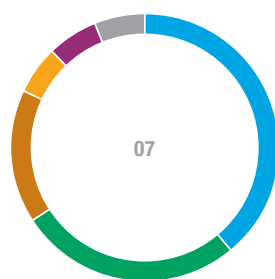
A Defining Move

The acquisition of Paxar creates a third core business for Avery Dennison and establishes a clear leadership position in a business with excellent growth prospects. The integration of the two companies has gone extremely well. Our integration teams have found more synergy than we originally planned and are executing ahead of schedule. More important, the merger of these two companies has been seamless, with little adverse impact on our customers. We want to thank the thousands of employees who worked many hours to make this possible.

EMERGING MARKET SALES (Dollars in millions)



2007 SALES BY REGION (Before intergeographic eliminations)



United States	39%
Western Europe	27%
Asia	16%
Latin America	6%
Eastern Europe	6%
Other*	6%

*Includes Canada, Australia and South Africa

The acquisition also strengthened our business in Europe, where Paxar had a much bigger presence than Retail Information Services (RIS), as well as in Asia, where we gained a larger foothold in the rapidly growing markets of China, India and Vietnam. Customers are asking us to provide packaging and security products, both of which represent sources of new growth. The Paxar acquisition has made Avery Dennison a leading provider of RFID tags for item marking, and we are poised for rapid growth in this exciting new market.

2007 in Review

» Pressure-sensitive Materials

Reflecting softening market conditions in North America and Europe, sales in Pressure-sensitive Materials grew modestly on an organic basis. Our proprietary adhesive for clear-on-clear film applications continues to be recognized as the best in the industry, and our wide range of film products—many of them proprietary—gives us a meaningful competitive edge in this important segment of the market.

We look forward to continued growth in beer and other beverage and food applications. Many new business development opportunities are emerging in these segments, driven by new packaging, product line expansion and the continued penetration of pressure-sensitive labels vs. alternative decorating technologies.

» Retail Information Services

With the acquisition of Paxar, we more than doubled the

size of RIS in 2007. During the year, we invested in new product and service capabilities even as we integrated the acquisition.

For example, we are investing in digital printing capabilities to enable smaller production runs and faster turnaround time to better serve our customers, as the number of retail selling seasons increases, and retailers reduce order sizes to match consumer demand.

We also launched several new heat transfer products that enable smaller, yet readable and more colorful “tagless” labels. And retailers showed strong interest in our expanding range of “environmentally friendly” offerings manufactured with organic and recycled materials.

» Office and Consumer Products

Sales for Office and Consumer Products were down, due largely to customer inventory reductions. Yet even with a very soft top line, we achieved our margin target objectives for the second half of the year. Our strategy in this business will be to continue to focus on product renovations to drive demand in our highly popular and profitable Avery-brand printable media categories and to manage the balance of the product portfolio to maximize return on investment.

» Radio Frequency Identification

RFID continues to be an important strategic initiative for us. Our inlay volume nearly tripled in 2007. We achieved our internal targets for quality, and we restructured the business to align it with market demand. While the market is smaller than we expected five years ago, it is still growing rapidly and offers great opportunity for future growth.

In our RIS business, we are seeing strong interest in item-level tagging. We are partnering with U.K.-based retailer Marks & Spencer for the largest deployment of this type of technology in the world. In addition, we are involved in more than a dozen pilot projects to expand the market for apparel and other item-level RFID tag applications.

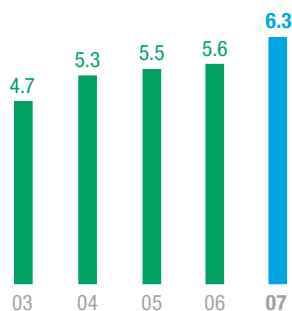
In all, we expect RFID-related sales to be close to \$50 million in 2008.

Geographic Reach Deepens

The developing markets of Asia, Latin America and Eastern Europe once again delivered solid growth and remain a cornerstone of our long-term growth strategy. Nearly 30% of our total revenue is now generated in these markets. China continues to be a major source of growth and investment. During the past year, we added new capacity for our RIS, Roll Materials and Specialty Tape businesses there.

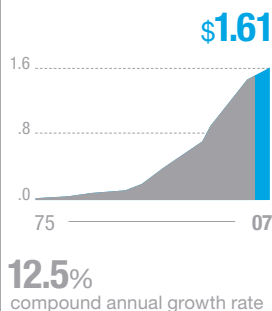
SALES

(Dollars in billions)



32 CONSECUTIVE YEARS OF DIVIDEND INCREASES

(Dollars)



Likewise, the Indian subcontinent is becoming a major new source of growth, following in the same development footsteps as China. We are equally well positioned in this part of the world, and recently have invested in new capacity for both RIS and our materials business.

A Sense of Urgency and Confidence

We are moving forward with a renewed sense of urgency and a high degree of confidence in our ability to manage in an uncertain economic environment. **We intend to drive long-term growth through new technology platforms, product and service innovation and the capability to manage highly dispersed global operations.** Our core competencies in materials science and process technology enable us to combine film, paper, adhesives and precision coatings in unique ways. These core competencies represent a key competitive advantage for us that contributes to our market-leading position.

The achievement of our 2008 priorities will position us well for the future. These priorities include:

- + Completing the Paxar integration, achieving our targeted cost synergies and accelerating growth in the RIS business.
- + Increasing our sales and profits in the pressure-sensitive materials business through improved productivity, price increases, new application development and continued growth in the emerging markets.
- + Improving return on investment and cash flow from our office products business through continued productivity

improvement and increased sales of our Avery-brand printable media products.

- + Accelerating deployment of Enterprise Lean Sigma programs to enhance our customers' experience through increased productivity and improved service and quality.
- + Significantly increasing cash flow, with a reduced capital budget and improved working capital efficiency.
- + Continuing to build a strong organization by hiring and developing high-potential employees and business leaders throughout our global operations.

Embedded in these priorities is a commitment to sustainability—to achieving business success through responsible economic, social and environmental practices that help build and maintain healthy communities around the world. We have adopted a Corporate Sustainability Charter and have assembled a core team of business unit leaders to oversee our efforts in the social and environmental areas. Sustainability reflects our commitment to doing business in a manner consistent with our ethics and values.

To our employees, we would like to offer a sincere thank you for a year of hard work and diligent efforts to expand our business and deliver improved bottom line results.

We would also like to welcome Ken Hicks, the president and chief merchandising officer of J.C. Penney Company, Inc., to our Board of Directors. Ken is a seasoned executive with extensive merchandising and operations experience.

Finally, we would like to thank you, our shareholders, for your support and continued confidence, particularly through these challenging market conditions.

Dean A. Scarborough

President and Chief Executive Officer

Kent Kresa

Chairman of the Board

MARCH 1, 2008



Kent Kresa
Chairman of the Board

Dean A. Scarborough
President and Chief Executive Officer

Ours is a global footprint that is growing. In over 60 countries, we are setting new standards for quality, reliability and innovation. To maintain our leadership position, we combine ingenuity with superior service to help our customers market and grow their businesses.

Every day. Everywhere.



**74% of purchasing decisions
are based on “shelf appeal.”**

ROLL MATERIALS

Fasson® Clear-on-clear Beverage Film Label

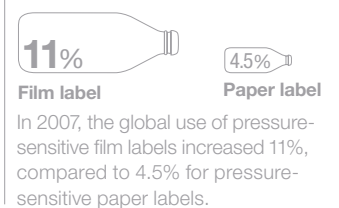
“FIJI® Water’s beautiful and unique packaging is fundamental to the success of our business. This point of difference drives 45% of our consumer trial, compared to 5% to 15% for the packaging of other brands.”

FIJI Water Marketing Team; United States

ADVANTAGE

According to leading beverage companies such as FIJI and Anheuser-Busch, clear labels provide stronger image appeal than paper labels.

OPPORTUNITY



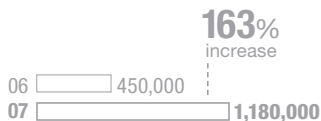
OFFICE AND CONSUMER PRODUCTS

Avery® Clean Edge Business Cards

"Just wanted to say thanks for a very affordable and easy-to-use business card program. I was able to design business cards that actually look professional, and your free online templates offered more options than the software I had previously purchased. I would definitely recommend Avery products to anyone starting a small business."

Carol McNamara
Small business owner; United States

ADVANTAGE



Avery Design & Print Online makes it easy to create customized designs using Avery products. The total business card projects printed from avery.com grew 163% in 2007.

OPPORTUNITY



In 2008, Avery Dennison will expand its line of Clean Edge Business Cards, initially designed for inkjet printers, to accommodate laser printers. The laser printer segment accounts for approximately 21% of all small or home office printing in the U.S.

Business cards are a billion dollar a year industry in the U.S. with 10% of the market consisting of customers who print at small or home offices.





It's predicted that counterfeit drug sales will reach \$75 billion globally in 2010—an increase of more than 90% from 2005.

ROLL MATERIALS

Fasson® Luminescent Film

“Avery Dennison is always ready to listen to customers' needs. Until 2007, we had to import luminescent film because it wasn't available locally. But since Avery Dennison Korea began developing and commercializing the film here, we've never had a single problem with supply. Today, we produce every one of our syringes with Avery Dennison luminescent film.”

Seok-hee Choi
SK Materials; South Korea

ADVANTAGE

Fasson luminescent film for vaccine syringes emits light under UV lamps, which helps:

- + Dispense labels correctly on the product
- + Distinguish products from counterfeits
- + Test finished goods and identify those that are of inferior quality.

OPPORTUNITY

16.5% annual growth

The worldwide market for vaccines is growing 16.5% annually.



Every day, nearly 1.2 million food service establishments in the U.S. are required by law to label expiration/use-by dates on their foods.

PRINTER SYSTEMS

FreshMarx™ Labeler System

“At Subway — where freshness is our slogan — we’re serious about our food rotation program. Of course, as manager, I’m also serious about our bottom line. That’s why I did away with handwritten stickers and tape when I saw the FreshMarx handheld labeler system. Now, we don’t throw away food because we can’t read someone’s handwriting. And we mark all our storage containers in a fraction of the time.”

Rob Knowles
General Manager, 12 Subway Restaurants; Indiana, United States

ADVANTAGE

1hr every day

FreshMarx labelers save food establishments up to one hour of labor per day compared to traditional methods. Some national fast food chains have saved up to \$15 million per year, using this system.

OPPORTUNITY



Since 2005, the FreshMarx labeler system has been growing at a rate of 30% to 35% a year.

RETAIL INFORMATION SERVICES/RFID

RFID Apparel Tags

"Marks & Spencer continues to be successful in its use of RFID item-level tagging to enhance customer service through improved stock accuracy and better availability of merchandise."

Krishan Hundal
Head of General Merchandise Technology, Marks & Spencer;
United Kingdom

ADVANTAGE

4,500 items = 1.9 seconds per item
40 minutes

With 4,500 items in an average Marks & Spencer store, the RFID inventory process takes about 40 minutes to complete, or 1.9 seconds per item.

OPPORTUNITY

550 billion items in 2016

Market research indicates that items with RFID item-level tags are expected to grow from 200 million in 2006 to 550 billion in 2016.

In 2007, Marks & Spencer used an estimated 100 million Avery Dennison® RFID tags—the world's largest deployment of RFID technology in the retail and apparel market.





Every day nearly 13 million pairs of shoes are manufactured worldwide.

RETAIL INFORMATION SERVICES

Color Laser Shoebox Labels

“Easy-to-read information on our shoeboxes allows consumers to locate items quickly and easily on the sales floor, which simplifies inventory management in the stockroom and improves efficiency throughout the entire supply chain. Avery Dennison’s team made the implementation process as smooth as possible and delivered an outstanding label for our high-quality Bass Footwear product.”

John Lufano
Manager of Information Systems, Harbor Footwear Group Ltd.;
United States

ADVANTAGE



With 50 manufacturing locations in over 40 countries, Avery Dennison Retail Information Services has more ticketing centers in apparel manufacturing locations than any competitor.

OPPORTUNITY

\$125 million

Estimated global market for color laser shoebox labels in 2008.

INDUSTRIAL PRODUCTS

Vacuum Seal Valve Technology

"The expertise, drive and commitment of the Avery Dennison development team to create a unique vacuum valve was key to the product's ease of use and functionality for the consumer. Additionally, the low-profile design makes manufacturing the bag much easier for Alcoa. Without a doubt, Alcoa picked the right partner."

Doug Powell
Vice President of Development, Alcoa Consumer Products;
United States

ADVANTAGE

Avery Dennison's proprietary valve is:

- + Engineered for repeatable, reliable performance
- + Designed to seal out air to maintain product freshness and prevent freezer burn
- + Small, convenient and easy for the consumer to use.

OPPORTUNITY

76% ---



In a representative survey of U.S. female consumers, 76% said they freeze food three or more times per month.

Every day perishable foods account for approximately 50% of total grocery store sales.





The vehicle wrap industry is growing more than 15% annually.

GRAPHICS AND REFLECTIVE PRODUCTS

Avery Graphics® Easy Apply™ Film

"We chose Avery Dennison's self-adhesive vehicle foils, because of their competitiveness and the company's track record. The most important product factors that we considered for our fleet of 1,000 cars were high quality, application guarantees and durability."

Iwona Jacaszek
Corporate Director, Coca-Cola HBC; Poland

ADVANTAGE

Avery Graphics Easy Apply Film:

- + Applies 15% faster than standard vehicle films
- + Leaves little or no adhesive residue upon removal
- + Features an industry-leading overlamine that makes the wrap look like paint.

OPPORTUNITY



Vehicle graphics are an effective form of outdoor advertising. In fact, an outdoor advertising magazine survey indicates retention rates as high as 97%, compared with 19% for stationary billboards.

ROLL MATERIALS

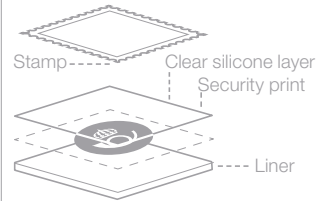
Stamp Security

"This custom-designed Fasson® solution takes stamp security another step forward. It will ensure that we can provide Sweden's 5.5 million homes and businesses with self-adhesive postage stamps that are guaranteed to be authentic."

Henrik Lundin
Development Engineer, Swedish Posten; Sweden

In Sweden, 31 different stamp series have been widely counterfeited.

ADVANTAGE



A security mark, printed on the base layer of the backing liner, enables visible authentication when the panes of stamps are held up to a light or when peeled from the liner.

OPPORTUNITY

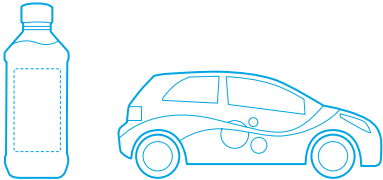
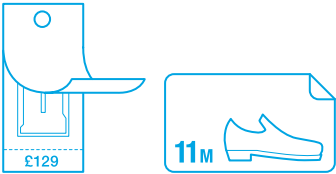


Stamps

Counterfeit stamps are a worldwide problem. In Europe alone, 20 billion self-adhesive stamps were produced in 2007, most without a verifiable security feature.



Our Businesses at a Glance

SEGMENT	Pressure-sensitive Materials	Retail Information Services
		
BUSINESS(ES)	+ Roll Materials + Graphics and Reflective Products + Performance Polymers	+ Information and Brand Management + Printer Systems + Fastener
SALES	\$3.5billion	\$1.2billion
PERCENT OF TOTAL SALES	55%	19%
GLOBAL BRAND(S)	Fasson, Avery Graphics, Avery Dennison	Avery Dennison, Monarch
PRODUCTS	Pressure-sensitive roll materials, graphics and reflective materials, water and solvent-based performance polymer adhesives and engineered films	A wide variety of price marking and brand identification products that include woven and printed labels, heat transfers, graphic tags, patches, integrated tags, price tickets, packaging, RFID carton and item tags, electronic article surveillance (EAS) tags, barcode printers, software solutions, molded plastic fastening and application devices, as well as service bureau printing applications and accessories for retail and commercial supply chain industries
CUSTOMERS	Global label converters, consumer products package designers and manufacturers, industrial manufacturers, printers, designers, sign manufacturers, graphic vendors	Global retailers and brand owners, apparel and consumer goods manufacturers, restaurant and food service chains, grocery and drug store chains, and a variety of other industries serviced via resellers
MANUFACTURING AND SALES LOCATIONS	North America, Europe, South America, Asia Pacific, Africa, South Asia	North America, Europe, South America, Asia Pacific, Africa, South Asia

Office and Consumer Products



+ Office Products

\$1billion

16%

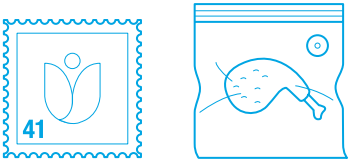
Avery

Self-adhesive labels, content and template software, binders, sheet protectors, dividers and index makers, writing instruments, T-shirt transfers and do-it-yourself card products

Office products super-stores, major retailers, office professionals, school administrators, small business owners and consumers

North America, Europe, South America, Asia Pacific

Other Specialty Converting Businesses



- + Specialty Tape
+ Radio Frequency Identification (RFID)
+ Industrial and Automotive Products
+ Security Printing
+ Performance Films

\$620million

10%

Avery Dennison

Specialty tapes, industrial adhesives, architectural and engineered films, automotive decorative interior films, automotive exterior films and labels, metallized pigments, self-adhesive postage stamps, RFID inlays and durable tags

Industrial and original equipment manufacturers, medical products and device manufacturers, converters, packagers and consumer products companies

North America, Europe, South America, Asia Pacific

Five-year Summary

(Dollars in millions, except per share amounts)	5-Year Compound Growth Rate	2007 ⁽¹⁾		2006 ⁽²⁾		2005 ⁽³⁾		2004 ⁽⁴⁾		2003 ⁽⁵⁾	
		Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
For the Year											
Net sales	8.9%	\$ 6,307.8	100.0	\$ 5,575.9	100.0	\$ 5,473.5	100.0	\$ 5,317.0	100.0	\$ 4,736.8	100.0
Gross profit	7.3	1,722.4	27.3	1,538.0	27.6	1,476.9	27.0	1,425.5	26.8	1,318.4	27.8
Marketing, general and administrative expense	8.8	1,182.5	18.7	1,011.1	18.1	987.9	18.0	957.4	18.0	891.6	18.8
Interest expense	18.7	105.2	1.7	55.5	1.0	57.9	1.1	58.7	1.1	58.6	1.2
Income from continuing operations before taxes	0.8	375.3	5.9	435.2	7.8	367.5	6.7	374.2	7.0	337.7	7.1
Taxes on income	(7.6)	71.8	1.1	76.7	1.4	75.3	1.4	93.9	1.8	93.1	2.0
Income from continuing operations	3.7	303.5	4.8	358.5	6.4	292.2	5.3	280.3	5.3	244.6	5.2
Income (loss) from discontinued operations, net of tax	N/A	—	N/A	14.7	N/A	(65.4)	N/A	(1.3)	N/A	22.8	N/A
Net income	3.4	303.5	4.8	373.2	6.7	226.8	4.1	279.0	5.2	267.4	5.6
		2007		2006		2005		2004		2003	
Per Share Information											
Income per common share from continuing operations	3.8%	\$ 3.09		\$ 3.59		\$ 2.92		\$ 2.81		\$ 2.46	
Income per common share from continuing operations, assuming dilution	3.8	3.07		3.57		2.91		2.79		2.45	
Net income per common share	3.4	3.09		3.74		2.27		2.79		2.69	
Net income per common share, assuming dilution	3.5	3.07		3.72		2.26		2.78		2.67	
Dividends per common share	3.6	1.61		1.57		1.53		1.49		1.45	
Average common shares outstanding	(0.1)	98.1		99.8		100.1		99.9		99.4	
Average common shares outstanding, assuming dilution	(0.1)	98.9		100.4		100.5		100.5		100.0	
Book value at fiscal year end	13.5	\$ 20.22		\$ 17.26		\$ 15.26		\$ 15.56		\$ 13.34	
Market price at fiscal year end	(2.0)	53.41		67.93		55.27		59.97		54.71	
Market price range		49.69 to 69.67		55.09 to 69.11		50.30 to 62.53		54.90 to 65.78		47.75 to 63.51	
At Year End											
Working capital		\$ (419.3)		\$ (12.1)		\$ 56.0		\$ 173.4		\$ (35.1)	
Property, plant and equipment, net		1,591.4		1,309.4		1,295.7		1,374.4		1,287.1	
Total assets		6,244.8		4,324.9		4,228.9		4,420.9		4,139.8	
Long-term debt		1,145.0		501.6		723.0		1,007.2		887.7	
Total debt		2,255.8		968.0		1,087.7		1,211.7		1,180.3	
Shareholders' equity		1,989.4		1,696.2		1,521.6		1,558.0		1,328.7	
Number of employees		37,300		22,700		22,600		21,400		20,300	
Other Information											
Depreciation expense ⁽⁶⁾		\$ 184.1		\$ 153.8		\$ 154.2		\$ 145.8		\$ 141.9	
Research and development expense ⁽⁶⁾		95.5		87.9		85.4		81.8		74.3	
Effective tax rate ⁽⁶⁾		19.1%		17.6%		20.5%		25.1%		27.6%	
Total debt as a percent of total capital		53.1		36.3		41.7		43.7		47.0	
Return on average shareholders' equity (percent)		16.5		22.7		14.5		19.5		22.1	
Return on average total capital (percent)		10.6		15.7		10.0		12.1		12.8	

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out ("LIFO") to first-in, first-out ("FIFO") for certain businesses operating in the U.S.

(1) Results for 2007 include net pretax charges of \$59.4 for asset impairment charges, restructuring costs, lease cancellation charges and other items.

(2) Results for 2006 include net pretax charges of \$36.2 for restructuring costs, asset impairment and lease cancellation charges, environmental remediation and other items, partially offset by gain on sale of investment and assets. Additionally, results for 2006 include a tax benefit of \$14.9 due to capital losses arising from the sale of discontinued operations and a pretax gain on the sale of discontinued operations of \$1.3.

(3) Results for 2005 include a net pretax charge of \$63.6 for restructuring costs, asset impairment and lease cancellation charges and legal accrual related to a lawsuit, partially offset by gain on sale of assets. Additionally, results for 2005 include impairment charges for goodwill and intangible assets of \$74.4 associated with the expected divestiture of a business.

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

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

(6) Amounts related to continuing operations.

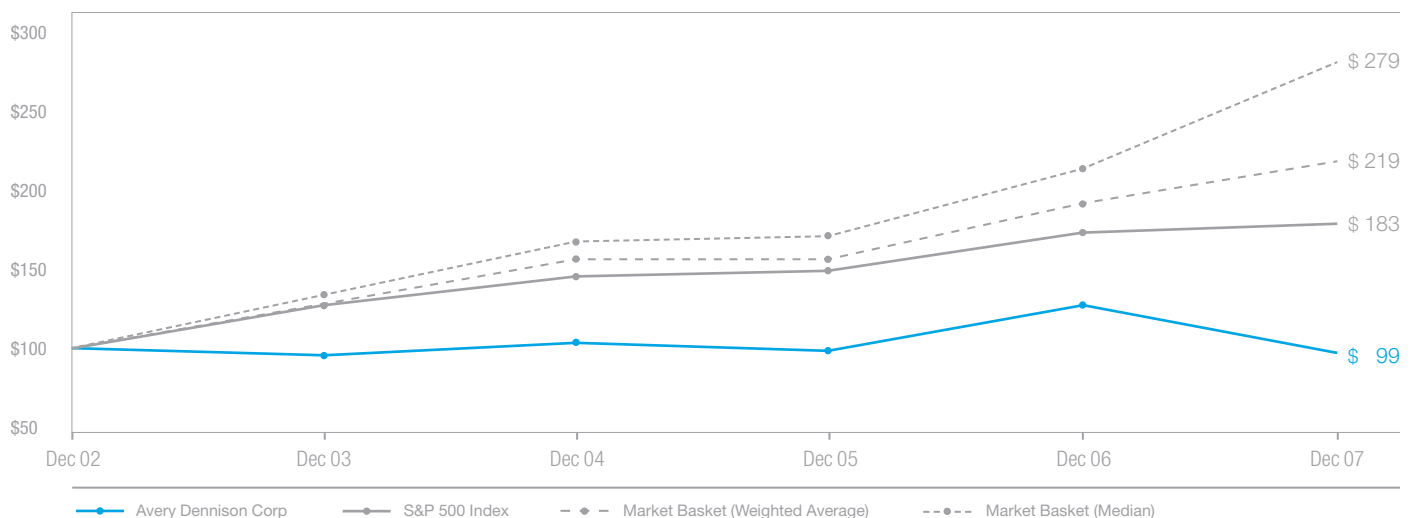
Stockholder Return Performance

The following graph compares the Company's cumulative stockholder return on its common stock, including the reinvestment of dividends, with the return on the Standard & Poor's 500 Stock Index (the "S&P 500 Index") and the average return, weighted by market capitalization, of the Peer Group for five-year period ending December 29, 2007. The Company has also included the median return of the Peer Group in the graph as an additional comparison.

The Peer Group is comprised of Air Products & Chemicals Inc., ArvinMeritor Inc., Baker-Hughes Incorporated, Ball Corporation, Bemis Company, Inc., Black & Decker Corporation, Cabot Corporation, Crane Company, Crown Holdings Inc., Cummins Inc., Dana Corporation, Danaher Corporation, Dover Corporation, Eaton Corporation, Ecolab Incorporated, Ferro Corporation, FMC Corporation, Fuller (H. B.) Company, Goodrich Company, Grace (W R) & Company, Harley-Davidson Inc., Harris Corporation, Harsco Corporation, Hercules Incorporated, Illinois Tool Works Incorporated, Ingersoll-Rand Company, MASCO Corporation, MeadWestvaco Corporation, NACCO Industries, Newell Rubbermaid Incorporated, Olin Corporation, PACCAR Inc., Parker-Hannifin Corporation, Pentair Inc., Pitney Bowes Incorporated, PolyOne Corporation, Potlatch Corporation, P.P.G. Industries Incorporated, Sequia Corporation, The Sherwin-Williams Company, Smurfit-Stone Container Corporation, Snap-On Incorporated, Sonoco Products Company, Stanley Works, Tecumseh Products Company, Temple-Inland Inc., Thermo Fisher Scientific Inc., Thomas & Betts Corporation, and Timken Company.

During 2007, Bowater Inc. was acquired by Abitibi-Consolidated. It is no longer a public company and therefore it was deleted from the Peer Group. In 2007, Trinity Industries was added to the Peer Group, which has been included for all periods.

Comparison of Five-Year Cumulative Total Return as of December 31, 2007



Total Return Analysis ⁽¹⁾

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Avery Dennison Corp	\$ 100.00	\$ 94.17	\$ 103.32	\$ 97.90	\$ 123.43	\$ 99.15
S&P 500 Index	100.00	128.67	142.66	149.66	173.28	182.79
Market Basket (Weighted Average) ⁽²⁾	100.00	131.20	169.31	172.15	211.21	279.41
Market Basket (Median)	100.00	131.14	155.55	156.90	192.01	218.57

(1) Assumes \$100 invested on December 31, 2002, and the reinvestment of dividends; chart reflects performance on a calendar year basis.

(2) Weighted average is weighted by market capitalization.

Stock price performance reflected in the above graph is not necessarily indicative of future price performance.

The above Stockholder Return Performance graph is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 ("Exchange Act"), other than as provided in Item 201 to Regulation S-K under the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act, and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

Management's Discussion and Analysis

of Results of Operations and Financial Condition

ORGANIZATION OF INFORMATION

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

Definition of Terms	20
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DEFINITION OF TERMS

Our discussion of financial results includes several non-GAAP measures to provide additional information concerning Avery Dennison Corporation's (the "Company's") performance. These non-GAAP financial measures are not in accordance with, nor are they a substitute for, GAAP financial measures. These non-GAAP financial measures are intended to supplement the presentation of our financial results, prepared in accordance with GAAP. Refer to "Uses and Limitations of Non-GAAP Measures."

We use the following terms:

- *Organic sales growth* refers to the change in sales excluding the estimated impact of currency translation, acquisitions and divestitures;
- *Segment operating income* refers to income before interest and taxes;
- *Free cash flow* refers to cash flow from operations, less payments for capital expenditures, software and other deferred charges; and
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable.

Change in Accounting Method

Beginning in the fourth quarter of 2007, we changed our method of accounting for inventories for our U.S. operations from a combination of the use of the first-in, first-out ("FIFO") and the last-in, first-out ("LIFO") methods to the FIFO method. The inventories for our international operations continue to be valued using the FIFO method. We believe the change is preferable as the FIFO method better reflects the current value of inventories on the Consolidated Balance Sheet; provides better matching of revenue and expense in the Consolidated Statement of Income; provides uniformity across our operations with respect to the method for inventory accounting; and enhances comparability with peers. Furthermore, this application of the FIFO method will be consistent with our accounting of inventories for U.S. income tax purposes.

As a result of the accounting change discussed above and the sale of our raised reflective pavement marker business during 2006 (discussed below in "Divestitures"), the discussions which follow reflect our restated results for the accounting change, as well as 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.

OVERVIEW AND OUTLOOK

Overview

Sales

Our sales from continuing operations increased 13% in 2007 compared to growth of 2% in 2006, driven primarily by the acquisition of Paxar Corporation ("Paxar") and currency translation. Due to the diverse mix of our businesses and the expansion of our Retail Information Services segment, the allocation of organic sales growth into its components of volume growth and price and mix have become less useful in our analysis. We will continue to provide this information for those segments where it is useful.

Estimated change in sales due to:	2007	2006	2005
Organic sales growth	1%	3%	1%
Foreign currency translation	5	—	2
Acquisitions, net of divestitures	8	(1)	—
Reported sales growth ⁽¹⁾	13%	2%	3%

(1) Columns may not sum due to rounding

Organic sales growth of 1% in 2007 and 3% in 2006 reflected increases in most of our businesses outside of the U.S., particularly in the emerging markets of Asia, Eastern Europe and Latin America. Organic sales growth (or decline) by our major regions of operation was as follows:

	2007	2006	2005
U.S.	(4)%	—	(3)%
Europe	3 %	3 %	3 %
Asia	9 %	13 %	13 %
Latin America	4 %	11 %	4 %

Outside of the U.S., sales increased on an organic basis by 4% and 5% in 2007 and 2006, respectively, due to market expansion and share gain in certain businesses.

In the U.S., sales on an organic basis declined 4% in 2007 due primarily to the slowdown in the U.S. retail environment, particularly in our Retail Information Services and Office and Consumer Products segments, as retailers lowered inventories in the face of slowing consumer demand. Our roll materials businesses in North America and Europe also experienced soft market conditions, especially in the second half of the year. These conditions, combined with capacity and demand imbalances, impacted pricing in these markets as well.

In 2006, U.S. sales were approximately even with 2005. The North American roll materials business was weak due to market share loss (related to price increases implemented in 2005 and early 2006, to offset higher raw material costs), as well as generally slow market conditions. The benefit from growth of Avery-brand products and a strong back-to-school season in our Office and Consumer Products segment in the U.S.

was offset by the loss of sales from exiting certain low-margin private label business in that segment.

Net Income

Net income decreased \$70 million in 2007 compared to 2006.

Negative factors affecting net income included:

- Higher interest expense and amortization of intangibles related to the Paxar acquisition
- Transition costs related to the integration of Paxar operations and other restructuring actions
- Higher asset impairment and restructuring charges (including acquisition-related charges)
- More competitive pricing environment and unfavorable product mix in the roll materials business
- Higher raw material costs
- Higher effective tax rate

Positive factors affecting net income included:

- Higher sales, including sales from the Paxar acquisition, and a benefit from foreign currency translation
- Cost savings from productivity improvement initiatives, including savings from restructuring actions

Acquisitions

On June 15, 2007, we completed the acquisition of Paxar Corporation ("Paxar"), a global leader in retail tag, ticketing, and branding systems. The combination of the Paxar business into our Retail Information Services segment increases our presence in the expanding and fragmented retail information and brand identification market, combines complementary strengths and broadens the range of our product and service capabilities, improves our ability to meet customer demands for product innovation and improved quality of service, and facilitates expansion into new product and geographic segments. The integration of this acquisition into our operations is also expected to result in significant cost synergies. Refer to the "Outlook" section herein for further information.

See Note 2, "Acquisitions," to the Consolidated Financial Statements for further information.

Divestitures

In December 2005, we announced our plan to sell our raised reflective pavement marker business, which had sales of approximately \$23 million in 2005. The divestiture of this business was completed during the second quarter of 2006 and resulted in a tax benefit due to capital losses arising from the sale of the business. The results of this business have been accounted for as discontinued operations for the years presented herein. This business was previously included in the Pressure-sensitive Materials segment.

In December 2005, we also announced the divestiture of two product lines. These divestitures were completed in the first quarter of 2006. The first product line, which was included in the Office and Consumer Products segment, had estimated sales of \$60 million in 2005, with minimal impact to income from operations. The second product line, which was included in other specialty converting businesses, had annual sales of approximately \$10 million in 2005, with minimal impact to income from operations. As part of these divestitures, in 2005, we recorded severance and other employee-related charges of approximately \$6 million and asset impairments of approximately \$9 million. These charges were included in

the "Other Expense, net" line of our Consolidated Statement of Income. Refer to Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for further detail.

Cost Reduction Actions

(Dollars in millions)	Accrued Expense ⁽¹⁾	Headcount Reduction
Q4 2006 restructuring	\$ 5.1	140
2007 restructuring (excluding Paxar integration-related actions)	26.3	415
Total Q4 2006–2007 restructuring actions	\$ 31.4	555

(1) Includes severance, asset impairment and lease cancellation charges

From late 2006 through the end of 2007, we initiated new cost reduction actions that are expected to yield annualized pretax savings of \$45 million to \$50 million, in addition to cost synergies from the integration of Paxar discussed below. In 2007, savings from these actions, net of transition costs, were approximately \$5 million. Incremental savings in 2008 associated with these actions are expected to be approximately \$30 million, with the balance expected to be realized in 2009. These restructuring actions result in headcount reductions of approximately 555 positions, impacting all of our segments and geographic regions.

During 2007 and 2006, we realized annualized pretax savings (net of transition costs) of over \$90 million, resulting from restructuring actions initiated in the fourth quarter of 2005. These restructuring actions resulted in headcount reductions of approximately 1,150 positions, which impacted all of our segments and geographic regions and were completed in 2006.

In 2005, we also incurred charges related to the planned divestitures of several low-margin businesses and product lines, as discussed in the "Divestitures" section.

Refer to Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for further detail.

Paxar Acquisition-related Actions

(Dollars in millions)	Paxar Acquisition-related costs ⁽¹⁾	Headcount Reduction
2007 Restructuring (P&L)	\$ 31.2	200
2007 Transition costs (P&L)	43.0	—
Purchase Price Adjustments	27.7	855
Total Paxar integration actions	\$ 101.9	1,055
Change-in-control costs (Purchase price adjustment)	27.1	
Total Paxar acquisition-related costs	\$ 129.0	

(1) Includes severance, asset impairment and lease cancellation charges

In 2007, cost synergies resulting from the integration of Paxar were approximately \$20 million. Incremental cost synergies expected to be achieved through 2010 are discussed in the "Outlook" section below. These integration actions result in headcount reductions of approximately 1,055 positions in our Retail Information Services segment.

Refer to Note 2, "Acquisitions" and Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for further detail.

Management's Discussion and Analysis
of Results of Operations and Financial Condition *(continued)*

Effective Rate of Taxes on Income

The effective tax rate was 19.1% for the full year 2007 compared with 17.6% for the full year 2006.

Unlike 2007, our effective tax rate for 2006 benefited from the following events:

- Several favorable tax audit settlements in various jurisdictions and the closure of certain tax years
- Release of certain valuation allowances

Free Cash Flow

Free cash flow, which is a non-GAAP measure, refers to cash flow from operating activities less spending on property, plant, equipment, software and other deferred charges. We use free cash flow as a measure of funds available for other corporate purposes, such as dividends, debt reduction, acquisitions, and repurchases of common stock. Management believes that this measure provides meaningful supplemental information to our investors to assist them in their financial analysis of the Company. Management believes that it is appropriate to measure cash after spending on property, plant, and equipment, software and other deferred charges because such spending is considered integral to maintaining or expanding our underlying business. This measure is not intended to represent the residual cash available for discretionary purposes. Refer to "Uses and Limitations of Non-GAAP Measures" section for further information regarding limitations of this measure.

(In millions)	2007	2006	2005
Net cash provided by operating activities	\$ 499.4	\$ 510.8	\$ 441.6
Purchase of property, plant and equipment	(190.5)	(161.9)	(162.5)
Purchase of software and other deferred charges	(64.3)	(33.4)	(25.8)
Free cash flow	\$ 244.6	\$ 315.5	\$ 253.3

The decrease in free cash flow in 2007 of \$71 million reflects higher spending on property, plant and equipment and software and other deferred charges, as well as lower net income compared to 2006. See "Analysis of Results of Operations" and the Liquidity section of "Financial Condition" below for more information.

Investigations and Legal Proceedings

We previously announced that we had been notified by the European Commission, the United States Department of Justice ("DOJ"), the Competition Law Department of the Department of Justice of Canada and the Australian Competition and Consumer Commission of their respective criminal investigations into competitive practices in the label stock industry. We cooperated with all of these investigations, and all, except the Australian investigation which is continuing, have been terminated without further action by the authorities.

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 have discovered instances of conduct by certain employees in China that potentially violate the U.S. Foreign Corrupt Practices Act. We

have reported that conduct to authorities in the U.S. and we believe it is possible that fines or other penalties may be incurred.

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

Outlook

In 2008, we anticipate a high single-digit to low double-digit rate of revenue growth, including both the benefit from the Paxar acquisition (approximately 6.5% benefit) and a modest benefit from foreign currency translation based on year end exchange rates. Our revenue assumptions are subject to changes in economic and market conditions.

We estimate that the total annual cost synergies associated with the Paxar integration to be in the range of \$115 million to \$125 million, with an estimated \$60 million to \$70 million of these cost synergies expected to represent incremental savings during 2008. To accomplish our synergy target, we will incur pretax cash costs estimated to be in the range of \$165 million to \$180 million. Approximately \$75 million of these costs were incurred in 2007, and we estimate approximately \$60 million to \$70 million will be incurred in 2008.

We anticipate continued benefit from our ongoing productivity improvement initiatives. In addition to the synergies resulting from the Paxar integration described above, we anticipate our restructuring and business realignment efforts to yield incremental savings in 2008 of an estimated \$30 million, net of transition costs. We assume the benefits from these and other productivity initiatives will be partially offset by approximately 2% inflation of raw material costs (approximately \$50 million to \$55 million) based on current commodity pricing trends, as well as higher costs associated with general inflation and investments for growth during 2008.

We anticipate price increases in 2008 to at least partially offset raw material inflation.

We estimate interest expense to be in the range of \$125 million to \$135 million, approximately \$20 million to \$30 million higher than 2007, driven by acquisition-related debt. Our estimate is subject to changes in average debt outstanding and changes in market rates associated with the portion of our debt tied to variable interest rates.

We anticipate total restructuring and asset impairment charges in 2008 to be lower than the charges taken in 2007.

The annual effective tax rate will be impacted by future events including changes in tax laws, geographic income mix, tax audits, closure of tax years, legal entity restructuring, and the release of valuation allowances on deferred tax assets. The effective tax rate can potentially have wide variances from quarter to quarter, resulting from interim reporting requirements and the recognition of discrete events.

We anticipate our capital and software expenditures before Paxar integration-related activities to be approximately \$195 million in 2008. Capital and software expenditures related to the Paxar integration are expected to total \$40 million to \$45 million, of which approximately \$25 million to \$30 million is expected to be incurred during 2008. These costs are included in the total one-time cash cost estimate for the integration, discussed above.

Reflecting the foregoing assumptions, we expect an increase in annual earnings and free cash flow in comparison with 2007.

ANALYSIS OF RESULTS OF OPERATIONS

Income from Continuing Operations Before Taxes:

(In millions)	2007	2006	2005
Net sales	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Cost of products sold	4,585.4	4,037.9	3,996.6
Gross profit	1,722.4	1,538.0	1,476.9
Marketing, general and administrative expense	1,182.5	1,011.1	987.9
Interest expense	105.2	55.5	57.9
Other expense, net	59.4	36.2	63.6
Income from continuing operations before taxes	\$ 375.3	\$ 435.2	\$ 367.5
As a Percent of Sales:	%	%	%
Gross profit (margin)	27.3	27.6	27.0
Marketing, general and administrative expense	18.7	18.1	18.0
Income from continuing operations before taxes	5.9	7.8	6.7

In 2006, we reclassified shipping and handling costs from “Marketing, general and administrative expense” to “Cost of products sold” to align our businesses around a standard accounting policy. Previous results included herein have been reclassified for comparability to the current year.

Sales

Sales increased 13% in 2007 compared to an increase of 2% in 2006. The benefit of the Paxar acquisition, net of product line divestitures, increased sales by an estimated \$500 million in 2007. Product line divestitures, net of incremental sales from acquisitions, reduced sales by approximately \$54 million in 2006.

Foreign currency translation had a favorable impact on the change in sales of approximately \$232 million in 2007 compared to approximately \$21 million in 2006.

Organic sales growth was approximately 1% in 2007 compared to approximately 3% in 2006. Organic sales growth in 2007 reflected growth in our Pressure-sensitive Materials segment and other specialty converting businesses, driven by expansion of international markets. This international growth was partially offset by slower and more competitive market conditions in our North American roll materials business (where unit volume growth was more than offset by negative price and mix). The organic sales growth in Pressure-sensitive Materials and other specialty converting businesses was offset by a decline in our Office and Consumer Products segment, due primarily to customer inventory reductions. Our Retail Information Services segment experienced organic sales growth of 1% in 2007, reflecting increased sales for the European retail market, partially offset by a decline in orders related to apparel shipped to North American retailers and brand owners.

On an organic basis, sales in the U.S. were approximately even in 2006, compared to a decrease of approximately 3% in 2005. The North American roll materials business was impacted by slow market conditions and share loss resulting from price increases. The benefit from growth of Avery-brand products and a strong back-to-school season in our Office

and Consumer Products segment in the U.S. was offset by the loss of sales from exiting certain low-margin private label business (approximate impact of \$22 million) in that segment.

Refer to “Results of Operations by Segment” for further information on segments.

Gross Profit

Gross profit margin in 2007 decreased due to price competition and unfavorable product mix in the roll materials business and higher raw material costs. The negative effect of these factors was partially offset by the addition of the higher gross profit margin Paxar business, as well as benefits from our ongoing productivity improvement and cost reduction actions.

In 2006, the benefits of productivity improvement and cost reduction actions were partially offset by:

- Unfavorable segment mix (faster growth in segments with lower gross profit margin as a percent of sales)
- Energy-related cost inflation
- Transition costs associated with restructuring

Marketing, General and Administrative Expenses

Marketing, general and administrative expense in 2007 increased from 2006, as savings from restructuring actions and other cost reductions were more than offset by:

- Costs associated with the Paxar business and related integration expense (totaling approximately \$185 million, including \$40 million in integration-related transition costs and \$12 million in amortization of intangibles)
- The impact of foreign currency translation (approximately \$30 million).

Marketing, general and administrative expense in 2006 increased from 2005, as the benefits from productivity improvement initiatives and cost reduction actions were more than offset by:

- Recognition of stock option expense (approximately \$21 million)
- Increased spending on information systems and marketing (approximately \$19 million)
- Increase in pension, medical and other employee-related costs (approximately \$12 million)

Interest Expense

Interest expense increased 90%, or approximately \$50 million, in 2007 compared to 2006, due to an increase in borrowings to fund the Paxar acquisition, as well as an increase in interest rates.

Other Expense, net

(In millions, pretax)	2007	2006	2005
Restructuring costs	\$ 21.6	\$ 21.1	\$ 37.5
Asset impairment and lease cancellation charges	17.5	8.7	28.1
Asset impairment – integration related	18.4	–	–
Other items	1.9	6.4	(2.0)
Other expense, net	\$ 59.4	\$ 36.2	\$ 63.6

Management's Discussion and Analysis of Results of Operations and Financial Condition *(continued)*

In 2007 and 2006, "Other expense, net" consisted of charges for restructuring, including severance and other employee-related costs and asset impairment charges related to cost reduction actions and divestitures, as described above in the "Cost Reduction Actions" and "Paxar Integration Actions" sections herein. Refer also to Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

The other items included in "Other expense, net" in 2007 included:

- Cash flow hedge loss (\$4.8 million)
- Expenses related to a divestiture (\$.3 million)
- Reversal of accrual related to a lawsuit (\$3.2 million)

The other items included in "Other expense, net" in 2006 included:

- Accrual for environmental remediation costs (\$13 million); refer to the Environmental section of "Financial Condition" below
- Costs related to a lawsuit and a divestiture (\$.8 million)
- Gain on sale of assets (\$5.3 million)
- Gain on curtailment and settlement of a pension obligation (\$1.6 million)
- Gain on sale of an investment (\$10.5 million), partially offset by a charitable contribution to the Avery Dennison Foundation (\$10 million)

In 2005, other items included in "Other expense, net" consisted of a gain on the sale of assets (\$5.8 million), partially offset by costs related to a lawsuit (\$3.8 million).

Net Income:

(In millions, except per share amounts)	2007	2006	2005
Income from continuing operations			
before taxes	\$ 375.3	\$ 435.2	\$ 367.5
Taxes on income	71.8	76.7	75.3
Income from continuing operations	303.5	358.5	292.2
Income (loss) from discontinued operations, net of tax	—	14.7	(65.4)
Net income	\$ 303.5	\$ 373.2	\$ 226.8
Net income per common share	\$ 3.09	\$ 3.74	\$ 2.27
Net income per common share, assuming dilution	\$ 3.07	\$ 3.72	\$ 2.26
Net income as a percent of sales	4.8%	6.7%	4.1%
Effective tax rate from continuing operations	19.1%	17.6%	20.5%

Taxes on Income

Both our 2007 and 2006 effective tax rates included the benefits from changes in the geographic mix of income and continued improvements in our global tax structure.

The effective tax rate in both years includes the impact from several tax audit settlements in various jurisdictions, reflecting a net expense of \$.8 million in 2007 and a net benefit of \$.1 million in 2006.

Income (Loss) from Discontinued Operations

Income (loss) from discontinued operations includes the divestiture of our raised reflective pavement markers business as noted in the Overview section above. The divestiture of this business was completed during

2006 and resulted in a tax benefit (\$14.9 million) due to capital losses arising from the sale of the business and a gain on sale of \$1.3 million.

Based on our estimated value of the raised reflective pavement markers business in 2005, we concluded that associated goodwill and intangible assets from our acquisition of this business were impaired. The resulting pretax impairment charge was approximately \$74 million in 2005.

Income from discontinued operations included net sales of approximately \$7 million in 2006, and \$23 million in 2005.

Refer to the Discontinued Operations section of Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

RESULTS OF OPERATIONS BY SEGMENT

Pressure-sensitive Materials Segment

(In millions)	2007	2006	2005
Net sales including intersegment sales	\$ 3,662.6	\$ 3,397.8	\$ 3,277.7
Less intersegment sales	(164.9)	(161.5)	(163.2)
Net sales	\$ 3,497.7	\$ 3,236.3	\$ 3,114.5
Operating income ⁽¹⁾	318.7	301.6	264.1
(1) Includes restructuring costs, asset impairment charges and other items for all years presented	\$ 13.8	\$ 9.3	\$ 23.0

Net Sales

Sales in our Pressure-sensitive Materials segment increased 8% in 2007 compared to 4% growth in 2006. Organic sales growth in both 2007 and 2006 was approximately 3%.

Organic sales growth for 2007 and 2006 reflected growth in our roll materials and graphics and reflective businesses in Asia, Latin America and Europe, partially offset by declines in our North American roll materials businesses. For both years, market expansion in our roll materials business contributed to double-digit organic sales growth in Asia and mid single-digit organic sales growth in Latin America.

In both 2007 and 2006, our roll materials business in Europe experienced low single-digit organic sales growth.

In our North American roll materials business, 2007 sales on an organic basis declined at a low single-digit rate, while 2006 sales were even with the prior year. Slow market conditions impacted both years. In 2007, a more competitive environment due in part to capacity additions in the industry led to price reductions to maintain market share. In 2006, the loss of market share following our implementation of selling price increases in 2005 and early 2006 contributed to a decline in this business.

Our graphics and reflective business experienced mid single-digit organic sales growth in both 2007 and 2006, as strong international growth was partially offset by declines in the U.S.

The changes in reported sales for this segment included a favorable impact of foreign currency translation of approximately \$174 million in 2007 and approximately \$15 million in 2006.

Operating Income

Increased operating income in 2007 and 2006 reflected higher sales and cost savings from restructuring and productivity improvement initiatives. In 2007, these initiatives were partially offset by a more competitive pricing environment and unfavorable product mix in the roll materials business,

higher raw material costs and transition costs related to restructuring actions. In 2006, these initiatives were partially offset by stock option expense.

Operating income for all three years reflected restructuring and asset impairment charges. In 2007, operating income included a reversal of a portion of an accrual related to a lawsuit. In 2006, operating income included a gain on sale of assets, legal fees related to a lawsuit, and lease cancellation charges. In 2005, operating income included an accrual related to a lawsuit, net of a gain on sale of assets.

Retail Information Services Segment

(In millions)	2007	2006	2005
Net sales including intersegment sales	\$ 1,176.6	\$ 671.1	\$ 637.1
Less intersegment sales	(2.1)	(3.4)	(6.7)
Net sales	\$ 1,174.5	\$ 667.7	\$ 630.4
Operating income ⁽¹⁾⁽²⁾	(4.0)	45.7	37.7
(1) Includes restructuring costs, asset impairment and lease cancellation charges for all years presented	\$ 31.2	\$ 11.2	\$ 7.5
(2) Includes transition costs associated with Paxar integration	\$ 43.0	\$ —	\$ —

Net Sales

Sales in our Retail Information Services segment increased 76% in 2007 compared to an increase of 6% in 2006. In 2007, the increase reflected an estimated \$510 million in sales from the Paxar acquisition and the favorable impact of foreign currency translation (approximately \$17 million). In 2006, the increase reflected growth of the business in Asia, Latin America and Europe, incremental sales from acquisitions (approximately \$3 million) and the favorable impact of foreign currency translation (approximately \$3 million).

Organic sales growth of approximately 1% in 2007 reflected increased sales for the European retail market, partially offset by a decline in orders related to apparel shipped to North American retailers and brand owners. Organic sales growth was 5% in 2006.

Operating Income

Operating loss in 2007 reflected transition costs and integration-related asset impairment charges associated with the Paxar acquisition, amortization of acquisition intangibles and higher expenses due to investments for growth in Asia, including higher employee-related costs. Higher operating costs were partially offset by higher sales and savings from restructuring and productivity initiatives.

In 2006, operating income benefited from productivity improvement actions, including the migration of production from Hong Kong to lower cost facilities in mainland China. Benefits from productivity initiatives were offset by increased spending for information systems, stock option expense and other incremental employee-related costs in 2006.

Operating income included integration-related software impairment charges in 2007. Restructuring costs, asset impairment and lease cancellation charges were incurred in all three years.

Office and Consumer Products Segment

(In millions)	2007	2006	2005
Net sales including intersegment sales	\$ 1,017.8	\$ 1,073.8	\$ 1,138.1
Less intersegment sales	(1.6)	(1.8)	(2.0)
Net sales	\$ 1,016.2	\$ 1,072.0	\$ 1,136.1
Operating income ⁽¹⁾	173.6	187.4	161.9
(1) Includes restructuring costs for all years, asset impairment charges for 2005 and 2006, and other items for 2006 and 2007	\$ 4.8	\$ (2.3)	\$ 21.8

Net Sales

Sales in our Office and Consumer Products segment decreased 5% in 2007 and 6% in 2006. The decline in reported sales in 2007 reflected lower sales on an organic basis, as well as the impact of product line divestitures (approximately \$9 million). The decline in reported sales in 2006 reflected the impact of a product line divestiture in Europe (approximately \$51 million). Foreign currency translation had a favorable impact on the change in reported sales of approximately \$25 million in 2007 and \$1 million in 2006.

On an organic basis, sales declined approximately 7% in 2007. The decline reflected customer inventory reductions resulting in part from a volume shift to the fourth quarter of 2006 in advance of January 2007 selling price increases for certain product lines, the loss of sales from exiting certain low margin business, and a weaker back-to-school season compared to the prior year.

In 2006, sales on an organic basis declined 1%, reflecting the loss of sales from exiting certain low-margin private label business at the end of 2005 (approximately \$22 million), partially offset by growth in Avery-brand products, a strong back-to-school season in North America, and accelerated purchases by customers in late 2006 in advance of our 2007 selling price increases for certain product lines.

Operating Income

Operating income in 2007 reflected lower sales, restructuring charges and related transition costs, and higher raw material costs, partially offset by savings from restructuring actions and productivity initiatives.

Operating income in 2006 reflected cost savings from productivity improvement and restructuring actions, partially offset by associated transition costs, higher raw material and energy-related costs, increased marketing costs and stock option expense.

Operating income in 2007 included lease cancellation costs and expense related to a divestiture. In 2006, operating income included a gain from sale of assets, a gain from curtailment and settlement of a pension obligation, and a net gain from a product line divestiture. Asset impairment charges were incurred in both 2005 and 2006, while restructuring costs were incurred in all three years.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition** *(continued)*

Other specialty converting businesses

(In millions)	2007	2006	2005
Net sales including intersegment sales	\$ 639.3	\$ 614.3	\$ 607.7
Less intersegment sales	(19.9)	(14.4)	(15.2)
Net sales	\$ 619.4	\$ 599.9	\$ 592.5
Operating income ⁽¹⁾	25.4	17.3	14.9
(1) Includes restructuring and asset impairment charges for all years presented	\$ 4.2	\$ 3.7	\$ 6.2

Net Sales

Sales in our other specialty converting businesses increased 3% in 2007 and 1% in 2006. In 2007, the increase reflected the favorable impact of foreign currency translation (approximately \$16 million), partially offset by the impact of a product line divestiture, net of a small acquisition (approximately \$2 million). In 2006, a product line divestiture reduced reported sales by approximately \$7 million, while foreign currency translation had a favorable impact on the change in sales of approximately \$1 million.

Organic sales growth of approximately 1% in 2007 included the negative effect of exiting certain low-margin products in our specialty tape business (approximately \$16 million). The loss of these sales was more than offset by solid growth in other parts of the specialty tape business, as well as growth of the RFID division. Organic sales growth of approximately 2% in 2006 reflected solid growth in our specialty tape business, partially offset by weakness in other businesses.

Operating Income

Operating income for these businesses increased in 2007, reflecting higher sales, savings from restructuring and productivity initiatives, and a reduction in operating loss from the RFID division.

Operating income for these businesses increased in 2006, reflecting cost savings from restructuring and productivity improvement initiatives, partially offset by stock option expense.

Operating income for all years included restructuring and asset impairment charges.

FINANCIAL CONDITION

Liquidity

Cash Flow Provided by Operating Activities:

(In millions)	2007	2006	2005
Net income	\$ 303.5	\$ 373.2	\$ 226.8
Depreciation and amortization	234.6	197.9	201.5
Income taxes (deferred and accrued)	(31.4)	5.3	(44.2)
Asset impairment and net loss (gain) on sale and disposal of assets	44.0	(7.8)	108.1
Trade accounts receivable	1.0	(2.3)	(43.9)
Other current assets	18.8	(45.6)	(4.3)
Inventories	(5.3)	(24.6)	(12.4)
Accounts payable and accrued liabilities	(87.1)	8.9	30.4
Long-term retirement benefits and other liabilities	15.1	(11.8)	(12.9)
Stock-based compensation	21.6	24.1	—
Other non-cash items, net	(15.4)	(6.5)	(7.5)
Net cash provided by operating activities	\$ 499.4	\$ 510.8	\$ 441.6

For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation, the impact of acquisitions and divestitures and certain non-cash transactions (discussed in "Analysis of Selected Balance Sheet Accounts" below).

In 2007, cash flow provided by operating activities was impacted by lower net income, changes in working capital and other factors, as shown below:

Negative factors

- Accounts payable and accrued liabilities reflected the timing of payments, as well as shorter vendor payment terms

Positive factors

- Other current assets primarily reflected the timing of collection of value-added tax receivables in Europe
- Long-term retirement benefits and other liabilities primarily reflected lower contributions to our pension plans, partially offset by benefit payments

In 2006, cash flow provided by operating activities was impacted by higher net income, changes in working capital and other factors, as shown below:

Negative factors

- Other current assets primarily reflected the timing of collection of value-added tax receivables in Europe
- Inventories reflected increased purchases to support higher sales and customer service initiatives
- Long-term retirement benefits and other liabilities reflected benefit payments, partially offset by contributions of approximately \$39 million to our pension and postretirement health benefit plans

Positive factors

- Accounts payable and accrued liabilities reflected the timing of payments and increased inventory

Cash Flow Used in Investing Activities:

(In millions)	2007	2006	2005
Purchase of property, plant and equipment	\$ (190.5)	\$ (161.9)	\$ (162.5)
Purchase of software and other deferred charges	(64.3)	(33.4)	(25.8)
Payments for acquisitions	(1,291.9)	(13.4)	(2.8)
Proceeds from sale of assets	4.9	15.4	21.8
Proceeds from sale of businesses and investments	—	35.4	—
Other	(1.4)	3.0	1.7
Net cash used in investing activities	\$ (1,543.2)	\$ (154.9)	\$ (167.6)

Payments for acquisitions

On June 15, 2007, we completed the acquisition of Paxar. In accordance with the terms of the acquisition agreement, each outstanding share of Paxar common stock, par value \$0.10 was converted into the right to receive \$30.50 in cash. The total purchase price for this transaction was approximately \$1.3 billion, including transaction costs of approximately \$15 million. Cash paid for acquisitions is reported net of cash acquired of approximately \$47 million. Funds to complete the acquisition were initially derived from commercial paper borrowings, supported by a bridge revolving credit facility. Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for further information.

Payments for acquisitions during 2007 also include buy-outs of minority interest shareholders associated with certain subsidiaries of RVL Packaging, Inc. and Paxar of approximately \$4 million.

Capital Spending

Significant capital projects in 2007 included investments for expansion in China and India serving both our materials and retail information services businesses. Significant information technology projects in 2007 included customer service and standardization initiatives.

Proceeds from Sale of Businesses and Investments

In 2006, we sold a long-term investment (proceeds of approximately \$16 million), divested our raised reflective pavement marker business in the U.S. (proceeds of approximately \$9 million), and divested a product line in Europe (proceeds of approximately \$4 million).

Cash Flow Used in Financing Activities:

(In millions)	2007	2006	2005
Net change in borrowings and payments of debt	\$ 1,259.0	\$ (140.1)	\$ (80.5)
Dividends paid	(171.8)	(171.8)	(168.7)
Purchase of treasury stock	(63.2)	(157.7)	(40.9)
Proceeds from exercise of stock options, net	38.1	54.1	11.1
Other	(6.7)	17.7	18.5
Net cash provided by (used in) financing activities	\$ 1,055.4	\$ (397.8)	\$ (260.5)

Borrowings and Repayment of Debt

At year end 2007, our borrowings outstanding under foreign short-term lines of credit were \$70.1 million (weighted-average interest rate of 10.6%), compared to \$101.5 million at year end 2006 (weighted-average interest rate of 9.6%).

Short-term variable rate commercial paper borrowings were \$990.2 million at December 29, 2007 (weighted-average interest rate of 5.2%) compared to \$154.4 million at December 30, 2006 (weighted-average interest rate of 5.0%). During 2007, we increased our short-term borrowings to initially fund the Paxar acquisition, as noted above in "*Payments for acquisitions*," as well as to support share repurchases. The change in outstanding commercial paper also reflects positive cash flow from operations.

We had medium-term notes of \$100 million outstanding at year end 2007, compared to \$160 million at year end 2006. In 2007, medium-term notes of \$60 million were paid on maturity. Outstanding medium-term notes have maturities from 2008 through 2025 and accrue interest at fixed rates ranging from 5.9% to 7.6%.

In September 2007, one of our subsidiaries issued \$250 million 10-year senior notes, which we guaranteed, bearing interest at a rate of 6.625% per year, due October 2017. The net proceeds from the offering were approximately \$247 million and were used to pay down current long-term debt maturities of \$150 million and reduce commercial paper borrowings of \$97 million initially used to finance the Paxar acquisition.

In November 2007, we issued \$400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional \$40 million of HiMEDS units were issued in December 2007 as a result of the exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components – a purchase contract obligating the holder to purchase from us a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and a senior note due in 2020. The net proceeds from the offering were approximately \$427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

Shareholders' Equity

Our shareholders' equity was approximately \$1.99 billion at year end 2007, compared to approximately \$1.70 billion at year end 2006. Our annual dividend per share increased to \$1.61 in 2007 from \$1.57 in 2006.

Share Repurchases

On October 26, 2006, the Board of Directors authorized the Company to purchase an additional 5 million shares of the Company's stock under our existing stock repurchase program, resulting in a total authorization of approximately 7.4 million shares of the Company's stock at that date. We repurchased approximately .8 million and 2.5 million shares in 2007 and 2006, respectively. Cash payments for these repurchased shares were approximately \$63 million and approximately \$158 million in 2007 and 2006, respectively. Included in the 2007 cash payments were approximately \$11 million related to shares repurchased in 2006, but settled in 2007. As of December 29, 2007, approximately 4.1 million shares were available for repurchase under the Board of Directors' authorization.

In 2005, we repurchased approximately .7 million shares under an agreement related to the L&E Packaging acquisition and recorded such amount to treasury stock.

Management's Discussion and Analysis
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Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill increased \$967 million during 2007, primarily due to our preliminary valuation of goodwill associated with the Paxar acquisition completed in June 2007 (\$931 million), buy-outs of minority interest shareholders (\$4 million) associated with certain subsidiaries of RVL Packaging, Inc. and Paxar, and foreign currency translation (\$32 million), partially offset by a tax adjustment related to a previous acquisition (less than \$1 million).

Other intangibles resulting from business acquisitions increased approximately \$219 million during 2007 due to our preliminary valuation of the intangible assets of the Paxar acquisition (\$234 million), and the impact of foreign currency translation (\$5 million), partially offset by amortization expense (\$20 million).

Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for further information.

Other assets increased approximately \$63 million during 2007 due primarily to purchases of software and other deferred charges (\$64 million), an increase in the cash surrender value of corporate-owned life insurance (\$17 million), debt issuance costs associated with current year issuances (\$15 million), increase in long-term pension assets (\$7 million), increase in other assets (\$3 million), and the impact of foreign currency translation (\$6 million), partially offset by normal amortization of software and other deferred charges (\$31 million), and software asset impairments (\$18 million).

Other Shareholders' Equity Accounts

The value of our employee stock benefit trust decreased \$174 million in 2007, due to a decrease in the market value of shares held in the trust of approximately \$120 million, and the issuance of shares under our stock option and incentive plans of approximately \$54 million.

Accumulated other comprehensive income (loss) changed by approximately \$135 million due to foreign currency translation (approximately \$106 million), as well as the current year amortization and recognition of net pension transition obligation, prior service cost and net actuarial loss (approximately \$29 million).

Impact of Foreign Currency Translation:

(In millions)	2007	2006	2005
Change in net sales	\$ 232	\$ 21	\$ 77
Change in net income	13	2	2

In 2007, international operations generated approximately 63% of our net sales. Our future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates.

The benefit to sales from currency translation in 2007 primarily reflected a benefit from sales denominated in Euros, as well as sales in the currencies of Great Britain, Australia, Brazil and China, partially offset by a negative impact of sales in the currencies of South Africa and Hong Kong.

Translation gains and losses for operations in hyperinflationary economies are included in net income in the period incurred. Operations are treated as being in a hyperinflationary economy based on the cumulative inflation rate over the past three years. In 2007, we had no operations in hyperinflationary economies. In 2006, the only hyperinflationary economy in which we operated was the Dominican Republic, which uses the U.S. dollar as the functional currency. In 2005, our operations in hyperinflationary economies consisted of the Dominican Republic and Turkey; however, the impact on net income from these operations was not significant.

Effect of Foreign Currency Transactions

The impact on net income from transactions denominated in foreign currencies is mitigated because the costs of our products are generally denominated in the same currencies in which they are sold. In addition, to reduce our income statement exposure to transactions in foreign currencies, we enter into foreign exchange forward, option and swap contracts, where available and appropriate.

Analysis of Selected Financial Ratios

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

Operational Working Capital Ratio

Working capital (current assets minus current liabilities, excluding working capital of held-for-sale businesses) as a percent of net sales decreased in 2007 primarily due to an increase in short-term debt.

On February 8, 2008, one of our subsidiaries entered into a credit agreement for a term loan credit facility with fourteen domestic and foreign banks for a total commitment of \$400 million, maturing February 8, 2011. The proceeds from this term loan credit facility were used to reduce commercial paper borrowings (included in current liabilities) initially used to finance the Paxar acquisition.

Operational working capital from continuing operations, as a percent of net sales, is a non-GAAP measure and is shown below. We use this non-GAAP measure as a tool to assess our working capital requirements because it excludes the impact of fluctuations due to our financing and other activities (that affect cash and cash equivalents, deferred taxes, other current assets and other current liabilities) that tend to be disparate in amount and timing and therefore, may increase the volatility of the working capital ratio from period to period. Additionally, the items excluded from this measure are not necessarily indicative of the underlying trends of our operations and are not significantly influenced by the day-to-day activities that are managed at the operating level. Refer to "Uses and Limitations of Non-GAAP Measures." Our objective is to minimize our investment in operational working capital, as a percentage of sales, by reducing this ratio, to maximize cash flow and return on investment.

Operational working capital from continuing operations:

(In millions)	2007	2006
(A) Working capital (current assets minus current liabilities; excludes working capital of held-for-sale businesses)	\$ (419.3)	\$ (12.1)
Reconciling items:		
Cash and cash equivalents	(71.5)	(58.5)
Deferred taxes and other current assets	(242.0)	(221.1)
Short-term and current portion of long-term debt	1,110.8	466.4
Other current liabilities	687.6	602.3
(B) Operational working capital from continuing operations	\$ 1,065.6	\$ 777.0
(C) Net sales	\$ 6,307.8	\$ 5,575.9
Working capital, as a percent of net sales (A) ÷ (C)	(6.6)%	(.2)%
Operational working capital from continuing operations, as a percent of net sales (B) ÷ (C)	16.9%	13.9%

As a percent of sales, operational working capital from continuing operations in 2007 increased compared to 2006. The primary factors contributing to this change, which includes the impact of currency translation, are discussed below.

Accounts Receivable Ratio

The average number of days sales outstanding was 62 days in 2007 compared to 58 days in 2006, calculated using a four-quarter average accounts receivable balance divided by the average daily sales for the year. The change is primarily due to the acquisition of Paxar, as well as the timing of sales and collections.

Inventory Ratio

Average inventory turnover was 7.8 in 2007 compared to 8.1 in 2006, calculated using the annual cost of sales divided by a four-quarter average inventory balance. The change is primarily due to the acquisition of Paxar.

Accounts Payable Ratio

The average number of days payable outstanding was 58 days in 2007 compared to 61 days in 2006, calculated using a four-quarter average accounts payable balance divided by the average daily cost of products sold for the year. The change is primarily due to the timing of payments in Europe, partially offset by the acquisition of Paxar.

Debt Ratios

	Requirement	Year End	
		2007	2006
Total debt to total capital		53.1%	36.3%

Debt covenant ratios:

Total debt to earnings before interest, taxes, depreciation and amortization	Not to exceed 3.5:1.0	3.2:1.0	1.4:1.0
Earnings before interest and taxes to interest	At least 3.5:1.0	4.6:1.0	9.3:1.0

The increase in the total debt to total capital ratio in 2007 was primarily due to a net increase in debt related to the Paxar acquisition and share repurchases, partially offset by an increase in shareholders' equity.

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. We were in compliance with these covenants as shown in the table above.

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, the fair value of our total debt, including short-term borrowings, was \$2,250.7 million in 2007 and \$963 million in 2006.

Shareholders' Equity Ratios

	2007	2006	2005
Return on average shareholders' equity	16.5%	22.7%	14.5%
Return on average total capital	10.6	15.7	10.0

Decreases in these ratios in 2007 compared to 2006 were primarily due to lower net income, as well as higher equity and total debt outstanding. These ratios are computed using actual net income and a five-quarter average denominator for equity and total debt accounts.

Capital Resources

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 \$1.29 billion in 2007 to \$2.26 billion compared to year end 2006, reflecting increased short-term borrowings primarily related to the Paxar acquisition during the second quarter of 2007 and share repurchases.

We initially funded the Paxar acquisition by issuing commercial paper, supported by a bridge revolving credit facility (the "Credit Facility") we entered into in June 2007 with five domestic and foreign banks. The Credit Facility had an initial total commitment of \$1.35 billion, expiring June 11, 2008, for terms which are generally similar to existing credit facilities. Financing available under this agreement is permitted to be used for working capital, commercial paper back-up and other general corporate purposes, including acquisitions. As of December 29, 2007, the outstanding commitment was \$715 million.

In August 2007, we amended our existing revolving credit agreement, increasing commitments from \$525 million to \$1 billion and extending the maturity to August 2012. Commitments were provided by twelve domestic and foreign banks. Financing available under the agreement will be used as a commercial paper back-up facility and is also available to finance other corporate requirements, including acquisitions.

In September 2007, one of our subsidiaries issued \$250 million 10-year senior notes, which we guaranteed, bearing interest at a rate of 6.625% per year, due October 2017. The net proceeds from the offering were approximately \$247 million and were used to pay down current

Management's Discussion and Analysis of Results of Operations and Financial Condition *(continued)*

long-term debt maturities of \$150 million and reduce commercial paper borrowings of \$97 million initially used to finance the Paxar acquisition.

The Credit Facility and the revolving credit agreement are subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio, with which we are in compliance.

In November 2007, we issued \$400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional \$40 million of HiMEDS units were issued in December 2007 as a result of the exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components – a purchase contract obligating the holder to purchase from us a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and a senior note due in 2020. The net proceeds from the offering were approximately \$427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

In addition, we have a 364-day revolving credit facility in which a foreign bank provides us up to Euro 40 million (\$57.5 million) in borrowings through July 31, 2008. With the approval of the bank, we may extend the revolving period and due date on an annual basis. Financing under this agreement is used to finance cash requirements of our European operations. There was no debt outstanding under this agreement as of December 29, 2007 and \$26.3 million outstanding as of December 30, 2006.

We had standby letters of credit outstanding of \$80.9 million (including \$7.3 million of standby letters of credit we assumed from Paxar) and \$77.1 million at the end of 2007 and 2006, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

In connection with the Paxar acquisition, we have assumed additional debt of approximately \$5 million, which remains outstanding at December 29, 2007.

Our uncommitted lines of credit were approximately \$448.2 million at year end 2007. 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 2007, we filed a shelf registration statement

with the Securities and Exchange Commission to permit the issuance of 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 shelf registration replaced the shelf registration statement filed in 2004. The HiMEDS units discussed above were issued under this registration statement.

As discussed above, one of our subsidiaries entered into a credit agreement on February 8, 2008 for a term loan credit facility with fourteen domestic and foreign banks for a total commitment of \$400 million, maturing February 8, 2011. The proceeds from this term loan credit facility were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

Credit ratings are a significant factor in our ability to raise short-term and long-term financing. The credit ratings assigned to us also impact the interest rates on our commercial paper and other borrowings. 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.

Our credit ratings as of year end 2007:

	Short-term	Long-term	Outlook ⁽¹⁾
Standard & Poor's Rating Service ("S&P")	A-2	BBB+	Watch Negative
Moody's Investors Service ("Moody's")	P2	Baa1	Under Review

(1) Refer to Note 14, "Subsequent Events," to the Consolidated Financial Statements for more information.

As of December 29, 2007, our ratings were under review due to the recent acquisition of Paxar. S&P and Moody's lowered our long-term rating from A- to BBB+, and A3 to Baa1, respectively, due to the incremental debt incurred as a result of the Paxar acquisition. We remain committed to retaining a solid investment grade rating.

Contractual Obligations, Commitments and Off-balance Sheet Arrangements

Contractual Obligations at Year End 2007:

(In millions)	Payments Due by Period						
	Total	2008	2009	2010	2011	2012	Thereafter
Short-term lines of credit	\$ 1,060.3	\$ 1,060.3	\$ –	\$ –	\$ –	\$ –	\$ –
Long-term debt and capital leases	1,195.5	50.5	.5	.5	5.1	–	1,138.9
Interest on long-term debt ⁽¹⁾	950.6	78.5	75.8	75.8	75.8	75.8	568.9
Operating leases	241.7	59.3	50.6	34.6	26.1	21.9	49.2
Pension and postretirement benefit contributions	23.5	23.5	–	–	–	–	–
Uncertain tax positions	7.1	7.1	–	–	–	–	–
Total contractual obligations	\$ 3,478.7	\$ 1,279.2	\$ 126.9	\$ 110.9	\$ 107.0	\$ 97.7	\$ 1,757.0

(1) Interest on floating rate debt was estimated using the index rate in effect as of December 29, 2007.

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, except for the facility in Mentor, Ohio as noted below. The table above includes minimum annual rental commitments on operating

leases having initial or remaining non-cancelable lease terms of one year or more.

On September 9, 2005, we completed the lease financing for a commercial facility (the "Facility") located in Mentor, Ohio, used primarily for the new headquarters and research center for our roll materials

group. The Facility consists generally of land, buildings, equipment and office furnishings. We have leased the Facility under an operating lease arrangement, which contains a residual value guarantee of \$33.4 million. We do not expect the residual value of the Facility to be less than the amount guaranteed.

We did not include purchase obligations or open purchase orders at year end 2007 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.

The table above does not reflect unrecognized tax benefits of \$125 million, the timing of which is uncertain, except for approximately \$7 million that may become payable during 2008. Refer to Note 11, "Taxes Based on Income" to the Consolidated Financial Statements for further information on unrecognized tax benefits.

Investigations and Legal Proceedings

We previously announced that we had been notified by the European Commission, the United States Department of Justice ("DOJ"), the Competition Law Department of the Department of Justice of Canada and the Australian Competition and Consumer Commission of their respective criminal investigations into competitive practices in the label stock industry. We cooperated with all of these investigations, and all, except the Australian investigation which is continuing, have been terminated without further action by the authorities.

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

Environmental

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 eighteen waste disposal or waste recycling sites, including Paxar 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 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 these and certain other 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.

As of December 29, 2007, our estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, "Acquisitions," to the Consolidated Financial Statements.

During 2006, we recognized \$15 million for estimated environmental

remediation costs for a former operating facility. Of the amount accrued, which represented the lower end of the current estimated range of \$15 million to \$17 million for costs expected to be incurred, approximately \$9 million remained accrued as of December 29, 2007. We considered additional information provided by outside consultants in revising our previous estimates of expected costs. This estimate could change depending on various factors such as modification of currently planned remedial actions, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Other 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.

Other

In 2005, we contacted relevant authorities in the U.S. and reported on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of our reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been relatively minor in amount and of limited duration. Corrective and disciplinary actions have been taken. Sales of our reflective business in China in 2005 were approximately \$7 million. Based on findings to date, no changes to our previously filed financial statements are warranted as a result of these matters. However, we believe that fines or other penalties could be incurred. While we are unable to predict the financial or operating impact of any such fines or penalties, we believe that our behavior in detecting, investigating, responding to and voluntarily disclosing these matters to authorities should be viewed favorably.

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

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

We participate in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by us. At December 29, 2007, we had guaranteed approximately \$17 million.

As of December 29, 2007, we guaranteed up to approximately \$22 million of certain of our foreign subsidiaries' obligations to their suppliers, as well as approximately \$476 million of certain of our subsidiaries' lines of credit with various financial institutions.

In November 2007, we issued \$400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional \$40 million of HiMEDS units were issued in December 2007 as a result of the

exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components – a purchase contract obligating the holder to purchase from us a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and a senior note due in 2020. The net proceeds from the offering were approximately \$427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

USES AND LIMITATIONS OF NON-GAAP MEASURES

We use certain non-GAAP financial measures that exclude the impact of certain events, activities or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP measures, may make it difficult to assess the underlying performance of the Company in a single period. By excluding certain accounting effects, both positive and negative (e.g. gains on sales of assets, restructuring charges, asset impairments, etc.), from certain of our GAAP measures, management believes that it is providing meaningful supplemental information to facilitate an understanding of the Company’s “core” or “underlying” operating results. These non-GAAP measures are used internally to evaluate trends in our underlying business, as well as to facilitate comparison to the results of competitors for a single period.

Limitations associated with the use of our non-GAAP measures include (1) the exclusion of foreign currency translation and the impact of acquisitions and divestitures from the calculation of organic sales growth; (2) the exclusion of mandatory debt service requirements, as well as the exclusion of other uses of the cash generated by operating activities that do not directly or immediately support the underlying business (such as discretionary debt reductions, dividends, share repurchase, acquisitions, etc.) for calculation of free cash flow; and (3) the exclusion of cash and cash equivalents, short-term debt, deferred taxes, and other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses, for the calculation of operational working capital. While some of the items the Company excludes from GAAP measures recur, these items tend to be disparate in amount and timing. Based upon feedback from investors and financial analysts, we believe that supplemental non-GAAP measures provide information that is useful to the assessment of the Company’s performance and operating trends.

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”). We paid premiums to insurance carriers for life insurance placed by the Mullin Companies in connection with various of our employee benefit plans. The Mullin Companies have advised us that they earned commissions from such insurance carriers for the placement and renewal of this insurance. Approximately 50% of these commissions were allocated to and used by MullinTBG Insurance

Agency Services, LLC (an affiliate of MC) to administer benefit plans and provide benefit statements to participants under various 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 2007 and prior years, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company (“M Life”), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life’s aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised us that they participated in net reinsurance gains of M Life. In addition, the Mullin Companies have advised us that they also participated in net reinsurance gains of M Life that are subject to risk of forfeiture. None of these transactions were significant to our financial position or results of operations.

Summary of Related Party Activity: (In millions)	2007	2006	2005
Mullin Companies commissions on our insurance premiums	\$.4	\$.5	\$.9
Mr. Mullin’s direct & indirect interest in these commissions	.3	.4	.7
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to our life insurance policies	.2	.3	.2
Mr. Mullin’s direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.2	.1
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to our life insurance policies	.8	.6	1.5
Mr. Mullin’s direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	.5	.4	1.1

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, sales returns and allowances, accounts receivable allowances, inventory and inventory reserves, long-lived asset impairments, pensions and postretirement benefits, income taxes, stock-based compensation, restructuring and severance costs, litigation and environmental, and business combinations.

Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, and collection is reasonably assured. Furthermore, sales, provisions for estimated returns, and the cost of products sold are recorded at the time title transfers to customers and when the customers assume the risks and rewards of ownership. Sales terms are generally f.o.b. (free on board) shipping point or f.o.b. destination, depending upon local business customs. For most regions in which we operate, f.o.b. shipping point terms are utilized and sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. In certain regions, notably in Europe, f.o.b. destination terms are generally utilized and sales are recorded when the products are delivered to the customer's delivery site, because this is when title and risk of loss are transferred. 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.

Sales Returns and Allowances

Sales returns and allowances represent credits we grant to our customers (both affiliated and non-affiliated) for the return of unsatisfactory product or a negotiated allowance in lieu of return. We accrue for returns and allowances based upon the gross price of the products sold and historical experience for such products. We record these allowances based on the following factors: (i) customer specific allowances; and (ii) an estimated amount, based on our historical experience, for issues not yet identified.

Accounts Receivable Allowances

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 represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. We record these allowances based on estimates related to the following factors: (i) customer specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on our historical experience, for issues not yet identified. No single customer represented 10% or more of our net sales or trade receivables at year end 2007 and 2006. However, our ten largest customers at year end 2007 represented approximately 17% of trade accounts receivable and consisted of six customers of our Office and Consumer Products segment, three customers of our Pressure-sensitive Materials segment and one customer of both these segments. The financial position and operations of these customers are monitored on an ongoing basis.

Inventory and 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. Beginning in the fourth quarter of 2007, we changed the method of accounting for inventories for our U.S. operations from a combination of the use of FIFO and LIFO methods to the FIFO method. The inventories for our

international operations continue to be valued using the FIFO method. We believe this change is preferable as the FIFO method better reflects the current value of inventories on the Consolidated Balance Sheet; provides better matching of revenue and expense in the Consolidated Statement of Income; provides uniformity across our operations with respect to the method for inventory accounting; and enhances comparability with peers. Furthermore, this application of the FIFO method will be consistent with our accounting of inventories for U.S. income tax purposes.

The change in accounting method from LIFO to FIFO method was completed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections." We applied this change in accounting principle by retrospectively restating prior years' financial statements. Refer to the Financial Presentation and Inventories sections of Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for further information.

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 quoted market prices, if available, or an estimate of undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The key estimates applied when preparing cash flow projections relate to revenues, gross margins, economic life of assets, overheads, taxation and discount rates. The amount of impairment loss is calculated as the excess of the carrying value over the fair value. 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

In December 2006, we adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)":

- a) Recognition of the funded status of the Company's defined benefit and postretirement benefit plan (with a corresponding reversal of minimum pension liability under SFAS No. 87);
- b) Recognition of the gains or losses, prior service costs or credits and transition assets or obligations remaining from the initial application of SFAS Nos. 87 and 106 as a component of accumulated other comprehensive income, net of tax;
- c) Measurement of the defined benefit plan assets and obligations as of the Company's fiscal year end; and
- d) Disclosure of additional information about the effects of the amortization of gains or losses, prior service costs or credits, and transition assets or obligations (remaining from the initial application of SFAS Nos. 87 and 106) on net periodic benefit cost for the next fiscal year.

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans are evaluated by management in consultation with outside actuaries. In the event we determine that changes are warranted in the

Management's Discussion and Analysis of Results of Operations and Financial Condition *(continued)*

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. Due to changing market conditions or changes in the participant population, the actuarial assumptions we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related cost.

Discount Rate

We, in consultation with our actuaries, annually review and determine the discount rates to be used in connection with our postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. In the U.S., our discount rate is determined by evaluating several yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams are then matched with the bond portfolios to determine a rate that reflects the liability duration unique to our plans.

Long-term Return on Assets

We determine the long-term rate of return assumption 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.

Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits on a cash basis. For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. This rate is expected to decrease to approximately 5% by 2011.

Income Taxes

Deferred tax assets and liabilities 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 our deferred tax assets to the amount that is more likely than not to be realized.

Pursuant to SFAS No. 109, "Accounting for Income Taxes," when establishing a valuation allowance, we consider future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies." SFAS No. 109 defines a tax planning strategy as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event we determine the deferred tax assets will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination. We have also acquired certain net deferred tax assets with existing valuation allowances. If it is later determined that it is more likely than not that the deferred tax assets will be realized, we will release the valuation allowance to current earnings or adjust the purchase price allocation, consistent with the manner of origination.

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

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, pursuant to Financial Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." FIN 48 requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured pursuant to FIN 48 and tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

Stock-Based Compensation

Effective January 1, 2006, we began recognizing expense for stock-based compensation to comply with the provisions of the reissued SFAS No. 123(R), using the modified prospective application transition method. As permitted by this transition method, results for the prior periods have not been restated. In addition, we continued to recognize compensation cost related to outstanding unvested awards as of December 31, 2005 under the original provisions of SFAS No. 123. Stock-based compensation expense for all awards granted after December 31, 2005 was based on the grant date fair value estimated in accordance with SFAS No. 123(R).

Valuation of Stock Options

Our stock-based compensation expense is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period. The fair value of each of our stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected volatility, risk-free interest rate and the expected life of the options.

Expected dividend yield was based on the current annual dividend divided by the 12-month average of our monthly stock price prior to grant.

Expected volatility for options granted during 2007 represented an average of implied and historical volatility. Expected volatility for options granted prior to 2006 was based on historical volatility of our stock price.

Risk-free rate was based on the average of the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term.

Expected term was determined based on historical experience under our stock option plans.

Forfeiture rate assumption was determined based on historical data of our stock option forfeitures over the last twelve years prior to 2007.

Certain of the assumptions used above are based on management's estimates. As such, if factors change and such factors require us to change our assumptions and estimates, our stock-based compensation expense could be significantly different in the future.

We have not capitalized costs associated with stock-based compensation.

Accounting for Income Taxes for Stock-based Compensation

We elected to use the short-cut method to calculate the historical pool of windfall tax benefits related to employee stock-based compensation awards. In addition, we elected to follow the tax ordering laws to determine the sequence in which deductions and net operating loss

carryforwards are utilized, as well as the direct-only approach to calculating the amount of windfall or shortfall tax benefits.

Restructuring and Severance Costs

We account for restructuring costs including severance and other costs associated with exit or disposal activities following the guidance provided in SFAS No. 112, "Accounting for Postemployment Benefits," and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." In the U.S., we have a severance pay plan ("Pay Plan"), which provides eligible employees with severance payments in the event of an involuntary termination due to qualifying cost reduction actions. We calculate severance pay using the severance benefit formula under the Pay Plan. Accordingly, we record provisions for such amounts and other related exit costs when they are probable and estimable as set forth under SFAS No. 112. In the absence of a Pay Plan or established local practices for overseas jurisdictions, liability for severance and other employee-related costs is recognized when the liability is incurred, following the guidance of SFAS No. 146.

Litigation and Environmental

We are currently involved in various lawsuits, claims and inquiries, most of which are routine to the nature of our business. In accordance with SFAS No. 5, "Accounting for Contingencies," when it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range, or if an amount cannot be determined and be the most likely, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our earlier estimates or should liabilities be incurred that were not previously accrued.

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. We review each reporting period our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us a potentially responsible party. When it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range, or if an amount cannot be determined and be the most likely, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted.

Business Combinations

We account for business combinations using the accounting requirements of SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, we record the assets acquired and liabilities assumed from acquired businesses at fair value, and we make estimates and assumptions to determine such fair values. We engage third-party valuation specialists to assist us in determining these fair value estimates.

We utilize a variety of assumptions and estimates that are believed to be reasonable in determining fair value for assets acquired and liabilities assumed. These assumptions and estimates include estimated future cash flows, growth rates, current replacement cost for similar capacity for certain assets, market rate assumptions for certain obligations and certain potential costs of compliance with environmental laws related to remediation and cleanup of acquired properties. We also utilize

information obtained from management of the acquired businesses and our own historical experience from previous acquisitions.

We apply significant assumptions and estimates in determining certain intangible assets resulting from the acquisitions (such as customer relationships, patents and other acquired technology, and trademarks and trade names and related applicable useful lives), property, plant and equipment, receivables, inventories, investments, tax accounts, environmental liabilities, stock option awards, lease commitments and restructuring and integration costs. Unanticipated events and circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results. As such, decreases to fair value of assets acquired and liabilities assumed (including cost estimates for certain obligations and liabilities) are recorded as an adjustment to goodwill indefinitely, whereas increases to the estimates are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses thereafter.

RECENT ACCOUNTING REQUIREMENTS

During 2007, we adopted certain accounting and financial disclosure requirements of the Financial Accounting Standards Board ("FASB"), Emerging Issues Task Force ("EITF") and Financial Interpretations by the staff of the FASB. In 2006, the requirements with the most significant impact were the reissued SFAS No. 123(R), "Share-Based Payment," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

SAFE HARBOR STATEMENT

The matters discussed in this 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 "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "guidance," "intend," "may," "objective," "plan," "potential," "project," "seek," "shall," "should," "target," "will," "would," or variations thereof and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause actual results to differ materially from expected results, performance or achievements of the Company expressed or implied by such forward-looking statements.

Certain of such risks and uncertainties are discussed in more detail in Part I, Item 1A, "Risk Factors," to the Company's Annual Report on Form 10-K for the year ended December 29, 2007, and include, but are not limited to, risks and uncertainties relating to investment in development activities and new production facilities; fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions, including synergies from the integration of the Paxar business in the time and the cost anticipated; ability of the Company to generate sustained productivity improvement; successful integration of acquisitions; successful implementation of new manufacturing

Management's Discussion and Analysis of Results of Operations and Financial Condition *(continued)*

technologies and installation of manufacturing equipment; the financial condition and inventory strategies of customers; customer and supplier concentrations; changes in customer order patterns; loss of significant contract(s) or customer(s); timely development and market acceptance of new products; impact of competitive products and pricing; selling prices; business mix shift; credit risks; ability of the Company to obtain adequate financing arrangements; fluctuation of interest rates; fluctuation in pension, insurance and employee benefit costs; impact of legal proceedings, including the Australian Competition and Consumer Commission investigation into industry competitive practices, and any related proceedings or lawsuits pertaining to this investigation or to the subject matter thereof or of the concluded investigations by the DOJ, the EC, and the Canadian Department of Justice (including purported class actions seeking treble damages for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation), as well as the impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China; changes in governmental regulations; changes in political conditions; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; worldwide and local economic conditions; impact of epidemiological events on the economy and the Company's customers and suppliers; acts of war, terrorism, natural disasters; 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) the impact of economic conditions on underlying demand for the Company's products; (2) the degree to which higher raw material and energy-related costs can be passed on to customers through selling price increases, without a significant loss of volume; (3) the impact of competitor's actions, including pricing, expansion in key markets, and product offerings; (4) potential adverse developments in legal proceedings and/or investigations regarding competitive activities, including possible fines, penalties, judgments or settlements; and (5) the ability of the Company to achieve and sustain targeted cost reductions, including expected synergies associated with the Paxar acquisition.

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

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management

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

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

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

Our objective in managing our exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows. To achieve our objectives, we may periodically use interest rate contracts to manage the exposure to interest rate changes related to our borrowings. In June 2007 and August 2007, we entered into certain interest rate option contracts to hedge our exposure related to interest rate increases in connection with our anticipated long-term debt issuances. Such debt issuances were intended to replace the short-term borrowings initially used to finance the Paxar acquisition and to support the refinancing of our current long-term debt maturities. In connection with these transactions, we paid \$11.5 million as option premiums, of which \$4.8 million was recognized during the year as a cash flow hedge loss in the Consolidated Statement of Income and \$6.7 million is being amortized over the life of the related forecasted hedged transactions.

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 risk, 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% 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 \$.3 million at year end 2007.

Interest Rate Sensitivity

An assumed 50 basis point move in interest rates (10% of our weighted-average interest rate on floating rate debt) affecting our variable-rate borrowings would have had an estimated \$5 million effect on our 2007 earnings.

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 71.5	\$ 58.5
Trade accounts receivable, less allowances of \$64.2 and \$58.9 at year end 2007 and 2006, respectively	1,113.8	910.2
Inventories, net	631.0	496.9
Current deferred and refundable income taxes	128.1	101.4
Other current assets	113.9	119.7
Total current assets	2,058.3	1,686.7
Property, plant and equipment, net	1,591.4	1,309.4
Goodwill	1,683.3	715.9
Other intangibles resulting from business acquisitions, net	314.2	95.5
Non-current deferred and refundable income taxes	59.9	42.7
Other assets	537.7	474.7
	\$ 6,244.8	\$ 4,324.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 1,110.8	\$ 466.4
Accounts payable	679.2	630.1
Accrued payroll and employee benefits	204.7	179.4
Accrued trade rebates	150.3	142.8
Current deferred and payable income taxes	31.4	48.4
Other accrued liabilities	301.2	231.7
Total current liabilities	2,477.6	1,698.8
Long-term debt	1,145.0	501.6
Long-term retirement benefits and other liabilities	391.5	334.2
Non-current deferred and payable income taxes	241.3	94.1
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value, authorized – 400,000,000 shares at year end 2007 and 2006; issued – 124,126,624 shares at year end 2007 and 2006; outstanding – 98,386,897 shares and 98,313,102 shares at year end 2007 and 2006, respectively	124.1	124.1
Capital in excess of par value	781.1	881.5
Retained earnings	2,290.2	2,155.6
Cost of unallocated ESOP shares	(3.8)	(5.7)
Employee stock benefit trust, 8,063,898 shares and 8,896,474 shares at year end 2007 and 2006, respectively	(428.8)	(602.5)
Treasury stock at cost, 17,645,829 shares and 16,887,048 shares at year end 2007 and 2006, respectively	(858.2)	(806.7)
Accumulated other comprehensive income (loss)	84.8	(50.1)
Total shareholders' equity	1,989.4	1,696.2
	\$ 6,244.8	\$ 4,324.9

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out ("LIFO") to first-in, first-out ("FIFO") for certain businesses operating in the U.S.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	2007	2006	2005
Net sales	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Cost of products sold	4,585.4	4,037.9	3,996.6
Gross profit	1,722.4	1,538.0	1,476.9
Marketing, general and administrative expense	1,182.5	1,011.1	987.9
Interest expense	105.2	55.5	57.9
Other expense, net	59.4	36.2	63.6
Income from continuing operations before taxes	375.3	435.2	367.5
Taxes on income	71.8	76.7	75.3
Income from continuing operations	303.5	358.5	292.2
Income (loss) from discontinued operations, net of tax (including gain on disposal of \$1.3 and tax benefit of \$14.9 in 2006)	—	14.7	(65.4)
Net income	\$ 303.5	\$ 373.2	\$ 226.8

Per share amounts:

Net income (loss) per common share:

Continuing operations	\$ 3.09	\$ 3.59	\$ 2.92
Discontinued operations	—	.15	(.65)

Net income per common share	\$ 3.09	\$ 3.74	\$ 2.27
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Net income (loss) per common share, assuming dilution:

Continuing operations	\$ 3.07	\$ 3.57	\$ 2.91
Discontinued operations	—	.15	(.65)

Net income per common share, assuming dilution	\$ 3.07	\$ 3.72	\$ 2.26
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Dividends	\$ 1.61	\$ 1.57	\$ 1.53
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Average shares outstanding:

Common shares	98.1	99.8	100.1
Common shares, assuming dilution	98.9	100.4	100.5
Common shares outstanding at year end	98.4	98.3	99.7

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain businesses operating in the U.S.

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 com- prehensive income (loss)	Total
(Dollars in millions, except per share amount)								
Fiscal year ended 2004, as previously stated	\$ 124.1	\$ 766.1	\$ 1,887.6	\$ (9.7)	\$ (619.1)	\$ (597.6)	\$ (2.7)	\$ 1,548.7
Impact of adopting change in accounting for inventory			9.3					9.3
Fiscal year ended 2004, as restated	124.1	766.1	1,896.9	(9.7)	(619.1)	(597.6)	(2.7)	1,558.0
Comprehensive income:								
Net income			226.8					226.8
Other comprehensive income:								
Foreign currency translation adjustment							(90.6)	(90.6)
Minimum pension liability adjustment, net of tax of \$2.2							(.9)	(.9)
Effective portion of gains or losses on cash flow hedges, net of tax of \$(3.1)							5.1	5.1
Other comprehensive income							(86.4)	(86.4)
Total comprehensive income								140.4
Repurchase of 693,005 shares for treasury, net of shares issued						(40.6)		(40.6)
Stock issued under option plans, including \$18.8 of tax and dividends paid on stock held in stock trusts		11.3			19.2			30.5
Dividends: \$1.53 per share			(168.7)					(168.7)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		(47.9)			47.9			—
Fiscal year ended 2005	124.1	729.5	1,955.0	(7.7)	(552.0)	(638.2)	(89.1)	1,521.6
Comprehensive income:								
Net income			373.2					373.2
Other comprehensive income:								
Foreign currency translation adjustment							101.0	101.0
Effective portion of gains or losses on cash flow hedges, net of tax of \$1.8							(3.1)	(3.1)
Minimum pension liability adjustment, net of tax of \$.6							(2.2)	(2.2)
Other comprehensive income							95.7	95.7
Total comprehensive income								468.9
Adjustment to initially adopt SFAS No. 158:								
Adjustment to minimum pension liability to initially apply SFAS No. 158, net of tax of \$(59.2)							114.0	114.0
Net actuarial loss, prior service cost and net transition obligation, net of tax of \$62.2							(170.8)	(170.8)
Effects of changing pension plan measurement date pursuant to SFAS No. 158:								
Service cost, interest cost, and expected return on plan assets for December 1 – December 30, 2006, net of tax			(.8)					(.8)
Amortization of prior service cost for December 1 – December 30, 2006, net of tax							.1	.1
Repurchase of 2,524,194 shares for treasury, net of shares issued						(168.5)		(168.5)
Stock issued under option plans, including \$22.7 of tax and dividends paid on stock held in stock trusts		30.4			71.1			101.5
Dividends: \$1.57 per share			(171.8)					(171.8)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		121.6			(121.6)			—
Fiscal year ended 2006	124.1	881.5	2,155.6	(5.7)	(602.5)	(806.7)	(50.1)	1,696.2
Comprehensive income:								
Net income			303.5					303.5
Other comprehensive income:								
Foreign currency translation adjustment							105.5	105.5
Effective portion of gains or losses on cash flow hedges, net of tax of \$(.1)							.2	.2
Amortization of net actuarial loss, prior service cost and net transition asset, net of tax of \$(10)							29.2	29.2
Other comprehensive income							134.9	134.9
Total comprehensive income								438.4
Effects of adopting FIN 48			2.9					2.9
Repurchase of 758,781 shares for treasury, net of shares issued						(51.5)		(51.5)
Stock issued under option plans, including \$19.3 of tax and dividends paid on stock held in stock trusts		19.3			54.0			73.3
Dividends: \$1.61 per share			(171.8)					(171.8)
ESOP transactions, net				1.9				1.9
Employee stock benefit trusts market value adjustment		(119.7)			119.7			—
Fiscal year ended 2007	\$ 124.1	\$ 781.1	\$ 2,290.2	\$ (3.8)	\$ (428.8)	\$ (858.2)	\$ 84.8	\$ 1,989.4

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain businesses operating in the U.S.

See Notes to Consolidated Financial Statement

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2007	2006	2005
Operating Activities			
Net income	\$ 303.5	\$ 373.2	\$ 226.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	184.1	154.3	155.7
Amortization	50.5	43.6	45.8
Deferred taxes	(37.5)	(7.3)	(12.3)
Asset impairment and net loss (gain) on sale and disposal of assets of \$10.9, \$(13.9), and \$7 in 2007, 2006, and 2005, respectively	44.0	(7.8)	108.1
Stock-based compensation	21.6	24.1	—
Other non-cash items, net	(15.4)	(6.5)	(7.5)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures:			
Trade accounts receivable	1.0	(2.3)	(43.9)
Inventories	(5.3)	(24.6)	(12.4)
Other current assets	18.8	(45.6)	(4.3)
Accounts payable and accrued liabilities	(87.1)	8.9	30.4
Taxes on income	6.1	12.6	(31.9)
Long-term retirement benefits and other liabilities	15.1	(11.8)	(12.9)
Net cash provided by operating activities	499.4	510.8	441.6
Investing Activities			
Purchase of property, plant and equipment	(190.5)	(161.9)	(162.5)
Purchase of software and other deferred charges	(64.3)	(33.4)	(25.8)
Payments for acquisitions	(1,291.9)	(13.4)	(2.8)
Proceeds from sale of assets	4.9	15.4	21.8
Proceeds from sale of businesses and investments	—	35.4	—
Other	(1.4)	3.0	1.7
Net cash used in investing activities	(1,543.2)	(154.9)	(167.6)
Financing Activities			
Net increase (decrease) in borrowings (maturities of 90 days or less)	792.2	(137.8)	58.2
Additional borrowings (maturities longer than 90 days)	688.8	—	76.2
Payments of debt (maturities longer than 90 days)	(222.0)	(2.3)	(214.9)
Dividends paid	(171.8)	(171.8)	(168.7)
Purchase of treasury stock	(63.2)	(157.7)	(40.9)
Proceeds from exercise of stock options, net	38.1	54.1	11.1
Other	(6.7)	17.7	18.5
Net cash provided by (used in) financing activities	1,055.4	(397.8)	(260.5)
Effect of foreign currency translation on cash balances	1.4	1.9	.2
Increase (decrease) in cash and cash equivalents	13.0	(40.0)	13.7
Cash and cash equivalents, beginning of year	58.5	98.5	84.8
Cash and cash equivalents, end of year	\$ 71.5	\$ 58.5	\$ 98.5

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain businesses operating in the U.S.

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.

Principles of Consolidation

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

Financial Presentation

Certain prior year amounts have been restated or reclassified to conform with the current year presentation as a result of the following:

Change in Accounting Method

Beginning in the fourth quarter of 2007, the Company changed its method of accounting for inventories for the Company's U.S. operations from a combination of the use of the first-in, first-out ("FIFO") and the last-in, first-out ("LIFO") methods to the FIFO method. The inventories for the Company's international operations continue to be valued using the FIFO method. The Company believes the change is preferable as the FIFO method better reflects the current value of inventories on the Consolidated Balance Sheet; provides better matching of revenue and expense in the Consolidated Statement of Income; provides uniformity across the Company's operations with respect to the method for inventory accounting; and enhances comparability with peers. Furthermore, this application of the FIFO method will be consistent with the Company's accounting of inventories for U.S. income tax purposes.

The change in accounting method from LIFO to FIFO method was completed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections." The Company applied the change in accounting principle by retrospectively restating prior years' financial statements. The benefit to operating income from continuing operations for the years ended December 30, 2006 and December 31, 2005 was \$9.6 million and \$.7 million, respectively. There was no impact to discontinued operations.

If the Company had not changed its policy for accounting for inventory, pre-tax income would have been lower by \$1.1 million for the year ended December 29, 2007.

The effect of the change on previously reported consolidated operating results for the year ended December 30, 2006 was as follows:

(In millions)	As previously reported	Effect of change	As restated
Assets			
Inventories, net	\$ 471.8	\$ 25.1	\$ 496.9
Current deferred and refundable income taxes	95.2	6.2	101.4
Liabilities and shareholders' equity			
Non-current deferred and payable income taxes	\$ 78.5	\$ 15.6	\$ 94.1
Retained earnings	2,139.9	15.7	2,155.6

Discontinued Operations

In 2006, the Company completed the sale of its raised reflective pavement markers business, which was announced in December 2005. The results for this business were accounted for as discontinued operations in the consolidated financial statements for the years presented herein. The divestiture resulted in a tax benefit of \$14.9 million due to capital losses arising from the sale of the business and a gain on sale of \$1.3 million. Based on the estimated value for this business, management concluded that associated goodwill and intangible assets from the acquisition of this business were impaired, resulting in a pretax charge of \$74.4 million in December 2005. This business was previously included in the Pressure-sensitive Materials segment.

Summarized, combined statement of income for discontinued operations:

(In millions)	2006	2005
Net sales	\$ 7.2	\$ 22.8
Loss before taxes	\$ (1.3)	\$ (76.9)
Taxes on income	.2	(11.5)
Loss from operations, net of tax	(1.5)	(65.4)
Gain on sale of discontinued operations	1.3	—
Tax benefit from sale	(14.9)	—
Income (loss) from discontinued operations, net of tax	\$ 14.7	\$ (65.4)

See also Note 11, "Taxes Based on Income."

Amortization expense on other intangible assets related to discontinued operations was \$2 million in 2005.

Summarized, combined balance sheet for discontinued operations (classified as held-for-sale):

(In millions)	2005
Current assets	\$ 3.9
Property, plant and equipment, net	5.1
Other assets	2.9
Total non-current assets ⁽¹⁾	8.0
Current liabilities	2.2
Non-current liabilities	.5

(1) Included in "Other assets" in the Consolidated Balance Sheet

Reclassification of Shipping and Handling Costs

In 2006, shipping and handling costs, which were previously classified in "Marketing, general and administrative expense" for the Retail Information Services segment, Office and Consumer Products segment, and most businesses included in the other specialty converting businesses, were reclassified to "Cost of products sold" to align the Company's businesses around a standard accounting policy. Shipping and handling costs, which consist primarily of transportation charges incurred to move finished goods to customers, were approximately \$145 million for 2005.

Segment Reporting

The Company's segments are:

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

In addition to the reportable segments, the Company has other specialty converting businesses comprised of several businesses that produce specialty tapes and highly engineered labels, including radio-frequency identification ("RFID") inlays and other converted products.

In the second quarter of 2006, the Company transferred its business media division from the Retail Information Services segment into other specialty converting businesses to align with a change in its internal reporting structure. Prior year amounts included herein have been reclassified to conform to the current year presentation.

In 2007, the Pressure-sensitive Materials segment contributed approximately 55% of the Company's total sales, while the Retail Information Services segment and the Office and Consumer Products segment contributed approximately 19% and 16%, respectively, of the Company's total sales. The other specialty converting businesses contributed the remaining 10% of the Company's total sales. International and domestic operations generated approximately 63% and 37%, respectively, of the Company's total sales in 2007. Refer to Note 12, "Segment Information," for further detail.

Fiscal Year

The Company's 2007, 2006 and 2005 fiscal years reflected 52-week periods ending December 29, 2007, December 30, 2006, and December 31, 2005, 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 income taxes was as follows:

(In millions)	2007	2006	2005
Interest, net of capitalized amounts	\$ 93.6	\$ 52.0	\$ 55.9
Income taxes, net of refunds	106.2	60.4	113.1

In 2007, 2006 and 2005, non-cash activities included accruals for capital expenditures of approximately \$14 million, \$18 million and \$27 million, respectively, due to the timing of payments. In 2005, fixed assets acquired through capital leases totaled approximately \$9 million. These assets were sold and leased-back in 2006, under an operating lease. Additionally in 2006, non-cash activities included approximately \$11 million in purchases of treasury stock, which were completed in late 2006 but not settled until January 2007.

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. The customer complaint reserve represents estimated sales returns and allowances. These allowances are used to reduce gross trade receivables to their net realizable values. In 2007 and 2006, the Company recorded expenses of approximately \$19 million and approximately \$32 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 the Company's historical experience

No single customer represented 10% or more of the Company's net sales or trade receivables at year end 2007 and 2006. However, the ten largest customers at year end 2007 represented approximately

17% of trade accounts receivable and consisted of six customers of the Company's Office and Consumer Products segment, three customers of the Pressure-sensitive Materials segment and one customer of both these segments. The Company does not generally require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis.

Inventories

Inventories are stated at the lower of cost or market value.

Inventories at year end were as follows:

(In millions)	2007	2006
Raw materials	\$ 252.6	\$ 170.5
Work-in-progress	151.5	127.5
Finished goods	304.2	243.2
Inventories at lower of FIFO cost or market (approximates replacement cost)	708.3	541.2
Inventory reserves	(77.3)	(44.3)
Inventories, net	\$ 631.0	\$ 496.9

Property, Plant and Equipment

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

(In millions)	2007	2006
Land	\$ 69.7	\$ 54.8
Buildings and improvements	733.6	626.8
Machinery and equipment	2,278.2	1,959.7
Construction-in-progress	114.4	134.3
Property, plant and equipment	3,195.9	2,775.6
Accumulated depreciation	(1,604.5)	(1,466.2)
Property, plant and equipment, net	\$ 1,591.4	\$ 1,309.4

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 shorter of the useful life of the asset or 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 assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain 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 these capitalized costs are included in "Other assets" in the Consolidated Balance Sheet. The Company capitalizes internal and external costs that are incurred during the application development stage of the software development, including costs incurred for the design, coding, installation to hardware, testing, and upgrades and

enhancements that provide additional functionalities and capabilities to the software and hardware of the chosen path. Internal and external costs during the preliminary project stage are expensed, as well as those costs during the post-implementation and/or operation stage are expensed, including internal and external training costs and maintenance costs.

Capitalized software is amortized on a straight-line basis over the estimated useful life of the software, ranging from two to ten years. Capitalized software costs were as follows:

(In millions)	2007	2006
Cost	\$ 293.1	\$ 259.0
Accumulated amortization	(167.1)	(145.8)
	\$ 126.0	\$ 113.2

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 quoted market prices, if available, or 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. Refer to the Discontinued Operations section of this note, as well as Note 10, "Cost Reduction Actions," for details of impairment charges recorded in 2007, 2006 and 2005.

Goodwill and Other Intangibles Resulting from Business Acquisitions

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. Other separately identifiable intangibles include trademarks and trade names, patents and other acquired technology, customer relationships and other intangibles.

The Company's reporting units for the purposes of performing the impairment tests for goodwill and other intangible assets consist of office and consumer products; retail information services; roll materials; graphics and reflective; business media; industrial products; RFID; performance polymers; specialty tapes, performance films; and security printing. 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. The Company performed its annual impairment test in the fourth quarter of 2007, 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. In connection with the acquisition of Paxar Corporation ("Paxar"), the Company acquired approximately \$30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. See Note 2, "Acquisitions."

The Company's reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. Certain factors, including the decision to divest an individual

business within a reporting unit, may result in the need to perform an impairment test prior to the annual impairment test. In the event that an individual business within a reporting group is divested, goodwill is allocated to that business based on its fair value relative to its reporting unit, which could result in a gain or loss. If a divested business within a reporting unit has not been integrated with other businesses within that reporting unit, the net book value of the goodwill associated with the business to be divested would be included in the carrying amount of the business when determining the gain or loss on disposal.

See also Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions."

Foreign Currency

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 in the period incurred. Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Gains and losses resulting from hedging the value of investments in certain international operations and from translation of balance sheet accounts are recorded directly as a component of other comprehensive income.

Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) increased net income by \$1.4 million and \$1.3 million in 2007 and 2006, respectively, and decreased net income by \$2.2 million in 2005. These results exclude the effects of translation of foreign currencies on the Company's financial statements.

In 2007, the Company had no operations in hyperinflationary economies. In 2006, the only hyperinflationary economy in which the Company operated was the Dominican Republic, in which the Company uses the U.S. dollar as the functional currency. In 2005, the Company's operations in hyperinflationary economies consisted of the Dominican Republic and Turkey; however, the impact on net income from these operations was not significant.

Financial Instruments

For purposes of this section of Note 1 and Note 5, "Financial Instruments," 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, "Accounting for Derivative Instruments and Hedging Activities," as amended.

The Company enters into certain foreign exchange hedge 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 to 24 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 income (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 current period earnings. Changes in fair value hedges are recognized in current period earnings. Changes in the fair value of underlying hedged items (such as recognized assets or liabilities) are also recognized in current period earnings and offset the changes in the fair value of the derivative.

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

Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, and collection is reasonably assured. Furthermore, sales, provisions for estimated returns, and the cost of products sold are recorded at the time title transfers to customers and when the customers assume the risks and rewards of ownership. Sales terms are generally f.o.b. (free on board) shipping point or f.o.b. destination, depending upon local business customs. For most regions in which the Company operates, f.o.b. shipping point terms are utilized and sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. In certain regions, notably in Europe, f.o.b. destination terms are generally utilized and sales are recorded when the products are delivered to the customer's "normal place of delivery," because this is when title and risk of loss are transferred. Actual product returns are charged against estimated sales return allowances.

Sales rebates and discounts are common practice in the industries in which the Company operates. 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. The Company reviews such rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were \$20.3 million in 2007, \$16.2 million in 2006, and \$14.1 million in 2005. 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 was \$95.5 million in 2007, \$87.9 million in 2006, and \$85.4 million in 2005.

Pensions and Postretirement Benefits

Assumptions used in determining projected benefit obligations and the fair value of plan assets for the Company's pension plan and other postretirement benefit plans are evaluated by management in consultation with outside actuaries. In the event that the Company determines 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. Due to changing market conditions or changes in the participant population, the actuarial assumptions that the Company uses may differ from actual results, which could have a significant impact on the Company's pension and postretirement liability and related cost. Refer to Note 6, "Pensions and Other Postretirement Benefits," for further detail on such assumptions.

Product Warranty

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

Product warranty liabilities were as follows:

(In millions)	2007	2006	2005
Balance at beginning of year	\$ 1.9	\$ 2.5	\$ 1.9
Accruals for warranties issued	.8	.7	1.9
Assumed accrued warranty liability ⁽¹⁾	.5	—	—
Payments	(.7)	(1.3)	(1.3)
Balance at end of year	\$ 2.5	\$ 1.9	\$ 2.5

(1) Related to the Paxar acquisition

Stock-Based Compensation

The terms used in this section of Note 1 and Note 9, "Shareholders' Equity and Stock-Based Compensation," including "short-cut method" and "windfall tax benefit," are as defined in SFAS No. 123(R), "Share-Based Payment."

Prior to January 1, 2006, the Company accounted for stock options in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. Except for costs related to restricted stock units ("RSUs") and restricted stock, no stock-based compensation cost was recognized in net income prior to January 1, 2006.

Effective January 1, 2006, the Company began recognizing expense for stock options to comply with the provisions of the reissued SFAS No. 123(R), "Share-Based Payment," using the modified prospective

application transition method. As permitted by this transition method, results for the prior periods have not been restated.

As of January 1, 2006, the Company elected to use the short-cut method to calculate the historical pool of windfall tax benefits related to employee stock-based compensation awards, in accordance with the provisions of SFAS No. 123(R). In addition, the Company elected to follow the tax ordering laws to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculating the amount of windfall and shortfall tax benefits.

Effect of Stock Options on Net Income

Net income for 2007 and 2006 include pretax stock option expense of \$15.8 million (including approximately \$1 million associated with Paxar converted stock options) and \$20.9 million, respectively. These expenses were included in "Marketing, general and administrative expense" and were recorded in corporate expense and the Company's operating segments, as appropriate. No stock-based compensation cost was capitalized for the years ended December 29, 2007 and December 30, 2006.

The provisions of SFAS No. 123(R) require that stock-based compensation awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, pretax compensation expense related to stock options granted to retirement-eligible employees (approximately \$5 million) was recognized during 2006 and is included in the compensation expense noted above. During 2007, the recognized pretax compensation expense related to stock options granted to retirement-eligible employees was not significant.

The following illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock options granted under the Company's stock option plans during the 2005 fiscal year.

(In millions, except per share amounts)	2005
Net income, as reported	\$ 226.8
Compensation expense, net of tax	(15.7)
Net income, pro forma	\$ 211.1
Net income per share, as reported	\$ 2.27
Net income per share, assuming dilution, as reported	2.26
Pro forma net income per share	\$ 2.11
Pro forma net income per share, assuming dilution	2.10

See also Note 9, "Shareholders' Equity and Stock-Based Compensation."

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 each reporting period 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 range of the cost of compliance or remediation can be estimated, the best estimate within the range, or if an amount cannot be determined and be the most likely, the low end of the range is accrued. Potential insurance reimbursements are not

offset against potential liabilities, and such liabilities are not discounted. As of December 29, 2007, the Company's estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, "Acquisitions."

In December 2005, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." As a result, the Company recognized a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditional upon a future event that may or may not be within the control of the Company. Certain potential obligations have not been included in the Company's estimate, because the range of time over which the Company may settle the obligation or the method of settlement is unknown or cannot be reasonably estimated. The Company's estimated liability associated with asset retirement obligations was not significant as of December 29, 2007.

Restructuring and Severance Costs

The Company accounts for restructuring costs including severance and other costs associated with exit or disposal activities following the guidance provided in SFAS No. 112, "Accounting for Postemployment Benefits," and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." In the U.S., the Company has a severance pay plan ("Pay Plan"), which provides eligible employees with severance payments in the event of an involuntary termination due to qualifying cost reduction actions. Severance pay is calculated by using a severance benefit formula under the Pay Plan. Accordingly, the provisions for such amounts and other related exit costs are recorded when they are probable and estimable as set forth under SFAS No. 112. In the absence of a Pay Plan or established local practices for overseas jurisdictions, liability for severance and other employee-related costs is recognized when the liability is incurred, following the guidance of SFAS No. 146. See also Note 10, "Cost Reduction Actions."

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 assets and liabilities 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.

Pursuant to SFAS No. 109, "Accounting for Income Taxes," when establishing a valuation allowance, the Company considers future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies." SFAS No. 109 defines a tax planning strategy as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event the Company determines that the deferred tax assets will not be realized 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. The Company has also acquired certain net deferred tax assets with existing valuation allowances. If it is later determined that it is more likely than not that the deferred tax assets will be realized, the Company will release the valuation allowance to current earnings or adjust the purchase price allocation, consistent with the manner of origination.

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 filed in subsequent years. Adjustments based on filed returns are recorded when identified.

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, pursuant to Financial Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." FIN 48 requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company records a liability for the difference between the benefit recognized and measured pursuant to FIN 48 and tax position taken or expected to be taken on the tax return. To the extent that the Company's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Company reports tax-related interest and penalties as a component of income tax expense.

See also Note 11, "Taxes Based on Income."

Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2007	2006	2005
(A) Income from continuing operations	\$ 303.5	\$ 358.5	\$ 292.2
(B) Income (loss) from discontinued operations	–	14.7	(65.4)
(C) Net income available to common shareholders	\$ 303.5	\$ 373.2	\$ 226.8
(D) Weighted-average number of common shares outstanding	98.1	99.8	100.1
Dilutive shares (additional common shares issuable under employee stock options, RSUs and restricted stock, contingently issuable shares under an acquisition agreement in 2004 ⁽¹⁾ , and nonvested shares under employee agreements in 2005 and 2004)	.8	.6	.4
(E) Weighted-average number of common shares outstanding, assuming dilution	98.9	100.4	100.5
Income from continuing operations per common share (A) ÷ (D)	\$ 3.09	\$ 3.59	\$ 2.92
Income (loss) from discontinued operations per common share (B) ÷ (D)	–	.15	(.65)
Net income per common share (C) ÷ (D)	\$ 3.09	\$ 3.74	\$ 2.27
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	\$ 3.07	\$ 3.57	\$ 2.91
Income (loss) from discontinued operations per common share, assuming dilution (B) ÷ (E)	–	.15	(.65)
Net income per common share, assuming dilution (C) ÷ (E)	\$ 3.07	\$ 3.72	\$ 2.26

(1) Represents L&E Packaging's exercise of its true-up right provided under the related acquisition agreement

Certain employee stock options, RSUs, performance share awards, and shares of restricted stock were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock options, RSUs, performance share awards, and shares of restricted stock excluded from the computation totaled 4.4 million in 2007, 4.6 million in 2006, and 4.6 million in 2005. The amount excluded for fiscal year 2007 and 2006 reflected the impact of additional dilutive shares following the calculation of assumed proceeds under the treasury stock method, as prescribed by SFAS No. 123(R).

Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, net actuarial loss, prior service cost and net transition assets, adjustments related to the implementation of SFAS No. 158, 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 \$438.4 million, \$468.9 million and \$140.4 million for 2007, 2006 and 2005, respectively.

The components of accumulated other comprehensive income (loss) (net of tax, with the exception of the foreign currency translation adjustment), at December 29, 2007 were as follows:

(In millions)	2007	2006
Foreign currency translation adjustments	\$ 243.1	\$ 137.6
Net actuarial loss, prior service cost and net transition assets, less amortization	(141.5)	(170.8)
Effect of the change in measurement date	–	.1
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(16.8)	(17.0)
Accumulated other comprehensive income (loss)	\$ 84.8	\$ (50.1)

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

(In millions)	2007	2006
Beginning accumulated derivative loss	\$ (17.0)	\$ (13.9)
Net loss reclassified to earnings	10.5	5.5
Net change in the revaluation of hedging transactions	(10.3)	(8.6)
Ending accumulated derivative loss	\$ (16.8)	\$ (17.0)

Business Combinations

The Company accounts for business combinations using the accounting requirements of SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, the Company records the assets acquired and liabilities assumed from acquired businesses at fair value, and the Company makes estimates and assumptions to determine such fair values. The Company engages third-party valuation specialists to assist in determining these fair value estimates.

The Company utilizes a variety of assumptions and estimates that are believed to be reasonable in determining fair value for assets acquired and liabilities assumed. These assumptions and estimates include estimated future cash flows, growth rates, current replacement cost for similar capacity for certain assets, market rate assumptions for certain obligations and certain potential costs of compliance with environmental laws related to remediation and cleanup of acquired properties. The Company also utilizes information obtained from management of the acquired businesses and our own historical experience from previous acquisitions.

The Company applies significant assumptions and estimates in determining certain intangible assets resulting from the acquisitions (such as customer relationships, patents and other acquired technology, and trademarks and trade names and related applicable useful lives), property, plant and equipment, receivables, inventories, investments, tax accounts, environmental liabilities, stock option awards, lease commitments and restructuring and integration costs. Unanticipated events and circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results. As such, decreases to fair value of assets acquired and liabilities assumed (including cost estimates for certain obligations and liabilities) are recorded as an adjustment to

goodwill indefinitely, whereas increases to the estimates are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses thereafter.

Recent Accounting Requirements

SFAS No. 123(R) and Related Guidance

In October 2006, FASB issued Staff Position ("FSP") No. FAS 123(R)-6, "Amendment of FASB Staff Position FAS 123(R)-1." This guidance addresses certain technical corrections of SFAS No. 123(R). These corrections include (a) exempting nonpublic companies from disclosing the aggregate intrinsic value of outstanding fully vested share options (or share units) and those expected to vest; (b) revising the computation of the minimum compensation cost that must be recognized to comply with paragraph 142 of SFAS No. 123(R); (c) indicating that at the date that awards are no longer probable of vesting, any previously recognized compensation cost should be reversed; and (d) amending the definition of short-term inducement to exclude an offer to settle an award. This FSP is applicable in the first reporting period beginning after October 20, 2006. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In April 2005, the Securities and Exchange Commission ("SEC") delayed the effective date of the reissued SFAS No. 123(R), "Share-Based Payment," to the beginning of the first annual reporting period beginning after June 15, 2005. This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes 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 and requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Company adopted the recognition provisions of this Statement in January 2006 and followed the guidance under modified prospective application. See Note 9, "Shareholders' Equity," for further discussion.

Other Requirements

In December 2007, the FASB issued FAS No. 141(R), "Business Combinations." This Statement replaces SFAS No. 141, "Business Combinations," and defines the acquirer as the entity that obtains control of one or more business in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. This Statement applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FAS 115 (February 2007)." This Statement details the disclosures required for items measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt this Statement when applicable. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,

an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires (a) the recognition of funded status of a defined benefit postretirement plan in the statement of financial position and changes in the funded status through comprehensive income; (b) as a component of other comprehensive income, the recognition of actuarial gains and losses and the prior service costs and credits (net of tax) that arise during the period, but are not recognized in the income statement; (c) measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position; and (d) disclosure of additional information about certain effects on net periodic benefit cost for the next fiscal year, that arise from delayed recognition of the gains and losses, prior service costs or credits, and transition assets or obligations. The provisions of this Statement are effective as of the end of fiscal years ending after December 15, 2006, except for the requirement to measure plan assets and obligations as of the date of the employer's fiscal year end statement of financial position, which is effective for fiscal years ending after December 15, 2008. The Company has adopted all provisions of SFAS No. 158, including changing the measurement date of the majority of the U.S. plans to coincide with the fiscal year end. The adoption of SFAS No. 158 has reduced total shareholders' equity by approximately \$57 million, net of tax, in 2006. The adoption of SFAS No. 158 did not affect the Company's financial results of operations as of December 30, 2006.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosure about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt this Statement when applicable. The Company is currently evaluating the impact of this Statement on the financial results of operations and financial position.

In September 2006, the FASB issued FSP AUG AIR-1, "Accounting for Planned Major Maintenance Activities." This FSP prohibits the use of the accrue-in-advance method of accounting and directs that entities shall apply the same method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The guidance in this FSP is effective for fiscal years beginning after December 15, 2006. The adoption of this guidance did not have a significant impact on the Company's financial results of operations and financial position.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." This SAB provides guidance on approaches to considering the effects of identified unadjusted errors on financial statements, and what steps shall be taken to correct previously filed reports. The guidance in this SAB is effective for fiscal years beginning after November 15, 2006, and registrants electing not to restate financial statements for fiscal years ending on or before November 15, 2006 should reflect the effects of initially applying this guidance in their annual financial statements covering the first fiscal year ending after November 15, 2006. There was no cumulative effect at the time the Company adopted this guidance.

In July 2006, the FASB issued FIN 48, which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after

December 15, 2006 and the Company adopted this Interpretation in 2007. Upon adoption of FIN 48, the Company recognized a decrease of \$2.9 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the beginning balance of retained earnings. See Note 11, "Taxes Based on Income," for further discussion.

In March 2006, the consensus of Emerging Issues Task Force Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)," was published. The scope of this Issue includes any tax assessed by a government authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value-added, and some excise taxes. The consensus of this Issue should be applied for interim and annual reporting periods beginning after December 15, 2006. The adoption of this Issue has not had a significant impact on the Company's financial results of operations, because the Company does not generally recognize taxes collected from customers and remitted to governmental authorities in the Company's financial results of operations.

In October 2005, the FASB issued FSP No. FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." This FSP clarifies that rental costs of operating leases that are incurred during a construction period should be recognized as rental expense. The guidance in this FSP was applied beginning in 2006. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In September 2005, the consensus of the Emerging Issues Task Force ("EITF") Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty," was published. An entity may sell inventory to another entity in the same line of business from which it also purchases inventory. This Issue states that inventory purchases and sales transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying APB Opinion No. 29. In addition, a nonmonetary exchange, whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-process inventory within the same line of business, is not an exchange transaction to facilitate sales to customers as described in APB Opinion No. 29, and, therefore, should be recognized by the entity at fair value. Other nonmonetary exchanges of inventory within the same line of business should be recognized at the carrying amount of the inventory transferred. This Issue was effective for new arrangements entered into, or modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In June 2005, the consensus of EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination," was published and was effective for the reporting period after ratification. This Issue addresses the amortization period for leasehold improvements acquired in a business combination or placed in service after lease inception. The adoption of this Issue has not had a significant impact on the Company's financial results of operations and financial position.

In June 2005, the consensus of EITF Issue No. 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements),"

was published. This Issue addresses how an employer should account for the bonus feature and additional contributions into the German government pension scheme (collectively, the additional compensation) under a Type II Altersteilzeit ("ATZ") arrangement, and the government subsidy under Type I and Type II ATZ arrangements. The consensus in this Issue was applicable beginning in fiscal year 2006. The adoption of this Issue has not had a significant impact on the Company's financial results of operations and financial position.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement is effective for fiscal year 2006. Beginning in the fourth quarter of 2007, the Company changed its method of accounting for inventories for the Company's U.S. operations from a combination of the use of FIFO and LIFO methods to the FIFO method. The Company applied this change in accounting principle by retrospectively restating prior years' financial statements. In 2006, the Company changed its accounting treatment for shipping and handling costs as described in the Shipping and Handling Costs section of this note, and retrospectively applied this change by reclassifying shipping and handling costs for previously reported financial statements for comparability to the current period as required by SFAS No. 154. The provisions of SFAS No. 154 were not applicable to the adoption of SFAS No. 123(R) and SFAS No. 158, since there are specific transition provisions within those Statements.

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"). The Company paid premiums to insurance carriers for life insurance placed by the Mullin Companies in connection with various of the Company's employee benefit plans. The Mullin Companies have advised the Company that they earned commissions from such insurance carriers for the placement and renewal of this insurance. Approximately 50% of these commissions were allocated to and used by MullinTBG Insurance Agency Services, LLC (an affiliate of MC) to administer benefit plans and provide benefit statements to participants under various 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, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company ("M Life"), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life's aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised the Company that they participated in net reinsurance gains of M Life.

In addition, the Mullin Companies have advised the Company that they also participated in net reinsurance gains of M Life that are subject to risk of forfeiture. None of these transactions were significant to the financial position or financial results of operations of the Company.

Summary of Related Party Activity:

(In millions)	2007	2006	2005
Mullin Companies commissions on the Company's insurance premiums	\$.4	\$.5	\$.9
Mr. Mullin's direct & indirect interest in these commissions	.3	.4	.7
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to the Company's life insurance policies	.2	.3	.2
Mr. Mullin's direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.2	.1
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to the Company's life insurance policies	.8	.6	1.5
Mr. Mullin's direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	.5	.4	1.1

NOTE 2. ACQUISITIONS

On June 15, 2007, the Company completed the acquisition of Paxar Corporation ("Paxar"), a global leader in retail tag, ticketing, and branding systems. In accordance with the terms of the acquisition agreement, each outstanding share of Paxar common stock, par value \$0.10 was converted into the right to receive \$30.50 in cash. At June 15, 2007, outstanding options to purchase Paxar Common Stock, shares of Paxar restricted stock and Paxar performance share awards were converted into weight-adjusted options to purchase the Company's common stock, shares of the Company's restricted stock and, at the Company's election, shares of the Company's restricted stock or the Company's restricted stock units, respectively. The occurrence of certain circumstances resulted in the accelerated vesting of certain of these equity awards.

The Paxar operations are included in the Company's Retail Information Services segment. The combination of the Paxar business into the Retail Information Services segment increases the Company's presence in the expanding and fragmented retail information and brand identification market, combines complementary strengths and broadens the range of the Company's product and service capabilities, improves the Company's ability to meet customer demands for product innovation and improved quality of service, and facilitates expansion into new product and geographic segments. The integration of the acquisition into the Company's operations is also expected to result in significant cost synergies.

Preliminary Purchase Price Allocation

The total purchase price was approximately \$1.3 billion for the outstanding shares of Paxar, including transaction costs of approximately \$15 million. The acquisition was initially funded by commercial paper borrowings, supported by a bridge revolving credit facility (see Note 4, "Debt," and Note 14, "Subsequent Events").

In accordance with SFAS No. 141, "Business Combinations," the preliminary balance sheet allocation of the purchase price as of December 29, 2007 has been made and recorded in the Consolidated Financial Statements. The preliminary allocation of the purchase price

was primarily based on preliminary third-party valuations of the acquired assets; however, ongoing assessments of the fair value of certain assets and obligations are expected to impact the allocation of the purchase price, including obligations resulting from additional restructuring and integration actions, potential environmental liabilities and tax assets and/or liabilities.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition, as reflected in the Consolidated Balance Sheet at December 29, 2007.

(In millions)	June 15, 2007
Current assets (including cash and cash equivalents of approximately \$47 million)	\$ 350.8
Property, plant, and equipment, net	253.1
Other assets	1.5
Intangible assets	233.8
Goodwill	931.3
Total assets acquired	\$ 1,770.5
Current liabilities	205.8
Other long-term liabilities	207.4
Other equity	24.2
Total liabilities and other equity	\$ 437.4
Net assets acquired	\$ 1,333.1

The Company assumed liabilities of approximately \$413 million, including accounts payable and other current and long-term liabilities. Included in this amount is approximately \$5 million of long-term debt, which remains outstanding at December 29, 2007. In addition, the Company has assumed additional standby letters of credit of \$7.3 million.

The excess of the cost-basis over the fair value of the net tangible assets acquired is currently estimated to be approximately \$1.2 billion, including goodwill of approximately \$931 million and identified intangible assets of approximately \$234 million, which includes amortizable and non-amortizable intangible assets.

Identifiable intangible assets consist of customer relationships, patents and other acquired technology and other intangibles. These acquired amortizable intangible assets have a preliminary estimated weighted-average useful life of nine years. These intangible assets include approximately \$176 million for customer relationships with a weighted-average useful life of ten years; approximately \$24 million for patents and other acquired technology with a weighted-average useful life of eight years; and approximately \$4 million for other intangibles with a weighted-average useful life of ten years. Furthermore, approximately \$30 million of the acquired intangible assets related to trade names and trademarks are not subject to amortization because they have an indefinite useful life.

The goodwill from this acquisition is not expected to be deductible for U.S. tax purposes. Refer also to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions."

There were no in-progress research and development assets acquired as a result of the acquisition.

Integration Actions

As a result of the Paxar acquisition, the Company identified certain liabilities and other costs of approximately \$28 million for restructuring actions which were recorded as part of the Company's preliminary purchase price allocation. Included in this amount are \$18 million of severance

costs for involuntary terminations of approximately 855 employees of Paxar, lease cancellation costs of \$2.5 million, and other related costs of \$.5 million. In addition, the Company recognized additional purchase price adjustments by reducing the fair value for certain acquired property, plant and equipment by \$6.7 million. Severance costs are included in "Other accrued liabilities" in the Consolidated Balance Sheet. Severance and related costs represent cash paid or to be paid to employees terminated under these actions.

(In millions)	Purchase Price Adjustments
Severance and other employee costs	
Accrual at June 30, 2007	\$ 2.0
Accrual at September 29, 2007	4.7
Accrual at December 29, 2007	11.3
Total Accruals	18.0
2007 Settlements	(5.8)
Balance at December 29, 2007	\$ 12.2
Asset Impairment	
Machinery and Equipment	\$ 6.7
Other	
Lease cancellation	2.5
Other	.5
	\$ 9.7

The Company continues to integrate Paxar and additional liabilities for exit activities and integration costs may be recorded in the future as a result of the finalization of these integration efforts.

Included in the assumed current liabilities were accrued restructuring costs related to Paxar's pre-acquisition restructuring program. At December 29, 2007, approximately \$4 million remained accrued in connection with this program.

Other

In connection with this acquisition, certain change-in-control provisions provided that approximately \$27 million was to be paid to certain key executives of Paxar. This amount includes severance, bonuses, accelerated vesting of stock options, performance share awards, restricted stock, and other items. In connection with these items, approximately \$1 million remained accrued in "Other accrued liabilities" in the Consolidated Balance Sheet at December 29, 2007. New employment agreements for certain key executives retained by the Company provided for approximately \$8 million to be accrued over their requisite service periods. Approximately \$5 million of these costs were recorded in the Consolidated Statement of Income during the year ended December 29, 2007.

Included in the assumed long-term liabilities was a postretirement benefit plan obligation totaling approximately \$11 million for certain retired executives of Paxar. Since the date of the acquisition, the Company contributed \$.5 million to this plan.

Other equity includes the total amount related to converted Paxar stock options and performance share awards of approximately \$24 million. This total includes amounts related to converted but unvested stock options and performance share awards (approximately \$5 million), which will be recognized in the Company's operating results over the remaining vesting periods of these equity awards. Refer to Note 9, "Shareholders' Equity and Stock-Based Compensation," for further information.

Refer to Note 11, "Taxes Based on Income," for information on the tax-related impact of the acquisition.

Pro Forma Results of Operations

The following table represents the unaudited pro forma results of operations for the Company as though the acquisition of Paxar had occurred at the beginning of 2006. The pro forma results include estimated interest expense associated with commercial paper borrowings to fund the acquisition; amortization of intangible assets that have been acquired; adjustment to income tax provision using the worldwide combined effective tax rates of both the Company and Paxar; elimination of intercompany sales and profit in inventory; fair value adjustments to inventory; and additional depreciation resulting from fair value amounts allocated to real and personal property over the estimated useful lives. The pro forma results of operations have been prepared based on the preliminary allocation of the purchase price and are expected to be adjusted as a result of the finalization of the purchase price allocation. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of 2006, nor is it necessarily indicative of future results.

(In millions, except per share amounts)	2007 ⁽¹⁾	2006 ⁽²⁾
Net sales	\$ 6,722.3	\$ 6,442.1
Net income from continuing operations	278.9	333.1
Net income per common share from continuing operations	2.84	3.34
Net income per common share from continuing operations, assuming dilution	2.82	3.31

(1) The pro forma results of operations for fiscal year 2007 include the Company's restructuring costs and other charges discussed in Note 12, "Segment Information."

(2) The pro forma results of operations for fiscal year 2006 include the impact of Paxar's gain on a lawsuit settlement of \$39.4, partially offset by restructuring costs and other charges of \$10, as well as the Company's restructuring costs and other charges discussed in Note 12, "Segment Information."

Prior to the acquisition, the Company sold certain roll materials products to Paxar. The Company's net sales to Paxar prior to the acquisition were approximately \$8 million and approximately \$15 million during 2007 and 2006, respectively.

Other Acquisitions

In September 2006, the Company completed the acquisition of a small company for approximately \$13 million. Goodwill and intangibles resulting from this business acquisition were approximately \$10 million and \$2 million, respectively. The goodwill from this acquisition is not expected to be deductible for U.S. tax purposes. These amounts of goodwill and intangibles do not include acquisition adjustments in the subsequent years following acquisition. Acquisitions during 2006 were not significant to the consolidated financial position of the Company. Pro forma results for acquisitions in 2006 are not presented, as the acquired business did not have a significant impact on the Company's results of operations for the year ended December 30, 2006.

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Changes in the net carrying amount of goodwill from continuing operations for 2007 and 2006, by reportable segment, are as follows:

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Balance as of December 31, 2005	\$ 313.6	\$ 201.3	\$ 157.9	\$.3	\$ 673.1
Transfer of business ⁽¹⁾	—	(3.1)	—	3.1	—
Goodwill acquired during the period	—	—	—	10.4	10.4
Acquisition adjustments ⁽²⁾	—	.3	—	—	.3
Translation adjustments	18.8	2.0	11.2	.1	32.1
Balance as of December 30, 2006	332.4	200.5	169.1	13.9	715.9
Goodwill acquired during the period ⁽³⁾	—	935.7	—	—	935.7
Acquisition adjustments ⁽⁴⁾	—	(.5)	—	—	(.5)
Translation adjustments	21.6	2.0	8.5	0.1	32.2
Balance as of December 29, 2007	\$ 354.0	\$ 1,137.7	\$ 177.6	\$ 14.0	\$ 1,683.3

(1) Refers to the transfer of the business media division from Retail Information Services to other specialty converting businesses to align with a change in the Company's internal reporting structure.

(2) Acquisition adjustments in 2006 consisted of a purchase price allocation of a small acquisition in 2005.

(3) Goodwill acquired during the period related to the Paxar acquisition in June 2007, as well as buy-outs of minority interest shareholders associated with certain subsidiaries of RVL Packaging, Inc. and Paxar.

(4) Acquisition adjustments in 2007 consisted of a tax adjustment associated with RVL Packaging, Inc.

Goodwill and other intangible assets and related useful lives include the preliminary allocation of the purchase price of Paxar, based on preliminary third-party valuations of the acquired assets; as such, the balances may change as a result of the finalization of the purchase price allocation. Refer to Note 2, "Acquisitions," for further information.

In connection with the Paxar acquisition, the Company acquired approximately \$30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. These intangible assets were not included in the table below.

The following table sets forth the Company's other intangible assets resulting from business acquisitions at December 29, 2007 and December 30, 2006, which continue to be amortized:

(In millions)	2007			2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Customer relationships	\$ 276.1	\$ 41.8	\$ 234.3	\$ 93.0	\$ 25.1	\$ 67.9
Patents and other acquired technology	52.4	14.1	38.3	28.3	11.0	17.3
Trade names and trademarks	46.2	38.6	7.6	43.2	33.6	9.6
Other intangibles	8.6	4.6	4.0	4.8	4.1	.7
Total	\$ 383.3	\$ 99.1	\$ 284.2	\$ 169.3	\$ 73.8	\$ 95.5

Amortization expense on other intangible assets resulting from business acquisitions was \$19.9 million for 2007, \$11.1 million for 2006, and \$12 million for 2005. Based on current information, including the preliminary assessment for Paxar, estimated amortization expense for other intangible assets resulting from business acquisitions for each of the next five fiscal years is expected to be approximately \$29 million per year.

The weighted-average amortization periods from the date of acquisition for amortizable intangible assets resulting from business acquisitions are fourteen years for customer relationships, eleven years for trade names and trademarks, thirteen years for patents and other acquired technology, eight years for other intangibles and fourteen years in total. As of December 29, 2007, the weighted-average remaining useful life of acquired amortizable intangible assets are eleven years for customer relationships, five years for trade names and trademarks, nine years for patents and other acquired technology, five years for other intangibles and ten years in total.

NOTE 4. DEBT

Long-term debt and its respective weighted-average interest rates at December 29, 2007 consisted of the following:

(In millions)	2007	2006
Medium-term notes		
Series 1995 at 7.5% – due 2015 through 2025	\$ 50.0	\$ 50.0
Series 1997 at 6.6% – due 2007	–	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 5.6%	–	150.0
Senior notes due 2017 at 6.6%	248.9	–
Senior notes due 2020 at 7.9%	440.0	–
Other long-term borrowings	6.6	2.1
Less amount classified as current	(50.5)	(210.5)
	\$ 1,145.0	\$ 501.6

The Company's medium-term notes have maturities from 2008 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2008 through 2011 are \$50.5 million (classified as current), \$.5 million, \$.5 million and \$.1 million, respectively, with \$1,138.9 million maturing in 2013 and thereafter.

In November 2007, the Company issued \$400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional \$40 million of HiMEDS units were issued in December 2007 as a result of the exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components – a purchase contract obligating the holder to purchase from the Company a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and a senior note due in 2020. The net proceeds from the offering were approximately \$427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

In September 2007, a subsidiary of the Company issued \$250 million 10-year senior notes (guaranteed by the Company) bearing interest at a rate of 6.625% per year, due October 2017. The net proceeds from the offering were approximately \$247 million and were used to pay down current long-term debt maturities of \$150 million and reduce commercial paper borrowings of \$97 million initially used to finance the Paxar acquisition.

In August 2007, the Company amended its existing revolving credit agreement, increasing commitments from \$525 million to \$1 billion and extending the maturity to August 2012. Commitments were provided by twelve domestic and foreign banks. Financing available under the agreement will be used as a commercial paper back-up facility and is also available to finance other corporate requirements, including acquisitions.

In June 2007, the Company entered into a bridge revolving credit facility (the "Credit Facility") with five domestic and foreign banks for a total commitment of \$1.35 billion, expiring June 11, 2008, for terms which are generally similar to existing credit facilities. Financing available under this agreement is permitted to be used for working capital, commercial paper

back-up and other general corporate purposes, including acquisitions. As of December 29, 2007, the outstanding commitment was \$715 million. The Company used the Credit Facility to support commercial paper borrowings totaling approximately \$1.3 billion to initially fund the Paxar acquisition, discussed in detail in Note 2, "Acquisitions." Such commercial paper borrowings are included in "Short-term and current portion of long-term debt" in the Consolidated Balance Sheet.

The Credit Facility and the revolving credit agreement are subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio, with which the Company is in compliance.

In connection with the Paxar acquisition, the Company has assumed additional debt of approximately \$5 million, which remains outstanding at December 29, 2007.

In the fourth quarter of 2007, the Company filed a shelf registration statement with the SEC to permit the issuance of 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 shelf registration replaced the shelf registration statement filed in 2004. The HiMEDS units discussed above were issued under this registration statement.

Short-term variable rate commercial paper borrowings were \$990.2 million at December 29, 2007 (weighted-average interest rate of 5.2%) and \$154.4 million at December 30, 2006 (weighted-average interest rate of 5.0%). The change in outstanding commercial paper was primarily due to the Paxar acquisition and share repurchases, partially offset by positive cash flow from operations.

At December 29, 2007, the Company had \$70.1 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 10.6%.

The Company has a 364-day revolving credit facility in which a foreign bank provides the Company up to Euro 40 million (\$57.5 million) in borrowings through July 31, 2008. 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 of the Company's European operations. There was no debt outstanding under this agreement as of December 29, 2007 and \$26.3 million outstanding as of December 30, 2006.

Uncommitted lines of credit were \$448.2 million at year end 2007. The Company's uncommitted lines of credit have no commitment expiration date, and may be cancelled at any time by the Company or the banks.

At December 29, 2007, the Company had available short-term financing arrangements totaling \$435.6 million.

Commitment fees relating to the financing arrangements are not significant.

The Company's total interest costs in 2007, 2006 and 2005 were \$111.1 million, \$60.5 million, and \$62.8 million, respectively, of which \$5.9 million, \$5 million, and \$4.9 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 debt and interest expense in relation to certain measures of income. Under the loan agreements, the ratio of debt to earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2007

was 3.2 to 1.0. Earnings before interest and taxes, as a ratio to interest, may not be less than 3.5 to 1.0. The Company's ratio at year end 2007 was 4.6 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 2007 and 2006, the fair value of the Company's total debt, including short-term borrowings, was \$2,250.7 million and \$963 million, respectively.

The Company had standby letters of credit outstanding of \$80.9 million (including standby letters of credit assumed from Paxar of \$7.3 million) and \$77.1 million at the end of 2007 and 2006, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

Refer to Note 14, "Subsequent Events," for further information.

NOTE 5. FINANCIAL INSTRUMENTS

The aggregate reclassification from other comprehensive income to earnings for settlement or ineffectiveness of hedge activity was a net loss of \$10.5 million and \$5.5 million during 2007 and 2006, respectively. Included in the 2007 reclassification from other comprehensive income to earnings was a net loss of \$4.8 million related to certain cash flow hedges that were ineffective, which was included in "Other expense, net" in the Consolidated Statement of Income. The effect of the settlement of currency hedges included in this reclassification is offset by the currency impact of the underlying hedged activity. A net loss of approximately \$3.9 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

In June 2007 and August 2007, the Company entered into certain interest rate option contracts to hedge its exposure related to interest rate increases in connection with anticipated long-term debt issuances. Such debt issuances were intended to replace short-term borrowings initially used to finance the Paxar acquisition, as well as pay down current long-term debt maturities. In connection with these transactions, the Company paid \$11.5 million as option premiums, of which \$4.8 million was recognized during the year as a cash flow hedge loss in the Consolidated Statement of Income and \$6.7 million is being amortized over the life of the related forecasted hedged transactions.

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 \$1.4 million and \$4.9 million at December 2007 and December 2006, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of \$.2 million and \$.1 million at December 2007 and December 2006, respectively. The carrying value of the foreign exchange option contracts approximated the fair market value.

The counterparties to foreign exchange and natural gas forward, option and swap contracts consist primarily 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 such losses.

NOTE 6. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Defined Benefit Plans

The Company sponsors a number of defined benefit plans (the "Plan") 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 the Plan that are sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, that management determines to be appropriate. 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. While the Company has not expressed any intent to terminate the Plan, the Company may do so at any time.

Plan Assets

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 both small and large capitalization stocks. The Company's target plan asset investment allocation in the U.S. is 75% in equity securities and 25% in fixed income securities, subject to periodic fluctuations in the respective asset classes above. The Plan assets include investments in the Company's stock, which totaled approximately 630,000 shares as of December 29, 2007 and December 30, 2006. This amount, however, does not include any shares that may be held in index or other equity funds.

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 weighted-average asset allocations for the Company's pension plans at year end 2007 and 2006, by asset category are as follows:

	2007		2006	
	U.S.	Int'l	U.S.	Int'l
Equity securities	74%	55%	80%	57%
Fixed income securities	26	35	20	33
Real estate and insurance contracts	—	10	—	10
Total	100%	100%	100%	100%

Postretirement Health Benefits

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. The Company uses a fiscal year

end measurement date for its postretirement health benefit plan. While the Company has not expressed any intent to terminate postretirement health benefits, the Company may do so at any time.

Adoption of SFAS No. 158

In the fourth quarter of 2006, the Company adopted the following provisions of SFAS No. 158:

- a) Recognition of the funded status of the Company's defined benefit and postretirement benefit plans (with a corresponding reversal of additional minimum pension liability ("AML") under SFAS No. 87);
- b) Recognition as a component of accumulated other comprehensive income, net of tax, the gains or losses, prior service costs or credits and transition assets or obligations remaining from the initial application of SFAS Nos. 87 and 106;
- c) Measurement of the defined benefit plan assets and obligations as of the Company's fiscal year end; and
- d) Disclosure of additional information about the effects of the amortization of gains or losses, prior service costs or credits, and transition assets or obligations (remaining from the initial application of SFAS Nos. 87 and 106) on net periodic benefit cost for the next fiscal year.

The above recognition and disclosure provisions are discussed in detail below.

Measurement Date

In accordance with the measurement date provisions of SFAS No. 158, the Company changed its measurement date beginning in 2006 for the majority of its U.S. plans from a November 30 measurement date to the Company's fiscal year end, which was December 30 for 2006. The plan assets and benefit obligations were remeasured by recognizing the revised net periodic benefit cost prorated from November 30, 2006 to December 30, 2006. The impact of such remeasurement (\$.7 million) affected the Company's retained earnings and accumulated other comprehensive loss in 2006.

For the Company's international plans, the Company uses a fiscal year end measurement date.

Plan Assumptions

Discount Rate

The Company, in consultation with its actuaries, annually reviews and determines the discount rates to be used in connection with its postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. In the U.S., the Company's discount rate was determined by evaluating several yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams were then matched with the bond portfolios to determine a rate that reflected the liability duration unique to the Company's plans.

Long-term Return on Assets

The Company determines the long-term rate of return assumption 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.

Healthcare Cost Trend Rate

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. This rate is expected to decrease to approximately 5% by 2011.

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

(In millions)	One- percentage- point increase	One- percentage- point decrease
Effect on total of service and interest cost components	\$.01	\$ (.01)
Effect on postretirement benefit obligation	.89	(1.05)

Plan Balance Sheet Reconciliations

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

Plan Benefit Obligations

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2007		2006		2007	2006
	U.S.	Int'l	U.S.	Int'l		
Change in projected benefit obligation:						
Projected benefit obligation at beginning of year	\$ 557.2	\$ 507.2	\$ 513.7	\$ 415.7	\$ 32.9	\$ 34.1
Service cost	18.5	14.3	19.2	13.3	1.0	.9
Interest cost	34.1	24.1	29.7	19.6	1.6	1.7
Participant contribution	—	3.4	—	3.1	—	—
Amendments	—	(.5)	—	—	—	—
Actuarial (gain) loss	(9.9)	(44.0)	24.2	13.9	(.1)	(.4)
Plan transfer ⁽¹⁾	3.9	—	3.5	—	—	—
Benefits paid	(34.1)	(19.7)	(33.1)	(15.1)	(6.0)	(3.3)
Special termination benefits	—	—	—	.1	—	—
Net transfer in ⁽²⁾	12.0	—	—	8.5	.3	—
Pension curtailment	—	—	—	(1.8)	—	—
Foreign currency translation	—	30.9	—	49.9	—	—
Projected benefit obligation at end of year	\$ 581.7	\$ 515.7	\$ 557.2	\$ 507.2	\$ 29.7	\$ 33.0
Accumulated benefit obligation at end of year	\$ 551.5	\$ 476.0	\$ 523.6	\$ 475.8		

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

(2) Net transfer in represents certain retirement plans assumed from Paxar in 2007 and valuation of additional pension plans in 2006.

Plan Assets

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2007		2006		2007	2006
	U.S.	Int'l	U.S.	Int'l		
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 601.9	\$ 416.0	\$ 520.7	\$ 330.8	\$ —	\$ —
Actual return on plan assets	26.0	17.7	83.3	48.6	—	—
Plan transfer ⁽¹⁾	3.9	—	3.5	—	—	—
Employer contribution	3.4	15.4	27.5	7.9	6.0	3.3
Participant contribution	—	3.4	—	3.1	—	—
Benefits paid	(34.1)	(19.7)	(33.1)	(15.1)	(6.0)	(3.3)
Net transfer in ⁽²⁾	—	1.2	—	.4	—	—
Foreign currency translation	—	27.6	—	40.3	—	—
Fair value of plan assets at end of year	\$ 601.1	\$ 461.6	\$ 601.9	\$ 416.0	\$ —	\$ —

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

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

Funded Status

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2007		2006		2007	2006
	U.S.	Int'l	U.S.	Int'l		
Funded status of the plans:						
Noncurrent assets	\$ 81.5	\$ 32.7	\$ 88.6	\$ 21.3	\$ —	\$ —
Current liabilities	(3.6)	(2.8)	(2.5)	(2.6)	(3.1)	(3.2)
Noncurrent liabilities	(58.5)	(84.0)	(41.4)	(109.9)	(26.6)	(29.8)
Plan assets in excess of (less than) benefit obligation	\$ 19.4	\$ (54.1)	\$ 44.7	\$ (91.2)	\$ (29.7)	\$ (33.0)

	Pension Benefits						U.S. Postretirement Health Benefits		
	2007		2006		2005		2007	2006	2005
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used for determining year end obligations:									
Discount rate	6.55%	5.53%	5.90%	4.67%	5.75%	4.49%	6.30%	5.75%	5.50%
Rate of increase in future compensation levels	3.59	2.66	3.59	2.90	3.59	2.79	—	—	—

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets for both the U.S. and international plans were \$634.3 million and \$485.8 million, respectively, at year end 2007 and \$627.6 million and \$471.1 million, respectively, at year end 2006.

The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for the U.S. and international plans were \$597.6 million and \$467.7 million, respectively, at year end 2007 and \$298.2 million and \$160.9 million, respectively, at year end 2006.

The amount in non-current pension assets represents the net assets of the Company's overfunded plans, which consist of one U.S. plan and several international plans. The amounts in current and non-current pension liabilities represent the net obligation of the Company's underfunded plans, which consist of several U.S. and international plans.

Accumulated Other Comprehensive Income ("AOCI")

The pretax amounts recognized in "Accumulated other comprehensive income (loss)" in the Company's balance sheet after the adoption of SFAS No. 158 consist of:

	Pension Benefits				U.S. Postretirement Health Benefits	
	2007	2006	2007	2006	2007	2006
(In millions)	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss	\$ 106.7	\$ 78.8	\$ 103.4	\$ 120.3	\$ 21.0	\$ 21.8
Prior service cost (credit)	6.6	5.4	8.5	6.1	(22.5)	(24.0)
Net transition obligation (asset)	—	(2.4)	—	(3.3)	—	—
Net amount recognized in AOCI	\$ 113.3	\$ 81.8	\$ 111.9	\$ 123.1	\$ (1.5)	\$ (2.2)

The after-tax amounts and reconciliation of AOCI components as of December 29, 2007 are as follows:

	Pension Benefits				U.S. Postretirement Health Benefits		
	Before-Tax Amounts U.S.	Before-Tax Amounts Int'l	Tax Effect	Net-of-Tax Amount	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
(In millions)							
AOCI at December 30, 2006	\$ 111.9	\$ 123.1	\$ (63.0)	\$ 172.0	\$ (2.2)	\$.9	\$ (1.3)
Less: amortization	(11.5)	(7.6)	6.7	(12.4)	.7	(.3)	.4
Net AOCI	100.4	115.5	(56.3)	159.6	(1.5)	.6	(.9)
Net transfer in ⁽¹⁾	2.5	—	(.9)	1.6	(.2)	.1	(.1)
Net actuarial loss (gain) ⁽²⁾	10.4	(33.2)	4.4	(18.4)	.2	(.1)	.1
Prior service cost (credit)	—	(.5)	.1	(.4)	—	—	—
AOCI at December 29, 2007	\$ 113.3	\$ 81.8	\$ (52.7)	\$ 142.4	\$ (1.5)	\$.6	\$ (.9)

(1) Net transfer in represents certain retirement plans assumed from Paxar in 2007.

(2) Net of foreign currency translation of \$4.2.

Plan Income Statement Reconciliations

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

	Pension Benefits						U.S. Postretirement Health Benefits		
	2007		2006		2005		2007	2006	2005
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Components of net periodic benefit cost (income):									
Service cost	\$ 18.5	\$ 14.4	\$ 19.2	\$ 13.3	\$ 19.3	\$ 11.5	\$ 1.0	\$.9	\$ 1.7
Interest cost	34.1	24.1	29.7	19.6	27.6	18.7	1.6	1.7	2.5
Expected return on plan assets	(48.9)	(24.4)	(46.8)	(19.9)	(44.0)	(20.9)	—	—	—
Recognized net actuarial loss	9.6	8.0	8.0	6.6	5.2	3.7	1.3	1.4	1.6
Amortization of prior service cost	1.9	.7	1.9	.6	1.9	.6	(2.0)	(1.9)	(.9)
Amortization of transition obligation (asset)	—	(1.1)	—	(1.3)	(.3)	(1.3)	—	—	—
Special termination benefit recognized	—	—	—	.1	—	—	—	—	—
Recognized gain on curtailment and settlement of obligation ⁽¹⁾	—	—	—	(1.9)	—	(.1)	—	—	—
Net periodic benefit cost	\$ 15.2	\$ 21.7	\$ 12.0	\$ 17.1	\$ 9.7	\$ 12.2	\$ 1.9	\$ 2.1	\$ 4.9

(1) Recognized gain in 2006 relates to the divestiture of the Company's filing business in Europe.

	Pension Benefits						U.S. Postretirement Health Benefits		
	2007		2006		2005		2007	2006	2005
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used for determining net periodic cost:									
Discount rate	5.90%	4.67%	5.75%	4.49%	6.00%	4.91%	5.75%	5.50%	5.75%
Expected long-term rate of return on plan assets	8.75	6.30	8.75	5.77	8.75	6.32	—	—	—
Rate of increase in future compensation levels	3.59	2.90	3.59	2.79	3.61	2.68	—	—	—

Plan Contributions

In 2008, the Company expects to contribute a minimum of \$3.7 million and \$16.6 million to its U.S. pension plans and international pension plans, respectively, and approximately \$3.2 million to its postretirement benefit plan.

Future Benefit Payments

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

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	U.S.	Int'l	
2008	\$ 35.1	\$ 18.4	\$ 3.2
2009	36.0	19.6	2.9
2010	36.7	23.1	2.9
2011	37.4	22.6	2.7
2012	38.0	24.3	2.6
2013–2017	198.7	146.9	12.6

Estimated Amortization Amounts in Accumulated Other Comprehensive Income

The Company's estimates of fiscal year 2008 amortization of amounts included in accumulated other comprehensive income are as follows:

	Pension Benefits	U.S. Postretirement Health Benefits
	2007	
(In millions)	U.S.	Int'l
Net actuarial loss	\$ 5.5	\$ 3.7
Prior service cost (credit)	1.1	.6
Net transition obligation (asset)	—	(.6)
Net amount to be recognized	\$ 6.6	\$ 3.7
		\$ (.6)

Defined Contribution Plans

The Company sponsors various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Employee Savings Plan (“Savings Plan” – a 401(k) savings plan covering its U.S. employees). The Company matches participant contributions to the Savings Plan based on a formula within the plan. The 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. Net ESOP expense for 2007, 2006 and 2005 was \$.2 million, \$.4 million, and \$1.2 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were \$2.4 million, \$2.5 million, and \$1.7 million in 2007, 2006 and 2005, respectively.

Interest costs incurred by the ESOP for 2007, 2006 and 2005 were \$.6 million, \$.7 million, and \$.6 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$.7 million, \$.9 million, and \$1.1 million for 2007, 2006 and 2005, respectively.

The cost of shares allocated to the ESOP for 2007, 2006 and 2005 was \$2.1 million, \$2.2 million, and \$2.3 million, respectively. Of the total shares held by the ESOP, 1.3 million shares were allocated and .3 million shares were unallocated at year end 2007, and 1.8 million shares were allocated and .5 million shares were unallocated at year end 2006.

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 2007 and 2006, the Company had accrued \$155.6 million and \$151 million, respectively, for its obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year end 2007 and 2006, these obligations were secured by standby letters of credit of \$57 million and \$61 million, respectively. To assist in the funding of these plans, the Company has purchased corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of covered participants. The cash surrender value of these policies, net of outstanding loans, included in “Other assets” in the Consolidated Balance Sheet, was \$191.1 million and \$173.9 million at year end 2007 and 2006, respectively.

The Company’s expense, which includes Company contributions and interest expense, was \$3.1 million, \$12 million, and \$6.9 million for 2007, 2006 and 2005, 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.

Refer to Note 2, “Acquisitions,” for information related to the assumed postretirement benefit plan obligation associated with the Paxar acquisition.

NOTE 7. COMMITMENTS

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

Year	(In millions)
2008	\$ 59.3
2009	50.6
2010	34.6
2011	26.1
2012	21.9
Thereafter	49.2
Total minimum lease payments	\$ 241.7

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

On September 9, 2005, the Company completed the lease financing for a commercial facility (the “Facility”) located in Mentor, Ohio, used primarily for the new headquarters and research center for the Company’s roll materials group. The Facility consists generally of land, buildings, equipment and office furnishings. The Company has leased the Facility under an operating lease arrangement, which contains a residual value guarantee of \$33.4 million. The Company does not expect the residual value of the Facility to be less than the amount guaranteed.

Rent expense for operating leases was approximately \$95 million in 2007, approximately \$76 million in 2006, and approximately \$75 million in 2005.

NOTE 8. CONTINGENCIES

Investigations and Legal Proceedings

In April 2003, the U.S. Department of Justice (“DOJ”) filed a complaint challenging the then proposed merger UPM-Kymmene (“UPM”) and the Morgan Adhesives (“MACtac”) division of Bemis Co., Inc. (“Bemis”). The complaint alleged, among other things, that “UPM and [Avery Dennison] 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.” The DOJ concurrently announced a criminal investigation into competitive practices in the label stock industry. Other investigations into competitive practices in the label stock industry were subsequently initiated by the European Commission, the Competition Law Division of the Department of Justice of Canada, and the Australian Competition and Consumer Commission. The Company cooperated with all of these investigations, and all, except the Australian investigation which is continuing, have subsequently been terminated without further action by the authorities.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action on behalf of direct purchasers of label stock 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 pre-trial purposes. 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. On January 4, 2006, plaintiffs filed an amended complaint. On January 20, 2006, the Company filed an answer to the amended complaint. On August 14, 2006, the plaintiffs moved to certify a proposed class. The Company and other defendants opposed this motion. On March 1, 2007, the court heard oral argument on the issue of the appropriateness of class certification. On August 28, 2007, plaintiffs moved to lift the discovery stay, which the Company opposed. On November 19, 2007, the court certified a class consisting of all direct purchasers of paper-based label stock from the defendants during the period from January 1, 1996 to July 25, 2003. The Company filed a petition to appeal this decision on December 4, 2007. The Company's petition is still pending. 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 the City and County of San Francisco on March 30, 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 Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. 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. These cases remain stayed pending the outcome of class certification proceedings in the federal actions. The Company intends to defend these matters vigorously.

The Board of Directors 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 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's financial position.

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 eighteen waste disposal or waste recycling sites, including Paxar 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 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 these and certain other 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.

As of December 29, 2007, the Company's estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, "Acquisitions."

During 2006, the Company recognized \$15 million for estimated environmental remediation costs for a former operating facility. Of the amount accrued, which represented the lower end of the current estimated range of \$15 million to \$17 million for costs expected to be incurred, approximately \$9 million remained accrued as of December 29, 2007. Management considered additional information provided by outside consultants in revising its previous estimates of expected costs. This estimate could change depending on various factors, such as modification of currently planned remedial actions, changes in the site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Other 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

In 2005, the Company contacted relevant authorities in the U.S. and reported on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of the Company's reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been relatively minor in amount and of limited duration. Corrective and disciplinary actions have been taken. Sales of the Company's reflective business in China in 2005 were approximately \$7 million. Based on findings to date, no changes to the Company's previously filed financial statements are warranted as a result of these matters. However, the Company expects that fines or other penalties could be incurred. While the Company is unable to predict the financial or operating impact of any such fines or penalties, it believes that its behavior in detecting, investigating, responding to and voluntarily disclosing these matters to authorities should be viewed favorably.

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At December 29, 2007, the Company had guaranteed approximately \$17 million.

The Company guaranteed up to approximately \$22 million of certain foreign subsidiaries' obligations to their suppliers as of December 29, 2007, as well as approximately \$476 million of certain subsidiaries' lines of credit with various financial institutions.

In November 2007, the Company issued \$400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional \$40 million of HiMEDS units were issued in December 2007 as a result of the exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components – a purchase contract obligating the holder to purchase from us a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and a senior note due in 2020. The net proceeds from the offering were approximately \$427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

NOTE 9. SHAREHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

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 issued preferred stock purchase rights, which expired on October 31, 2007.

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. As of December 29, 2007, the remaining shares available of approximately 8 million 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.

On October 26, 2006, the Board of Directors authorized the repurchase of an additional 5 million shares of the Company's outstanding common stock, resulting in a total authorization of approximately 7.4 million shares at that date. The repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At December 29, 2007, approximately 4.1 million shares were available for repurchase under the Board of Directors' authorization.

Stock Option and Incentive Plans

The Company maintains various stock option and incentive plans. Under these plans, stock options granted to directors and employees may be granted at no less than 100% of the fair market value of the Company's common stock on the date of the grant. Options generally vest ratably over a two-year period for directors and over a four-year period for employees. Prior to fiscal year 2005, options for certain officers may cliff vest over a three- to 9.75-year period based on the Company's performance. Unexercised options expire ten years from the date of grant. All stock options granted under these plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant.

The Company's stock-based compensation expense is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period. The fair value of the Company's stock option awards is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for the Company's expected dividend yield, expected volatility, risk-free interest rate and the expected life of the options.

Expected dividend yield was based on the current annual dividend divided by the 12-month average of the Company's monthly stock price prior to grant.

Expected volatility for options granted during 2007 represented an average of implied and historical volatility. Expected volatility for options granted prior to 2006 was based on historical volatility of the Company's stock price.

Risk-free rate was based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term of 5.8 years.

Expected term was determined based on historical experience under the Company's stock option plan.

Forfeiture rate assumption of 5% was determined based on historical data of the Company's stock option forfeitures during the last twelve years prior to 2007.

The weighted-average fair value per share of options granted during 2007 was \$15.07, compared to \$15.50 for the year ended 2006 and \$12.64 for the year ended 2005.

The underlying assumptions used were as follows:

	2007	2006	2005
Risk-free interest rate	4.68%	4.74%	4.11%
Expected stock price volatility	24.75	22.51	20.55
Expected dividend yield	2.53	2.58	2.67
Expected option term	5.8 years	5.8 years	7 years

As permitted by SFAS No. 123(R), underlying assumptions used for stock options granted prior to January 1, 2006 were retained.

The following table sets forth stock option information related to the Company's stock option plans during 2007:

	Number of options (in thousands)	Weighted- average exercise price	Weighted- average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 30, 2006	10,188.4	\$ 58.47	6.67	\$ 100.2
Granted	52.5	61.62	—	—
Converted from Paxar	955.4	31.82	—	—
Exercised	(1,011.5)	48.91	—	—
Forfeited or expired	(565.6)	53.87	—	—
Outstanding at December 29, 2007	9,619.2	\$ 57.29	5.86	\$ 18.2
Options vested and expected to vest at December 29, 2007	8,970.8	57.04	5.64	18.1
Options exercisable at December 29, 2007	6,663.7	\$ 55.46	5.00	\$ 17.4

The total intrinsic value of stock options exercised was \$15.4 million in 2007, compared to \$16.8 million in 2006, and cash received by the Company from the exercise of these stock options was approximately \$38 million in 2007, compared to approximately \$54 million in 2006. The tax benefit realized by the Company from these options exercised in 2007 and 2006 was \$5 million and \$5.5 million, respectively. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following table provides a summary of the Company's stock option plans for the last three years:

	2007 ⁽¹⁾		2006		2005	
	Number of options (in thousands)	Weighted- average exercise price	Number of options (in thousands)	Weighted- average exercise price	Number of options (in thousands)	Weighted- average exercise price
Outstanding at beginning of year	10,188.4	\$ 58.47	10,853.2	\$ 56.32	9,503.7	\$ 55.18
Granted	52.5	61.62	1,494.1	67.68	1,856.8	59.23
Converted from Paxar	955.4	31.82	—	—	—	—
Exercised	(1,011.5)	48.91	(1,217.5)	50.11	(304.0)	36.95
Forfeited or expired	(565.6)	53.87	(941.4)	59.12	(203.3)	58.79
Outstanding at year end	9,619.2	\$ 57.29	10,188.4	\$ 58.47	10,853.2	\$ 56.32

(1) The 2007 stock option plan summary includes Paxar's activity.

In 2007, the Company did not grant annual stock options to employees and directors.

The following table summarizes the Company's unvested stock options during 2007:

	Number of options (in thousands)	Weighted- average exercise price
Unvested options outstanding at December 30, 2006	5,158.0	\$ 61.22
Granted	52.5	61.62
Unvested options converted from Paxar	303.5	35.26
Vested	(1,952.2)	59.90
Forfeited	(606.3)	51.56
Unvested options outstanding at December 29, 2007	2,955.5	\$ 61.42

As of December 29, 2007, the Company had approximately \$25 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 3 years.

The following table summarizes information on stock options outstanding and exercisable at December 29, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
\$19.53 to 24.68	166.1	2.56	\$ 21.06	166.1	\$ 21.06
30.05 to 45.19	802.2	3.51	38.60	748.3	38.84
45.53 to 59.47	6,133.4	5.77	57.38	4,209.3	56.58
59.65 to 67.80	2,517.5	7.03	65.43	1,540.0	64.17
\$19.53 to 67.80	9,619.2	5.86	\$ 57.29	6,663.7	\$ 55.46

The following section presents the same information as above, but excludes the impact of Paxar converted stock options.

Stock Option Awards Excluding Paxar Converted Stock Options

The following table sets forth stock option information relative to the Company's stock option plans, excluding Paxar's converted stock options activity, during 2007:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 30, 2006	10,188.4	\$ 58.47	6.67	\$ 100.2
Granted	52.5	61.62	—	—
Exercised	(940.4)	50.33	—	—
Forfeited or expired	(326.2)	61.80	—	—
Outstanding at December 29, 2007	8,974.3	\$ 59.20	5.95	\$ 3.6
Options vested and expected to vest at December 29, 2007	8,332.5	59.06	5.72	3.6
Options exercisable at December 29, 2007	6,072.6	\$ 57.90	5.07	\$ 3.7

The total intrinsic value of stock options exercised was \$13.4 million in 2007, compared to \$16.8 million in 2006, and cash received by the Company from the exercise of these stock options was \$36.2 million in 2007, compared to \$54.1 million in 2006. The tax benefit realized by the Company from these options exercised in 2007 and 2006 was \$4.7 million and \$5.5 million, respectively. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following table provides a summary of the Company's stock option plans, excluding Paxar's converted stock options activity, for the last three years:

	2007		2006		2005	
	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price
Outstanding at beginning of year	10,188.4	\$ 58.47	10,853.2	\$ 56.32	9,503.7	\$ 55.18
Granted	52.5	61.62	1,494.1	67.68	1,856.8	59.23
Exercised	(940.4)	50.33	(1,217.5)	50.11	(304.0)	36.95
Forfeited or expired	(326.2)	61.80	(941.4)	59.12	(203.3)	58.79
Outstanding at year end	8,974.3	\$ 59.20	10,188.4	\$ 58.47	10,853.2	\$ 56.32

The following table summarizes the Company's unvested stock options, excluding Paxar's converted stock options, during 2007:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at December 30, 2006	5,158.0	\$ 61.22
Granted	52.5	61.62
Vested	(1,937.3)	60.07
Forfeited	(371.5)	61.92
Unvested options outstanding at December 29, 2007	2,901.7	\$ 61.91

As of December 29, 2007, the Company had approximately \$24 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 3 years.

The following table summarizes information on stock options outstanding and exercisable, excluding Paxar's converted stock options, at December 29, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding (in thousands)	Weighted- average remaining contractual life (in years)	Weighted- average exercise price	Number exercisable (in thousands)	Weighted- average exercise price
\$45.19 to 50.72	557.4	1.74	\$ 47.35	557.4	\$ 47.35
51.13 to 59.47	5,899.4	5.88	57.65	3,975.2	56.95
59.65 to 67.80	2,517.5	7.03	65.43	1,540.0	64.17
\$45.19 to 67.80	8,974.3	5.95	\$ 59.20	6,072.6	\$ 57.90

Restricted Stock Units and Restricted Stock Grants

In December 2005, the Compensation and Executive Personnel Committee of the Board of Directors approved the award of RSUs, which were issued under the Company's stock option and incentive plan. RSUs are granted to two groups of employees as described below. These RSUs include dividend equivalents in the form of additional RSUs, which are equivalent to the amount of the dividend paid or property distributed on a single share of common stock multiplied by the number of RSUs in the employee's account. Vesting for the two groups of RSUs is as follows:

- A vesting period of 3 years provided that a certain performance objective is met at the end of the third year after the year of the award. If the performance objective is not achieved at the end of the third year, the same unvested RSUs will be subject to meeting the performance objective at the end of the fourth year, and if not achieved at the end of the fourth year, then the fifth year following the year of grant, or
- A vesting period of 1 to 5 years, provided that employment continues for 1 to 5 years after the date of the award.

For both groups, if the above vesting conditions are not met, the RSUs will be forfeited.

The following table summarizes information about awarded RSUs:

	Number of RSUs (in thousands)	Weighted- average grant-date fair value
Outstanding at December 30, 2006	170.3	\$ 63.74
Granted	113.8	59.67
Released	(2.4)	58.45
Forfeited	(11.6)	63.66
Outstanding at December 29, 2007	270.1	\$ 62.07

The total compensation expense related to RSUs and restricted stock is amortized on a straight-line basis over the requisite service period.

The pretax compensation expense related to RSUs was \$4.3 million and \$2.9 million for the years ended 2007 and 2006, respectively. The tax benefit realized by the Company from the release of RSUs during 2007 was approximately \$.1 million.

During 2005, the Company also awarded 30,000 shares of restricted stock, which vest in two equal increments: the first in 2009; the second in 2012. Pretax compensation expense for this award was \$.3 million in 2007, \$.3 million in 2006 and \$.2 million in 2005.

The provisions of SFAS No. 123(R) require that stock-based compensation awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, the pretax compensation expense related to RSUs granted to retirement-eligible employees (approximately \$.1 million in 2007 and approximately \$.7 million in 2006) was recognized and included in the compensation expense noted above.

As of December 29, 2007, the Company has approximately \$10 million of unrecognized compensation cost related to unvested RSUs and restricted stock. This cost is expected to be recognized over the remaining requisite service period for these awards (weighted average remaining service period of approximately 2 years for RSUs and 3 years for restricted stock).

The following table sets forth stock option information relative to Paxar converted stock option plans during 2007:

	Number of options (in thousands)	Weighted- average exercise price	Weighted- average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at June 15, 2007	955.4	\$ 31.82	5.68	\$ 32.9
Granted	—	—	—	—
Exercised	(71.1)	30.16	—	—
Forfeited or expired	(239.4)	35.12	—	—
Outstanding at December 29, 2007	644.9	\$ 30.77	4.55	\$ 14.6
Options vested and expected to vest at December 29, 2007	638.3	30.72	4.59	14.5
Options exercisable at December 29, 2007	591.1	\$ 30.38	4.34	\$ 13.6

Paxar Converted Stock Option Awards

In connection with the Paxar acquisition, the Company converted Paxar's stock options based on the acquisition price of \$30.50 per share divided by the Company's twenty-day average stock price prior to the acquisition date, which was \$64.82. The total number of stock options resulting from this conversion was approximately 955,000 shares, of which approximately 234,000 shares were associated with change-in-control provisions.

In accordance with SFAS No. 123(R), "Share-Based Payment," the total equity compensation recorded in "Capital in excess of par value" in the Shareholders' equity section of the Consolidated Balance Sheet was approximately \$24 million for Paxar's converted stock options. This amount was reduced by approximately \$2 million related to unvested stock options.

The Company's stock-based compensation expense associated with Paxar converted stock options was based on the estimated fair value as of June 15, 2007, using the Black-Scholes option-pricing model, amortized on a straight-line basis over the remaining requisite service period. The Black-Scholes assumptions used were consistent with those used by the Company during the second quarter of 2007.

The total intrinsic value of Paxar converted stock options exercised was approximately \$2 million in 2007, and cash received by the Company from the exercise of these stock options was \$1.9 million in 2007. The tax benefit realized by the Company from these exercised options was \$.2 million in 2007. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following table summarizes Paxar converted unvested stock options during 2007:

	Number of options (in thousands)	Weighted- average exercise price
Unvested options outstanding at June 15, 2007	303.5	\$ 35.26
Granted	—	—
Vested	(14.9)	37.07
Forfeited	(234.8)	35.17
Unvested options outstanding at December 29, 2007	53.8	\$ 35.15

As of December 29, 2007, the Company had approximately \$.9 million of unrecognized compensation cost related to unvested Paxar converted stock option awards. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 1 year.

The following table summarizes information on the Paxar converted stock options outstanding and exercisable at December 29, 2007:

	Options outstanding			Options exercisable	
	Number outstanding (in thousands)	Weighted- average remaining contractual life (in years)	Weighted- average exercise price	Number exercisable (in thousands)	Weighted- average exercise price
Range of exercise prices					
\$19.53 to 21.79	108.1	2.25	\$ 20.21	108.1	\$ 20.21
22.15 to 32.68	267.5	4.24	29.04	247.9	28.96
34.27 to 43.25	269.3	5.79	36.73	235.1	36.54
\$19.53 to 43.25	644.9	4.55	\$ 30.77	591.1	\$ 30.38

Paxar Converted Performance Share Awards

Additionally, the Company converted Paxar's performance share awards into approximately 80,000 shares of the Company's common stock, based on the acquisition price of \$30.50 per share divided by the Company's twenty-day average stock price prior to the acquisition date, which was \$64.82. The total equity compensation of approximately \$5 million for vested and unvested performance share awards, recorded in "Capital in excess of par value" in the Shareholders' equity section of the Consolidated Balance Sheet was calculated using the Company's ending stock price at June 15, 2007 of \$66.69. This amount was reduced by approximately \$3 million related to unvested performance share awards.

The pretax compensation expense related to Paxar's converted performance share awards was approximately \$1 million for the fiscal year

ended 2007. As of December 29, 2007, the Company had approximately \$2 million of unrecognized compensation cost related to unvested converted Paxar's performance share awards. This cost is expected to be recognized over the weighted-average remaining requisite service period of approximately 2 years.

NOTE 10. COST REDUCTION ACTIONS

Severance charges recorded under the restructuring actions below are included in "Other accrued liabilities" in the Consolidated Balance Sheet. Severance and related costs represent cash paid or to be paid to employees terminated under these actions. Asset impairments are based on the estimated market value of the assets. Charges below are included in "Other expense, net" in the Consolidated Statement of Income.

2007

In 2007, the Company continued its cost reduction efforts that were initiated in late 2006 and implemented additional actions resulting in a headcount reduction of approximately 615 positions, impairment of certain assets and software, as well as lease cancellations. At December 29, 2007, approximately 295 employees impacted by these actions remain with the Company, and are expected to leave in 2008. Pretax charges related to these actions totaled \$57.5 million, including severance and related costs of \$21.6 million, impairment of fixed assets and buildings of \$17.4 million, software impairment of \$17.1 million and lease cancellation charges of \$1.4 million. The table below details the accruals and payments related to these actions:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Severance and other employee costs						
Accrual at March 31, 2007	\$ 1.5	\$ –	\$.6	\$ –	\$ –	\$ 2.1
Accrual at June 30, 2007	.5	.4	–	–	–	.9
Accrual at September 29, 2007	3.1	3.1	.1	1.2	–	7.5
Accrual at December 29, 2007	1.0	6.2	3.4	1.1	(.6)	11.1
Total accruals for 2007 actions	6.1	9.7	4.1	2.3	(.6)	21.6
2007 Settlements	(1.9)	(3.0)	(.8)	(1.0)	.6	(6.1)
Balance at December 29, 2007	\$ 4.2	\$ 6.7	\$ 3.3	\$ 1.3	\$ –	\$ 15.5
Asset Impairments						
Machinery and equipment	\$ 10.9	\$ 3.1	\$ –	\$1.9	\$.8	\$ 16.7
Buildings	–	.7	–	–	–	.7
Other						
Software impairment	–	17.1	–	–	–	17.1
Lease cancellations	–	.6	.4	–	.4	1.4
	\$ 10.9	\$ 21.5	\$.4	\$1.9	\$ 1.2	\$ 35.9

2006

During the first three quarters of 2006, the Company continued its cost reduction efforts that were initiated in late 2005, resulting in a further headcount reduction of 410 employees, as well as the impairment of certain assets. In the fourth quarter of 2006, the Company initiated new cost reduction actions, resulting in the elimination of approximately 180 positions and the impairment of certain assets. At December 29, 2007, approximately 20 employees (all related to actions initiated in the fourth quarter of 2006) remain with the Company, and are expected to leave in 2008. Pretax charges related to these actions totaled \$29.3 million, including severance and related costs of \$21.1 million, impairment of fixed assets and buildings of \$6.9 million and lease cancellation charges of \$1.3 million. The table below details the accruals and payments related to these actions:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Severance and other employee costs						
Accrual at April 1, 2006	\$ 2.6	\$ 2.0	\$.8	\$ –	\$ –	\$ 5.4
Accrual at July 1, 2006	2.0	2.0	–	.7	–	4.7
Accrual at September 30, 2006	.8	3.6	–	.1	–	4.5
Accrual at December 30, 2006	1.9	1.8	1.5	1.3	–	6.5
Total accruals for 2006 actions	7.3	9.4	2.3	2.1	–	21.1
2006 Settlements	(4.5)	(5.3)	(.8)	(1.4)	–	(12.0)
Balance at December 30, 2006	\$ 2.8	\$ 4.1	\$ 1.5	\$.7	\$ –	\$ 9.1
2007 Settlements	(2.8)	(4.1)	(.9)	(.5)	–	(8.3)
Balance at December 29, 2007	\$ –	\$ –	\$.6	\$.2	\$ –	\$.8
Asset Impairments						
Buildings	\$.6	\$ –	\$ –	\$ –	\$ 1.3	\$ 1.9
Machinery and equipment	1.7	.5	.7	1.6	.5	5.0
Other						
Lease cancellations	–	1.3	–	–	–	1.3
	\$ 2.3	\$ 1.8	\$.7	\$ 1.6	\$ 1.8	\$ 8.2

Fourth Quarter 2005

In the fourth quarter of 2005, the Company recorded a pretax charge of \$55.5 million associated with restructuring actions (\$41.1 million), as well as expected product line divestitures (\$14.4 million). These actions were part of the Company's cost reduction efforts, which are expected to improve the Company's global operating efficiencies. The charge included severance and related costs of \$32.9 million related to the elimination of approximately 850 positions worldwide. At December 29, 2007, all employees impacted by these actions had left the Company and final payments will be made in 2008. Also included in the charge was \$22.6 million related to asset impairment, lease cancellation costs and other associated costs. The table below details the payments related to this program:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Severance and other employee costs						
Beginning balance	\$ 15.1	\$ 5.6	\$ 6.8	\$ 2.5	\$ 2.9	\$ 32.9
2005 Settlements	(2.5)	(.4)	(1.4)	(1.0)	—	(5.3)
Balance at December 31, 2005	12.6	5.2	5.4	1.5	2.9	27.6
2006 Settlements	(9.1)	(3.0)	(5.4)	(1.5)	(1.4)	(20.4)
Balance at December 30, 2006	\$ 3.5	\$ 2.2	\$ —	\$ —	\$ 1.5	\$ 7.2
2007 Settlements	(3.0)	(1.9)	—	—	(1.5)	(6.4)
Balance at December 29, 2007	\$.5	\$.3	\$ —	\$ —	\$ —	\$.8
Asset Impairments						
Buildings	\$ 2.4	\$ —	\$ —	\$ —	\$.8	\$ 3.2
Machinery and equipment	.1	.7	10.7	2.9	1.3	15.7
Capitalized software	—	—	—	—	2.5	2.5
Other						
Lease cancellations	—	.8	—	—	—	.8
Other costs	—	.4	—	—	—	.4
	\$ 2.5	\$ 1.9	\$ 10.7	\$ 2.9	\$ 4.6	\$ 22.6

Second Quarter 2005

In the second quarter of 2005, the Company recorded a pretax charge of \$2.1 million relating to asset impairments (\$1.4 million) and restructuring costs (\$.7 million). The asset impairment charges represented impairment of a building for \$.7 million in other specialty converting businesses and write-off of machinery and equipment for \$.7 million in the Pressure-sensitive Materials segment.

First Quarter 2005

In the first quarter of 2005, the Company recorded a pretax charge of \$6.7 million relating to restructuring costs and asset impairment charges, partially offset by a gain on sale of assets of \$3.4 million. The charge included severance and related costs of \$4 million related to the elimination of approximately 170 positions in the Office and Consumer Products segment as a result of the Company's closure of the Gainesville, Georgia label converting plant. In 2006, the employees impacted by these actions had left the Company and final payments were made. Also included in the charge was \$2.7 million related to impairment of buildings and land in the Pressure-sensitive Materials segment.

NOTE 11. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2007	2006	2005
Current:			
U.S. federal tax	\$ 23.9	\$ (4.5)	\$ 33.5
State taxes	1.3	4.7	3.0
International taxes	80.8	73.8	29.7
	106.0	74.0	66.2
Deferred:			
U.S. federal tax	(15.4)	12.1	(11.5)
State taxes	(1.7)	1.1	(5.2)
International taxes	(17.1)	(25.2)	14.3
	(34.2)	(12.0)	(2.4)
Taxes on income	\$ 71.8	\$ 62.0	\$ 63.8

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

(In millions)	2007	2006	2005
Computed tax at 35% of income from continuing operations before taxes	\$ 131.4	\$ 152.3	\$ 128.6
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	(1.2)	3.7	(3.0)
Foreign earnings taxed at different rates	(117.1)	(54.7)	(31.4)
Valuation allowance	59.9	(5.2)	(15.6)
Jobs Act repatriation of earnings	—	.1	13.5
Tax credits	(4.4)	(4.9)	(6.4)
Tax contingencies and audit settlements	.8	(8.1)	(9.0)
Other items, net	2.4	(6.5)	(1.4)
Taxes on income from continuing operations	71.8	76.7	75.3
Taxes on income from and gain on sale of discontinued operations	—	(14.7)	(11.5)
Taxes on income	\$ 71.8	\$ 62.0	\$ 63.8

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

(In millions)	2007	2006	2005
U.S.	\$ 19.8	\$ 117.0	\$ 100.2
International	355.5	318.2	267.3
Income from continuing operations before taxes	375.3	435.2	367.5
Income (loss) from discontinued operations before taxes	—	—	(76.9)
Income before taxes	\$ 375.3	\$ 435.2	\$ 290.6

U.S. income taxes have not been provided on certain undistributed earnings of international subsidiaries of approximately \$1.37 billion and \$1.16 billion at years ended 2007 and 2006, respectively, because such earnings are considered to be reinvested indefinitely outside of the U.S., and it is not practicable to estimate the amount of tax that may be payable upon distribution. Deferred taxes have been accrued for amounts that are not considered indefinitely reinvested.

The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted on October 22, 2004, provided for a temporary 85% dividends-received deduction on certain foreign earnings repatriated before December 31, 2005. The deduction resulted in an approximate 5.25% federal tax rate on the repatriated earnings. During the third quarter of 2005, the Company's Chief Executive Officer and Board of Directors approved a domestic reinvestment plan as required by the Jobs Act to repatriate \$344 million of foreign earnings in fiscal 2005. The repatriation of earnings took place in the fourth quarter of 2005, and resulted in a one-time incremental expense of \$13.5 million.

Included in the effective tax rate on continuing operations is the net impact from changes in certain valuation allowances, in the amount of \$59.9 million of expense and \$5.2 million of benefit for 2007 and 2006, respectively. Also, included in the effective tax rate on continuing operations is the net impact from several global tax audit settlements and closure of certain tax years, in the amount of \$.8 million of expense and \$.1 million of benefit for 2007 and 2006, respectively.

The income from discontinued operations in 2006 included a \$14.9 million tax benefit from the divestiture of the raised reflective pavement marker business. This tax benefit resulted from the capital loss recognized from the sale of the business, which was a stock sale. The capital loss was offset against capital gains recognized in 2006 related to the sale of an investment, as well as carried back to capital gains recognized in previous 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 gave rise to the Company's deferred tax assets and liabilities were as follows:

(In millions)	2007	2006
Accrued expenses not currently deductible	\$ 57.9	\$ 32.6
Net operating losses and foreign tax credit carryforwards	210.7	69.4
Capital loss carryforward	15.1	3.6
Postretirement and postemployment benefits	50.7	49.6
Pension costs	11.9	18.3
Inventory reserves	10.2	8.2
Other	6.5	5.4
Valuation allowance	(159.2)	(67.5)
Total deferred tax assets	203.8	119.6
Depreciation and amortization	(228.1)	(127.7)
Repatriation accrual	(15.1)	(1.0)
Other liabilities	(9.1)	—
Total deferred tax liabilities	(252.3)	(128.7)
Total net deferred tax assets (liabilities) from continuing operations	\$ (48.5)	\$ (9.1)
Net deferred tax assets from discontinued operations	—	—
Total net deferred tax assets (liabilities)	\$ (48.5)	\$ (9.1)

Net operating loss carryforwards of foreign subsidiaries for 2007 and 2006 were \$563.7 million and \$175 million, respectively. The increase in 2007 is primarily attributable to \$247 million of net operating losses resulting from the local statutory write down of certain investments in Europe and \$98 million of Paxar net operating losses. Tax credit carryforwards of both domestic and foreign subsidiaries for 2007 and 2006 totaled \$28.7 million and \$7.7 million, respectively. Foreign net operating losses, if unused, of \$29.8 million will expire by 2011, and \$40.9 million

will expire after 2011. Net operating losses of \$493 million can be carried forward indefinitely. Tax credit carryforwards, if unused, of \$3.8 million will expire by 2010, \$5.5 million will expire by 2016, and \$12.2 million will expire in 2017. Tax credit carryforwards of \$7.2 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss and credit carryforwards not expected to be utilized. The valuation allowance for 2007 and 2006 is \$159.2 million and \$67.5 million, respectively. The increase in 2007 is primarily attributable to the deferred tax assets and related valuation allowances resulting from a local statutory write down of \$56.5 million of certain investments in Europe and \$34.9 million from the Paxar acquisition. The portion of valuation allowance related to Accumulated Other Comprehensive Income (which, if subsequently reversed, would not impact the effective tax rate), is \$12.4 million for 2007 and \$17.8 million for 2006. The repatriation accrual for 2007 and 2006 is \$15.1 million and \$1 million, respectively. The increase in the repatriation accrual is primarily attributable to the Paxar acquisition. Generally, the subsequent reversal of amounts related to the Paxar acquisition, including valuation allowances and repatriation accruals, would not impact the effective tax rate.

The Company has been granted tax holidays in several jurisdictions including China, Thailand and Bangladesh. The tax holidays expire between 2008 and 2015. These tax holidays reduced the Company's consolidated effective tax rate on continuing operations by less than 1% in both 2007 and 2006.

At the beginning of the first quarter of 2007 (December 31, 2006), the Company adopted the provisions of FIN 48. Upon adoption of FIN 48, the Company recognized a decrease of \$2.9 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the beginning balance of retained earnings. As of the date of adoption, and after the impact of recognizing the decrease in liability noted above, the Company's unrecognized tax benefits totaled \$38.2 million, including \$26.2 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate. As a result of the Paxar acquisition, there was a preliminary increase to unrecognized tax benefits of \$68.9 million which, if recognized, would impact the purchase price allocation for Paxar. On December 29, 2007, the Company's unrecognized tax benefits totaled \$125 million, including \$28.6 million of

unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate and \$49.1 million of unrecognized tax benefits which, if recognized, would be recorded as an adjustment to goodwill under SFAS No. 141.

Where applicable, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits from its global operations in income tax expense. In 2007, the Company accrued \$.7 million in potential interest and penalties associated with uncertain tax positions. In conjunction with the adoption of FIN 48, the Company recognized \$2.1 million of interest and penalties, which is included as a component of the \$38.2 million unrecognized tax benefit noted above. To the extent interest and penalties are accrued in the Company's income tax expense, such amounts, if reversed, will reduce the effective income tax rate. As a result of the Paxar acquisition, there was an increase of \$6.5 million of interest and penalties, included in the preliminary unrecognized tax benefits of \$68.9 million noted above.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding potential interest and penalties associated with uncertain tax positions, is as follows:

(In millions)	2007
Balance as of December 30, 2006	\$ 36.1
Paxar balance as of June 15, 2007 (preliminary)	61.0
Additions based on tax positions related to the current year	26.2
Additions for tax position of prior years	13.6
Reductions for tax positions of prior years	
Changes in judgment	(7.5)
Settlements	(9.6)
Lapses of applicable statute	(9.7)
Changes due to translation of foreign currencies	4.4
Balance as of December 29, 2007 ⁽¹⁾	\$ 114.5

(1) Excludes \$10.5 of potential interest and penalties associated with uncertain tax positions

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. 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. With some exceptions, the Company and its subsidiaries are no longer subject to income tax examinations by tax authorities for years prior to 2003.

It is reasonably possible that within the next 12 months, the Company may realize a decrease in its gross uncertain tax positions of approximately \$4 million, primarily as a result of the expiration of relevant statutes of limitations. Furthermore, the Company anticipates that it is reasonably possible that additional payments in the range of \$6 million to \$8 million will be made within the next 12 months.

NOTE 12. SEGMENT INFORMATION

The accounting policies of the segments are described in Note 1, "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 for the segments.

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

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

(In millions)	2007	2006	2005
Net sales to unaffiliated customers:			
Pressure-sensitive Materials	\$ 3,497.7	\$ 3,236.3	\$ 3,114.5
Retail Information Services	1,174.5	667.7	630.4
Office and Consumer Products	1,016.2	1,072.0	1,136.1
Other specialty converting businesses	619.4	599.9	592.5
Net sales to unaffiliated customers	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5

Intersegment sales:

Pressure-sensitive Materials	\$ 164.9	\$ 161.5	\$ 163.2
Retail Information Services	2.1	3.4	6.7
Office and Consumer Products	1.6	1.8	2.0
Other specialty converting businesses	19.9	14.4	15.2
Eliminations	(188.5)	(181.1)	(187.1)
Intersegment sales	\$ —	\$ —	\$ —

Income from continuing operations before taxes:

Pressure-sensitive Materials	\$ 318.7	\$ 301.6	\$ 264.1
Retail Information Services	(4.0)	45.7	37.7
Office and Consumer Products	173.6	187.4	161.9
Other specialty converting businesses	25.4	17.3	14.9
Corporate expense	(33.2)	(61.3)	(53.2)
Interest expense ⁽⁴⁾	(105.2)	(55.5)	(57.9)

Income from continuing operations before taxes	\$ 375.3 ⁽¹⁾	\$ 435.2 ⁽²⁾	\$ 367.5 ⁽³⁾
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Capital expenditures:

Pressure-sensitive Materials	\$ 78.3	\$ 75.8	\$ 74.1
Retail Information Services	43.2	25.6	31.7
Office and Consumer Products	17.1	13.6	24.8
Other specialty converting businesses	46.2	36.1	38.5
Corporate	1.5	2.1	2.3
Discontinued operations	—	—	.2
Capital expenditures ⁽⁵⁾	\$ 186.3	\$ 153.2	\$ 171.6

Depreciation expense:

Pressure-sensitive Materials	\$ 91.2	\$ 88.2	\$ 86.2
Retail Information Services	42.5	17.8	16.3
Office and Consumer Products	21.8	20.7	24.6
Other specialty converting businesses	24.6	23.1	21.1
Corporate	4.0	4.0	6.0
Discontinued operations	—	.5	1.5
Depreciation expense	\$ 184.1	\$ 154.3	\$ 155.7

Prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain of the Company's U.S. operations.

(1) Results for 2007 include "Other expense, net" totaling \$59.4, consisting of asset impairment charges, restructuring costs and lease cancellation charges of \$57.5, a cash flow hedge loss of \$4.8, and expenses related to a divestiture of \$.3, partially offset by a reversal related to a lawsuit of \$(3.2). Of the total \$59.4, the Pressure-sensitive Materials segment recorded \$13.8, the Retail Information Services segment recorded \$31.2, the Office and Consumer Products segment recorded \$4.8, the other specialty converting businesses recorded \$4.2 and Corporate recorded \$5.4. See Note 10, "Cost Reduction Actions," for further information.

Additionally, 2007 operating income for the Retail Information Services segment includes \$43 of transition costs associated with the Paxar acquisition.

(2) Results for 2006 include "Other expense, net" totaling \$36.2, which consists of restructuring costs, asset impairment and lease cancellation charges of \$29.8, environmental remediation costs of \$13, costs of \$.4 related to a divestiture, accrual related to a lawsuit of \$.4 and charitable contribution of \$10 to the Avery Dennison Foundation, partially offset by gain on sale of investment of \$(10.5), gain on sale of assets of \$(5.3) and gain on curtailment and settlement of a pension obligation of \$(1.6). Of the \$36.2 total, the Pressure-sensitive Materials segment recorded \$9.3, the Retail Information Services segment recorded \$11.2, the Office and Consumer Products segment recorded \$(2.3), the other specialty converting businesses recorded \$3.7 and Corporate recorded \$14.3. See Note 10, "Cost Reduction Actions," for further information.

(3) Results for 2005 include "Other expense, net" totaling \$63.6, which consists of restructuring costs, asset impairment and lease cancellation charges of \$65.6, legal accrual related to a lawsuit of \$3.8, partially offset by gain on sale of assets of \$(5.8). Of the \$63.6 total, the Pressure-sensitive Materials segment recorded \$23, the Retail Information Services segment recorded \$7.5, the Office and Consumer Products segment recorded \$21.8, the other specialty converting businesses recorded \$6.2 and Corporate recorded \$5.1. See Note 10, "Cost Reduction Actions," for further information.

(4) Interest expense during 2007 includes \$40.8 of interest associated with borrowings to fund the Paxar acquisition.

(5) Capital expenditures accrued but not paid were approximately \$14 in 2007, approximately \$16 in 2006 and approximately \$27 in 2005. Capital expenditures refer to purchases of property, plant and equipment.

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

(In millions)	2007	2006	2005
Net sales to unaffiliated customers:			
U.S.	\$ 2,333.2	\$ 2,333.8	\$ 2,346.8
Europe	2,149.9	1,798.8	1,805.5
Asia	1,070.9	748.7	650.6
Latin America	396.7	332.4	288.9
Other international	357.1	362.2	381.7
Net sales	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Property, plant and equipment, net:			
U.S.	\$ 637.9	\$ 562.5	\$ 580.6
International	953.5	746.9	715.1
Property, plant and equipment, net	\$ 1,591.4	\$ 1,309.4	\$ 1,295.7

Revenues are attributed to geographic areas based on the location to which the product is shipped. Export sales from the United States to unaffiliated customers are not a material factor in the Company's business.

NOTE 13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per share data)	First Quarter ⁽¹⁾	Second Quarter ⁽²⁾	Third Quarter ⁽³⁾	Fourth Quarter ⁽⁴⁾
2007				
Net sales from continuing operations	\$ 1,389.9	\$ 1,523.5	\$ 1,680.4	\$ 1,714.0
Gross profit from continuing operations	364.3	410.4	466.2	481.5
Net income	79.1	86.2	58.8	79.4
Net income per common share	.81	.88	.60	.81
Net income per common share, assuming dilution	.80	.87	.59	.81
2006				
Net sales from continuing operations	\$ 1,337.2	\$ 1,409.7	\$ 1,417.6	\$ 1,411.4
Gross profit from continuing operations	356.4	395.0	392.0	394.6
Net income	69.5	113.2	85.8	104.7
Net income per common share	.70	1.13	.86	1.05
Net income per common share, assuming dilution	.69	1.13	.85	1.04

(1) Results in the first quarter 2007 include pretax other expense totaling \$2.1 for restructuring costs.

Results in the first quarter 2006 include pretax other expense totaling \$7.6 consisting of \$7.2 of restructuring costs and asset impairment charges and \$.4 for legal accrual related to a lawsuit.

(2) Results in the second quarter 2007 include pretax net other expense totaling \$7.5 consisting of integration related asset impairment charges of \$9.5, restructuring costs of \$.9 and expenses related to divestiture of \$.3, partially offset by a reversal of \$(3.2) related to a lawsuit.

Results in the second quarter 2006 include pretax net other expense totaling \$4 consisting of restructuring costs and asset impairment charges of \$6.1, charitable contribution of \$10 to the Avery Dennison Foundation, partially offset by gain on sale of investment of \$(10.5), and gain on curtailment and settlement of a pension obligation of \$(1.6).

(3) Results in the third quarter 2007 include pretax other expense of \$33.6 consisting of asset impairment charges, restructuring costs and lease cancellation charges of \$28.8 and a cash flow hedge loss of \$4.8.

Results in the third quarter 2006 include pretax other expense of \$19.5, which consists of environmental remediation costs of \$13, restructuring costs and asset impairment charges of \$6.1, and costs of \$.4 related to a divestiture.

(4) Results in the fourth quarter 2007 include pretax other expense totaling \$16.2 for restructuring costs and asset impairment charges.

Results in the fourth quarter 2006 include pretax net other expense totaling \$5.1 consisting of restructuring costs, asset impairment and lease cancellation charges of \$10.4, partially offset by gain on sale of assets of \$(5.3).

NOTE 14. SUBSEQUENT EVENTS

On February 8, 2008, a wholly-owned subsidiary of the Company, entered into a credit agreement for a term loan credit facility with fourteen domestic and foreign banks (the "Lenders") for a total commitment of \$400 million, maturing February 8, 2011. The subsidiary's payment and performance under the agreement are guaranteed by the Company. Financing available under the agreement is permitted to be used for working capital and other general corporate purposes, including acquisitions. The term loan credit facility typically bears interest at an annual rate of, at the subsidiary's option, either (i) between LIBOR plus 0.300% and LIBOR plus 0.850%, depending on the Company's debt ratings by either Standard & Poor's Rating Service ("S&P") or Moody's Investors Service ("Moody's"), or (ii) the higher of (A) the federal funds rate plus 0.50% or (B) the prime rate. The Company used the term loan credit facility to reduce commercial paper borrowings previously issued to fund the acquisition of Paxar Corporation, as described in Note 2, "Acquisitions." The term loan credit facility is subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio.

Effective as of February 13, 2008, the Company terminated its bridge revolving credit agreement, dated June 13, 2007, with five domestic and foreign banks.

Effective as of February 13, 2008, S&P changed its outlook on the Company's credit ratings from "Watch Negative" to "Stable" and Moody's changed its outlook on the Company's credit ratings from "Under Review" to "Negative."

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 76). 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 December 29, 2007. Management's assessment of the effectiveness of internal control over financial reporting as of December 29, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management has excluded Paxar Corporation from its assessment of internal control over financial reporting as of December 29, 2007 because it was acquired by the Company in a purchase combination during 2007. PricewaterhouseCoopers LLP has also excluded Paxar Corporation from their audit of internal control over financial reporting. Paxar Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 9 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2007.



Dean A. Scarborough
President and
Chief Executive Officer



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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Avery Dennison Corporation:

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 December 29, 2007 and December 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the Company changed the manner in which it accounts for income taxes and the method in which it accounts for the cost of inventory for the Company's U.S. operations in 2007. As discussed in Note 1, the Company changed the manner in which it accounts for stock-based compensation and pensions and postretirement benefits in 2006.

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.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Paxar Corporation from its assessment of internal control over financial reporting as of December 29, 2007 because it was acquired by the Company in a purchase business combination during 2007. We have also excluded Paxar Corporation from our audit of internal control over financial reporting. Paxar Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 9 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2007.



PricewaterhouseCoopers LLP
Los Angeles, California
February 27, 2008

Directors and Officers

BOARD OF DIRECTORS

Kent Kresa ^{2,4}
Chairman of the Board,
Avery Dennison Corporation
Chairman Emeritus,
Northrop Grumman Corporation,
an aeronautical and defense
systems manufacturer
Board member since 1999

Dean A. Scarborough
President and
Chief Executive Officer,
Avery Dennison Corporation
Board member since 2000

Richard M. Ferry ^{1,2,5}
Founder Chairman,
Korn/Ferry International,
an international executive
search firm
Board member since 1985

Peter W. Mullin ³
Chairman,
MullinTBG,
an executive compensation, benefit
planning and corporate insurance
consulting firm
Board member since 1988

David E. I. Pyott ^{1,5}
Chairman of the Board and
Chief Executive Officer,
Allergan, Inc.,
a global health care company
Board member since 1999

Peter K. Barker ^{1,2,3}
Retired Partner,
Goldman, Sachs & Company,
an investment banking firm
Board member since 2003

Julia A. Stewart ^{1,4,5}
Chairman and
Chief Executive Officer,
IHOP Corporation,
a restaurant chain
Board member since 2003

John T. Cardis ^{2,3,4}
Retired Partner,
Deloitte & Touche USA LLP,
an audit, tax, consulting and
financial advisory services firm
Board member since 2004

Rolf Börjesson ^{3,4,5}
Chairman,
Rexam PLC,
a consumer packaging and
beverage can manufacturer
Board member since 2005

Patrick T. Siewert ^{3,4}
Senior Director,
The Carlyle Group,
a private global investment firm
Board member since 2005

Ken C. Hicks ⁵
President and
Chief Merchandising Officer,
J. C. Penney Company, Inc.,
a leading retailer
Board member since 2007

Directors Emeriti
(nonvoting)

Charles D. Miller
Retired Chairman and
Chief Executive Officer,
Avery Dennison Corporation

H. Russell Smith
Retired Chairman of the
Executive Committee,
Avery Dennison Corporation

CORPORATE LEADERSHIP

Dean A. Scarborough
President and
Chief Executive Officer

Robert G. van Schoonenberg
Executive Vice President and
Secretary

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

Donald A. Nolan
Group Vice President,
Roll Materials

Terrence L. Hemmelgarn
Group Vice President,
Retail Information Services

Timothy S. Clyde
Group Vice President,
Specialty Materials and
Converting

Timothy G. Bond
Group Vice President,
Office Products

Anne Hill
Senior Vice President and
Chief Human Resources Officer

Susan C. Miller
Senior Vice President and
General Counsel

Robert M. Malchione
Senior Vice President,
Corporate Strategy and
Technology

Diane B. Dixon
Senior Vice President,
Corporate Communications
and Advertising

Mitchell R. Butier
Vice President, Controller and
Chief Accounting Officer

David N. Edwards
Vice President and
Chief Technology Officer

Richard P. Randall
Vice President, Corporate
Governance, Associate General
Counsel and Assistant Secretary

Karyn E. Rodriguez
Vice President and Treasurer

Gregory E. Temple
Vice President,
Global Operations and
Enterprise Lean Sigma

Kenneth A. Wolinsky
Vice President and
Chief Information Officer

1 Member of Compensation and Executive Personnel Committee
2 Member of Audit Committee
3 Member of Finance Committee
4 Member of Ethics and Conflict of Interest Committee
5 Member of Nominating and Governance Committee

BUSINESS LEADERSHIP

Pressure-sensitive Materials

John L. Collins
Vice President, Sales,
Fasson Roll North America

Angelo Depietri
Vice President and
General Manager,
Materials and Office Products
South America

Georges Gravanis
Vice President, Sales,
Roll Materials Europe

Kamran Kian
Vice President, Global Operations,
Roll Materials

Dagang Li
Vice President and
General Manager,
Roll Materials Greater China

David R. Martin
Vice President and
General Manager,
Materials Australia and
New Zealand

Martina L. McIsaac
Vice President and
General Manager,
Performance Polymers

Michel J. Merkx
Vice President and
General Manager,
Graphics North America

John C. Quinn
Vice President and
General Manager,
Roll Materials Asia Pacific

Helen M. Saunders
Vice President and
General Manager,
Graphics and Reflective Products

Donald W. Stoebe
Vice President and
General Manager,
Roll Materials Europe

John M. Wurzburger
Vice President and
General Manager,
Fasson Roll North America

Retail Information Services

Paul Che Lop Chu
Vice President and
General Manager,
Retail Information Services,
South China

Graham Diamond
Vice President and
General Manager,
Information and Brand
Management Division Americas,
Retail Information Services

David E. Herring
Vice President and
General Manager, Fastener,
Retail Information Services

Michael S. Johansen
Vice President and
General Manager,
Retail Information Services,
Asia Pacific

Kim P. Macaulay
Vice President,
Product Management and
Strategic Business Development,
Retail Information Services

James L. Martin
Vice President and
General Manager,
Printer Systems Division,
Retail Information Services

James Wrigley
Vice President and
General Manager,
Information and Brand
Management Division,
Europe and South Asia,
Retail Information Services

Office and Consumer Products

Andy M. Cooper
Vice President and
General Manager,
Office Products Asia Pacific

Hans-Guenther Klenk
Vice President and
General Manager,
Office Products Europe

Other Specialty Converting Businesses

Robert B. Cornick
Vice President and
General Manager,
Radio Frequency Identification

William M. Goldsmith
Vice President and
General Manager,
Performance Films

Mathew S. Mellis
Vice President and
General Manager,
Specialty Converting

Kevin E. Young
Vice President and
General Manager,
Specialty Tape

Corporate Information

Counsel

Latham & Watkins LLP
Los Angeles, California

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent - Registrar

Computershare Trust Co., N.A.
P. O. Box 43023
Providence, Rhode Island 02940-3023
(877) 498-8861
(800) 952-9245 (hearing impaired number)
www.computershare.com/investor

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:30 p.m. on April 24, 2008, in the Conference Center of the Avery Dennison 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 Computershare (include a reference to Avery Dennison in the correspondence), P.O. Box 43081, Providence, Rhode Island 02940-3081, or calling (877) 498-8861, or logging onto their Web site at www.computershare.com/investor.

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, Computershare Trust Co., Inc., 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 2007 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 April 30, 2007, 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

	2007		2006	
	High	Low	High	Low
Market Price⁽¹⁾				
First Quarter	\$ 69.67	\$ 63.46	\$ 61.54	\$ 56.33
Second Quarter	66.70	62.20	63.46	55.09
Third Quarter	68.49	55.31	61.97	56.95
Fourth Quarter	59.30	49.69	69.11	60.10

(1) Prices shown represent closing prices on the NYSE

	2007	2006
Dividends Per Common Share		
First Quarter	\$.40	\$.39
Second Quarter	.40	.39
Third Quarter	.40	.39
Fourth Quarter	.41	.40
Total	\$ 1.61	\$ 1.57

Number of shareholders of record as of year end	8,998	9,556
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Sources

- (H) indicates a headline source, (C) indicates a caption source
- p7 (H) Point of Purchase Advertising Institute – 2007 Market Research (POPAl.com)
(C) Alexander Watson Associates Industry Research Firm, 2008
- p8 (H) U.S. government Census and Avery Dennison Usage Study 2007
(C) Interactive Data Corporation Study 2007
- p9 (H) The Center of Medicine in the Public Health – Article, 2006
(C) Global Vaccine Market Outlook – 2007–2009 (RNCOS research firm – RNCOS.com)
- p10 (H) National Restaurant Association Report 2007, Washington DC
(C) Avery Dennison FreshMarx Sales Records 2005–2007
- p11 (H) IDTechEx Article, 2007; RFID News 2008
(C) IDTechEx Independent research and analysis on RFID 2006 Article
- p12 (HC) American Apparel and Footwear Association 2007 Shoe Statistics
(C) 2006 European Commission Enterprise and Industry Footwear Statistics
- p13 (H) Food Marketing Institute and First Research 2007
(C) Reynolds/ALCOA – Synovate Research 2007
- p14 (H) Screenweb.com – 2007 Graphics Printing Article
(C) 2002 Transportation Council of America Study reported by *Outdoor Advertising Magazine*
- p15 (H) Mr. Sicco W. Scheen – Swedish Posten
(C) Avery Dennison European Stamp Market Analysis 2007

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About Avery Dennison

Learn more about Avery Dennison innovation at www.averydennison.com

Investor Information

Obtain stock quotes, annual reports and other investor information at www.investors.averydennison.com. Send inquiries via e-mail to investorcom@averydennison.com

Career Opportunities

Find out why Avery Dennison was named one of the 2007 Top Companies for Leaders at www.averydennison.com/careers

Other Company Web sites include:

www.fasson.com
www.ris.averydennison.com
www.avery.com
www.averygraphics.com

Avery Dennison's Commitment to Sustainability

In support of our commitment to sustainability, the paper for this annual report is certified by the Forest Stewardship Council (FSC), which promotes environmentally responsible, socially beneficial and economically viable management of the world's forests. The paper also contains 10% pulp derived from post-consumer recycled fiber.

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Avery Dennison Corporation

Miller Corporate Center

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Pasadena, California 91103

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