

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 28, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-7685

Avery Dennison Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-1492269

(I.R.S. Employer Identification No.)

150 North Orange Grove Boulevard

Pasadena, California

(Address of principal executive offices)

91103

(Zip Code)

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

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

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

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

Not applicable.

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

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

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

The aggregate market value of voting stock held by non-affiliates as of June 28, 2002, was approximately \$6,154,583,378.

Number of shares of common stock, \$1 par value, outstanding as of February 24, 2003: 110,465,810.

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

<u>Document</u>	<u>Incorporated by reference into:</u>
Annual Report to Shareholders for fiscal year ended December 28, 2002 (the "2002 Annual Report")	Parts I, II
Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 24, 2003 (the "2003 Proxy Statement")	Parts III, IV

AVERY DENNISON CORPORATION
FISCAL YEAR 2002 FORM 10-K ANNUAL REPORT
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PART I

Item 1. BUSINESS

Avery Dennison Corporation (“Registrant”) was incorporated in 1977 in the state of Delaware as Avery International Corporation, the successor corporation to a California corporation of the same name which was incorporated in 1946. In 1990, Registrant merged one of its subsidiaries into Dennison Manufacturing Company (“Dennison”), as a result of which Dennison became a wholly owned subsidiary of Registrant, and in connection with which Registrant’s name was changed to Avery Dennison Corporation.

The business of Registrant and its subsidiaries (Registrant and its subsidiaries are sometimes hereinafter referred to as the “Company”) includes the production of pressure-sensitive adhesives and materials and the production of consumer and converted products. Some pressure-sensitive adhesives and materials are “converted” into labels and other products through embossing, printing, stamping and die-cutting, and some are sold in unconverted form as base materials, tapes and reflective sheeting. The Company also manufactures and sells a variety of consumer and converted products and other items not involving pressure-sensitive components, such as notebooks, three-ring binders, organizing systems, markers, fasteners, business forms, reflective highway safety products, tickets, tags, and imprinting equipment.

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

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

International operations constitute a significant portion of the Company’s business. In addition, the Company is currently expanding its operations in Asia Pacific, Latin America and Eastern Europe. As of December 28, 2002, the Company manufactured and sold its products from over 200 sales offices and distribution and manufacturing facilities located in 42 countries, and employed a total of approximately 20,500 persons worldwide.

On May 17, 2002, the Company acquired Jackstädt GmbH (“Jackstädt”), a manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has an international customer base, and had consolidated revenues of approximately \$400 million in 2001. This acquisition was the Company’s largest in over a decade. Jackstädt strengthens the Company’s pressure-sensitive business in many developing markets and other growth areas around the world, including Asia, Latin America and Eastern Europe. Integration of the Jackstädt business is progressing and the majority of the integration actions, including cost and headcount reductions, are expected to be completed by the end of the second quarter 2004.

On November 5, 2002, the Company acquired RVL Packaging, Inc. (“RVL”), a California-based provider of brand identification products to apparel manufacturers and retailers. On the same day, the Company also acquired the assets of L&E Packaging (“L&E”), one of RVL’s suppliers, based in North Carolina. On a combined basis, unaudited revenues for RVL and L&E and affiliated companies were approximately \$175 million for 2001.

The Company wishes to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, and is subject to certain risks referred to in Exhibit 99.1 hereto, including those normally

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attending international and domestic operations, such as changes in economic or political conditions, currency fluctuations, exchange control regulations and the effect of international relations and domestic affairs of foreign countries on the conduct of business, legal proceedings, and the availability and pricing of raw materials.

Except as set forth below, no material part of the Company's business is dependent upon a single customer or a few customers. However, sales and related accounts receivable of the Company's U.S. consumer products business are concentrated in a small number of major customers, principally discount office products superstores, mass marketers and distributors (see Note 5 of Notes to Consolidated Financial Statements beginning on page 49 of the 2002 Annual Report, which is incorporated by reference). United States export sales are not a significant part of the Company's business. Backlogs are not considered material in the industries in which the Company competes.

Available information

The Company electronically files with the Securities and Exchange Commission ("SEC") its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its periodic reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934. The SEC maintains a site on the internet, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Avery Dennison Corporation also makes these filings available free of charge by way of a third-party hyperlink service through the Company's internet site, www.averydennison.com (under the "Investors" tab), as soon as reasonably practical after electronic filing of such material with the SEC.

Pressure-sensitive Adhesives and Materials Segment

The Pressure-sensitive Adhesives and Materials segment manufactures and sells Fasson-, JAC- and Avery Dennison-brand pressure-sensitive base materials, specialty tapes, graphic films, reflective highway safety products, and chemicals. Base materials consist primarily of papers, plastic films, metal foils and fabrics, which are primed and coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. The business of this segment is generally not seasonal, except for certain highway safety products.

Base material products, which consist of a wide range of pressure-sensitive coated papers, films and foils, are sold to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications. Other product offerings include paper and film materials for use in a variety of industrial, commercial and consumer applications. The Company also manufactures and sells proprietary film face materials that are converted into labels generally for consumer applications.

Specialty tape products are single- and double-coated tapes and adhesive transfer tapes for use in non-mechanical fastening systems in various industries and are sold to industrial and medical converters, original equipment manufacturers and disposable-diaper producers worldwide.

Graphic products consist of a variety of films and other products sold to the worldwide automotive, architectural, commercial sign, digital printing, and other related markets. The Company also sells durable cast and reflective films to the construction, automotive, fleet transportation, sign and industrial equipment markets, and reflective films and highway safety products for traffic and safety applications. In addition, the Company sells specialty print-receptive films to the industrial label market, metallic dispersion products to the packaging industry and proprietary woodgrain film laminates for housing exteriors and automotive applications. The Company's graphics businesses are organized on a worldwide basis to serve the expanding commercial graphic arts market, including wide-format digital printing applications.

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

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On May 17, 2002, the Company acquired Jackstädt, a manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has an international customer base and had consolidated revenues of approximately \$400 million in 2001. Jackstädt strengthens the Company's pressure-sensitive business in many developing markets and other growth areas around the world, including Asia, Latin America and Eastern Europe.

In this segment, the Company competes, both domestically and internationally, with a number of medium to large firms. Entry of competitors into the field of pressure-sensitive adhesives and materials is limited by certain capital requirements and a need for sophisticated technical know-how. The Company believes that its ability to serve its customers with a broad line of quality products and service programs, its distribution and brand strength, and the development and commercialization of new products are among the more significant factors in developing and maintaining its competitive position.

Consumer and Converted Products Segment

The Consumer and Converted Products segment manufactures and sells a wide range of Avery-brand consumer products, custom label products, high performance specialty films and labels, automotive applications and fasteners. The business of this segment is generally not seasonal, except for certain consumer products sold during the back-to-school season.

The Company's principal consumer products are generally sold worldwide through wholesalers and dealers, mass market channels of distribution, and superstores. The Company manufactures and sells a wide range of Avery-brand products for home, school and office uses, including copier, ink-jet and laser printer labels, related computer software, presentation and organizing systems, ink-jet and laser printer card and index products, data-processing labels, notebooks, notebook and presentation dividers, three-ring binders, sheet protectors, and various vinyl and heat-sealed products. A wide range of other stationery products is offered, including writing instruments, markers, adhesives and specialty products under brand names such as Avery, Stabilo, Marks-A-Lot and HI-LITER, Index Maker and accounting products, note pads and presentation products under the National brand name. The extent of product offerings varies by geographic market. Operations in Europe distribute a broad range of these types of products under the Avery and Zweckform brands. Operations in Latin America and Asia Pacific have been established to market and distribute the Avery-brand line of stock self-adhesive products, including copier, ink-jet and laser labels and related software, laser printed card products and other unprinted labels.

Custom label products in North America primarily consist of custom pressure-sensitive and heat-seal labels for automotive and durable goods industries and custom pressure-sensitive labels and specialty combination products for the electronic data-processing market. These products are sold directly to manufacturers, packagers and retailers, as well as through international subsidiaries and distributors. Label products in Europe include custom and stock labels, labeling machinery and data printing systems, which are marketed to a wide range of industrial and retail users.

The Company designs, fabricates and sells a wide variety of tags and labels, including bar-coded tags and labels, and a line of machines for imprinting, dispensing and attaching preprinted roll tags and labels. The machine products are generally designed for use with tags and labels as a complete system. The Company also designs, assembles and sells labeling systems for integration into a customer's shipping and receiving operations. Principal markets include apparel, retail and industrial for identification, tracking and control applications principally in North America, Europe and Asia Pacific. Fastener products include plastic tying and attaching products for retail and industrial users.

The Company also manufactures and sells self-adhesive battery labels to battery manufacturers, and self-adhesive stamps to the postal service in the U.S. and certain other countries. The Company is an integrated supplier of adhesive coating, security printing and converting technologies for postage stamp production. Specialty automotive film products are used for interior and exterior vehicle finishes, striping decoration and identification. Other products include pressure-sensitive sheeted and die-cut papers and films, which are sold through distributors.

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On November 5, 2002, the Company acquired RVL, a California-based provider of brand identification products to apparel manufacturers and retailers. On the same day, the Company also acquired the assets of L&E, one of RVL's suppliers, based in North Carolina. On a combined basis, unaudited revenues for RVL and L&E and affiliated companies were approximately \$175 million for 2001.

In this segment, the Company competes, both domestically and internationally, with a number of small to large firms (among the principal competitors are Esselte AB, Fortune Brands, Inc., and 3M Co.). The Company believes that its ability to serve its customers with an extensive product line, its distribution and brand strength, its ability to develop and to commercialize new products, and its diverse technical foundation, including a range of electronic imprinting systems, are among the more significant factors in developing and maintaining its competitive position.

Research and Development

Many of the Company's current products are the result of its own research and development efforts. The Company expended \$74.5 million, \$69.9 million and \$67.8 million, in 2002, 2001 and 2000, respectively, on research-related activities by operating units and the Avery Research Center (the "Research Center"), located in Pasadena, California. A significant amount of the Company's research and development activities are conducted at the Research Center. Much of the effort of the Research Center applies to both of the Company's operating segments.

The operating units' research efforts are directed primarily toward developing new products and processing operating techniques and improving product performance, often in close association with customers. The Research Center supports the operating units' patent and product development work, and focuses on research and development in new adhesives, materials and coating processes, as well as new product applications and ventures. Research and development often focuses on projects affecting both operating segments in areas such as printing and coating technologies, and adhesive, release and ink chemistries.

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

Three-Year Summary of Segment Information

The Business Segment Information and financial information by geographical areas of the Company's operations for the three years ended December 28, 2002, which appear in Note 12 of Notes to Consolidated Financial Statements on pages 55 and 56 of the 2002 Annual Report, are incorporated herein by reference.

Other Matters

The raw materials used by the Company are primarily paper, plastic and chemicals, which are purchased from a variety of commercial and industrial sources and are subject to pricing fluctuations. Although from time to time shortages could occur, these raw materials currently are generally available.

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

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Efforts have been directed toward development of new adhesives and adhesive processing systems. Emulsion adhesives, hot-melt adhesives or solventless silicone systems have been installed in the Company's facilities in Peachtree City, Georgia; Fort Wayne and Greenfield, Indiana; Quakertown, Pennsylvania; Rodange, Luxembourg; Turnhout, Belgium; Hazerswoude, the Netherlands; Cramlington, England; and Gotha, Germany, as well as other plants in the United States, Argentina, Australia, Brazil, China, Colombia, France, Germany, India, Korea, and Thailand.

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

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

Item 2. PROPERTIES

At December 28, 2002, the Company operated approximately 34 principal manufacturing facilities in excess of 100,000 square feet and totaling approximately 5 million square feet. The following sets forth the locations of such principal facilities and the operating segments for which they are presently used:

Pressure-sensitive Adhesives and Materials Segment

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

Consumer and Converted Products Segment

Domestic—	Flowery Branch, Georgia; Chicopee and Fitchburg, Massachusetts; Meridian, Mississippi; Strongsville, Ohio; and Clinton, South Carolina.
Foreign—	Hong Kong, China; and Juarez and Tijuana, Mexico.

In addition to the Company's principal manufacturing facilities described above, the Company's other principal facilities include its corporate headquarters facility and research center in Pasadena, California, and offices located in Brea, California; Leiden, the Netherlands; Concord, Ohio; Framingham, Massachusetts; and Wuppertal, Germany

All of the Company's principal properties identified above are owned except the facilities in Brea, California, and Juarez, Mexico, which are leased.

All of the buildings comprising the facilities identified above were constructed after 1954, except parts of the Framingham, Massachusetts office. All buildings owned or leased are well maintained and of sound construction, and are considered suitable and generally adequate for the Company's present needs. The Company plans to expand capacity and provide facilities to meet future increased demand as needed. Owned buildings and plant equipment are insured against major losses from fire and other usual business risks. The Company knows of no material defects in title to, or significant encumbrances on its properties except for certain mortgage liens.

Item 3. LEGAL PROCEEDINGS

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

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum cost or amount of the 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 sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company and, based upon current information, management believes that it is unlikely that final resolution of these matters will significantly impact the consolidated financial position and operations of the Company.

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. In the opinion of the Company’s management, the resolution of these matters will not materially affect the Company.

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT(1)

<u>Name</u>	<u>Age</u>	<u>Served as Executive Officer since</u>	<u>Former Positions and Offices with Registrant</u>	
Philip M. Neal Chairman and Chief Executive Officer (also Director of Registrant)	62	January 1974	1990-1998 1998-2000	President and Chief Operating Officer President and Chief Executive Officer
Dean A. Scarborough President and Operating Officer (also Director of Registrant)	47	August 1997	1997-1999 1999-2000	Group V.P., Fasson Roll North America and Europe Group V.P., Fasson Roll Worldwide
Robert G. van Schoonenberg Executive Vice President, General Counsel and Secretary	56	December 1981	1997-2000	S.V.P., General Counsel and Secretary
Daniel R. O'Bryant Senior Vice President, Finance and Chief Financial Officer	45	January 2001	1997-1999 1999-2000 2000-2001	General Manager, Business Forms Division, Fasson Roll N.A. V.P. and General Manager, Product Identification Division, Fasson Roll N.A. V.P. and General Manager, Fasson Roll N.A.
Diane B. Dixon Senior Vice President, Worldwide Communications and Advertising	51	December 1985	1997-2000	V.P., Worldwide Communications and Advertising
Robert M. Malchione Senior Vice President, Corporate Strategy and Technology	45	August 2000	1997-2000 2000-2001	V.P., Boston Consulting Group(2) S.V.P., Corporate Strategy
Karyn E. Rodriguez Vice President and Treasurer	43	June 2001	1997-1999 1999-2001	Director, Corporate Finance and Investments Assistant Treasurer, Corporate Finance and Investments
Michael A. Skovran Vice President and Controller	44	January 2002	1998-2001	V.P., Finance, Worldwide Office Products
Christian A. Simcic Group Vice President, Roll Materials Worldwide	46	May 2000	1997-2000	V.P. and Managing Director, Asia Pacific
Timothy S. Clyde Group Vice President, Worldwide Office Products	40	February 2001	1998-1999 1999-2000 2000-2001	General Manager, OF&P Division, Office Products N.A. V.P. and General Manager OF&P Division, Office Products N.A. V.P. and General Manager Office Products N.A.

(1) All officers are elected to serve a one-year term and until their successors are elected and qualify.
(2) Business experience during past 5 years prior to service with Registrant.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTER

The information called for by this item appears on page 60 of Registrant's 2002 Annual Report and is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of Registrant's last five fiscal years appears on page 26 of Registrant's 2002 Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

Overview and Outlook

The Company's results for 2002 reflect growth from the completion of three acquisitions, as well as sales from new products and applications in a variety of consumer and industrial markets. Improved profitability was achieved from cost reduction and productivity improvement programs such as Six Sigma, a program designed to improve productivity and quality.

The Pressure-sensitive Adhesives and Materials segment reported increased sales for 2002 compared to 2001. The worldwide Roll Materials business, the Graphics and Reflective business outside the U.S. and the domestic and international Specialty Tapes business reported sales growth. The Graphics and Reflective business in the U.S., however, continued to be negatively impacted by generally weak economic conditions. Contributing to the growth in the segment was the acquisition in May 2002 of Jackstädt GmbH ("Jackstädt"), a manufacturer of pressure-sensitive materials based in Germany. This acquisition was the Company's largest in over a decade. Jackstädt strengthens the Company's business in many developing markets and other growth areas around the world, including Asia, Latin America and Eastern Europe. Integration of the Jackstädt business is progressing and the majority of the integration actions, including cost and headcount reductions, are expected to be completed by the end of the second quarter 2004.

The Consumer and Converted Products segment reported increased sales for 2002 compared to 2001. Retail Information Services reported increased sales in 2002 compared with 2001 primarily as a result of the fourth quarter acquisitions of RVL Packaging, Inc. ("RVL"), a provider of brand identification products to apparel manufacturers and retailers, and L&E Packaging ("L&E"), one of RVL's suppliers, as well as from worldwide Ticketing. Industrial and Automotive Products also reported increased sales in 2002 compared to 2001. Although the Office Products business in North America posted modest sales growth in 2002, the European Office Products business reported a slight downturn in sales relative to the prior year. The office products environment has been challenging over the past two years, with superstores closing stores and reducing inventory, while white collar layoffs have reduced end-user demand.

The Company recorded charges totaling \$32.1 million in the third and fourth quarters of 2002 for severance (\$10.7 million), the impairment of property, plant and equipment (\$17.5 million) and lease cancellation costs (\$3.9 million). Approximately 40 percent of the \$10.7 million severance charge was related to the elimination of Avery Dennison positions as a result of the Jackstädt integration, while the remainder was associated with the announcement of the closure of an Office Products' manufacturing facility and other cost reduction actions. Approximately 50 percent of the \$21.4 million charge for asset impairments and lease cancellation costs related to the integration of Jackstädt. The remainder of the charge primarily related to the Reflective business. The Company expects additional headcount reductions of approximately 700 positions during 2003 and 2004. The Company expects to take charges totaling approximately \$20 million in the first quarter of 2004 for the balance of severance costs related to the Jackstädt acquisition.

Interest expense was \$43.7 million for 2002, compared to \$50.2 million in 2001, reflecting lower interest rates on the Company's short-term, floating rate debt. The Company entered into a forward starting interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance to finance the acquisition of Jackstädt. The principal amount hedged was \$250 million. Because of a shift in interest rates, an unrealized loss of approximately \$37.4 million related to the swap was included in other comprehensive loss at the end of 2002. In January 2003, the Company issued \$250 million of 10-year and \$150 million of 30-year notes for the purpose of refinancing the short-term obligations on a long-term basis. In connection with the issuance of the notes, the Company settled the interest rate swap at a loss of approximately \$32.5 million. The loss will be amortized to interest expense over the term of the debt. Interest expense will increase as a result of the refinancing.

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Subsequent to the announcement of the RVL and L&E acquisitions, Standard & Poor's Rating Services ("S&P") and Moody's Investors Service ("Moody's") reviewed the Company's debt ratings. S&P reaffirmed the Company's "A-1" short-term rating, "A" long-term rating and "negative" outlook. Moody's downgraded the Company's short-term rating from "P1" to "P2" and its long-term rating from "A2" to "A3," and changed the outlook for the Company from "negative" to "stable." The downgrade will increase interest rates on the Company's debt. Beginning in 2003, based on current interest rates and the current level of debt, the increased interest cost associated with the downgrade is estimated to have an after-tax impact in the range of approximately \$1 million to \$3 million per year.

The effective tax rate was 29.5 percent for 2002. The Company estimates the effective tax rate will be approximately 29.5 percent during 2003, subject to structural and operational changes, the impact of acquisitions and the geographic mix of income.

International operations constitute approximately 45 percent of the Company's business. The Company is exposed to foreign currency exchange rate risk, and changes to foreign exchange rates will impact the Company's financial results.

Weakness in the equity markets and the lower interest rate environment resulted in modifications to the Company's 2002 pension assumptions, negatively impacting pretax operating income by \$4 million in 2002 compared with 2001. Continued weakness in the equity markets and the lower interest rate environment have resulted in adjustments of the 2003 pension assumptions, and as a result of these changes, forecasted pension expense for 2003 is expected to negatively impact pretax operating income by approximately \$10 million relative to 2002.

The 2003 weighted-average assumptions for return on plan assets and discount rate for U.S. pension plans are 9 percent and 7 percent, respectively. The 2003 weighted-average assumptions for return on plan assets and discount rate for international plans are 6.6 percent and 5.5 percent, respectively.

The adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangibles," at the beginning of fiscal 2002 benefited earnings per share, assuming dilution, by approximately \$.14 in 2002. Under this accounting standard, the Company no longer amortizes goodwill. Amortization expense related to intangible and other assets increased approximately \$9 million in fiscal 2002 as a result of increases in capitalized software, deferred charges and from identifiable intangibles resulting from the 2002 acquisitions. A full year of amortization expense for the identifiable intangibles from the 2002 acquisitions is expected to be approximately \$4 million in 2003.

The Company expects continued growth in 2003. During the year, the Company will be introducing new products in both the Pressure-sensitive Adhesives and Materials and the Consumer and Converted Products segments. The Company also expects growth from acquisitions completed in 2002. The Company has reduced costs and will continue its cost management initiatives designed to improve margins. The Company continues to pursue long-term growth initiatives, with emphasis on new product development and growth in emerging markets, particularly in the Asia Pacific, Latin American and Eastern European regions.

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	2002	2001	2000
		(In millions)	
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
Cost of products sold	2,853.2	2,563.1	2,561.3
Gross profit	1,353.7	1,240.2	1,332.2
Marketing, general and administrative expense	913.1	830.5	851.3
Interest expense	43.7	50.2	54.6
Other expense (income), net	32.1	(.3)	—
Income before taxes and accounting change	364.8	359.8	426.3
Taxes on income	107.6	116.4	142.8
Income before accounting change	257.2	243.4	283.5
Cumulative effect of accounting change, net of tax	—	(.2)	—
Net income	\$ 257.2	\$ 243.2	\$ 283.5

Sales increased 10.6 percent to \$4.21 billion in 2002, compared to \$3.8 billion in 2001. Excluding changes in foreign currency exchange rates, sales increased 10 percent. In 2001, sales decreased 2.3 percent over 2000 sales of \$3.89 billion. Excluding the impact of currency, sales decreased .6 percent in 2001. Acquisitions made in each of the years 2002, 2001 and 2000 contributed additional sales of approximately \$270 million in 2002, \$84.3 million in 2001 and \$97.1 million in 2000. The contribution from acquisitions in 2002 can only be estimated given the integration of the Jackstädt acquisition with the Company's existing business.

Gross profit margins for the years ended 2002, 2001 and 2000 were 32.2 percent, 32.6 percent and 34.2 percent, respectively. The Company's gross profit margins for individual products within business units can vary significantly. The decrease in 2002 was due to the lower gross profit margin on the Jackstädt business, partially offset by reduced expenses from the cost reduction programs and productivity initiatives. The decrease in 2001 was due to lower sales in the higher-margin Office Products business, a shift in sales within the Roll Materials business to lower-margin products, as well as a resulting increase in fixed costs as a percentage of sales across most of the Company's businesses because fixed costs were not reduced commensurate with the overall decline in sales.

Marketing, general and administrative expense as a percent of sales was 21.7 percent in 2002, 21.8 percent in 2001 and 21.9 percent in 2000.

On November 5, 2002, the Company acquired RVL, a provider of brand identification products to apparel manufacturers and retailers. RVL designs, markets and distributes woven and printed labels, graphic tags and specialty packaging products. On the same day, the Company also acquired the assets of L&E, one of RVL's suppliers. L&E offers a broad range of printing products tailored to the specific needs of the apparel and retail industries. Both transactions included the acquisition of certain related entities. The purchase price, net of cash acquired, for these transactions was approximately \$222 million, consisting of approximately \$175 million in cash and approximately \$47 million in shares of Avery Dennison common stock. Funds to complete the acquisitions were derived from short-term borrowings. On a combined basis, unaudited revenues for RVL, L&E and affiliated companies were approximately \$175 million for 2001. The operations of the acquired companies are included in the Company's Consumer and Converted Products segment.

On May 17, 2002, the Company acquired Jackstädt, a manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has an international customer base and had consolidated revenues of approximately \$400 million in 2001. The purchase price, net of cash acquired, was approximately \$311 million, which included approximately \$211 million in cash and assumed debt of approximately \$100 million. The Jackstädt business is included in the Company's Pressure-sensitive Adhesives and Materials segment. Jackstädt complements the

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Company's operations in Europe, Latin America, Asia and North America. Jackstädt enhances the Company's international presence and enables it to offer a broader selection of products and services. Integration of the Jackstädt business is progressing with the reduction at year end of approximately 315 of the estimated 1,000 positions to be eliminated.

The Company recorded a charge in the fourth quarter of 2002 relating to cost reduction actions. The 2002 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of \$10.7 million, which consisted of employee severance and related costs for approximately 300 positions worldwide. This charge is shown in the "Other expense" line in the Consolidated Statement of Income. The positions eliminated included approximately 80 employees in the Pressure-sensitive Adhesives and Materials segment and approximately 220 employees in the Consumer and Converted Products segment. Severance and related costs represented cash paid or to be paid to employees terminated under the program. At year end 2002, \$9.8 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits" in the Consolidated Balance Sheet). At the end of 2002, of the approximate 300 positions affected by these actions, approximately 50 employees (10 employees from the Consumer and Converted Products segment and 40 employees from the Pressure-sensitive Adhesives and Materials segment) had left the Company. The Company expects to complete this cost reduction program in 2003.

In the fourth quarter of 2002, the Company recorded a \$6.2 million pretax charge for the planned disposition of fixed assets (comprised of machinery and equipment) related to a reduction of costs in the Reflective business, as well as the Jackstädt integration. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, related entirely to assets owned by the Company prior to the acquisition of Jackstädt.

In the third quarter of 2002, the Company recorded a \$15.2 million pretax charge for the disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of the Jackstädt operations, as well as the planned closure of a plant facility, costs to exit leases and other asset impairments related to other businesses. Approximately 60 percent of the charge related to the integration of Jackstädt. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, related entirely to assets and leases owned by the Company prior to the acquisition of Jackstädt. Of the \$15.2 million charge, approximately \$11.3 million related to asset impairments for property, plant and equipment (\$1.3 million for buildings and \$10 million for machinery and equipment) and \$3.9 million related to lease cancellation costs. The Company expects to pay the lease cancellation costs through 2011. The lease contracts extend for a period of up to eight years at which time the accruals for these leases will be fully utilized.

The table below details the lease cancellation cost activity:

	(In millions)
Accrued lease cancellation costs	\$ 3.9
Cancellation costs paid	(.2)
Accrued lease cancellation costs, end of period	\$ 3.7

In the fourth quarter of 2001, the Company sold its specialty coatings business, reported within the Pressure-sensitive Adhesives and Materials segment. Cash proceeds and \$11.5 million in notes and receivables were received as part of the sale, which resulted in a pretax gain of approximately \$20.2 million. Net sales from this business were \$26.7 million for ten months in 2001 and \$37.7 million in 2000.

The Company also recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The 2001 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of \$19.9 million, which consisted of employee severance and related costs of \$13.1 million for approximately

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400 positions worldwide, and asset impairments of \$6.8 million. The positions eliminated included approximately 170 employees in the Pressure-sensitive Adhesives and Materials segment, 210 employees in the Consumer and Converted Products segment and 20 Corporate employees. Severance and related costs represented cash paid or to be paid to employees terminated under the program. Asset impairments represented non-cash charges required to reduce the carrying value of the assets that were disposed of to net realizable value as of the planned date of disposal. At year end 2002, \$1.9 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits" in the Consolidated Balance Sheet), associated with long-term severance contracts, which will be paid through 2004. All amounts related to asset impairments were utilized.

Interest expense for the years ended 2002, 2001 and 2000 was \$43.7 million, \$50.2 million and \$54.6 million, respectively. The decrease in 2002 was due to lower interest rates on short-term, floating rate debt, partially offset by the additional interest on the debt used to fund the Jackstädt acquisition in the second quarter, as well as the RVL and L&E acquisitions in the fourth quarter. The decrease in 2001 was due to the impact of lower interest rates on the Company's short-term debt.

Income before taxes, as a percent of sales, was 8.7 percent in 2002, 9.5 percent in 2001 and 10.9 percent in 2000. The percentage decrease in 2002 reflected the total third and fourth quarter pretax charges of \$32.1 million and lower gross profit margin as a percent of sales. The decrease was partially offset by lower interest expense, the elimination of goodwill amortization and lower marketing, general and administrative expenses as a percent of sales. The percentage decrease in 2001 was primarily due to the lower gross profit margin.

The effective tax rate was 29.5 percent in 2002, 32.4 percent in 2001 and 33.5 percent in 2000. The decrease in the effective tax rate in 2002 was principally due to structural and other operational changes, the impact of acquisitions, the geographic mix of income and the change in accounting for goodwill. The percentage decrease in 2001 reflected a change in geographic mix of profits, utilization of various tax credits worldwide and both structural and operational changes that reduced taxes. The Company estimates that the effective tax rate for 2003 will be approximately 29.5 percent.

	2002	2001	2000
	(In millions, except per share amounts)		
Net income	\$ 257.2	\$ 243.2	\$ 283.5
Net income per common share	2.61	2.49	2.88
Net income per common share, assuming dilution	2.59	2.47	2.84

Net income totaled \$257.2 million in 2002, \$243.2 million in 2001 and \$283.5 million in 2000. Net income for 2002 increased 5.8 percent from 2001. Net income for 2001 decreased 14.2 percent from 2000. Net income, as a percent of sales, was 6.1 percent, 6.4 percent and 7.3 percent in 2002, 2001 and 2000, respectively.

Net income per common share was \$2.61 in 2002 compared to \$2.49 in 2001 and \$2.88 in 2000. Net income per common share for 2002 increased 4.8 percent from 2001. Net income per common share for 2001 decreased 13.5 percent from 2000.

Net income per common share, assuming dilution, was \$2.59 in 2002 compared to \$2.47 in 2001 and \$2.84 in 2000. Net income per common share, assuming dilution, for 2002 increased 4.9 percent from 2001. Net income per common share, assuming dilution, for 2001 decreased 13 percent from 2000.

Results of Operations by Operating Segment**Pressure-sensitive Adhesives and Materials:**

	2002	2001	2000
	(In millions)		
Net sales	\$ 2,568.0	\$ 2,188.8	\$ 2,136.4
Income from operations before interest and taxes	198.0	192.1	212.4

The Pressure sensitive Adhesives and Materials segment reported increased sales and income for 2002 compared to 2001. Sales increased approximately \$379 million or 17.3 percent to \$2.57 billion in 2002 compared to \$2.19 billion in 2001 driven by strong sales in both the domestic and international operations. Domestic sales, including intrasegment sales, increased approximately \$56 million or 4 percent due to strong sales in the Roll Materials business (approximately \$92 million). The increase resulted, in part, from market share gain from business obtained from the closure of a competitor's plant (estimated to be \$11 million) and a supply agreement with a company that outsourced its manufacturing of certain roll label materials (estimated to be \$23 million), as well as other factors including industry consolidation, new products and service programs and new applications. Additionally, domestic sales increased due to an increase in the Specialty Tapes business (approximately \$8 million) driven by the introduction of new applications and products for the medical and industrial markets. Increases in 2002 sales were partially offset by a reduction in sales from the sale of the specialty coatings business in the fourth quarter of 2001 (2001 sales of approximately \$27 million), as well as sales declines in the Graphics and Reflective business of approximately \$10 million. Sales increased internationally including intrasegment sales, approximately \$344 million or 34 percent, principally due to the acquisition of Jackstädt in the second quarter of 2002 (total 2002 impact on sales estimated to be approximately \$262 million). In addition, excluding sales from the Jackstädt business, international sales reflected strong sales growth in Roll Materials Asia (approximately \$34 million) and higher sales in the Roll Materials and Graphics businesses in Europe (approximately \$33 million) due to a favorable impact of changes in foreign currency exchange rates.

The segment's income increased 3.1 percent to \$198 million compared to 2001. Income from domestic operations was down slightly (approximately \$4 million) compared to 2001. The decrease in income from domestic operations in 2002 reflected a charge of approximately \$9 million related to the 2002 restructuring, asset impairments and lease cancellation costs, compared to a charge of \$3.9 million for cost reduction actions in 2001, and a \$20.2 million pretax gain on the sale of a business in 2001. Excluding the impact of these items, income from domestic operations increased approximately \$21 million or 20 percent. This was primarily due to higher income in the Roll Materials business driven by volume growth and profitability achieved through cost reduction and productivity improvement programs. Additionally, domestic income reflected the benefit from the change in accounting for goodwill (approximately \$4 million). Income from international operations increased approximately \$10 million due to sales growth, improved profitability achieved through cost reductions and productivity gains and the positive impact from the change in accounting for goodwill amortization (approximately \$2 million). International income was reduced by a charge of approximately \$13 million related to the 2002 restructuring, asset impairments and lease cancellation costs.

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and a decrease in income for 2001 compared to 2000. Sales increased 2.5 percent to \$2.19 billion in 2001, compared to \$2.14 billion in 2000, driven by market share gain in the U.S. and growth in international markets. Sales increased in the U.S. operations due to the acquisition of Dunsirn Industries, Inc. ("Dunsirn") as discussed below (approximately \$48 million), the benefit of new business obtained from the closure of a competitor's plant (estimated to be \$10 million) and a new supply agreement with a company that outsourced its manufacturing of certain roll label materials (estimated to be \$12 million) and other factors. The domestic sales increase was partially offset by the slowdown in the North American economy, and the resulting negative impact on sales in the Graphics and Specialty Tapes businesses (approximately \$31 million). Sales increased internationally, primarily as a result of the Adespan acquisition in 2000 as discussed below (approximately \$19 million) and unit

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volume growth in the Roll Materials business in Europe and Asia Pacific. This increase was partially offset by a slowdown in certain European markets served by the Company's Graphics and Specialty Tapes businesses, sales declines in Latin America and the negative impact of foreign currency exchange rates (approximately \$46 million).

The segment's 2001 income decreased 9.6 percent to \$192.1 million from 2000. Income for 2001 was impacted by three non-recurring items in the fourth quarter: a pretax gain of approximately \$20.2 million on the sale of a business in the U.S., a \$7.6 million charge relating to cost reduction actions (\$3.9 million in the U.S. operations and \$3.7 million in the international operations) and a \$2.3 million charge related to the currency devaluation in Argentina. Income in the U.S. and international operations also decreased due to the economic slowdown which impacted sales across most of the segment's businesses. In addition, integration costs associated with the Dunsirn acquisition, the negative impact on gross profit margins from a reduced ratio of sales to fixed costs in a more competitive pricing environment and one-time costs associated with the start-up of a new coater in the U.S. also contributed to the income reduction. Savings from cost reduction actions taken throughout the year, as well as from Six Sigma partially offset the negative effects of these factors.

In the fourth quarter of 2001, the Company sold its specialty coatings business. Cash proceeds and \$11.5 million in notes and receivables were received in conjunction with the sale, which resulted in a pretax gain of approximately \$20.2 million. Net sales from this business were \$26.7 million for ten months in 2001 and \$37.7 million in 2000.

In the first quarter of 2001, the Company acquired Dunsirn, a supplier of non-adhesive materials to the narrow-web printing industry, as well as a provider of customized slitting and distribution services for pressure-sensitive roll materials manufacturers. Customized slitting and distribution services refer to the process of cutting bulk rolls of material into sizes requested by customers and then shipping these materials to customers. Sales in 2000 for Dunsirn were approximately \$68 million, including sales to the Company. The excess of the cost basis over the fair value of net tangible assets acquired was \$30.8 million, which included identified intangible assets of \$5.5 million.

In the first quarter of 2000, the Company acquired the Adespan pressure-sensitive materials operation of Panini S.p.A., a European printing and publishing company based in Italy. Adespan had sales of approximately \$75 million in 1999. The excess of the cost basis over the fair value of net tangible assets acquired was \$25.4 million, which included identified intangible assets of \$12.4 million.

Consumer and Converted Products:

	2002	2001	2000
		(In millions)	
Net sales	\$ 1,811.7	\$ 1,783.8	\$ 1,898.3
Income from operations before interest and taxes	245.5	244.4	293.2

The Consumer and Converted Products segment reported increased sales and income for 2002 compared to 2001. Sales increased approximately \$28 million or 1.6 percent to \$1.81 billion compared to \$1.78 billion in 2001. Sales in the domestic operations including intrasegment sales increased approximately \$22 million, principally due to increases in the Retail Information Services group (approximately \$13 million), including the operations of RVL and L&E acquired in the fourth quarter, which contributed approximately \$9 million in sales, and strong sales in the Industrial and Automotive products business (approximately \$7.5 million). Sales from the U.S. Office Products business were flat in 2002 compared to 2001. The office products environment has been challenging over the past two years, with superstores closing stores and reducing inventory, while white collar layoffs have reduced end-user demand. Sales from international operations including intrasegment sales increased approximately \$24 million or 4 percent, principally due to the acquisitions of RVL and L&E in the fourth quarter, which contributed incremental sales of approximately \$26 million. Additionally, the international businesses benefited from strong sales growth in the Ticketing business in Asia (approximately \$15 million).

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The segment's 2002 income was comparable to 2001. Income from domestic operations decreased approximately \$4 million, which included a charge of \$6 million related to restructuring, asset impairments and lease cancellation costs in 2002 and a benefit from the change in accounting for goodwill (approximately \$5 million). Income from international operations increased approximately \$5 million driven principally by strong sales in the Ticketing business in Asia (approximately \$7 million). Results from the international operations also included a charge of \$4 million related to restructuring, asset impairments and lease cancellation costs in 2002 and the positive impact from the change in accounting for goodwill (approximately \$4 million).

The Consumer and Converted Products segment reported decreased sales and income for 2001 compared to 2000. Sales decreased 6 percent to \$1.78 billion in 2001, compared to \$1.9 billion in 2000. Sales in the U.S. operations were negatively impacted by several factors. The slowdown in the North American economy particularly affected the Company's Office Products business and the Industrial and Automotive business. Customer inventory reductions, consolidation of office product retail stores by the Company's customers and a weak retail environment also negatively impacted sales in 2001. Domestic sales for the Office Products business were also negatively impacted by purchases of approximately \$14 million made by major customers in December 2000 in order to increase the payout under rebate programs, which accelerated sales that normally would have occurred in the first quarter of 2001. In addition, domestic sales growth was negatively impacted by decreased volume and a shift to sales of lower-margin products in the Company's converting businesses. Sales in international operations decreased primarily due to the negative impact of foreign currency exchange rates and the economic slowdown impacting some of the Company's businesses in Europe.

The segment's 2001 income decreased 16.6 percent to \$244.4 million. Income for 2001 was impacted by a \$9.4 million charge relating to cost reduction actions (\$5.4 million in the U.S. operations and \$4 million in the international operations). The decline in operating income was disproportionate to the decline in sales, after the cost reduction charge, because fixed costs were not reduced commensurate with the overall decline in sales. Cost reduction actions and productivity initiatives partially offset the negative impact of the sales decline.

In the first quarter of 2001, the Company acquired CD Stomper, a product line consisting of CD and DVD labels, software and a label applicator, from Stomp Inc., a software developer and manufacturer based in California. Sales in 2000 for the CD Stomper product line were approximately \$20 million. The excess of the cost-basis over the fair value of net tangible assets acquired was \$22.6 million, which included identified intangible assets of \$9.7 million.

Financial Condition

The discussion of working capital in this section is based upon average working capital employed during the year. In the "Liquidity and Capital Resources" section below, the discussion of working capital changes is based upon the beginning and ending balances for the year.

Average working capital, excluding short-term debt, as a percent of sales was 7.1 percent in 2002, 7.9 percent in 2001 and 6.4 percent in 2000. The decrease in 2002 was principally due to higher balances in accounts payable and other current liabilities (approximately \$270 million), including amounts resulting from acquisitions (approximately \$105 million), increased balances in accounts payable (approximately \$64 million), hedge liabilities (approximately \$38 million), accrued payroll and benefits (approximately \$34 million) and accrued rebates (approximately \$18 million). The increase in 2001 reflected the increase in cash and the decrease in accounts payable and other accrued liabilities. Average inventory turnover was 8.6 turns in 2002 and 8.8 turns in 2001 and 2000. The decrease in inventory turns in 2002 was due to higher inventory levels driven by the 2002 acquisitions and higher inventory levels in response to stronger sales during the year. The average number of days sales outstanding in accounts receivable was 61 days in 2002, 58 days in 2001 and 56 days in 2000. The increase in 2002 and 2001 reflected longer payment terms associated with increased international sales. The increase in 2002 was also due in part to the longer payment terms associated with the newly acquired businesses. Although the average number of days sales outstanding in accounts receivable has been increasing, the Company does not anticipate this trend to continue.

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Several of the Company's largest domestic customers operate in a competitive retail business environment, which has been impacted by the economic conditions in North America. As of year end 2002 and 2001, approximately 17 percent and 23 percent, respectively, of trade accounts receivable were from nine retail customers of the Company's Office Products business. The Company does not require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis.

Goodwill, net of accumulated amortization, increased \$335.5 million during 2002 principally due to the acquisitions of Jackstädt (approximately \$141 million) and RVL and L&E (approximately \$170 million). In addition, the increase also reflected a foreign currency exchange impact (approximately \$9 million).

Other intangibles resulting from business acquisitions, net of accumulated amortization, increased \$27.9 million during 2002 due to the acquisitions of Jackstädt (approximately \$11 million) and RVL and L&E (approximately \$20 million). The increase also reflected a foreign currency exchange impact (approximately \$6 million). These increases were partially offset by the amortization expense recorded during 2002 (approximately \$9.7 million).

The Company's "Other assets" balance increased during 2002 due to increases in the cash surrender value of corporate owned life insurance contracts (approximately \$11 million), capitalized software, net of accumulated amortization (approximately \$11 million) and pension assets (approximately \$5 million).

Total debt increased by \$294.5 million to \$1.14 billion compared to year end 2001 due to debt incurred to fund acquisitions. The ratio of total debt to total capital increased to 52 percent at year end 2002 compared to 47.8 percent at year end 2001. Long-term debt as a percent of total long-term capital increased to 44.2 percent from 40.3 percent at year end 2001.

Shareholders' equity increased to \$1.06 billion from \$929.4 million at year end 2001. During 2002, the Company issued approximately 743,000 shares of the Company's common stock for approximately \$47 million in connection with the acquisition of L&E. In addition, the Company repurchased approximately 173,000 shares of Company's common stock at a cost of \$10.8 million. As of year end 2002, a cumulative 37.2 million shares of the Company's common stock had been repurchased since 1991 and 3.2 million shares remained available for repurchase under the Board of Directors' authorization.

Accumulated other comprehensive loss increased \$68.5 million in 2002 due to an additional pension liability of \$87.2 million for both the U.S. and international pension plans, as a result of changes in assumptions and the negative return on plan assets during 2002. In addition, accumulated other comprehensive loss reflected an unrealized loss of approximately \$37.4 million that resulted from a shift in interest rates on a forward starting interest rate swap, which was used to secure the interest rate on the Company's anticipated long-term debt issuance to finance the acquisition of Jackstädt. In connection with the issuance of the \$250 million Senior Notes in January 2003, the Company settled the interest rate swap at a loss of approximately \$32.5 million. These losses were partially offset by the benefit from the change in foreign currency translation during 2002 of approximately \$11.7 million.

Return on average shareholders' equity was 25.7 percent in 2002, 27.4 percent in 2001 and 34.6 percent in 2000. Return on average total capital was 15.8 percent in 2002, 16.2 percent in 2001 and 19.6 percent in 2000, respectively. The decrease in these returns in 2002 was primarily due to an increase in shareholders' equity. Decreases in these returns for 2001 compared to 2000 was primarily due to a decrease in profitability.

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 eight waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed upon. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum 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 sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company, and based upon current information, management believes that it is unlikely that final resolution of these matters will significantly impact the consolidated financial position and operations of the Company.

The Company participates in an international receivable financing program with a financial institution whereby advances may be requested from the financial institution. All advances are guaranteed by the Company. At December 28, 2002, the Company had guaranteed \$1.8 million.

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. In the opinion of management, the resolution of these matters will not materially affect the Company.

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 and cost per claim to satisfy the Company's warranty obligation. 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.

Liquidity and Capital Resources

As described in the "Financial Condition" section above, the discussion of working capital changes in this section is based upon the beginning and ending balances for the year. As such, this section compares working capital at two distinct points in time rather than the average amounts employed during the year.

Historically, the Company's primary source of capital resources has been cash flows from operations and debt financing, augmented in 2002 by a limited stock issuance in conjunction with the L&E acquisition.

The Company continues to maintain adequate financing arrangements at competitive rates. These financing arrangements consist of commercial paper, bank lines of credit, callable commercial notes and long-term debt, including medium-term notes. In January 2003, the Company refinanced \$400 million of commercial paper borrowings through the offering of \$250 million of Senior Notes due 2013 and \$150 million of Senior Notes due 2033.

Net cash flow from operating activities was \$522.8 million in 2002, \$375.5 million in 2001 and \$409.9 million in 2000. The increase in cash flows from operating activities in 2002 was due to increases in net income and changes in working capital balances, reflecting increases in accounts payable and accrued liability balances, partially offset by increases in accounts receivable and inventory balances. The increase in accounts payable and accrued liabilities was primarily associated with increases in accounts payable balances (\$64 million) as a result of negotiating longer payment terms with vendors, increases in payroll and benefits (\$34 million) as a result of higher bonus accruals and the timing of payroll payments and increases in accrued trade rebates (\$18 million) as a result of increased sales. The increase in accounts receivable was driven by higher sales levels and an increase in the average number of days sales outstanding from 58 in 2001 to 61 in 2002. The increase in inventory balances was associated with higher sales levels in 2002 and a slight reduction in inventory turnover due to integration complexities of the acquired businesses. The decrease in cash flows for 2001 was primarily due to a decrease in net income. While the average number of days sales outstanding in receivables increased during 2001, the ending balance of receivables was lower than the prior year due to unusual customer purchasing patterns in late 2000 that were not repeated during 2001.

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Capital expenditures were \$151.8 million in 2002 and \$135.4 million in 2001 and were funded primarily through cash flows from operations. Capital expenditures for 2003 are expected to be in the range of \$175 million to \$200 million. The projected increase in capital expenditures is expected to be funded through operating cash flows.

In 2002, the Company continued its plan of implementing new information systems software in the Company's existing businesses. Expenditures related to capitalized software were \$20.1 million in 2002 and \$50.3 million in 2001. Expenditures in 2003 related to capitalized software are expected to remain at or below 2002 levels.

In 2002, the Company completed acquisitions resulting in total cash payments of \$397.4 million. The payments were funded through commercial paper borrowings. Total commercial paper borrowings at December 28, 2002, were \$512.2 million with a weighted-average interest rate of 1.87 percent. In January 2003, the Company refinanced \$400 million of these commercial paper borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033. The aggregate \$400 million refinancing was issued under the Company's existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001, permitting the Company to issue up to \$600 million in debt and equity securities. After the issuance of the \$400 million, there is a remaining \$200 million available for general corporate purposes including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital. Remaining commercial paper borrowings that the Company does not intend to repay within the next year and had the ability to refinance under its long-term revolving credit agreement, discussed below, are classified as long-term liabilities.

The Company had \$80.5 million of borrowings outstanding under short-term lines of credit with a weighted-average interest rate of 7.7 percent for 2002.

In December 2002, the Company issued \$150 million one-year callable commercial notes at a weighted-average interest rate of 2.5 percent. The issuance replaced the December 2001 issuance of \$150 million of one-year callable commercial notes at a weighted-average interest rate of 2.1 percent.

The Company's long-term debt, including medium-term notes, was \$913.7 million and \$647.1 million at the end of 2002 and 2001, respectively. Maturities of long-term debt during the years 2003 through 2007 are \$76.5 million (classified as current), \$86.5 million, \$76.1 million, \$112.6 million and \$60.4 million, respectively, with \$501.6 million maturing thereafter.

The Company had medium-term notes of \$388 million and \$448 million at year end 2002 and 2001, respectively. Medium-term notes have maturities from 2003 through 2025 and accrue interest at fixed rates.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on consolidated debt and consolidated interest expense in relation to certain measures of income. Under the loan agreements, consolidated debt as a ratio to consolidated earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2002 was 2.0 to 1.0. Consolidated earnings before interest and taxes, as a ratio to consolidated interest may not be less than 3.5 to 1.0. The Company's ratio at year end 2002 was 9.3 to 1.0.

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2006. The Company may annually extend the revolving period and due date with the approval of the banks. Financing available under this agreement will be used as a commercial paper back-up facility and to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2002.

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Other available financing arrangements with no debt outstanding as of year end 2002 included additional short-term lines of credit totaling \$558.1 million. These available lines of credit included a 364-day revolving credit facility with eight domestic and foreign banks to provide up to \$200 million in borrowings through December 5, 2003. The Company may annually extend the revolving period and due date with the approval of the banks or may convert the loan to a one-year term loan at the Company's option. Financing available under this agreement will be used as a commercial paper back-up facility and to finance other corporate requirements. The Company also has a bridge credit agreement with two domestic financial institutions to provide up to \$200 million in borrowings through January 31, 2003.

Commitment fees relating to financing arrangements are not significant. The debt assumed in connection with the acquisition of Jackstädt is securitized by the acquired assets. At December 28, 2002, the total Jackstädt debt balance was approximately \$33.2 million.

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 debts of the same remaining maturities. At year end 2002 and 2001, the fair value of the Company's total debt, including short-term borrowings, was \$1.18 billion and \$857.6 million, respectively.

The Company had standby letters of credit outstanding of \$182.7 million and \$217.9 million at the end of 2002 and 2001, respectively. The aggregate contract amount of all outstanding standby letters of credit approximated fair value.

The Company guaranteed \$349.3 million of its foreign subsidiaries' lines of credit and foreign exchange lines, as well as \$15.9 million of its foreign subsidiaries' certain obligations to their suppliers as of December 28, 2002.

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

The ratings assigned to the Company also impact the interest rates on its commercial paper and other borrowings. Subsequent to the announcement of the RVL and L&E acquisitions, Standard & Poor's Rating Services ("S&P") and Moody's Investors Service ("Moody's") reviewed the Company's debt ratings. S&P reaffirmed the Company's "A-1" short-term rating, "A" long-term rating and "negative" outlook. Moody's downgraded the Company's short-term rating from "P1" to "P2" and its long-term rating from "A2" to "A3," and changed the outlook for the Company from "negative" to "stable." The downgrade will increase interest rates on the Company's debt. Beginning in 2003, based on current interest rates and the current level of debt, the increased interest cost associated with the downgrade is estimated to have an after-tax impact in the range of approximately \$1 million to \$3 million per year.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's Office Products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. The obligation of \$84.5 million is the only amount reported in the "Other long-term obligation" line in the Consolidated Balance Sheet. The obligation is guaranteed by a standby letter of credit and it is the intention of the Company to pay the entire obligation in early 2004.

The Company enters into operating leases primarily for office and warehouse space, electronic data processing and transportation equipment. The terms of these leases do not impose significant restrictions or unusual obligations. Minimum annual rental commitments on operating leases, having initial or remaining noncancellable lease terms in excess of one year during the years 2003 through 2007 and thereafter, are included in the following table.

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The Company's obligations relating to debt and leases at year end 2002 were as follows:

Contractual Obligations	Payments Due by Period						
	Total	2003	2004	2005	2006	2007	Thereafter
	(In millions)						
Short-term lines of credit	\$ 80.5	\$ 80.5	—	—	—	—	—
Callable commercial notes	150.0	150.0	—	—	—	—	—
Long-term debt(1)	913.7	76.5	\$ 86.5	\$ 76.1	\$ 112.6	\$ 60.4	\$ 501.6
Operating leases	172.2	41.0	32.8	25.1	15.6	12.1	45.6
Other long-term obligation	84.5	—	84.5	—	—	—	—
Total contractual cash obligations	\$ 1,400.9	\$ 348.0	\$ 203.8	\$ 101.2	\$ 128.2	\$ 72.5	\$ 547.2

(1) In January 2003, the Company refinanced \$400 million of its commercial paper borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033. The aggregate \$400 million refinancing is reflected in the "Thereafter" payment period above. Remaining short-term borrowings that the Company does not intend to repay within the next year and has the ability to refinance under its long-term revolving credit agreement are classified as long-term liabilities and reflected in the 2006 payment period consistent with the current expiration of the Company's long-term credit agreement and the timing of the Company's current repayment intentions.

The Company's committed credit availability at year end 2002 was as follows:

	Total Amounts Committed	Amount of Commitment Expiration				
		2003	2004	2005	2006	2007
		(In millions)				
Lines of credit – committed, unused	\$ 650.0	\$ 400.0	—	—	\$ 250.0	—
Standby letters of credit outstanding:						
General	15.7	15.7	—	—	—	—
Deferred compensation	82.5	—	—	—	—	\$ 82.5
Zweckform obligation	84.5	—	\$ 84.5	—	—	—
Total	\$ 832.7	\$ 415.7	\$ 84.5	—	\$ 250.0	\$ 82.5

In addition, the Company had uncommitted lines of credit of approximately \$237.4 million at year end 2002. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

The annual dividend per share increased to \$1.35 in 2002 from \$1.23 in 2001. This was the 27th consecutive year the Company increased dividends per share.

The Company continues to expand its operations in Europe, Latin America and Asia Pacific. The Company's future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. In 2002, sales were favorably impacted by currency fluctuations (approximately \$20 million). In 2001, changes in exchange rates, such as for the Euro and Pound Sterling, negatively impacted the Company. The impact of foreign currency fluctuations on net income is smaller than the impact on net sales, because the Company's products are generally sourced in the currencies in which they are sold. Specifically, a negative impact of foreign rates on sales would be matched with a partially offsetting positive impact on reported expenses, thereby reducing the impact of foreign currency fluctuations on net income. To reduce its exposure to currency fluctuations, the Company may enter into foreign exchange forward, option and swap contracts, and interest rate contracts, where appropriate and available.

All translation gains and losses for operations in hyperinflationary economies were included in net income. Operations are treated as being in a hyperinflationary economy for accounting purposes, based on the cumulative inflation rate over the past three years. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2002, 2001 and 2000. These operations were not significant to the Company's consolidated financial position or results of operations.

Related Party Transactions

From time to time, the Company enters into transactions in the normal course of business with related parties. The Company 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, Mr. Peter W. Mullin, is the chairman and 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. During 2002 and 2001, the Company paid insurance companies premiums for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2002, 2001 and 2000, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.3 million, \$1.7 million and \$1.6 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$.9 million in 2002 and \$1 million in each of the years 2001 and 2000. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC), and another affiliate, to administer benefit plans and provide benefit statements to participants under various Company employee benefit plans. None of these transactions are significant to the financial position or results of operations of the Company.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses. Actual results could differ from those amounts.

Critical accounting policies are those that are important to the portrayal of the Company's financial condition and results, and which require management to make difficult, subjective and/or complex judgements. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. The Company believes that critical accounting policies include accounting for sales rebates, accounting for allowances for doubtful accounts and accounting for inventory reserves.

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 management's best estimates when products are sold. These estimates are based upon historical experience for similar programs and products. Management reviews such rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

Management is required to make judgements, based on historical experience and future expectations, as to the collectibility of accounts receivable. The allowances for doubtful accounts and sales returns represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. The Company records 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 the Company's historical experience, for issues not yet identified. In addition, approximately 17 percent and 23 percent of trade receivables were from nine retail customers of the Company's Office Products business in 2002 and 2001, respectively. The financial position and operations of these customers are monitored on an ongoing basis.

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Inventories are stated at the lower of cost or market value and are categorized as raw materials, work-in-progress or finished goods. Inventory reserves are recorded for damaged, obsolete, excess and slow-moving inventory. Management uses 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.

Future Accounting Requirements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51." The Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of this Interpretation are effective for all enterprises with variable interests in variable interest entities created after January 31, 2003. The adoption of this Interpretation is not expected to have a significant impact on the Company's financial results.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board (APB) Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The provisions of this Statement are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has continued to use the intrinsic value method of accounting for stock-based compensation in 2002 in accordance with APB Opinion No. 25. The Company, however, has adopted the disclosure provisions of SFAS No. 148 as presented in Note 1 of the consolidated financial statements at and for the year ended December 28, 2002.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation clarifies the requirements for a guarantor's accounting for and disclosures of certain guarantees issued and outstanding. This Interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The disclosure provisions of the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has adopted the disclosure provisions of this Interpretation as disclosed in Notes 1, 4 and 8 to the consolidated financial statements. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company is currently in the process of determining the impact of this Interpretation on the Company's financial results for those provisions effective in 2003.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement will be effective after December 31, 2002. The adoption of SFAS No. 146 will affect the timing of the recognition of future costs associated with exit or disposal activities and will not affect previous charges related to such activities.

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In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of SFAS No. 4 are effective beginning in 2003. All other provisions were effective May 16, 2002. The provisions adopted, effective May 16, 2002, did not have a significant impact on the Company's financial results. The adoption of this Statement for those provisions effective in 2003 is not expected to have a significant impact on the Company's financial results.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement was effective for the Company on December 30, 2001, and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and amends APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This Statement requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used, and (b) measurement of long-lived assets to be disposed of by sale. This Statement also retains APB Opinion No. 30's requirement that companies report discontinued operations separately from continuing operations. For the year ended December 28, 2002, the Company divested operations whose results, including the gain/loss on asset sales, did not have a significant impact on the income statement and were, therefore, not reflected as discontinued operations in the Company's Consolidated Statement of Income.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. All provisions of this Statement will be effective at the beginning of fiscal 2003. The adoption of this Statement is not expected to have a significant impact on the Company's financial results.

The Company is currently reviewing the requirements of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF Issue No. 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The provisions of EITF Issue No. 00-21 will be effective in fiscal periods beginning after June 15, 2003. The Company is in the process of determining the impact of EITF Issue No. 00-21 on the Company's financial results when effective.

Safe Harbor Statement

Except for historical information contained herein, the matters discussed in the Management's Discussion and Analysis of Results of Operations and Financial Condition 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. Words such as "anticipate," "assume," "believe," "estimate," "expect," "plan," "project," "will," and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks

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and uncertainties which could cause actual results to differ materially from future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Certain of such risks and uncertainties are described in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 28, 2002 and include, but are not limited to, risks and uncertainties relating to investment in new production facilities, timely development and successful market acceptance of new products, price and availability of raw materials, impact of competitive products and pricing, business mix shift, credit risks, successful integration of new acquisitions, customer and supplier and manufacturing concentrations, financial condition and inventory strategies of customers, changes in customer order patterns, increased competition, loss of significant contract(s) or customer(s), legal proceedings, fluctuations in foreign exchange rates and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism, natural disasters and other factors.

Any forward-looking statements should also be considered in light of the factors detailed in Exhibit 99 in the Company's Annual Report on Form 10-K for the years ended December 28, 2002 and December 29, 2001.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market-sensitive Instruments and Risk Management

The Company is exposed to the impact of interest rate and foreign currency exchange rate changes.

The Company's policy is not to hold or purchase foreign currency or interest rate contracts for trading purposes.

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

The Company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows. To achieve its objectives, the Company will periodically use interest rate contracts to manage net exposure to interest rate changes related to its borrowings. The Company entered into a forward starting interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance. The principal amount hedged was \$250 million. Because of a shift in interest rates, an unrealized loss of approximately \$37.4 million was included in other comprehensive loss at the end of 2002. In connection with the issuance of the \$250 million 10-year Senior Notes, the Company settled the interest rate swap at a loss of approximately \$32.5 million. The loss will be amortized to interest expense over 10 years, which corresponds to the term of the related debt.

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

Foreign Exchange Value-at-Risk

The Company uses a "Value-at-Risk" (VAR) model to determine the estimated maximum potential one-day loss in earnings associated with both its 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, receivables 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 the Company's domestic banks. A 95 percent confidence level was used for a one-day time horizon.

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

The estimated maximum potential one-day loss in earnings for the Company's foreign exchange positions and contracts was \$1.4 million at year end 2002.

Interest Rate Sensitivity

An assumed 38 basis point move in interest rates (10 percent of the Company's weighted-average floating rate interest rate) affecting the Company's variable-rate borrowings would have had an immaterial effect on the Company's 2002 earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in Registrant's Consolidated Financial Statements and the Notes thereto appearing on pages 38 through 56, and in the Report of Independent Accountants on page 57 of Registrant's 2002 Annual Report and is incorporated herein by reference.

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors called for by this item is incorporated by reference from pages 2, 3 and 4 of the 2003 Proxy Statement, filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. Information concerning executive officers called for by this item appears in Part I of this report. The information concerning late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from page 15 of the 2003 Proxy Statement.

Item 11. EXECUTIVE COMPENSATION

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

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by items 11, 12 and 13 is incorporated by reference from pages 5 through 23 of the 2003 Proxy Statement, filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

Item 14. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rule 13a – 14(c)) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

The Company's disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in the Company's headquarters in Pasadena, California. Within 90 days prior to the filing date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures.

Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are functioning effectively to provide reasonable assurance that the Company can meet its disclosure requirements.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) *Financial Statements, Financial Statement Schedules and Exhibits*

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

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

(b) *Reports on Form 8-K:*

Form 8-K dated November 12, 2002, containing information pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, related to the Company's Chief Executive Officer and Chief Financial Officer certifications.

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

(d) Those financial statement schedules required by Regulation S-X which are excluded from Registrant's 2002 Annual Report by Rule 14a-3(b)(1), and which are required to be filed as financial statement schedules to this report, are indicated in the accompanying Index to Financial Statements and Financial Statement Schedules.

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <i>/s/</i> SIDNEY R. PETERSEN <hr/> Sidney R. Petersen	Director	March 28, 2003
<hr/> <i>/s/</i> DAVID E. I. PYOTT <hr/> David E. I. Pyott	Director	March 28, 2003
<hr/> <i>/s/</i> JULIA A. STEWART <hr/> Julia A. Stewart	Director	March 28, 2003

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Philip M. Neal, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this report (the "Evaluation Date"); and
 - c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and
Chief Executive Officer

March 28, 2003

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this report (the "Evaluation Date"); and
 - c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ DANIEL R. O'BRYANT

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

March 28, 2003

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULES

	Reference (page)	
	Form 10-K Annual Report	Annual Report to Shareholders
Data incorporated by reference from the attached portions of the 2002 Annual Report to Shareholders of Avery Dennison Corporation:		
Report of Independent Accountants	—	57
Consolidated Balance Sheet at December 28, 2002 and December 29, 2001	—	38
Consolidated Statement of Income for 2002, 2001 and 2000	—	39
Consolidated Statement of Shareholders' for 2002, 2001 and 2000	—	40
Consolidated Statement of Cash Flows for 2002, 2001 and 2000	—	41
Notes to Consolidated Financial Statements	—	42-56

The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments representing less than 20 percent are accounted for using the cost method of accounting.

With the exception of the consolidated financial statements and the accountants' report thereon listed in the above index, and certain information referred to in Items 1, 5 and 6, which information is included in the 2002 Annual Report and is incorporated herein by reference, the 2002 Annual Report is not to be deemed "filed" as part of this report.

	Form 10-K Annual Report	Annual Report to Shareholders
Data submitted herewith:		
Report of Independent Accountants on Financial Statement Schedule	S-2	—
Financial Statement Schedules (for 2002, 2001 and 2000):		
II—Valuation and Qualifying Accounts and Reserves	S-3	—
Consent of Independent Accountants	S-4	—

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

**REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors
of Avery Dennison Corporation:

Our audits of the consolidated financial statements referred to in our report dated January 27, 2003 appearing in the 2002 Annual Report to Shareholders of Avery Dennison Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a) (2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Los Angeles, California
January 27, 2003

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In millions)

	Balance at Beginning of Year	Additions			Deductions From Reserves	Balance at End of Year
		Charged to Costs and Expenses	From Acquisitions			
2002						
Allowance for doubtful accounts	\$ 17.9	\$ 13.5	\$ 5.6	\$ (11.7)	\$ 25.3	
Allowance for sales returns	19.6	17.2	.6	(16.6)	20.8	
Inventory reserve	34.9	14.9	7.9	(16.9)	40.8	
2001						
Allowance for doubtful accounts	\$ 19.4	\$ 11.3	\$ 0.3	\$ (13.1)	\$ 17.9	
Allowance for sales returns	18.0	9.8	—	(8.2)	19.6	
Inventory reserve	30.4	15.5	1.0	(12.0)	34.9	
2000						
Allowance for doubtful accounts	\$ 19.5	\$ 7.6	\$ 0.2	\$ (7.9)	\$ 19.4	
Allowance for sales returns	21.6	8.6	0.7	(12.9)	18.0	
Inventory reserve	28.6	10.9	0.8	(9.9)	30.4	

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-38905, 333-64558 and 333-103204) and Form S-8 (File Nos. 33-1132, 33-3645, 33-41238, 33-45376, 33-54411, 33-58921, 33-63979, 333-38707 and 333-38709) of Avery Dennison Corporation of our report dated January 27, 2003 relating to the financial statements, which appears in the 2002 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 27, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Los Angeles, California
March 28, 2003

AVERY DENNISON CORPORATION

EXHIBIT INDEX

For the Year Ended December 28, 2002

INCORPORATED BY REFERENCE:

<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(3.1)	Restated Certificate of Incorporation, filed August 2, 2002 with Office of Delaware Secretary of State	3(i)	Third Quarterly report for 2002 on Form 10-Q, filed November 12, 2002
(3.2)	By-laws, as amended	3(ii)	Second Quarterly report for 2002 on Form 10-Q, filed August 13, 2002
(4.1)	Rights Agreement dated as of October 23, 1997		Current Report on Form 8-K, filed October 23, 1997
(4.2)	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "Indenture")		Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991
(4.2.1)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture	4.3	Current Report on Form 8-K, filed March 25, 1991
(4.2.2)	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture")	4.4	Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993
(4.2.3)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture, as amended by the Supplemental Indenture	4.5	Current Report on Form 8-K, filed April 7, 1993
(4.2.4)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series B" under the Indenture, as amended by the Supplemental Indenture	4.6	Current Report on Form 8-K, filed March 29, 1994
(4.2.5)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the Indenture, as amended by the Supplemental Indenture	4.7	Current Report on Form 8-K, filed May 12, 1995
(4.2.6)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the Indenture, as amended by the Supplemental Indenture	4.8	Current Report on Form 8-K, filed December 16, 1996

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(4.3)	Indenture dated July 3, 2001 between Registrant and J.P.Morgan Trust Company, National Association (successor to Chase Manhattan Bank and Trust Company, National Association), as trustee ("2001 Indenture")	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
(4.3.1)	Officers' Certificate establishing two series of Securities entitled "4.875% Notes due 2013" and "6.000% Notes due 2033", respectively, each under the 2001 Indenture	4.2	Current Report on Form 8-K, filed January 16, 2003
(4.3.2)	4.875% Notes Due 2013	4.3	Current Report on Form 8-K, filed January 16, 2003
(4.3.3)	6.000% Notes Due 2033	4.4	Current Report on Form 8-K, filed January 16, 2003
(10.3)	*Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.5)	*Executive Medical and Dental Plan (description)	10.5	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.6)	*Executive Financial Counseling Service (description)	10.6	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.8.2)	*Agreement with P.M. Neal	10.8.2	1998 Annual Report on Form 10-K, filed March 31, 1999
(10.8.3)	*Agreement with R.G. van Schoonenberg	10.8.3	1996 Annual Report on Form 10-K, filed March 28, 1997
(10.8.4)	*Form of Employment Agreement	10.8.4	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.9)	*Executive Group Life Insurance Plan	10.9	1982 Annual Report on Form 10-K, filed February 25, 1983
(10.10)	*Form of Indemnity Agreement between Registrant and certain directors and officers	10.10	1986 Annual Report on Form 10-K, filed on February 27, 1987
(10.10.1)	*Form of Indemnity Agreement between Registrant and certain directors and officers	10.10.1	1993 Annual Report on Form 10-K, filed March 18, 1994
(10.11)	*Amended and Restated Supplemental Executive Retirement Plan ("SERP")	10.11.1	1998 Annual Report on Form 10-K, filed March 31, 1999
(10.11.2)	*Letter of Grant to Philip M. Neal under SERP	10.11.2	1998 Annual Report on Form 10-K, filed March 31, 1999
(10.12)	*Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.13)	*Fourth Amended Avery Dennison Retirement Plan for Directors	10.13.2	1992 Annual Report on Form 10-K405, filed March 17, 1993

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(10.15)	*1988 Stock Option Plan for Non-Employee Directors (“Director Plan”)	10.15	1987 Annual Report on Form 10-K, filed February 17, 1988
(10.15.1)	*Amendment No. 1 to Director Plan	10.15.1	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.15.2)	*Form of Non-Employee Director Stock Option Agreement under Director Plan	10.15.2	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.15.3)	*Amendment No. 2 to Director Plan	10.15.3	2000 Annual Report on Form 10-K, filed March 29, 2001
(10.16)	*Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan (“EVDCP”)	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.16.1)	*Amendment No. 1 to EVDCP	10.16.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.17)	*Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.18)	*Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan (“DVDCP”)	10.18	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.18.1)	*Amendment No. 1 to DVDCP	10.18.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.19)	*1990 Stock Option and Incentive Plan (“1990 Plan”)	10.19	1989 Annual Report on Form 10-K, filed February 27, 1990
(10.19.1)	*Amendment No. 1 to 1990 Plan	10.19.1	1993 Annual Report on Form 10-K, filed March 18, 1994
(10.19.2)	*Form of Incentive Stock Option Agreement for use under 1990 Plan	10.19.2	1991 Annual Report on Form 10-K, filed March 25, 1992
(10.19.3)	*Form of Non-Qualified Stock Option (“NSO”) Agreement under 1990 Plan	10.19.3	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.19.4)	*Form of NQSO Agreement under 1990 Plan	10.19.4	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.19.5)	*Amendment No. 2 to 1990 Plan	10.19.5	1996 Annual Report on Form 10-K, filed March 28, 1997
(10.21)	*Amended and Restated 1996 Stock Incentive Plan (“1996 Plan”)	10.21	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.21.1)	*Form of NQSO Agreement under 1996 Plan	10.21.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.27)	*Executive Long-Term Incentive Plan	10.27	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.28)	*Complete Restatement and Amendment of Executive Deferred Retirement Plan (“EDRP”)	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(10.28.1)	*Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.28.2)	*Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
(10.29)	*Executive Leadership Compensation Plan (“ELCP”)	10.29	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.29.1)	*Amendment No. 1 to ELCP	10.29.1	2001 Annual Report on Form 10-K, filed March 4, 2002
(10.30)	*Senior Executive Leadership Compensation Plan (“SELCP”)	10.30	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.30.1)	*Amendment No. 1 to SELCP	10.30.1	2001 Annual Report on Form 10-K, filed March 4, 2002
(10.31)	*Executive Variable Deferred Retirement Plan (“EVDRP”)	10.31	Registration Statement on Form S-8 (File No. 33-63979), filed November 3, 1995
(10.31.1)	*Amended and Restated EVDRP	10.31.1	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.31.2)	*Amendment No. 1 to EVDRP	10.31.2	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.31.3)	*Amendment No. 2 to EVDRP	10.31.3	2001 Annual Report on Form 10-K, filed March 4, 2002
(10.32)	*Amended and Restated Benefit Restoration Plan (“BRP”)	10.32.1	1995 Annual Report on Form 10-K, filed March 29, 1996
(10.33)	*Restated Trust Agreement for Employee Stock Benefit Trust	10.33.1	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.33.1)	*Common Stock Purchase Agreement	10.2	Current Report on Form 8-K, filed October 25, 1996
(10.33.2)	*Restated Promissory Note	10.33.3	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.34)	*Amended and Restated Capital Accumulation Plan (“CAP”)	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.34.1)	*Trust under CAP	4.2	Registration Statement on Form S-8 (File No. 333-38707), filed October 24, 1997
(10.34.2)	*Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.34.3)	*Amendment No. 2 to CAP	10.34.3	2001 Annual Report on Form 10-K, filed March 4, 2002

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

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

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SUBMITTED HEREWITH:

<u>Exhibit No.</u>	<u>Item</u>
3.2	Bylaws, as amended on December 5, 2002
10.13.1	* Retirement Plan for Directors, amended and restated
10.15.4	*Director Equity Plan, amended and restated
10.19.6	*Employee Stock Option and Incentive Plan, amended and restated
10.19.7	*Forms of NQSO Agreement under 1990 Plan
10.21.2	*Stock Incentive Plan, amended and restated
10.21.3	*Forms of NQSO Agreement under 1996 Plan
10.32.1	*BRP, amended and restated
12	Computation of Ratio of Earnings to Fixed Charges
13	Portions of Annual Report to Shareholders for fiscal year ended December 28, 2002
21	List of Subsidiaries
23	Consent of Independent Accountants (see page S-4)
99.1	Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995
99.2	Philip M. Neal Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.3	Daniel R. O'Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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

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

BYLAWS
OF
AVERY DENNISON CORPORATION

ARTICLE I

OFFICES

SECTION 1. REGISTERED OFFICE.

The registered office of Avery Dennison Corporation (hereinafter called the "corporation") in the State of Delaware shall be at 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be United States Corporation Company.

SECTION 2. PRINCIPAL OFFICE.

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

SECTION 3. OTHER OFFICES.

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

ARTICLE II

STOCKHOLDERS

SECTION 1. PLACE OF MEETINGS.

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

SECTION 2. ANNUAL MEETINGS OF STOCKHOLDERS.

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

SECTION 3. SPECIAL MEETINGS.

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

SECTION 4. NOTICE OF STOCKHOLDERS' MEETINGS.

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

SECTION 5. MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE.

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

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

SECTION 6. QUORUM.

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

SECTION 7. ADJOURNED MEETING AND NOTICE THEREOF.

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

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

SECTION 8. VOTING.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the Chairman of the meeting. Any stockholder entitled to vote on any matter (other than the election of directors) may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal; but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. If a quorum is present, the affirmative vote of the majority voting power of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders, unless the vote of a greater percentage or voting by classes is required by the General Corporation Law of the State of Delaware (the "General Corporation Law") or the certificate of incorporation or the certificate of designations of preferences as to any preferred stock, or the rules and regulations of any stock exchange applicable to the corporation, or applicable law or pursuant to any rule or regulation applicable to the corporation or its securities.

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

SECTION 9. WAIVER OF NOTICE OR CONSENT BY ABSENT STOCKHOLDERS.

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

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

SECTION 10. NO STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

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

SECTION 11. RECORD DATE FOR STOCKHOLDER NOTICE AND VOTING.

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

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

SECTION 12. PROXIES.

Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by proxy. Without limiting the manner in which a proxy may be granted, a stockholder may grant a proxy in the following manners: (i) by executing a writing authorizing another person or persons to act for such stockholder as proxy or (ii) by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to a person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided however that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. A written proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or electronic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing or electronic transmission delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of three years from the date of such proxy, unless otherwise provided in the proxy.

SECTION 13. INSPECTORS OF ELECTION; OPENING AND CLOSING THE POLLS.

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

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

SECTION 14. NOMINATION AND STOCKHOLDER BUSINESS BYLAW.

(A) Annual Meetings of Stockholders.

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

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than

30 days before or more than 70 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made (including the text of any resolutions proposed for consideration and in the event that such business includes an amendment to the Bylaws, the language of the proposed amendment); and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting. The corporation may require any proposed nominee to furnish such other information as the corporation may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation.

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

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the board of directors or (b) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the corporation calls a

special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) of this Bylaw shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General.

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

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

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

ARTICLE III

DIRECTORS

SECTION 1. POWERS.

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

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

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

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

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

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

SECTION 2. NUMBER AND QUALIFICATION OF DIRECTORS.

The number of directors of the corporation shall be Twelve (12) until changed by a bylaw amending this Section 2, duly adopted by the board of directors or by the stockholders.

SECTION 3. ELECTION AND TERM OF OFFICE OF DIRECTORS.

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

SECTION 4. VACANCIES AND NEWLY CREATED DIRECTORSHIPS.

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

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

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

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

SECTION 5. PLACE OF MEETINGS AND TELEPHONIC MEETINGS.

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

SECTION 6. ANNUAL MEETINGS.

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

SECTION 7. OTHER REGULAR MEETINGS.

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

SECTION 8. SPECIAL MEETINGS.

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

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

SECTION 9. QUORUM.

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

SECTION 10. WAIVER OF NOTICE.

The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present gives a waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need

not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.

SECTION 11. ADJOURNMENT.

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

SECTION 12. NOTICE OF ADJOURNMENT.

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

SECTION 13. ACTION WITHOUT MEETING.

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

SECTION 14. FEES AND COMPENSATION OF DIRECTORS.

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

SECTION 15. CLASSIFICATION OF DIRECTORS.

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

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

ARTICLE IV

COMMITTEES

SECTION 1. COMMITTEES OF DIRECTORS.

The board of directors may, by resolution adopted by the board of directors, designate one or more committees, including an executive committee, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any

committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law to be submitted to the stockholders for approval; or

(b) adopting, amending or repealing any bylaw of the corporation.

SECTION 2. MEETINGS AND ACTION OF COMMITTEES.

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

ARTICLE V

OFFICERS

SECTION 1. OFFICERS.

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

SECTION 2. ELECTION OF OFFICERS.

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

SECTION 3. SUBORDINATE OFFICERS, ETC.

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

SECTION 4. REMOVAL AND RESIGNATION OF OFFICERS.

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

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein;

and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5. VACANCIES IN OFFICE.

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

SECTION 6. CHAIRMAN OF THE BOARD.

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

SECTION 7. PRESIDENT.

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

SECTION 8. VICE PRESIDENTS.

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

SECTION 9. SECRETARY.

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

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

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

SECTION 10. TREASURER.

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

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

financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

SECTION 11. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS.

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

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS,
EMPLOYEES AND OTHER AGENTS

SECTION 1. INDEMNIFICATION AND INSURANCE.

(A) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee of agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgements, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (C) of this Bylaw, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Bylaw shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within 20 days after the receipt by the corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Bylaw or otherwise.

(B) To obtain indemnification under this Bylaw, a claimant shall submit to the corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this paragraph (B), a determination, if required by applicable law, with respect to the claimant's

entitlement thereto shall be made as follows: (1) if requested by the claimant, by Independent Counsel (as hereinafter defined), or (2) if no request is made by the claimant for a determination by Independent Counsel, (i) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (ii) by a committee of Disinterested Directors designated by Disinterested Directors, even though less than a quorum, or (iii) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtained or even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the claimant, or (iv) if a quorum of Disinterested Directors so directs, by the stockholders of the corporation. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the claimant, the Independent Counsel shall be selected by the Board of Directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a "Change of Control" as defined in the 1996 Stock Incentive Plan, in which case the Independent Counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the Board of Directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

(C) If a claim under paragraph (A) of this Bylaw is not paid in full by the corporation within 30 days after a written claim pursuant to paragraph (B) of this Bylaw has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim, including attorney's fees. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standard of conduct which makes it permissible under the General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

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

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

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

(G) The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other

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

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

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

(J) For purposes of this Bylaw:

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

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

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

SECTION 2. FIDUCIARIES OF CORPORATE EMPLOYEE BENEFIT PLAN.

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

ARTICLE VII

RECORDS AND REPORTS

SECTION 1. MAINTENANCE AND INSPECTION OF STOCK REGISTER.

The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed, and as determined by resolution of the board of directors, a record of its

stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder.

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

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

SECTION 2. MAINTENANCE AND INSPECTION OF BYLAWS.

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

SECTION 3. MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS.

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

SECTION 4. INSPECTION BY DIRECTORS.

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

ARTICLE VIII

GENERAL CORPORATE MATTERS

SECTION 1. RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING.

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior

to any such action, and in such case only stockholders of record on the date so fixed are entitled to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the General Corporation Law.

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

SECTION 2. CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS.

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

SECTION 3. CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED.

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

SECTION 4. STOCK CERTIFICATES.

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

SECTION 5. LOST CERTIFICATES.

Except as hereinafter in this Section 5 provided, no new stock certificate shall be issued in lieu of an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may in case any stock certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, upon such terms and conditions as the board of directors may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

SECTION 6. REPRESENTATION OF STOCK OF OTHER CORPORATIONS.

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

SECTION 7. CONSTRUCTION AND DEFINITIONS.

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

SECTION 8. FISCAL YEAR.

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

SECTION 9. SEAL.

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

ARTICLE IX

AMENDMENTS

SECTION 1. AMENDMENT BY STOCKHOLDERS.

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

SECTION 2. AMENDMENT BY DIRECTORS.

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

Amended December 5, 2002

AVERY DENNISON
RETIREMENT PLAN FOR DIRECTORS
amended and restated

I. Purpose

The purpose of this Retirement Plan for Directors ("Plan") has been to provide recognition and retirement compensation to eligible members of Avery Dennison Corporation's ("Company") Board of Directors ("Board") to facilitate the Company's ability to attract, retain and reward members of its Board. This Plan is amended and restated as of December 5, 2002.

II. Definitions

As used in this Plan, the following terms shall have the meanings specified:

1. "Benefit Commencement Quarter" shall mean the fiscal quarter following the fiscal quarter during which an Eligible Director's Termination from the Board occurs, or following the fiscal quarter in which the Eligible Director becomes age 60, whichever occurs later.
2. "Eligible Director" shall mean any non-employee individual who is, or was as of January 1, 1983 through November 31, 2002, a member of the Board, who has completed or completes at least five years of total service on the Board at the time of his or her Termination from the Board.
3. "Eligible Spouse" shall mean a current spouse to whom an Eligible Director has been married for at least one year prior to the Eligible Director's death.
4. "Secondary Beneficiaries" shall mean one or more beneficiaries designated by an Eligible Director, prior to his or her death, to receive benefits under the Plan upon the death of both the Eligible Director and such Eligible Director's Eligible Spouse. Such designation shall be made in writing and delivered to the Chief Executive Officer or other designated officer of the Company.
5. "Termination from the Board" of an Eligible Director shall mean the effective date of the Eligible Director's resignation or retirement from the Board, death while serving as a Board member or failure to be reelected to the Board.

III. Participation

All Eligible Directors shall be participants in this Plan.

IV. Amount of Benefit

Each Eligible Director, who retired on or before April 25, 2002, shall be entitled to an annual retirement benefit hereunder which shall be equal to the sum of the annual retainer plus twelve times the monthly Board meeting fees all as in effect at the time of the Eligible Director's Termination from the Board. From and after July 23, 1992, increases in the amount of the annual retainer and changes in the amount of the monthly Board meetings fees which take effect after an Eligible Director's Termination from the Board shall not operate to increase the annual retirement benefit hereunder. Each Eligible Director, who retires after April 25, 2002, shall be entitled to an annual retirement benefit hereunder, which shall be equal to the sum of the annual retainer plus twelve times the monthly Board meeting fees in effect on April 25, 2002. These amounts shall be paid quarterly in arrears in four equal payments. No additional amount shall be paid for service on any of the committees of the Board, nor shall interest be paid on these amounts.

V. Commencement and Duration of Benefits

Benefit payments shall begin on the first day of the fiscal quarter following the Benefit Commencement Quarter; however, in no event shall benefits be paid for a period prior to the effective date hereof. Benefits will be paid for a period equal to the number of years (rounding fractional years of service up to the next higher whole year) for the years of service through December 31, 2002 that the Eligible Director served as a director on the Board; provided, however, that there shall be no credit for service on the Board after December 31, 2002 and that as of December 31, 2002 all active Eligible Directors shall be credited with a number of years of service such that they each have a minimum of five years of service for purposes of determining the number of years for which benefits will be paid. Upon the death of an Eligible Director, any benefits under this Plan will be paid to his or her Eligible Spouse in accordance with the same payment schedule set forth above until receipt of the maximum benefit to which the Eligible Director would have been entitled had he or she survived or until the death of the Eligible Spouse, whichever first occurs. If the Eligible Director dies while serving on the Board, the Eligible Spouse's Benefit Commencement Quarter shall be the fiscal quarter following the Eligible Director's death. Following the death of the Eligible Spouse, or if there is no Eligible Spouse living at the time of the death of the Eligible Director, any benefits will be paid to the Eligible Director's Secondary Beneficiaries in accordance with the same payment schedule set forth above until the first to occur of (i) receipt of the maximum benefit to which the Eligible Director would have been entitled had he or she survived, (ii) the death of the Secondary Beneficiaries, if natural persons or (iii) benefits have been paid under this Plan to the Eligible Director, the Eligible Spouse and/or the Secondary Beneficiaries for a combined period of ten years.

The Eligible Director may, prior to his or her death, designate in writing (delivered to the Chief Executive Officer or other designated officer of the Company) one or more beneficiaries to receive any benefits which would otherwise be paid to such Director's Eligible Spouse during such Eligible Spouse's lifetime pursuant to this Article V. In such event, the Company shall make payments to any such designated beneficiaries in lieu of making payments to the Eligible Spouse;

provided that the aggregate of such payments shall not exceed the amount of payments which would otherwise be payable to the Eligible Spouse and the Secondary Beneficiaries.

VI. Administration

This Plan shall be a non-contributory, non-qualified, and unfunded Plan and shall represent only an unsecured general obligation of the Company. No special fund or trust shall be created, nor shall any notes or securities be issued with respect to any retirement benefits. The Chief Executive Officer of the Company or the Vice President of Human Resources, if authorized to act on behalf of the Chief Executive Officer, shall have full and final authority to interpret this Plan, to make determinations which he believes advisable for the administration of the Plan, to interpret Plan provisions and to approve ministerial changes or changes to the Plan required by law or regulation. All decisions and determinations by the Chief Executive Officer shall be final and binding upon all parties.

If any person entitled to benefits under this Plan is so incapacitated that a legal guardian or conservator has been appointed for that person, benefits to be paid hereunder shall be paid directly to said legal guardian or conservator.

VII. Non-Alienation

No benefit under this Plan shall be liable at any time for the debts, contracts or engagements of any Eligible Director or successor in interest, or be taken in execution by levy, attachment, garnishment or by any other legal or equitable proceeding, prior to payment hereunder, nor shall any such person have any right to alienate, anticipate, commute, pledge, encumber or assign any benefits or payments hereunder in any manner whatsoever, except as provided in the Plan.

VIII. Applicable Law

This Plan shall be governed by and administered in accordance with the laws of the State of California.

AVERY DENNISON CORPORATION

DIRECTOR EQUITY PLAN
amended and restated

1. Purpose; Eligibility

The Directors Equity Plan (formerly the 1988 Stock Option Plan for Non-Employee Directors), as amended and restated, herein (the "Plan") is intended to attract and retain the services of experienced and knowledgeable non-employee directors of Avery Dennison Corporation (the "Company") for the benefit of the Company and its stockholders and to provide additional incentive for such directors to continue to work for the best interests of the Company and its stockholders. The individuals eligible to receive Awards (as defined below) under the Plan shall be those individuals who are members of the Board of Directors of the Company (the "Board"), who are not employees of the Company or any of its subsidiaries (each, a "Director").

2. Stock Subject to the Plan

As of December 31, 2002, there were reserved for issuance upon the exercise of stock options ("Options") granted under the Plan 265,000 shares of Common Stock of the Company (the "Common Stock"); as of December 31, 2002, there were 65,000 shares available for future Awards under the Plan. As of the Effective Date, as defined in Paragraph 12 below, the aggregate number of shares deliverable pursuant to Awards (as defined in Paragraph 4(a) below) under the Plan shall be increased by 250,000 for a total of 515,000 shares. Shares of Common Stock issued under the Plan may be authorized and unissued shares of Common Stock, previously outstanding shares of Common Stock held as treasury shares, or treasury shares that have been transferred to and held in a grantor trust of the Company. If any Option granted under the Plan shall expire or terminate for any reason without having been exercised in full, the shares subject thereto shall again be available for the purposes of issuance upon the exercise of Options granted under the Plan.

3. Administration

The Plan shall be administered by the Compensation and Executive Personnel Committee ("Committee") (or other committee of the Board as designated by the Board). Subject to the express provisions of the Plan, the Board shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of Awards (which shall comply with and be subject to the terms and conditions of the Plan) and to make all other determinations necessary or advisable for the administration of the Plan; such determinations of the matters referred to in this Paragraph 3 shall be conclusive.

4. Awards

(a) The following types of Awards may be made to Directors under the Plan: (i) Options granted automatically pursuant to Paragraph 4(b); and (ii) Stock Units granted upon a Director's election as contemplated by Paragraph 4(c), and (iii) Stock Awards referred to in paragraph 4(d).

(b) During the term of the Plan, at every regular December meeting of the Board (or such other Board meeting when annual grants of options are made to employees) each Director shall automatically be granted an Option for 2,000 shares of Common Stock (subject to adjustment as provided in Paragraph 8). Each individual who is newly elected as a Director shall also be automatically granted an initial Option for 5,000 shares of Common Stock as of the date of his or her election, subject to

adjustment as provided in Paragraph 8. An individual who is a member of the Board and an employee of the Company or one of its subsidiaries and becomes a Director as a result of retiring from such employment while remaining a member of the Board shall not receive an initial Option for 5,000 shares of Common Stock, but, to the extent he or she is otherwise eligible after becoming a Director, shall receive annual Options pursuant to the first sentence of this Paragraph 4(b). Directors who receive Options are sometimes referred to below as "Optionees."

Each Option shall be evidenced by a written Stock Option Agreement ("Agreement"), which shall be executed by the Optionee and an authorized officer of the Company and which shall contain such other terms and conditions as the Board shall determine, consistent with the Plan.

Only non-qualified stock options (options, which do not qualify as "incentive stock options" under Section 422A of the Internal Revenue Code of 1986, as amended), shall be granted under the Plan.

(c) The Company has established the Non-Employee Director Deferred Equity Compensation Program under the Plan, pursuant to which Directors are permitted to elect to receive, in lieu of cash meeting and retainer fees, "Stock Units" (each of which represents one hypothetical share of Common Stock) to be paid to the director in the form of Common Stock at Retirement, together with additional shares representing dividends and other distributions thereon. All Stock Units granted to any Directors under such program, or any successor thereto, at any time on or after the Effective Date, and all such additional shares, shall be settled with shares of Common Stock issued pursuant to this Plan, subject to the limitation set forth in Paragraph 2.

(d) The Board or Committee may approve awards of stock ("Stock Awards" or stock payments) to Directors as a portion of the directors' compensation program.

5. Additional Terms and Conditions of Options

(a) The per-share price ("Option Price") to be paid for the Common Stock under each Option shall be 100% of the Fair Market Value of a share of the Common Stock on the date such Option is granted. Options granted may not be repriced. "Fair Market Value" of a share of Common Stock as of a given date shall be (i) the mean between the highest and lowest selling price of a share of Common Stock during normal business hours on the principal exchange on which shares of Common Stock are then trading, if any, on such date, or if shares were not traded on such date, then the weighted average of the means between the highest and lowest sales upon the nearest date before and the nearest date after such valuation date; or (ii) if Common Stock is not traded on an exchange, the mean between the closing representative bid and asked prices for the Common Stock during normal business hours on such date as reported by NASDAQ or, if NASDAQ is not then in existence, by its successor quotation system; or (iii) if Common Stock is not publicly traded, the Fair Market Value of a share of Common Stock as established by the Board acting in good faith.

(b) Options shall become exercisable in installments of 50% of the number of shares initially granted, commencing on the first anniversary of the grant date, such installments to be cumulative; provided, however, that all Options held by a Director that are not yet exercisable on the date of such director's Retirement (as defined in Paragraph 5(d) below) at or after age seventy-two shall become fully exercisable on that date. In no case may an Option be exercised as to fewer than 100 shares at anyone time (or the remaining shares covered by the Option if fewer than 100 during the term of the Option). The term of each Option shall be ten (10) years from the date of grant thereof, or such shorter period as is prescribed below in this Paragraph 5. Except as provided below in this Paragraph 5, no Option may be exercised at any time when the Optionee is not a member of the Board. In the event that an Option shall be exercised by any person or persons other than the Optionee as permitted by Paragraph 7 below,

appropriate proof of the right of such person or persons to exercise the Option shall be provided to the Company.

(c) Any person exercising an Option or portion of an Option shall do so by delivering to the Secretary or his office of all of the following:

(i) A written notice in a form supplied by the Secretary;

(ii) Full payment for the shares with respect to which the Option, or portion thereof, is exercised in whole or in part by (A) cash; (B) certified or bank check or such other instrument as the Company may accept; or (C) delivery (either by surrender of the shares or by attestation) of shares unrestricted Common Stock already owned by the Optionee of the same class as the Common Stock subject to the Stock Option (based on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); provided, however, that such already-owned shares either were acquired by the Optionee in an open-market transaction or have been held by the Optionee for at least six months at the time of exercise; and

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

(d) In the event that an Optionee shall cease to be a member of the Board, other than by reason of retirement after age seventy-two (hereinafter "Retirement") or death, he may exercise his Options within three months after such termination, but not after the expiration of the Options, to the extent of the number of shares exercisable by him at the date of termination of his membership on the Board.

(e) In the event that an Optionee shall cease to be a member of the Board because of Retirement, he may exercise his Options within sixty months after Retirement, but not after the expiration of the Options, to the extent of the number of shares exercisable by him at the date of Retirement.

(f) In the event of the death of an Optionee, any of his Options that were outstanding at the time of his death that have not been previously terminated pursuant to the provisions of Paragraph 5(d) or 5(e) may be exercised at any time within twelve months of the date of the Optionee's death, but not after the expiration of the Option, to the extent of the number of shares exercisable by the Optionee at the date of his death. Designation, revocation and redesignation of Beneficiaries must be made by notice in writing in accordance with rules established by the Board or Committee and shall be effective upon delivery of such notice to the Board.

(g) Nothing in the Plan or in any Option granted pursuant to the Plan shall confer on any individual any right to continue as a member of the Board or interfere in any way with the right of the Company to terminate his membership on the Board at any time.

6. Conditions to Issuance of Stock Certificates

(a) The Board may require each person purchasing or receiving shares of Common Stock pursuant to an Award, as a condition to delivery of such shares, to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof and to provide such other representations and such documents as the Board, in its absolute discretion, deems necessary or appropriate to effect compliance with all applicable laws. Such shares may be delivered in

by book entry or in certificate form, with such legends or other notations as the Board deems appropriate to reflect any restrictions on transfer.

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

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

(ii) Any registration or other qualification of such shares under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Board shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable;

(iii) Obtaining any other consent, approval, or permit from any state or federal governmental agency, which the Board shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable;

(iv) The lapse of such reasonable period of time following the exercise of an Option or the event that results in the delivery of such Shares, as the Board may establish from time to time for reasons of administrative convenience; and

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

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

7. Transferability and Stockholder Rights of Holders of Awards

(a) Options granted under the Plan may be transferred to one or more Transferees (as defined below) or to a Beneficiary (as defined below). Options may be exercised (i) during the Optionee's lifetime, only by the Optionee or a Transferee, and (ii) after the Optionee's death, only by a Transferee or a Beneficiary. "Transferee" shall mean "family members" as defined in the Securities and Exchange Commission Release No. 33-7646 and 34-41109, who have acquired the Option through a gift or a domestic relations order, and includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the employee's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the employee) control the management of assets, and any other entity in which these persons (or the employee) own more than fifty percent of the voting interests.

(b) Other Awards granted under the Plan may not be transferred, except to a Beneficiary (as defined below).

(c) Each Director shall be permitted to designate one or more Beneficiaries to receive his Awards under the Plan upon his death, on such form and in accordance with such procedures as the Board

or Secretary may from time to time establish. If a Director dies at a time when he has no Beneficiary designation in effect, his estate shall be his Beneficiary.

(d) References in the Plan to an Optionee or Director (other than such references that relate to membership on the Board or termination thereof) shall be deemed to refer to a Transferee or Beneficiary where appropriate.

8. Adjustments upon Changes in Common Stock

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

- (a) the aggregate number of shares of Common Stock available under Paragraph 2;
- (b) the number of shares subject to automatic Option grants under Paragraph 4;
- (c) the number of shares of Common Stock covered by outstanding Awards;
- (d) the option price of outstanding Options; and
- (e) such other adjustments to outstanding Awards as the Board or Committee may determine to be appropriate and equitable.

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

9. Change in Control

- (a) Impact of Event

Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control, any Options outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested, and shall remain exercisable until their expiration date notwithstanding any termination of the Optionee's membership on the Board.

- (b) Definition of Change in Control

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

- (i) An acquisition by any individual, entity or group (within the meaning of Article 13.4(a) or 14.4(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (I) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the

Company, (II) any acquisition by the Company, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (IV) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) of this Paragraph 9(b); or

(ii) A change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Article 10.2, that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

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

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

10. Amendment and Termination

Unless the Plan shall theretofore have been terminated as hereinafter provided, the Plan shall terminate on, and no Awards shall be made after, January 31, 2010; provided, however, that such termination shall have no effect on Awards granted prior thereto (and the provisions of the Plan shall continue to apply thereto). The Board may amend, suspend or terminate the Plan at any time, but no such

amendment, suspension or termination shall impair the rights of Directors under Awards previously granted without the Director's consent. In addition, no such amendment shall be made without the approval of the Company's stockholders to the extent such approval is required by applicable law or the rules of any exchange on which the Common Shares are then listed.

11. Withholding

Upon the transfer of Common Stock as a result of the exercise of an Option or pursuant to another Award, the Company shall have the right to retain or sell, without notice, sufficient shares of stock (taken at their Fair Market Value, as defined in Paragraph 5(a) above, on the date of exercise or transfer) to cover the amount of any tax required by any government to be withheld or otherwise deducted and paid with respect to such payment, remitting any balance to the Director; provided, however, that the Director shall have the right to provide the Company with the funds to enable it to pay such tax.

12. Approval by Stockholders

The Plan, as amended and restated, was approved and adopted by the Board on February 27, 2003, and shall be effective as of April 24, 2003, subject to the approval of the Company's stockholders at the meeting of the stockholders to be held on April 24, 2003. The Plan was originally approved by the stockholders on January 28, 1988.

13. Titles; Gender

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan. Whenever the masculine gender is used, it shall include the feminine and neuter, and whenever a singular pronoun is used it shall include the plural, unless the context clearly indicates otherwise.

14. Unfunded Status of Plan

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

15. Construction

This Plan and any Agreements hereunder shall be administered and interpreted under the laws of the State of Delaware.

AVERY DENNISON CORPORATION
EMPLOYEE STOCK OPTION AND INCENTIVE PLAN

AMENDED AND RESTATED

The purposes of this Plan are as follows:

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

ARTICLE 1 DEFINITIONS

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

1.1 Award

"Award" shall mean a Dividend Equivalent, Option, Performance Unit, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right or Stock Payment granted under this Plan.

1.2 Award Agreement

"Award Agreement" shall mean an agreement setting forth the terms and conditions of an Award.

1.3 Award Cycle

"Award Cycle" shall mean a period of consecutive years or portions thereof designated by the Committee over which Performance Units are to be earned.

1.4 Awardee

"Awardee" shall mean a person who has received an Award under the Plan.

1.5 Beneficiary

"Beneficiary" shall have the meaning given in Article 12.8.

1.6 Board

"Board" shall mean the Board of Directors of the Company.

1.7 Cause

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

- 1.8 Change in Control
"Change in Control" has the meanings set forth in Article 10.2.
- 1.9 CEO
"CEO" shall mean the Chief Executive Officer of the Company.
- 1.10 Code
"Code" shall mean the Internal Revenue Code of 1986, as amended.
- 1.10 Committee
"Committee" shall mean committee of the Board designated to administer the Plan as contemplated by Article 11.1.
- 1.11 Commission
"Commission" shall mean the Securities and Exchange Commission or any successor agency.
- 1.12 Common Stock
"Common Stock" shall mean the common stock of the Company.
- 1.13 Company
"Company" shall mean Avery Dennison Corporation or any successor company.
- 1.14 COO
"COO" shall mean the Chief Operating Officer of the Company.
- 1.15 Covered Employee
"Covered Employee" shall mean an Awardee designated by the Committee in connection with any Award as an individual who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which an Award is expected to be taxable to such Awardee.
- 1.16 Director
"Director" shall mean a member of the Board.
- 1.17 Disability
"Disability" shall mean, with respect to any Awardee, unless otherwise provided by the Committee, (i) "Disability" as defined in any Individual Agreement or Award Agreement to which the Awardee is a party, or (ii) if there is no such Individual Agreement or it does not define "Disability," permanent and total disability as as defined in Section 22(c)3 of the Code.
- 1.18 Disaffiliation
"Disaffiliation" shall mean, with respect to any Subsidiary, the Subsidiary's ceasing to be a Subsidiary for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the majority of the stock of the Subsidiary).
- 1.19 Dividend Equivalent
"Dividend Equivalent" shall mean a right to receive a number of shares of Common Stock or an amount of cash, determined as provided in Article 9.2 hereof.
- 1.20 Early Retirement
"Early Retirement" shall mean retirement from active employment with the Company, or a Subsidiary, pursuant to the early retirement provisions of the applicable pension plan of such employer or as otherwise determined by the Committee.

1.21 Employee

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

1.22 Expiration Date

"Expiration Date" shall have the meaning given in Article 4.3.

1.23 Exchange Act

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

1.24 Fair Market Value

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

1.25 Incentive Stock Option

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

1.26 including or includes

"including" or "includes" shall mean including without limitation, or includes, without limitation.

1.27 Individual Agreement

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

1.28 Non-Qualified Stock Option

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

1.29 Normal Retirement

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

1.30 Option

"Option" shall mean a stock option granted pursuant to this Plan.

1.31 Optionee

"Optionee" shall mean an Employee granted an Option under this Plan.

1.32 Performance Goals

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

1.33 Performance Unit

"Performance Unit" shall mean a cash bonus, stock bonus or other performance or incentive award that is paid in cash, stock or a combination of both.

1.34 Plan

"Plan" shall mean the Employee Stock Option and Incentive Plan, as amended and restated, formerly called the 1990 Stock Option and Incentive Plan.

1.35 Qualified Performance-Based Award

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

1.36 Restricted Stock

"Restricted Stock" shall mean Common Stock issued pursuant to Article 7.

1.37 Restricted Stock Unit

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

1.38 Retirement

"Retirement" shall mean Normal or Early Retirement.

1.39 Rule 16b-3

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

1.40 Secretary

"Secretary" shall mean the Secretary of the Company.

1.41 Section 162(m) Exemption

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

1.42 Stock Appreciation Right

"Stock Appreciation Right" shall mean a stock appreciation right granted under this Plan.

1.43 Stock Payment

"Stock Payment" shall mean shares of Common Stock, or stock units (each of which represents one hypothetical share of Common Stock to be paid to Employee on a deferred basis), delivered or credited to an Employee in satisfaction of an obligation to pay cash compensation that such Employee has earned, whether on a current or a deferred basis, and whether at the Company's election or the Employee's election, which shares of Common Stock have a fair market value on the date the Stock Payment is awarded equal to the amount of such compensation."

1.44 Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing

33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, as well as partnerships and limited liability companies, in which the Company holds a 33 percent or more interest.

1.45 Termination of Employment

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

1.46 Gender and Number

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

ARTICLE 2 SHARES SUBJECT TO PLAN

2.1 Shares Subject to Plan

As of December 31, 2002, there were reserved for issuance, upon the exercise of Options or other Awards granted under the Plan 1,349,813, shares of Common Stock of the Company; as of December 31, 2002, there were 965,587 shares available for future Awards under the Plan. As of the Effective Date, as defined in Article 12.13 below, the aggregate number of shares deliverable pursuant to Awards shall be increased by 3,500,000 for a total of 5,815,400 shares. Shares of Common Stock issued under the Plan may be authorized and unissued shares, previously outstanding shares held as treasury shares, or treasury shares that have been transferred to and held in a grantor trust of the Company.

2.2 Unexercised Options and Other Rights

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

ARTICLE 3 GRANTING OF OPTIONS

3.1 Eligibility

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

3.2 Granting of Options

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

(i) Select the Employees who will be granted Options;

(ii) Determine the number of shares to be subject to such Options granted to the selected Employees; provided, however, that no Employee shall be granted Options covering in excess of 400,000 shares during any calendar year; and

(iii) Determine the terms and conditions of such Options, consistent with this Plan (including whether they are Incentive Stock Options or Non-Qualified Stock Options).

4.1 Option Agreement

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

4.2 Option Price

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

4.3 Option Term

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

4.4 Option Vesting

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

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

4.5 Exercise of Options after Termination of Employment

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

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

(d) Termination by Reason of Retirement. Unless otherwise determined by the Committee in an Award Agreement, if an Optionee has a Termination of Employment by reason of the Optionee's Retirement, any Option held by such Optionee may thereafter be exercised by the Optionee, to the extent it was exercisable at the time of such Retirement, or on such accelerated basis as the Committee may determine, as follows: (i) if the Optionee has been before such Retirement, the CEO or the COO, for the period ending on the Expiration Date of such Option; (ii) if the Optionee has been before such Retirement, a participant in the Company's Long Term Incentive Program or any successor thereto, other than the CEO or the COO, for the period ending on the earlier of the fifth anniversary of such Retirement or the Expiration Date of such Option; and (iii) in all other cases, for a

period ending on the earlier of the third anniversary of such Retirement or the Expiration Date of such Stock Option; provided, however, that if the Optionee dies within such period any unexercised Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the Expiration Date of such Option, whichever period is the shorter.

(e) Other Termination. Unless otherwise determined by the Committee:

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

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

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

ARTICLE 5 EXERCISE OF OPTIONS

5.1 Partial Exercise

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

5.2 Manner of Exercise

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

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

(b) Full payment for the shares and taxes described in Article 12.7 with respect to which the Option, or portion thereof, is exercised in whole or in part by (i) cash; (ii) certified or bank check or such other instrument as the Company may accept; (iii) delivery (either by surrender of the shares or by attestation) of shares unrestricted Common Stock already owned by the Optionee of the same class as the Common Stock subject to the Stock Option (based on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); provided, however, that such already-owned shares either were acquired by the Optionee in an open-market transaction or have been held by the Optionee for at least six months at the time of exercise; (iv) if permitted by the Committee, the

surrender of shares of Common Stock then issuable upon exercise of the Option; or (v) if permitted by the Committee, by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker acceptable to the Company to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the option price, and, if requested, by the amount of any federal, state, local or foreign withholding taxes.

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

ARTICLE 6 STOCK APPRECIATION RIGHTS

6.1 Grant and Exercise

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

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

6.2 Terms and Conditions

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

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

(b) Upon the exercise of a Stock Appreciation Right, an Optionee shall be entitled to receive an amount in cash, shares of Common Stock or both, in value equal to the excess of the Fair Market Value of one share of Common Stock over the option price per share specified in the related Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

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

ARTICLE 7 RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1 Administration

Shares of Restricted Stock and Awards of Restricted Stock Units may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the Employees to whom and the time or times at which grants of Restricted Stock and Restricted Stock Units will be awarded, the number of shares to be awarded to any Awardee, the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Article 7.3. The total number of shares of Restricted Stock and the total number of shares represented by Restricted Stock Units granted under the Plan shall not exceed 100,000.

7.2 Awards and Certificates

(a) Shares of Restricted Stock shall be evidenced in such manner, as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of shares of Restricted Stock shall be registered in the name of such Awardee and shall bear an appropriate

legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

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

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

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

7.3 Terms and Conditions

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

(a) The Committee may, in connection with the grant, designate an Award of Restricted Stock or Restricted Stock Units as a Qualified Performance-Based Award, in which event it shall condition the grant or vesting (generally, during a period of three years), as applicable, of such Award upon the attainment of Performance Goals. If the Committee does not designate an Award of Restricted Stock or Restricted Stock Units as a Qualified Performance-Based Award, it may also condition the grant or vesting thereof upon the attainment of Performance Goals. Regardless of whether an Award of Restricted Stock or Restricted Stock Units is a Qualified Performance-Based Award, the Committee may also condition the grant or vesting thereof upon the continued service of the Awardee. The conditions for grant or vesting and the other provisions of Awards of Restricted Stock or Restricted Stock Units (including any applicable Performance Goals) need not be the same with respect to each Awardee. The Committee may at any time, in its sole discretion, accelerate or waive, in whole or in part, any of the foregoing restrictions; provided, however, that in the case of an Award that is a Qualified Performance-Based Award, the applicable Performance Goals have been satisfied. The total number of shares represented by Qualified Performance Based Award granted under the Plan shall not exceed 100,000.

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

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

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

(e) Except to the extent otherwise provided in Article 10.1(b), in the event an of an Awardee's Retirement or involuntary Termination of Employment other than for Cause, the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions (other than, in the case of Restricted Stock with respect to which an Awardee is a Covered Employee, satisfaction of the applicable Performance Goals unless the Termination of Employment was by reason of the Awardee's death or Disability) with respect to any or all of such Awardee's shares of Restricted Stock.

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

ARTICLE 8 PERFORMANCE UNITS

8.1 Administration

Performance Units may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the Employees to whom and the time or times at which Performance Units shall be awarded, the number of Performance Units to be awarded to any Awardee (subject to the aggregate limit on grants to individual Awardees set forth in Article 3), the duration of the Award Cycle and any other terms and conditions of the Award, in addition to those contained in Article 8.2.

8.2 Terms and Conditions

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

(a) The Committee may, prior to or at the time of the grant, designate Performance Units as Qualified Performance-Based Awards, in which event it shall condition the settlement thereof upon the attainment of Performance Goals. If the Committee does not designate Performance Units as Performance-Based Awards, it may also condition the settlement thereof upon the attainment of Performance Goals. Regardless of whether Performance Units are Qualified Performance-Based Awards, the Committee may also condition the settlement thereof upon the continued service of the Awardee. The provisions of such Awards (including any applicable Performance Goals) need not be the same with respect to each Awardee. Subject to the provisions of the Plan and the applicable Award Agreement, Performance Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Award Cycle.

(b) Except to the extent otherwise provided in the applicable Award Agreement and Articles 8.2(c) and 10.1(c), upon an Awardee's Termination of Employment for any reason during the Award Cycle or before any applicable Performance Goals are satisfied, all rights to receive cash or stock in settlement of the Performance Units shall be forfeited by the Awardee.

(c) Except to the extent otherwise provided in Article 10.1(c), in the event of an Awardee's Termination of Employment for any reason other than

Cause, the Committee shall have the discretion to waive, in whole or in part, any or all remaining payment limitations and other restrictions applicable to any or all of such Awardee's Performance Units; provided, that in the case of Performance Units that are Qualified Performance-Based Awards, the applicable Performance Goals are satisfied unless the Awardee's Termination of Employment occurred by reason of the Awardee's death or Disability).

(d) At the expiration of the Award Cycle, the Committee shall evaluate the Company's performance in light of any Performance Goals for such Award, and shall determine the number of Performance Units granted to the

Awardee which have been earned, and the Committee shall then cause to be delivered (i) a number of shares of Common Stock equal to the number of Performance Units determined by the Committee to have been earned, or (ii) cash equal to the Fair Market Value of such number of shares of Common Stock to the Awardee, as the Committee shall elect.

ARTICLE 9 STOCK PAYMENTS; DIVIDEND EQUIVALENTS

9.1 Stock Payments

Stock Payments may be made under this Plan either alone or in conjunction with any other Award, on such terms and conditions as the Committee may determine.

9.2 Dividend Equivalents

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

ARTICLE 10 CHANGE IN CONTROL PROVISIONS

10.1 Impact of Event

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

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

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

(c) All Performance Units shall be considered to be earned and payable in full, and any deferral or other restriction shall lapse and such Performance Units shall be settled in cash as promptly as is practicable.

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

10.2 Definition of Change in Control

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

(a) An acquisition by any individual, entity or group (within the meaning of Article 13.4(a) or 14.4(b) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (A) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Article 10.2; or

(b) A change in the composition of the Board such that the individuals who, as of the effective date of

the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Article 10.2, that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

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

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

ARTICLE 11 ADMINISTRATION

11.1 Committee

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

11.2 Powers of Committee

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

therewith, and to interpret, amend or revoke any such rules and procedures. Any Award under this Plan need not be the same with respect to each Awardee.

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

11.3 Action by Committee

(a) The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting, or by a memorandum or other written instrument signed by a majority of the Committee. The Committee may delegate to (i) the CEO the authority to make decisions pursuant to, and interpretations of, the Plan (provided that no such delegation may be made that would cause Awards or other transactions under the Plan to cease to be exempt from Section 16(b) of the Exchange Act or cause Qualified Performance-Based Awards to fail to qualify for the Section 162(m) exemption), including the authority to grant Awards to any Employee who is not an "officer" of the Company (within the meaning of Rule 16a-1(f) promulgated under the Exchange Act, as amended), subject to any limitations the Committee may impose, and (ii) the CEO or Secretary, or both, or any or all of the administrative and interpretive duties and authority of the Committee under the Plan.

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

11.4 Compensation; Professional Assistance; Good Faith Actions

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

ARTICLE 12 MISCELLANEOUS PROVISIONS

12.1 Not Transferable

Except as specifically provided in the Plan with respect to Options and Stock Appreciation Rights, as provided in Article 12.8 regarding designation of Beneficiaries, and as may be otherwise provided in the applicable Award Agreement: (i) Awards may not be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution; (ii) no Award or interest or right therein shall be subject to the debts, contracts or engagements of the Awardee or his Beneficiaries and successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy); and (iii) any attempted disposition of an Award shall be null and void and of no effect.

12.2 Unfunded Status of Plan

It is presently intended that the Plan constitutes an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations

created under the Plan to deliver Common Stock or make payments; provided, however, that unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

12.3 General Provisions

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

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

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

(ii) Any registration or other qualification of such shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable;

(iii) Obtaining any other consent, approval, or permit from any state or federal governmental agency, which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable;

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

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

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

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

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

12.4 Amendment, Suspension, or Termination of this Plan

The Board may amend, suspend or terminate the Plan at any time [prior to a Change of Control], but no such amendment, suspension or termination shall impair the rights of Awardees under Awards previously granted without the Awardee's consent. In addition, no such amendment shall be made without the approval of the Company's stockholders to the extent such approval is required by applicable law or the rules of any exchange on which the Common Shares are then listed.

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

12.5 Adjustments upon Changes in Common Stock

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

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

Such adjustments may include, without limitation, (i) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee in its sole discretion, (ii) the substitution of other property (including, without limitation, other securities) for the Stock covered by outstanding Awards, and (iii) in connection with any Disaffiliation of a Subsidiary, arranging for the assumption, or replacement with new awards, of Awards held by Awardees employed by the affected Subsidiary by the Subsidiary or an entity that controls the Subsidiary following the Disaffiliation.

12.6 Approval of Plan by Stockholders

This Plan, as amended and restated, was approved by the Board on February 27, 2003, and will be submitted for the approval by the Company's stockholders at the annual meeting of stockholders on April 24, 2003.

12.7 Tax Withholding

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

12.8 Beneficiaries

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

12.10 Effect of Plan

The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the

Company or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company (a) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary, or (b) to grant or assume options or other rights otherwise than under this Plan in connection with any proper corporate purpose, including the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association. Nothing in this Plan or in any Award Agreement shall confer upon any Awardee any right to continue in the employ of the Company or any Subsidiary or interfere with or restrict in any way the rights of the Company and the Subsidiaries, which are hereby expressly reserved, to discharge any Awardee at any time for any reason whatsoever, with or without Cause.

12.11 Titles

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

12.12 Governing Law

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

12.13 Effective Date

This Plan, as amended and restated, shall be effective as of April 24, 2003, subject to the approval of stockholders of the Company as contemplated by Article 12.6. This Plan was originally approved by stockholders on March 29, 1990.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated _____, 2002, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee".

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of The 1990 Stock Option and Incentive Plan for Key Employees of Avery Dennison Corporation; and

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

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

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

ARTICLE I

DEFINITIONS

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

1.1 Option

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

1.2 Plan

The "Plan" shall mean The 1990 Stock Option and Incentive Plan for Key Employees of Avery Dennison Corporation.

1.3 Pronouns

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

1.4 Secretary

"Secretary" shall mean the Secretary of the Company.

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* Refer to the attached Notice.

1.5 Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.6 Termination of Employment

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

1.7 Change of Control

"Change of Control" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A, Regulation 240.14a-101, promulgated under the Securities Exchange Act of 1934 as in effect on the date of this Agreement or, if Item 6(e) is no longer in effect, any regulation issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 which serves similar purposes; provided that, without limitation, a Change of Control shall be deemed to have occurred if and when:

- (a) Any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) is or becomes a beneficial owner, directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities, or
- (b) Individuals who were members of the Board of Directors of the Company immediately prior to a meeting of the shareholders of the Company involving a contest or the election of the directors shall not constitute a majority of the Board of Directors following such election.

1.8 Beneficiary

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

ARTICLE II
GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee's agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably

grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be _____ dollars (\$_____) per share without commission or other charge.

2.3 Consideration to Company

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

2.4 Adjustments in Option

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

ARTICLE III

PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

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* Refer to the attached Notice.

granted or on subsequent anniversary dates thereafter.

Such early or accelerated vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the sixty-seventh (67%) percentile of the return on total capital for the peer group companies (as listed in the Company's proxy statement) for such third year (the performance test). (For example, the performance test for accelerated vesting for options granted in December 2002 will be based on the return on total capital for 2005).

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

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

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

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

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, and Section 3.4 below, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable; provided, however, that if all or a portion of the Option installments which otherwise would become exercisable pursuant to this Subsection 3.1(c) is determined by the Committee to constitute, when exercised, a "parachute payment" as defined by Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), such Option installments or portion thereof shall not become exercisable upon the Change of Control. In making this determination pursuant to the preceding sentence the Committee shall first take into account any payments to the Employee contingent on a change in the ownership or control of the Company or its assets (as provided in said Section 280G) under any other agreement or arrangement between the Company and Employee,

exclusive of any agreement which is not subject to Section 280G because of Section 67(e) of the Tax Reform Act of 1984. Subsection 3.1(c) shall be final and binding upon Employee.

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, and the Committee may in its discretion extend the Expiration Date of the Option to accommodate such exercise.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within twelve (12) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated due to his retirement at or after age fifty-five (55) and such Employee continues as a director of the Company, the Employee may exercise the Option to the same extent as he would be able to exercise it if he continued to be employed, until the earlier of two (2) years after he ceases to be a director of the Company or the Option's Expiration Date.
- (e) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (d) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within three (3) months after Termination of Employment, but not later than the Option's Expiration Date.

3.4 Exercise of Option Upon Merger or Consolidation

- (a) Notwithstanding Section 3.3, the Option may not be exercised to any extent by anyone after the effective date of either the merger or consolidation of the Company into another corporation, the exchange of all or substantially all of the assets of the Company for the securities of another corporation, the acquisition by another corporation of 80% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company. At least ten (10) days prior to the effective date of such merger, consolidation, exchange, acquisition, liquidation, or dissolution, the Committee shall give the

Employee notice of such event if the Option has then neither been fully exercised nor become unexercisable due to the passage of the specified time period in Subsection (b) below.

- (b) In the event of such merger, consolidation, exchange, liquidation, or dissolution, the Committee may, in its absolute discretion and on such terms and conditions as it deems appropriate, provide by resolution adopted prior to such event and incorporated in the notice referred to in Subsection (a) above, that for a specified period of time prior to the effective date of such event, the Option shall be exercisable as to all shares covered hereby, notwithstanding that the Option may not yet have become fully exercisable under Subsection 3.1(a).

ARTICLE IV

EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his office of all of the following:

- (a) A written notice, complying with the applicable rules established by the Committee, stating that the Option or portion is thereby exercised. The notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made in cash (or by certified or bank cashier's check), or by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or by a combination of cash and surrender of stock in the manner herein specified; and
- (c) Full payment to the Company of any federal, state or local taxes required to be withheld in connection with the exercise, which payment may be made in cash (or by certified or bank cashier's check) or by actual or constructive delivery and surrender to the Company in accordance with procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the total of such taxes due in connection with the exercise, or by a combination of cash and surrender of stock in the manner herein specified; and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to

exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

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

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

4.4 Rights as Shareholders

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

ARTICLE V

MISCELLANEOUS

5.1 Administration

The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Option. In its absolute discretion, the Board of Directors of the Company may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement.

5.2 Transferability

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

5.3 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature here to. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section. Any notice shall have been deemed duly given when enclosed in a properly sealed envelope or wrap per addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.4 Titles

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

5.5 Construction

This Agreement shall be administered and interpreted under the laws of the State of California.

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

AVERY DENNISON CORPORATION

by: Chairman & Chief Executive Officer*

by: Secretary*

by: Optionee*

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* Refer to the attached Notice.

AVERY DENNISON CORPORATION
1996 STOCK INCENTIVE PLAN
amended and restated

SECTION 1. PURPOSE; DEFINITIONS

The purpose of the Plan is to give the Company a competitive advantage in attracting, retaining and motivating officers and employees and to provide the Company and its subsidiaries with a stock plan providing incentives more directly linked to the profitability of the Company businesses and increases in shareholder value.

For purposes of the Plan, the following terms are defined as set forth below:

- (a) "Affiliate" means a subsidiary of the Company.
- (b) "Award" means a Stock Appreciation Right, Stock Option, Restricted Stock, Performance Unit, Stock Payment or Dividend Equivalent.
- (c) "Awardee" means a person granted an Award.
- (d) "Award Cycle" shall mean a period of consecutive fiscal years or portions thereof designated by the Committee over which Performance Units are to be earned.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Cause" means (1) conviction of a participant for committing a felony under federal law or the law of the state in which such action occurred, (2) dishonesty in the course of fulfilling a participant's employment duties or (3) willful and deliberate failure on the part of a participant to perform his employment duties in any material respect, or such other events as shall be determined by the Committee. The Committee shall have the sole discretion to determine whether "Cause" exists, and its determination shall be final.
- (g) "Change in Control" and "Change in Control Price" have the meanings set forth in Sections 10(b) and (c), respectively.
- (h) "CEO" means the Chief Executive Officer of the Company.
- (i) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. References to Sections of the Code shall be deemed to include any successors to such Sections.
- (j) "Commission" means the Securities and Exchange Commission or any successor agency.
- (k) "Committee" means the Committee referred to in Section 2.
- (l) "Common Stock" means common stock, par value \$1.00 per share, of the Company, as presently constituted and any equity security of the Company issued or authorized to be issued in the future.
- (m) "Company" means Avery Dennison Corporation, a Delaware corporation.

- (n) "COO" means the Chief Operating Officer of the Company.
- (o) "Covered Employee" means a participant designated prior to the grant of shares of Restricted Stock or Performance Units by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which Restricted Stock or Performance Units are expected to be taxable to such participant.
- (p) "Disability" means permanent and total disability as determined under procedures established by the Committee for purposes of the Plan.
- (q) "Dividend Equivalent" means an Award made pursuant to Section 9.
- (r) "Early Retirement" means retirement from active employment with the Company, or an Affiliate pursuant to the early retirement provisions of the applicable pension plan of such employer or as otherwise determined by the Committee.
- (s) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- (t) "Fair Market Value" means, as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which the Common Stock is listed or on NASDAQ. If there is no regular public trading market for such Common Stock, the Fair Market Value of the Common Stock shall be determined by the Committee in good faith.
- (u) "Non-Employee Director" means a member of the Board who qualifies as a Non-Employee Director as defined in Rule 16b-3(b)(3), as promulgated by the Commission under the Exchange Act, or any successor definition adopted by the Commission.
- (v) "Non-qualified Stock Option" means a Stock Option, which is not an incentive stock option under Section 422 of the Code.
- (w) "Normal Retirement" means retirement from active employment with the Company, or an Affiliate at or after age 65.
- (x) "Optionee" means an individual granted a Stock Option under this Plan.
- (y) "Qualified Performance-Based Award" means an Award of Stock Options, Stock Appreciation Rights, Restricted Stock or Performance Units designated as such by the Committee at the time of grant, based upon a determination that (i) the recipient is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which the Company would expect to be able to claim a tax deduction with respect to such Stock Options, Stock Appreciation Rights, Restricted Stock or Performance Units and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption. Notwithstanding any other provision of the Plan, no Award shall be considered a Qualified Performance-Based Award unless it is granted subject to or after obtaining shareholder approval satisfying the requirements of Section 162(m)(4)(C)(ii) of the Code and the Treasury Regulations thereunder.

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

(aa) "Performance Units" means an award made pursuant to Section 8.

(bb) "Plan" means the Avery Dennison Corp. 1996 Stock Incentive Plan, as set forth herein and as hereinafter amended from time to time.

(cc) "Restricted Stock" means an award granted under Section 7.

(dd) "Retirement" means Normal or Early Retirement.

(ee) "Rule 16b-3" means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

(ff) "Secretary" means the Secretary of the Company.

(gg) "Section 162(m) Exemption" means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m) (4) (C) of the Code.

(hh) "Stock Appreciation Right" means a right granted under Section 6.

(ii) "Stock Option" means an option granted under Section 5.

(jj) "Stock Payments" means (a) a payment in the form of shares of Common Stock, or (b) an option or other right to purchase shares of Common Stock, as part of a deferred compensation arrangement, made in lieu of all or any portion of the compensation, including without limitation, salary, bonuses and commissions, that would otherwise become payable to an employee in cash.

(kk) "Termination of Employment" means the termination of the participant's employment with the Company or an Affiliate. A participant employed by an Affiliate shall also be deemed to incur a Termination of Employment if the Affiliate ceases to be a subsidiary, as the case may be, and the participant does not immediately thereafter become an employee of the Company or an Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and Affiliates shall not be considered Terminations of Employment. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment.

In addition, certain other terms used herein have definitions given to them in the first place in which they are used.

SECTION 2. ADMINISTRATION

The Plan shall be administered by the Compensation and Executive Personnel Committee or such other committee of the Board as the Board may from time to time designate (the "Committee"), which shall be

composed of not less than two Non-Employee Directors, each of whom shall be an "outside director" for purposes of Section 162(m)(4) of the Code, and shall be appointed by and serve at the pleasure of the Board.

The Committee shall have plenary authority to grant Awards pursuant to the terms of the Plan to officers and employees of the Company and its Affiliates; provided that no further Awards will be made after December 6, 2002.

Among other things, the Committee shall have the authority, subject to the terms of the Plan:

(a) To select the officers and employees to whom Awards may from time to time be granted;

(b) To determine whether and to what extent Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Units, Stock Payments or Dividend Equivalents or any combination thereof are to be granted hereunder;

(c) To determine the number of shares of Common Stock to be covered by each Award granted hereunder;

(d) To determine the terms and conditions of any Award granted hereunder (including, but not limited to, the option price (subject to Section 5(a)), any vesting condition, restriction or limitation (which may be related to the performance of the participant, the Company or any Affiliate) and any vesting acceleration or forfeiture waiver regarding any Award and the shares of Common Stock relating thereto, based on such factors as the Committee shall determine;

(e) To modify, amend or adjust the terms and conditions of any Award, at any time or from time to time, including but not limited to Performance Goals; provided, however, that the Committee may not adjust upwards the amount payable with respect to a Qualified Performance-Based Award or waive or alter the Performance Goals associated therewith;

(f) To determine to what extent and under what circumstances Common Stock and other amounts payable with respect to an Award shall be deferred; and

(g) To determine under what circumstances an Award may be settled in cash or Common Stock under Sections 5(j), 6(b)(ii), 8(b)(v) and 9.

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable, to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto) and to otherwise supervise the administration of the Plan.

The Committee may act only by a majority of its members then in office, except that the members thereof may delegate to (i) the CEO the authority to make decisions pursuant to, and interpretations of, the Plan (provided that no such delegation may be made that would cause Awards or other transactions under the Plan to cease to be exempt from Section 16(b) of the Exchange Act or cease to be Qualified Performance-Based Awards), including, but not limited to, the authority to make grants of Stock Options and other Awards with respect to any employee who is not an "officer" of the Company (within the meaning of Rule 16a-1(f) promulgated under the Exchange Act, as amended), subject to any limitations the Committee may impose, and (ii) the CEO or Secretary, or both, or any or all of the administrative

duties and authority of the Committee under the Plan, other than the authority to make grants or awards under the Plan except as set forth above.

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

Any authority granted to the Committee may also be exercised by the full Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Exchange Act or cause an award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

SECTION 3. COMMON STOCK SUBJECT TO PLAN

The total number of shares of Common Stock reserved and available for grant under the Plan during each calendar year shall be 1.75 percent of the number of outstanding shares on the first day of each calendar year. Shares subject to an Award under the Plan may be treasury shares held by the Company or treasury shares that have been transferred to and that are held in a grantor trust of the Company (including, without limitation, the Employee Stock Benefit Trust).

If any shares of Restricted Stock are forfeited, or if any Stock Option (and related Stock Appreciation Right, if any) terminates, expires or is canceled without being exercised, or if any Stock Appreciation Right is exercised for cash, shares subject to such Awards shall again be available for distribution in connection with Awards under the Plan.

In the event of any change in corporate capitalization, such as a stock split (whether or not effected in the form of a dividend), or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board shall make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, in the number,

kind and option price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and/or such other equitable substitution or adjustments as it may determine to be appropriate in its discretion with the intent that, after such substitution or adjustments, the value of each Optionee's and each Awardee's interest shall be maintained as before the occurrence of such event; provided, however, that the number of shares subject to any Award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

SECTION 4. ELIGIBILITY

Directors, officers and employees of the Company, its subsidiaries and Affiliates who are responsible for or contribute to the management, growth and profitability of the business of the Company, and its Affiliates are eligible to be granted Awards under the Plan.

SECTION 5. STOCK OPTIONS

The Committee shall have the authority to grant Stock Options to any eligible individual, either alone or in addition to other Awards granted under the Plan, in such form and subject to such conditions as the Committee may determine (and which may differ for separate Stock Options). Such terms and conditions may include, without limitation, restrictions on the transferability of the shares of Common Stock received upon exercise of Stock Options. All Stock Options granted hereunder shall be Non-qualified Stock Options.

The grant of a Stock Option shall be considered to occur on the date the Committee by resolution selects an individual participant to receive such grant, determines the number of shares of Common Stock to be subject to such Stock Option, and specifies the terms and provisions of the Stock Option. Upon grant of a Stock Option, the Committee shall instruct the Secretary to issue an option agreement evidencing such option, and to deliver such option agreement to the Optionee. Such agreement shall become effective upon execution by the Company and the Optionee.

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions as the Committee shall deem desirable:

(a) Option Price. The option price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee and set forth in the option agreement. Stock Options may not be repriced.

(b) Option Term. The term of each Stock Option shall be fixed by the Committee.

(c) Exercisability. Except as otherwise provided herein, Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Stock Option is exercisable only in installments, the Committee may at any time waive or modify such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the

Committee may at any time accelerate the exercisability of any Stock Option or extend the period during which it may be exercised (but not beyond the expiration of the term thereof).

(d) Method of Exercise. Subject to the provisions of this Section 5, Stock Options may be exercised, in whole or in part, at any time during the option term by giving written notice of exercise to the Company specifying the number of shares of Common Stock subject to the Stock Option to be purchased.

Except as specified below, such notice shall be accompanied by payment in full of the option price by certified or bank check or such other instrument as the Company may accept. Payment, in full or in part, may also be made in the form of unrestricted Common Stock already owned by the Optionee of the same class as the Common Stock subject to the Stock Option (based on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); provided, however, that such already owned shares have been held by the Optionee for at least six months at the time of exercise. The Committee may also permit a delay in payment of all or a portion of the option price for up to 30 days, on such terms and conditions as it may specify.

Payment of the option price for any shares subject to a Stock Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker acceptable to the Company to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the option price, and, if requested, by the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

In addition, payment of the option price for any shares subject to a Stock Option may also be made by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of exercise equal to the aggregate exercise price of such Stock Option plus any amounts required to be withheld pursuant to Section 13(d).

On exercise of a Stock Option, delivery of Common Stock may be made by delivery of Common Stock certificates or through a book-entry system (such as a direct registration system). Except as otherwise provided in Section 5(1) below and in the terms and conditions of the relevant Stock Option as determined by the Committee, an Optionee shall have all of the rights of a shareholder of the Company holding the class or series of Common Stock that is subject to such Stock Option (including, if applicable, the right to vote the shares and the right to receive dividends), when the Optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 13(a).

(e) Nontransferability of Stock Options. No Stock Option shall be transferable by the Optionee other than (i) by will or by the laws of descent and distribution or (ii) as otherwise expressly permitted under the applicable option agreement including, if so permitted, pursuant to a gift to such Optionee's family, whether directly or indirectly or by means of a trust or partnership or otherwise. All Stock Options shall be exercisable, subject to the terms of this Plan, only by the Optionee, the guardian or legal representative of the Optionee, or any person to whom such option is transferred pursuant to the preceding sentence, it being understood that the term "holder" and "Optionee" include such guardian, legal representative and other transferee.

(f) Termination by Death. Unless otherwise determined by the Committee, if an Optionee's employment terminates by reason of death, any Stock Option held by such Optionee may thereafter be exercised, to the extent then exercisable, or on such accelerated basis as the Committee may determine, for a period of 12 months (or such other period as the Committee may specify in the option agreement) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(g) Termination by Reason of Disability. Unless otherwise determined by the Committee, if an Optionee's employment terminates by reason of Disability, any Stock Option held by such Optionee may thereafter be exercised by the Optionee, to the extent it was exercisable at the time of termination, or on such accelerated basis as the Committee may determine, for a period of three years (or such shorter period as the Committee may specify in the option agreement) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that if the Optionee dies within such period, any unexercised Stock Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(h) Termination by Reason of Retirement. Unless otherwise determined by the Committee in an option agreement, if an Optionee's employment terminates by reason of Retirement, any Stock Option held by

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

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

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

(k) Change in Control Cash-Out. Notwithstanding any other provision of the Plan, during the 60-day period from and after a Change in Control (the "Exercise Period"), unless the Committee shall determine otherwise at the time of grant, an Optionee shall have the right, whether or not the Stock Option is fully exercisable and in lieu of the payment of the exercise price for the shares of Common Stock being purchased under the Stock Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Stock Option to the Company and to receive cash, within 30 days of such notice, in an amount equal to the amount by which the Change in Control Price per share of Common Stock on the date of such election shall exceed the exercise price per share of Common Stock under the Stock Option (the "Spread") multiplied by the number of shares of Common Stock granted under the Stock Option as to which the right granted under this Section 5(k) shall have been exercised. Notwithstanding the foregoing, if any right granted pursuant to this Section 5(k) would make a Change in Control transaction ineligible for pooling-of-interests accounting under APB No. 16 that but for the nature of such grant would otherwise be eligible for such accounting treatment, the Committee shall have the ability to substitute for the cash payable pursuant to such right Common Stock with a Fair Market Value equal to the cash that would otherwise be payable hereunder.

(l) Deferral of Option Shares. The Committee may from time to time establish procedures pursuant to which an Optionee may elect to defer, until a time or times later than the exercise of an Option, receipt of all or a portion of the Shares subject to such Option and/or to receive cash at such later time or times in

lieu of such deferred Shares, all on such terms and conditions as the Committee shall determine. If any such deferrals are permitted, then notwithstanding Section 5(d) above, an Optionee who elects such deferral shall not have any rights as a stockholder with respect to such deferred Shares unless and until Shares are actually delivered to the Optionee with respect thereto, except to the extent otherwise determined by the Committee.

SECTION 6. STOCK APPRECIATION RIGHTS

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

A Stock Appreciation Right may be exercised by an Optionee in accordance with Section 6(b) by surrendering the applicable portion of the related Stock Option in accordance with procedures established by the Committee. Upon such exercise and surrender, the Optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options which have been so surrendered shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

(b) Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate are exercisable in accordance with the provisions of Section 5 and this Section 6.

(ii) Upon the exercise of a Stock Appreciation Right, an Optionee shall be entitled to receive an amount in cash, shares of Common Stock or both, in value equal to the excess of the Fair Market Value of one share of Common Stock over the option price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

(iii) Stock Appreciation Rights shall be transferable only to permitted transferees of the underlying Stock Option in accordance with Section 5(e).

(iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 on the number of shares of Common Stock to be issued under the Plan, but only to the extent of the number of shares covered by the Stock Appreciation Right at the time of exercise based on the value of the Stock Appreciation Right at such time.

SECTION 7. RESTRICTED STOCK

(a) Administration. Shares of Restricted Stock may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the officers and employees to whom and the time or times at which grants of Restricted Stock will be awarded, the number of shares to be awarded to any participant (subject to the aggregate limit on grants to individual participants set forth in Section 3), the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Section 7(c).

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

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Avery Dennison Corporation 1996 Stock Incentive Plan and a Restricted Stock Agreement. Copies of such Plan and Agreement are on file at the offices of Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, CA 91103."

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

(c) Terms and Conditions. Shares of Restricted Stock shall be subject to the following terms and conditions:

(i) The Committee may, prior to or at the time of grant, designate an Award of Restricted Stock as a Qualified Performance-Based Award, in which event it shall condition the grant or vesting, as applicable, of such Restricted Stock upon the attainment of Performance Goals. If the Committee does not designate an Award of Restricted Stock as a Qualified Performance-Based Award, it may also condition the grant or vesting thereof upon the attainment of Performance Goals. Regardless of whether an Award of Restricted Stock is a Qualified Performance-Based Award, the Committee may also condition the grant or vesting thereof upon the continued service of the participant. The conditions for grant or vesting and the other provisions of Restricted Stock Awards (including without limitation any applicable Performance Goals) need not be the same with respect to each recipient. The Committee may at any time, in its sole discretion, accelerate or waive, in whole or in part, any of the foregoing restrictions; provided, however, that in the case of Restricted Stock that is a Qualified Performance-Based Award, the applicable Performance Goals have been satisfied.

(ii) Subject to the provisions of the Plan and the Restricted Stock Agreement referred to in Section 7(c)(vi), during the period, if any, set by the Committee, commencing with the date of such Award for which such participant's continued service is required (the "Restriction Period"), and until the later of (i) the expiration of the Restriction Period and (ii) the date the applicable Performance Goals (if any) are satisfied, the participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock; provided that the foregoing shall not prevent a participant from pledging Restricted Stock as security for a loan, the sole purpose of which is to provide funds to pay the option price for Stock Options.

(iii) Except as provided in this paragraph (iii) and Sections 7(c)(i) and 7(c)(ii) and the Restricted Stock Agreement, the participant shall have, with respect to the shares of Restricted Stock, all of the rights

of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Restricted Stock Agreement and subject to Section 13(e) of the Plan,
(A) cash

dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically deferred and reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends, and (B) dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends.

(iv) Except to the extent otherwise provided in the applicable Restricted Stock Agreement and Sections 7(c) (i), 7(c) (ii), 7(c) (v) and 10(a) (ii), upon a participant's Termination of Employment for any reason during the Restriction Period or before the applicable Performance Goals are satisfied, all shares still subject to restriction shall be forfeited by the participant.

(v) Except to the extent otherwise provided in Section 10(a) (ii), in the event that a participant retires or such participant's employment is involuntarily terminated (other than for Cause), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions (other than, in the case of Restricted Stock with respect to which a participant is a Covered Employee, satisfaction of the applicable Performance Goals unless the participant's employment is terminated by reason of death or Disability) with respect to any or all of such participant's shares of Restricted Stock.

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

(vii) Each Award shall be confirmed by, and be subject to, the terms of a Restricted Stock Agreement.

SECTION 8. PERFORMANCE UNITS

(a) Administration. Performance Units may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the officers and employees to whom and the time or times at which Performance Units shall be awarded, the number of Performance Units to be awarded to any participant (subject to the aggregate limit on grants to individual participants set forth in Section 3), the duration of the Award Cycle and any other terms and conditions of the Award, in addition to those contained in Section 8(b).

(b) Terms and Conditions. Performance Units Awards shall be subject to the following terms and conditions:

(i) The Committee may, prior to or at the time of the grant, designate Performance Units as Qualified Performance-Based Awards, in which event it shall condition the settlement thereof upon the attainment of Performance Goals. If the Committee does not designate Performance Units as Performance-Based Awards, it may also condition the settlement thereof upon the attainment of Performance Goals. Regardless of whether Performance Units are Qualified Performance-Based Awards, the Committee may also condition the settlement thereof upon the continued service of the participant. The provisions of such Awards (including without limitation any applicable Performance Goals) need not be the same with respect to each recipient. Subject to the provisions of the Plan and the Performance Units Agreement referred to

in Section 8(b)(vi), Performance Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Award Cycle.

(ii) Except to the extent otherwise provided in the applicable Performance Unit Agreement and Sections 8(b)(iii) and 10(a)(iii), upon a participant's Termination of Employment for any reason during the Award Cycle or before any applicable Performance Goals are satisfied, all rights to receive cash or stock in settlement of the Performance Units shall be forfeited by the participant.

(iii) Except to the extent otherwise provided in Section 10(a)(iii), in the event that a participant's employment is terminated (other than for Cause), or in the event a participant retires, the Committee shall have the discretion to waive, in whole or in part, any or all remaining payment limitations (other than, in the case of Performance Units that are Qualified Performance-Based Awards, satisfaction of the applicable Performance Goals unless the participant's employment is terminated by reason of death or Disability) with respect to any or all of such participant's Performance Units.

(iv) A participant may elect to further defer receipt of cash or shares in settlement of Performance Units for a specified period or until a specified event, subject in each case to the Committee's approval and to such terms as are determined by the Committee (the "Elective Deferral Period"). Subject to any exceptions adopted by the Committee, such election must generally be made prior to commencement of the Award Cycle for the Performance Units in question.

(v) At the expiration of the Award Cycle, the Committee shall evaluate the Company's performance in light of any Performance Goals for such Award, and shall determine the number of Performance Units granted to the participant which have been earned, and the Committee shall then cause to be delivered (A) a number of shares of Common Stock equal to the number of Performance Units determined by the Committee to have been earned, or (B) cash equal to the Fair Market Value of such number of shares of Common Stock to the participant, as the Committee shall elect (subject to any deferral pursuant to Section 8(b)(iv)).

(vi) Each Award shall be confirmed by, and be subject to, the terms of a Performance Unit Agreement.

SECTION 9. STOCK PAYMENTS; DIVIDEND EQUIVALENTS

(a) Stock Payments may be granted under this Plan either alone or in conjunction with any other Award. The number of shares shall be determined by the Committee and may be based upon the Fair Market Value, book value or other measure of the value of Common Stock on the date such Stock Payment is made or on any date thereafter, and subject to such other terms and conditions as the Committee may determine.

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

SECTION 10. CHANGE IN CONTROL PROVISIONS

(a) Impact of Event. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:

(i) Any Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant.

(ii) The restrictions and deferral limitations applicable to any Restricted Stock shall lapse, and such Restricted Stock shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant.

(iii) All Performance Units shall be considered to be earned and payable in full, and any deferral or other restriction shall lapse and such Performance Units shall be settled in cash as promptly as is practicable.

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

(b) Definition of Change in Control. For purposes of the Plan, a "Change in Control" shall mean the happening of any of the following events:

(i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 9(b); or

(ii) A change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 9(b), that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(iii) The approval by the shareholders of the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction") or, if consummation of such Corporate Transaction is subject, at the time of such approval by shareholders, to the consent of any government or governmental agency, obtaining of such consent (either explicitly or implicitly by consummation); excluding however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

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

(c) Change in Control Price. For purposes of the Plan, "Change in Control Price" means the higher of

(i) the highest reported sales price, regular way, of a share of Common Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on NASDAQ during the 60-day period prior to and including the date of a Change in Control, or

(ii) if the Change in Control is the result of a tender or exchange offer or a Corporate Transaction, the highest price per share of Common Stock paid in such tender or exchange offer or Corporate Transaction. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other noncash consideration, the value of such securities or other noncash consideration shall be determined in the sole discretion of the Board.

SECTION 11. TERM, AMENDMENT AND TERMINATION

The Plan will continue in existence until it is terminated by the Board. Under the Plan, Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would impair the rights of an Optionee under a Stock Option or a recipient of a Stock Appreciation Right, Restricted Stock Award or Performance Unit Award theretofore granted without the Optionee's or recipient's consent, except such an amendment made to cause the Plan to qualify for any exemption provided by Rule 16b-3. In addition, no such amendment shall be made without the approval of the Company's shareholders to the extent such approval is required by law, rule or agreement.

The Committee may amend the terms of any Stock Option or other Award theretofore granted, prospectively or retroactively, but no such amendment shall cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption or impair the rights of any holder without the holder's consent except such an amendment made to cause the Plan or Award to qualify for any exemption provided by Rule 16b-3.

Subject to the above provisions, the Board shall have authority to amend the Plan to take into account changes in law and tax and accounting rules as well as other developments, and to grant Awards which qualify for beneficial treatment under such rules without stockholder approval.

SECTION 12. UNFUNDED STATUS OF PLAN

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

SECTION 13. GENERAL PROVISIONS

(a) The Committee may require each person purchasing or receiving shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for shares of Common Stock under the Plan prior to fulfillment of all of the following conditions:

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

(2) Any registration or other qualification of such shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and

(3) Obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(b) Nothing contained in the Plan shall prevent the Company or any subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.

(c) Adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Affiliate to terminate the employment of any employee at any time.

(d) No later than the date as of which an amount first becomes includible in the gross income of the participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

(e) Reinvestment of dividends in additional Restricted Stock at the time of any dividend payment shall only be permissible if sufficient shares of Common Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options and other Awards).

(f) The Committee shall establish such procedures as it deems appropriate for a participant to designate a beneficiary to whom any amounts payable in the event of the participant's death are to be paid or by whom any rights of the participant, after the participant's death, may be exercised.

(g) In the case of a grant of an Award to any employee of a an Affiliate of the Company, the Company may, if the Committee so directs, issue or transfer the shares of Common Stock, if any, covered by the Award to the Affiliate, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Affiliate will transfer the shares of Common Stock to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan.

(h) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

(i) At the time an Award is made hereunder or at any time thereafter, the Committee may grant to the participant receiving such Award the right to receive a cash payment in an amount specified by the Committee, to be paid at such time or times (if ever) as the Award results in compensation income to the participant, for the purpose of assisting the participant to pay the resulting taxes, all as determined by the Committee and on such other terms and conditions as the Committee shall determine.

(j) The Committee may, in its discretion, extend one or more loans to participants in connection with the exercise or vesting of, or receipt of payments or other property pursuant to, Awards under this Plan, on such terms and conditions as the Committee shall determine.

SECTION 14. DIRECTOR STOCK OPTIONS

(a) After all of the available shares in the Company's 1988 Stock Option Plan for Non-Employee Directors have been exhausted, each director of the Company who is not otherwise an employee of the Company or an Affiliate, shall, on the first Tuesday following his or her first election as a director of the Company, be granted a Stock Option for 5,000 shares, and thereafter on the day of the regular meeting of the Board when employee directors and other Company employees receive annual stock option grants, each non-employee director shall automatically receive a Stock Option for 2,000 shares. Each such Stock Option shall have an exercise price equal to Fair Market Value of the Common Stock at the date of grant of such Stock Option.

(b) An automatic director Stock Option shall be granted hereunder only if as of each date of grant the director (i) is not otherwise an employee of the Company or an Affiliate, and (ii) has served on the Board continuously since the commencement of his term.

(c) Each holder of a Stock Option granted pursuant to this Section 14 shall also have the rights specified in Section 5(k).

(d) In the event that the number of shares of Common Stock available for future grant under the Plan is insufficient to make all automatic grants required to be made on such date, then all non-employee directors entitled to a grant on such date shall share ratably in the number of options on shares available for grant under the Plan.

(e) Except as expressly provided in this Section 14, any Stock Option granted hereunder shall be subject to the terms and conditions of the Plan as if the grant were made pursuant to Section 5 hereof.

SECTION 15. EFFECTIVE DATE OF PLAN

The Plan shall be effective as of December 5, 1996. The Plan is amended and restated as of December 5, 2002.

AVERY DENNISON CORPORATION
1996 STOCK INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated _____, 2002, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee" or "Optionee."

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Avery Dennison Corporation 1996 Stock Incentive Plan.

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

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

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

ARTICLE I - DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary. Terms not defined herein shall have the meaning specified in the Plan, unless the context clearly indicates to the contrary.

1.1 Beneficiary

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

1.2 Change of Control

"Change of Control" shall have the meaning as set forth in the Plan.

1.3 Option

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

1.4 Plan

The "Plan" shall mean the Avery Dennison Corporation 1996 Stock Incentive Plan.

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* Refer to the attached Notice.

1.5 Pronouns

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

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

1.7 Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

"Termination of Employment" means the termination of the participant's employment with the Company or an Affiliate. A participant employed by an Affiliate shall also be deemed to incur a Termination of Employment if the Affiliate ceases to be a subsidiary, as the case may be, and the participant does not immediately thereafter become an employee of the Company or an Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and Affiliates shall not be considered Terminations of Employment. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be _____ dollars (\$_____) per share without commission or other charge.

2.3 Consideration to Company

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

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* Refer to the attached Notice.

Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

Such early or accelerated vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the sixty-seventh (67%) percentile of the return on total capital for the peer group companies (as listed in the Company's proxy statement) for such third year (the performance test). (For example, the performance test for accelerated vesting for options granted in December 2002 will be based on the return on total capital for 2005).

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

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

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

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

(b) No portion of the Option which is an unexercisable installment under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee in accordance with the terms of the Plan.

(c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

(b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.

(c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitation of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.

(d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his office of all of the following:

(a) A written exercise notice, complying with the applicable rules established by the Committee, stating that the Option or portion is thereby exercised. The notice shall be signed by the Employee or the other person then entitled to exercise the Option; and

(b) Full payment for the shares with respect to which the Option or portion thereof is exercised.

Payment may be made by any one of the following methods:

(i) in cash (or by certified or bank cashier's check), or

(ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the Option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the Option or portion thereof is exercised; or

(iii) by a combination of cash and surrender of stock in the manner herein specified; or

(iv) irrevocable instructions to a broker, acceptable to the Company, to delivery promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or

(v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and

(c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise, which payment may be made in cash (or by certified or bank cashier's check) or by actual or constructive delivery and surrender to the Company in accordance with procedures established by the Company, of Company Common Stock then owned by the Employee with a Fair Market Value on the date the Option is exercised equal to the total of such taxes due in connection with the exercise, or by a combination of cash and surrender of stock in the manner herein specified (provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

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

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable, either in the form of Common Stock certificates or as evidenced in a book-entry system (such as in a direct registration system), upon the exercise of the Option, or any part thereof, may be previously authorized but unissued shares, issued shares which have then been reacquired by the Company, or shares held by a grantor trust (such as the Employee Stock Benefit Trust). Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates, or to provide instructions for book entries, for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

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

(b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable;

(d) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience; and

(e) Subject to the terms of the Plan, the receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

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

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

The Committee shall have the power to interpret the terms and provisions of the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, alter or repeal any such rules.

5.3 Transferability

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

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section. Any notice shall have been deemed duly given when hand delivered to the Secretary (or his designate), faxed with a receipt of confirmed delivery, given to a major courier service, such as DHL or Federal Express, or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained

by the United States Postal Service.

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

by: Chairman & Chief Executive Officer*

by: Secretary*

by: Optionee*

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* Refer to the attached Notice.

AVERY DENNISON CORPORATION

1996 STOCK INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated _____, 2002, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee" or "Optionee."

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Avery Dennison Corporation 1996 Stock Incentive Plan.

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

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

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

ARTICLE I - DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary. Terms not defined herein shall have the meaning specified in the Plan, unless the context clearly indicates to the contrary.

1.1 Beneficiary

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

1.2 Change of Control

"Change of Control" shall have the meaning as set forth in the Plan.

1.3 Option

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

1.4 Plan

The "Plan" shall mean the Avery Dennison Corporation 1996 Stock Incentive Plan.

1.5 Pronouns

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

* Refer to the attached Notice

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

1.7 Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

"Termination of Employment" means the termination of the participant's employment with the Company or an Affiliate. A participant employed by an Affiliate shall also be deemed to incur a Termination of Employment if the Affiliate ceases to be a subsidiary, as the case may be, and the participant does not immediately thereafter become an employee of the Company or an Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and Affiliates shall not be considered Terminations of Employment. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be _____ dollars (\$_____) per share without commission or other charge.

2.3 Consideration to Company

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

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

* Refer to the attached Notice

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

Such early or accelerated vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the sixty-seventh (67%) percentile of the return on total capital for the peer group companies (as listed in the Company's proxy statement) for such third year (the performance test). (For example, the performance test for accelerated vesting for options granted in December 2002 will be based on the return on total capital for 2005).

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

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

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

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

(b) No portion of the Option which is an unexercisable installment under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee in accordance with the terms of the Plan.

(c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option -----

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

3.3 Exercise of Option after Termination of Employment -----

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

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

(b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c) (3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.

(c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitation of Subsection 3.1(b), to the full term of the Option, but not later than the Option's Expiration Date.

(d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his office of all of the following:

(a) A written exercise notice, complying with the applicable rules established by the Committee, stating that the Option or portion is thereby exercised. The notice shall be signed by the Employee or the other person then entitled to exercise the Option; and

(b) Full payment for the shares with respect to which the Option or portion thereof is exercised. Payment may be made by any one of the following methods:

(i) in cash (or by certified or bank cashier's check), or

(ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the Option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the Option or portion thereof is exercised; or

(iii) by a combination of cash and surrender of stock in the manner herein specified; or

(iv) irrevocable instructions to a broker, acceptable to the Company, to delivery promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or

(v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and

(c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise, which payment may be made in cash (or by certified or bank cashier's check) or by actual or constructive delivery and surrender to the Company in accordance with procedures established by the Company, of Company Common Stock then owned by the Employee with a Fair Market Value on the date the Option is exercised equal to the total of such taxes due in connection with the exercise, or by a combination of cash and surrender of stock in the manner herein specified (provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

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

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable, either in the form of Common Stock certificates or as evidenced in a book-entry system (such as in a direct registration system), upon the exercise of the Option, or any part thereof, may be previously authorized but unissued shares, issued shares which have then been reacquired by the Company, or shares held by a grantor trust (such as the Employee Stock Benefit Trust). Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates, or to provide instructions for book entries, for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

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

(b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable;

(d) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience; and

(e) Subject to the terms of the Plan, the receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

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

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

The Committee shall have the power to interpret the terms and provisions of the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, alter or repeal any such rules.

5.3 Transferability

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

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section. Any notice shall have been deemed duly given when hand delivered to the Secretary (or his designate), faxed with a receipt of confirmed delivery, given to a major courier service, such as DHL or Federal Express, or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

by: Chairman & Chief Executive Officer*

by: Secretary*

by: Optionee*

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* Refer to the attached Notice

AVERY DENNISON CORPORATION
 BENEFIT RESTORATION PLAN
 amended and restated

Avery Dennison Corporation, a Delaware corporation, adopted the Benefit Restoration Plan of Avery Dennison Corporation (the "Plan"), effective as of December 1, 1994 (the "Effective Date"), for the benefit of its eligible Employees. The Plan is amended and restated effective as of June 1, 2001.

The Plan constitutes an unfunded "excess benefit plan" within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan is maintained primarily for the purpose of providing deferred Compensation for a select group of management or highly compensated employees, within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1).

ARTICLE I - DEFINITIONS

Whenever the following terms are used in the Plan with the first letter capitalized, they shall have the meaning specified below unless the context clearly indicates to the contrary.

"Actuarial Equivalent" shall mean the equivalent of a given Benefit or a given amount payable in another manner or by other means, determined by or under the direction of the Administrator in accordance with actuarial principles, methods and assumptions which are found to be appropriate by the Enrolled Actuary, acting independently of the Administrator or the Company and in the exercise of his sole professional judgment. Such principles, methods and assumptions, however, shall be reasonable in the aggregate and shall constitute the Enrolled Actuary's best estimate of anticipated experience under the Plan. Such assumptions shall include at any time, those assumptions then in effect under the Qualified Plan. For purposes of calculating lump sum amounts under Section 5.2, such assumptions shall be those set forth in Sections 1.2(a)(i)b and 1.2(a)(ii)b of the Qualified Plan (or any successor thereto).

"Administrator" shall mean Avery Dennison Corporation, acting through its Board or its delegates, except that if it appoints a Committee under Section 6.4, the term "Administrator" shall mean the Committee as to those duties, powers and responsibilities specifically conferred upon the Committee. Avery Dennison Corporation shall have all duties and responsibilities imposed by ERISA, except as specifically assigned to, delegated to or reserved to the Board, and the Committee under the Plan

"Associate Plan" shall mean The Associate Retirement Plan for Employees of Avery Dennison Corporation as in effect on or after June 1, 2002 and as set forth in Appendix B to the Dennison Retirement Plan and as may be amended from time to time.

"Beneficiary" shall mean a person or trust properly designated by a Participant or Former Participant in the manner provided in the Qualified Plan.

"Benefit" of a Participant shall mean the benefit payable pursuant to Article IV.

"Board" shall mean the Board of Directors of Avery Dennison Corporation. The Board may delegate any power or duty otherwise allocated to the Administrator to any other person or persons, including a Committee appointed under Section 6.4.

"CEO" shall mean the Chief Executive Officer of Avery Dennison Corporation.

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

"Committee" shall mean the BRP Committee of Avery Dennison Corporation, as appointed pursuant to Section 6.4, if any.

"Company" shall mean Avery Dennison Corporation, any other company which subsequently adopts the Plan as a whole or as to any one or more divisions, in accordance with Section 7.3(b), and any successor company which continues the Plan under Section 7.3(a).

"Company Affiliate" shall mean any employer which, at the time of reference, was, with the Company, a member of a controlled group of corporations or trades or businesses under common control, or a member of an affiliated service group, as determined under regulations issued by the Secretary under Code Sections 414(b), (c), (m) and 415(h) and any other entity required to be aggregated with the Company pursuant to regulations issued under Code Section 414(o).

"Compensation Committee" shall mean the Compensation and Executive Personnel Committee of the Board.

"Effective Date" shall mean the effective date of the Plan, which shall be December 1, 1994.

"Employee" shall mean any person who renders services to the Company in the status of an employee as the term is defined in Code Section 3121(d), excluding: (i) any person retained to render services as an independent contractor; (ii) leased Employees treated as Employees of the Company pursuant to Code Sections 414(n) and 414(o); (iii) employees of a Company Affiliate or (iv) any person whose services with the Company are performed pursuant to a contract or an arrangement that purports to treat the individual as an independent contractor even if such individual is later determined (by judicial action or otherwise) to have been a common law employee of the Company rather than an independent contractor; provided, however, that "Employee" shall also mean any Included Affiliate Employee.

For purposes of this Plan, a United States citizen shall be treated as an employee of the Company if he is employed by a foreign subsidiary of the Company or a Company Affiliate to which there applies an agreement under Section 3121(a) of the Code and if no contributions to a funded plan of deferred compensation (whether or not a plan described in Sections 401(a), 403(a) or 405(a) of the Code) are provided by any other person with respect to the compensation paid to such citizen by the foreign subsidiary, unless otherwise elected by the Vice President, Compensation and Benefits of Avery Dennison Corporation

"Enrolled Actuary" shall mean the person enrolled by the Joint Board for the Enrollment of Actuaries established under subtitle C of title III of ERISA who has been engaged by the Administrator on behalf of all Participants to make and render all necessary actuarial determinations, statements, opinions, assumptions, reports and valuations under the Plan as required by law or requested by the Administrator.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Former Participant" shall mean a Participant who has had a Separation from the Service.

"Included Affiliate Employee" shall mean any person who is employed by a Company Affiliate and would not be an Employee but for the fact that the Vice President, Compensation and Benefits of Avery Dennison Corporation has determined that he be so treated.

"Military Leave" shall mean leave subject to reemployment rights under the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended from time to time. Any Employee who leaves the Company or a Company Affiliate directly to perform service in the Armed Forces of the United States or in the United States Public Health Service under conditions entitling him to such reemployment rights shall, solely for the purposes of the Plan and irrespective of whether he is compensated by the Company or such Company Affiliate during such period of service, be presumed an Employee on Military Leave. An Employee's Military Leave shall expire if such Employee voluntarily resigns from the Company or such Company Affiliate during such period of service, or if he fails to make application for reemployment within the period specified by such laws for the preservation of his reemployment rights. For purposes of computing an Employee's service, no more than 365 days of service shall be credited for any Military Leave except as required by Treas. Reg. Section 1.410(a) - 7(b) (6) (iii).

"Participant" means any person included in the Plan as provided in Article II.

"Plan" shall mean the Benefit Restoration Plan of Avery Dennison Corporation.

"Plan Year" shall be the twelve month period from December 1 through the last day of the following November, including all such years prior to the adoption of the Plan.

"Qualified Benefit" of a Participant for a Plan Year shall mean the benefit calculated pursuant to Article IV of the Qualified Plan (as applicable based upon the circumstances of the Participant's Separation from the Service).

"Qualified Plan" shall mean The Retirement Plan for Employees of Avery Dennison Corporation and/or the Associate Plan, as appropriate for the context in question and as may be amended from time to time except that for purposes of Section 5.1, "Qualified Plan" shall mean The Retirement Plan for Employees of Avery Dennison Corporation unless the Participant in question has never been a participant thereunder, in which case "Qualified Plan" shall mean the Associate Plan.

"Separation from the Service" of an Employee shall mean his resignation from or discharge by the Company or a Company Affiliate, his death, or Early, Normal, Late or Disability Retirement as defined under the Qualified Plan, but not his transfer among the Company and Company Affiliates. A leave of absence or sick leave authorized by the Company or a Company Affiliate in accordance with established policies, a vacation period, a temporary layoff for lack of work or a Military Leave shall not constitute a Separation from the Service; provided, however, that (i) continuation upon a temporary layoff for lack of work for a period in excess of twelve months shall be considered a discharge effective as of the expiration of the twelfth month of such period, and (ii) failure to return to work upon expiration of any leave of absence, sick leave, Military Leave or vacation or within three days after recall from a temporary layoff for lack of work shall be considered a resignation effective as of the date of expiration of such leave of absence, sick leave, Military Leave, vacation, or the expiration of the third day after recall from any such temporary layoff.

"Vested Benefit" of a Participant on a given date shall mean the Benefit provided hereunder if the Participant were to have a Separation from the Service on such date with a "Vested Retirement Benefit" under the Qualified Plan.

ARTICLE II -ELIGIBILITY

SECTION 2.1 - REQUIREMENTS FOR PARTICIPATION

Only those Employees of the Company who satisfy criteria set by the Administrator from time to time, shall be Participants. Such criteria are set forth in Appendix A, which may be updated from time to time without formal amendment of the Plan. Each of the Administrator, the Board, the Compensation Committee, the Committee or the CEO shall have the power to change or revoke such criteria hereunder in its sole discretion on a prospective basis, and any such change or revocation shall be binding and final on all Employees, Beneficiaries and other interested persons.

ARTICLE III - FUNDING OF BENEFITS

SECTION 3.1 - SOURCE OF BENEFITS

The Plan shall be unfunded. All benefits payable under the Plan shall be paid from the Company' general assets, and nothing contained in the Plan shall require the Company to set aside or hold in trust any funds for the benefit of a Participant or his Beneficiary, each of whom shall have the status of a general unsecured creditor with respect to the Company's obligation to make payments under the Plan. Any funds of the Company available to pay benefits under the Plan shall be subject to the claims of general creditors of the Company and may be used for any purpose by the Company.

ARTICLE IV - BENEFITS

SECTION 4.1 - DETERMINATION OF BENEFITS

- (a) Unless otherwise described in Appendix B, a Participant's Benefit shall be the excess of
 - (i) the total, for each Plan Year which commenced on or after the Effective Date and for which the Participant was entitled to accrue a benefit hereunder, of the Qualified Benefit, but
 - a with "Compensation," as defined in the Qualified Plan,
 - 1 determined without reference to the limitations of Code Section 401(a)(17) (\$150,000 annual limit adjusted for increases in the cost of living), and
 - 2 including the Participant's deferrals under the Company's non-qualified deferred compensation program earned on or after the Effective Date, and
 - b without application of the limitation on benefits under Code Section 415, over

- (ii) the total of the actual Qualified Benefits for such years, but not less than zero.

ARTICLE V - PAYMENT OF BENEFITS

SECTION 5.1 - BENEFICIARY; FORM OF BENEFITS

Each Participant shall designate his Beneficiary and elect the form and the timing of his Benefits hereunder in accordance with the procedures set forth in the Qualified Plan; provided, however, that any designations and/or elections made by Participant under Article IV of the Qualified Plan with respect to his "Benefits" thereunder shall be equally applicable to his Benefits under this Plan. The intent of this Section is that each Participant shall make a single set of elections applicable to both the Qualified Plan and this Plan.

SECTION 5.2 - PAYMENT OF BENEFITS

A Participant's Benefits shall be paid in accordance with Section 5.1, except that a Participant will receive his Benefit in an Actuarially Equivalent lump sum if it would otherwise have been paid in the form of an annuity with monthly payments of less than \$300.

SECTION 5.3 - FORFEITURES

If a Participant has a Separation from the Service while all or any portion of his Benefit is not a Vested Benefit, such portion of his Benefit shall immediately be forfeited.

ARTICLE VI - ADMINISTRATIVE PROVISIONS

SECTION 6.1 - ADMINISTRATOR'S DUTIES AND POWERS

- (a) The Administrator shall conduct the general administration of the Plan in accordance with the Plan and shall have all the necessary power and authority to carry out that function. Among its necessary powers and duties are the following:
 - (i) To delegate all or part of its function as Administrator to others and to revoke any such delegation.
 - (ii) To determine questions of vesting of Participants and their entitlement to benefits, subject to the provisions of Section 6.11.
 - (iii) To select and engage attorneys, accountants, actuaries, appraisers, brokers, consultants, administrators, physicians, the Committee under Section 6.4, or other persons to render service or advice with regard to any responsibility the Administrator or the Board has under the Plan, or otherwise, to designate such persons to carry out fiduciary responsibilities under the Plan, and (with the Committee, the Companies, the Board and its officers, and Employees) to rely upon the advice, opinions or valuations of any such persons, to the extent permitted by law, being fully protected in acting or relying thereon in good faith.
 - (iv) To interpret the Plan for purpose of the administration and application of the Plan, in a manner not inconsistent with the Plan or applicable law and to amend or revoke any such interpretation.

(v) To conduct claims procedures as provided in Section 6.11

- (b) Every finding, decision and determination made by the Administrator shall, to the full extent permitted by law, be final and binding upon all parties, except to the extent found by a court of competent jurisdiction to constitute an abuse of discretion.

SECTION 6.2 - LIMITATIONS UPON POWER

The Plan shall be uniformly and consistently administered, interpreted and applied with regard to all Participants in similar circumstances. The Plan shall be administered, interpreted and applied fairly and equitably and accordance with the specified purposes of the Plan.

SECTION 6.3 - FINAL EFFECT OF ADMINISTRATOR ACTION

Except as provided in Section 6.11, all actions taken and all determinations made by the Administrator in good faith shall be final and binding upon all Participants and any person interested in the Plan.

SECTION 6.4 - COMMITTEE

The Administrator may, but need not, appoint a BRP Committee consisting of three or more members to hold office during the pleasure of the Administrator. The Committee shall have such powers and duties as are delegated to it by the Administrator. Committee members shall not receive payment for their services as such.

SECTION 6.5 - RESIGNATION

A Committee member may resign at any time by delivering written notice to the Administrator.

SECTION 6.6 - VACANCIES

Vacancies in the Committee shall be filled by the Administrator.

SECTION 6.7 - MAJORITY RULE

The Committee shall act by a majority of its members in office; provided, however, that the Committee may appoint one of its members or a delegate to act on behalf of the Committee on matters arising in the ordinary course of administration of the Plan, or on specific matters.

SECTION 6.8 - INDEMNIFICATION BY THE COMPANY; LIABILITY INSURANCE

- (a) The Company shall pay or reimburse any of the Company's officers, directors, Committee members or Employees who are fiduciaries with respect to the Plan for all expenses incurred by such persons in, and shall indemnify and hold them harmless from, all claims, liability and costs (including reasonable attorneys' fees) arising out of the good faith performance of their fiduciary functions.
- (b) The Company may obtain and provide for any such person, at the Company's expense, liability insurance against liabilities imposed on him by law.

SECTION 6.9 - RECORDKEEPING

(a) The Administrator shall maintain suitable records as follows:

(i) Records of each Participant's individual Benefit.

(ii) Records which show the operations of the Plan during each Plan Year.

(iii) Records of the Administrator's deliberations and decisions.

(b) The Administrator shall appoint a secretary, and at its discretion, an assistant secretary, to keep the record of proceedings, to transmit its decisions, instructions, consents or directions to any interested party, to execute and file, on behalf of the Committee, such documents, reports or other matters as may be necessary or appropriate to perform ministerial acts.

(c) The Administrator shall not be required to maintain any records or accounts, which duplicate any records or accounts maintained by the Company.

SECTION 6.10 - INSPECTION OF RECORDS

Copies of the Plan and records of a Participant's Benefit shall be open to inspection by him or his duly authorized representatives at the office of the Administrator at any reasonable business hour.

SECTION 6.11 - CLAIMS PROCEDURE

The claims procedures hereunder shall be in accordance with the claims procedures set forth in the Qualified Plan; provided that for purposes of the claims procedure under this Plan, the review official described in the Qualified Plan shall be the President of the Company.

SECTION 6.12 - CONFLICTING CLAIMS

The procedures for the resolution of conflicting claims by the Committee shall be in accordance with the procedures set forth in the applicable section of the Qualified Plan.

SECTION 6.13 - SERVICE OF PROCESS

The Secretary of the Avery Dennison Corporation is hereby designated as agent of the Plan for the service of legal process.

ARTICLE VII - MISCELLANEOUS PROVISIONS

SECTION 7.1 - AMENDMENT, TERMINATION OR SUSPENSION OF THE PLAN

(a) The Plan may be amended or terminated by the Board or the Compensation Committee at any time; the CEO may amend the Plan at any time. Such amendment or termination may modify or eliminate any benefit hereunder other than a benefit or a portion of a benefit that is a Vested Benefit.

- (b) If the Board determines that payments under the Plan would have a material adverse effect on the Company's ability to carry on its business, the Board may suspend such payments temporarily for such time as in its sole discretion it deems advisable, but in no event for a period in excess of one year. The Company shall pay such suspended payments immediately upon the expiration of the period of suspension.
- (c) The Plan is intended to provide benefits for a "select group of management or highly compensated employees" within the meaning of Sections 201, 301 and 401 of ERISA, and therefore to be exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Accordingly, the Plan shall terminate and, except for benefits or portions of benefits that have vested (which at the option of the Board, may be accelerated and the balance paid in a single, Actuarial Equivalent lump sum), no further benefits shall be paid hereunder in the event it is determined by a court of competent jurisdiction or by an opinion of the Company's regular outside employee benefits counsel that the Plan constitutes an employee pension benefit plan within the meaning of Section 3(2) of ERISA which is not so exempt.

SECTION 7.2 - LIMITATION ON RIGHTS OF EMPLOYEES

The Plan is strictly a voluntary undertaking on the part of the Company and shall not constitute a contract between the Company and any Employee, or consideration for, or an inducement or condition of, the employment of an Employee. Nothing contained in the Plan shall give any Employee the right to be retained in the service of the Company or to interfere with or restrict the right of the Company, which is hereby expressly reserved, to discharge or retire any Employee, except as provided by law, at any time without notice and with or without cause. Inclusion under the Plan will not give any Employee any right or claim to any benefit hereunder except to the extent such right has specifically become fixed under the terms of the Plan and there are funds available therefor in the hands of the Company. The doctrine of substantial performance shall have no application to Employees, Participants or any other persons entitled to payments under the Plan. Each condition and provision, including numerical items, has been carefully considered and constitutes the minimum limit on performance, which will give rise to the applicable right.

SECTION 7.3 - PLAN BINDING IN EVENT OF CONSOLIDATION OR MERGER; ADOPTION OF PLAN BY OTHER COMPANIES

- (a) In the event of the consolidation or merger of a Company with or into any other corporation, this Plan shall be binding on such new corporation.
- (b) Any Company or Company Affiliate may, with the approval of the Board, the Compensation Committee or the CEO, adopt the Plan as a whole company or as to any one or more divisions by resolution of its own board of directors or agreement of its partners. Such Company or Company Affiliate shall give written notice of such adoption to the Committee by its duly authorized officers.

SECTION 7.4 - ASSIGNMENTS, ETC. PROHIBITED

Except for the withholding of any tax under the laws of the United States or any state or locality, no part of a Participant's Benefit hereunder shall be liable for the debts, contracts or engagements of any Participant, his Beneficiaries or successors in interest, or be taken in execution by levy, attachment or garnishment or by any other legal or equitable proceeding prior

to distribution, nor shall any such person have any rights to alienate, anticipate, commute, pledge, encumber or assign any Benefits or payments hereunder in any manner whatsoever except to designate a Beneficiary as provided herein.

SECTION 7.5 - ERRORS AND MISSTATEMENTS

In the event of any misstatement or omission of fact by a Participant to the Committee or any clerical error resulting in payment of benefits in an incorrect amount, the Committee shall promptly cause the amount of future payments to be corrected upon discovery of the facts and shall cause the Company to pay the Participant or any other person entitled to payment under the Plan any underpayment in cash in a lump sum or to recoup any overpayment from future payments to the Participant or any other person entitled to payment under the Plan in such amounts as the Committee shall direct or to proceed against the Participant or any other person entitled to payment under the Plan for recovery of any such overpayment.

SECTION 7.6 - PAYMENT ON BEHALF OF MINOR, ETC.

In the event any amount becomes payable under the Plan to a minor or a person who, in the sole judgment of the Committee is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Committee may direct that such payment be made to any person found by the Committee in its sole judgment, to have assumed the care of such minor or other person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Company, the Board, the Committee and their officers, directors and employees.

SECTION 7.7 - GOVERNING LAW

This Plan shall be construed, administered and governed in all respects under and by applicable federal laws and, where, state law is applicable, the laws of the State of California.

SECTION 7.8 - PRONOUNS AND PLURALITY

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

SECTION 7.9 - TITLES

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

SECTION 7.10 - REFERENCES

Unless the context clearly indicates to the contrary, a reference to a statute, regulation or document shall be construed as referring to any subsequently enacted, adopted or executed statute, regulation or document.

APPENDIX A

PARTICIPATION CRITERIA

Participation in the Plan shall be limited to Employees of the Company, selected by the Administrator, who satisfy the following criteria:

1. Employees whose Compensation, as determined under Section 4.1(a)(i) a 1 and 2 of this Plan, exceeds the limitations of Code Section 401(a)(17) (the \$150,000 annual limit adjusted for increases in the cost of living) (\$170,000 for the Plan Year beginning December 1, 2001), and as amended thereafter.
2. Effective December 1, 1998, Employees who participate in the Company's non-qualified deferred compensation program, regardless of whether they satisfy criterion 1. above.
3. Present or former employees of the Company (or any present or former direct or indirect subsidiary) listed on Appendix B.

The criteria in this Appendix may be changed or revoked by the Administrator, the Board, the Compensation Committee, the Committee or the CEO at any time and without formal amendment, as provided under Section 2.1 of the Plan.

APPENDIX B - SPECIAL BENEFIT SCHEDULE

Notwithstanding any provisions of the Plan to the contrary, the following individuals shall receive the following indicated benefits under the Plan:

Recipient	Benefit
----- Nelson Gifford	----- \$3,858.57 per month for life, commencing June 1, 2001

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

	2002	2001
	-----	-----
Earnings		
Income before taxes	\$ 364.8	\$ 359.8
Add: Fixed Charges*	69.3	75.0
Amortization of capitalized interest	2.0	2.0
Less: Capitalized interest	(3.9)	(6.9)
	-----	-----
	\$ 432.2	\$ 429.9
	=====	=====
 *Fixed charges:		
Interest expense	\$ 43.7	\$ 50.2
Capitalized interest	3.9	6.9
Amortization of debt issuance costs	0.7	0.3
Interest portion of leases	21.0	17.6
	-----	-----
	\$ 69.3	\$ 75.0
	=====	=====
 Ratio of Earnings to Fixed Charges	6.2	5.7
	=====	=====

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, "earnings" consist of income before taxes plus fixed charges and amortization of capitalized interest, less capitalized interest. "Fixed charges" consist of interest expense, capitalized interest, amortization of debt issuance costs and the portion of rent expense (estimated to be 35%) on operating leases deemed representative of interest.

AVERY DENNISON CORPORATION

FINANCIAL HIGHLIGHTS

(In millions, except per share amounts)	2002	2001	2000

FOR THE YEAR			
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
Income before taxes	364.8	359.8	426.3
Net income	257.2	243.2	283.5
Net income as a percent of sales	6.1	6.4	7.3
Net income per common share, assuming dilution	\$ 2.59	\$ 2.47	\$ 2.84
Dividends per common share	1.35	1.23	1.11
Capital expenditures	151.8	135.4	198.3
Return on average shareholders' equity (percent)	25.7	27.4	34.6
=====			

EVERY DENNISON CORPORATION

FIVE-YEAR SUMMARY

(In millions, except per share amounts)	Compound	2002/(1)/		2001/(3)/		2000	
	Growth Rate	Dollars	%	Dollars	%	Dollars	%
	5 Year						
FOR THE YEAR							
Net sales	4.7%	\$ 4,206.9	100.0	\$ 3,803.3	100.0	\$ 3,893.5	100.0
Gross profit	4.6	1,353.7	32.2	1,240.2	32.6	1,332.2	34.2
Marketing, general and administrative expense	4.3	913.1	21.7	830.5	21.8	851.3	21.9
Interest expense	6.6	43.7	1.0	50.2	1.3	54.6	1.4
Income before taxes	3.2	364.8	8.7	359.8	9.5	426.3	10.9
Taxes on income	.2	107.6	2.6	116.4	3.1	142.8	3.7
Net income	4.7	257.2	6.1	243.2	6.4	283.5	7.3

(In millions, except per share amounts)	1999/(4)/		1998	
	Dollars	%	Dollars	%
FOR THE YEAR				
Net sales	\$ 3,768.2	100.0	\$ 3,459.9	100.0
Gross profit	1,281.4	34.0	1,144.5	33.1
Marketing, general and administrative expense	842.6	22.4	773.2	22.3
Interest expense	43.4	1.2	34.6	1.0
Income before taxes	330.4	8.8	336.7	9.7
Taxes on income	115.0	3.1	113.4	3.3
Net income	215.4	5.7	223.3	6.5

	2002	2001	2000	1999	1998
PER SHARE INFORMATION					
Net income per common share	5.6%	\$ 2.61	\$ 2.49	\$ 2.88	\$ 2.17
Net income per common share, assuming dilution	6.1	2.59	2.47	2.84	2.13
Dividends per common share	13.4	1.35	1.23	1.11	.99
Average common shares outstanding	(.9)	98.5	97.8	98.3	99.2
Average common shares outstanding, assuming dilution	(1.3)	99.4	98.6	99.8	101.3
Book value at fiscal year end	5.4	\$ 10.64	\$ 9.49	\$ 8.49	\$ 8.20
Market price at fiscal year end	6.2	59.05	56.20	54.88	72.88
Market price range		52.86 to 69.49	44.39 to 60.24	43.31 to 78.00	39.75 to 72.88
					40.88 to 60.75

AT YEAR END					
Working capital	\$ (80.6)	\$ 31.2	\$ 181.7	\$ 105.6	\$ 137.7
Property, plant and equipment, net	1,199.2	1,074.6	1,079.0	1,043.5	1,035.6
Total assets/(2)/	3,652.4	2,909.6	2,766.3	2,647.1	2,187.4
Long-term debt	837.2	626.7	772.9	617.5	465.9
Total debt	1,144.2	849.7	827.2	685.7	537.2
Shareholders' equity	1,056.4	929.4	828.1	809.9	833.3
Number of employees	20,500	17,300	17,900	17,400	16,100

OTHER INFORMATION					
Depreciation expense	\$ 127.1	\$ 124.1	\$ 126.0	\$ 126.5	\$ 114.6
Research and development expense	74.5	69.9	67.8	64.3	65.0
Effective tax rate	29.5%	32.4%	33.5%	34.8%	33.7%
Long-term debt as a percent of total long-term capital	44.2	40.3	48.3	43.3	35.9
Total debt as a percent of total capital	52.0	47.8	50.0	45.8	39.2
Return on average shareholders' equity (percent)	25.7	27.4	34.6	27.1	26.7
Return on average total capital (percent)	15.8	16.2	19.6	17.0	19.0

/(1)/ Results for 2002 include sales of approximately \$270 million from three acquisitions completed during the year. Results for 2002 also include a pretax charge for asset impairments and lease cancellation costs of \$21.4 million as well as a pretax charge of \$10.7 million related to severance.

/(2)/ Certain amounts for prior years were reclassified to conform with the current year presentation.

/(3)/ Results for 2001 include a pretax gain of \$20.2 million for the sale of the Company's specialty coatings business and a pretax cost reduction charge of \$19.9 million.

/(4)/ Results for 1999 include a pretax cost reduction charge of \$65 million.

EVERY DENNISON CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	2002	2001
<hr/>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22.8	\$ 19.1
Trade accounts receivable, less allowances of \$46.1 and \$37.5 for 2002 and 2001, respectively	733.4	579.2
Inventories, net	343.6	267.4
Deferred taxes	25.7	58.8
Other current assets	90.0	65.8
<hr/>		
Total current assets	1,215.5	990.3
Property, plant and equipment, net	1,199.2	1,074.6
Goodwill, net	628.7	293.2
Other intangibles resulting from business acquisitions, net	147.9	120.0
Other assets	461.1	431.5
<hr/>		
	\$ 3,652.4	\$ 2,909.6
<hr/>		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 307.0	\$ 223.0
Accounts payable	441.0	316.4
Accrued payroll and employee benefits	178.7	116.5
Other accrued liabilities	298.5	214.4
Income taxes payable	70.9	88.8
<hr/>		
Total current liabilities	1,296.1	959.1
Long-term debt	837.2	626.7
Long-term retirement benefits and other accrued liabilities	304.2	236.2
Non-current deferred taxes	74.0	83.6
Other long-term obligation	84.5	74.6
Shareholders' equity:		
Common stock, \$1 par value, authorized - 400,000,000 shares at year end 2002 and 2001; issued - 124,126,624 shares at year end 2002 and 2001; outstanding - 99,303,840 shares and 97,882,630 shares at year end 2002 and 2001, respectively	124.1	124.1
Capital in excess of par value	740.2	707.2
Retained earnings	1,664.8	1,556.1
Cost of unallocated ESOP shares	(12.2)	(13.7)
Employee stock trusts, 11,163,451 shares and 12,008,123 shares at year end 2002 and 2001, respectively	(658.7)	(674.5)
Treasury stock at cost, 13,659,333 shares and 14,235,871 shares at year end 2002 and 2001, respectively	(596.9)	(633.4)
Accumulated other comprehensive loss	(204.9)	(136.4)
<hr/>		
Total shareholders' equity	1,056.4	929.4
<hr/>		
	\$ 3,652.4	\$ 2,909.6
<hr/>		

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	2002	2001	2000
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
Cost of products sold	2,853.2	2,563.1	2,561.3
Gross profit	1,353.7	1,240.2	1,332.2
Marketing, general and administrative expense	913.1	830.5	851.3
Interest expense	43.7	50.2	54.6
Other expense (income), net	32.1	(.3)	-
Income before taxes and accounting change	364.8	359.8	426.3
Taxes on income	107.6	116.4	142.8
Income before accounting change	257.2	243.4	283.5
Cumulative effect of accounting change, net of tax	-	(.2)	-
Net income	\$ 257.2	\$ 243.2	\$ 283.5
Per share amounts:			
Net income per common share:			
Before accounting change	\$ 2.61	\$ 2.49	\$ 2.88
Cumulative effect of accounting change	-	-	-
Net income per common share	\$ 2.61	\$ 2.49	\$ 2.88
Net income per common share, assuming dilution:			
Before accounting change	\$ 2.59	\$ 2.47	\$ 2.84
Cumulative effect of accounting change	-	-	-
Net income per common share, assuming dilution	\$ 2.59	\$ 2.47	\$ 2.84
Dividends	\$ 1.35	\$ 1.23	\$ 1.11
Average shares outstanding:			
Common shares	98.5	97.8	98.3
Common shares, assuming dilution	99.4	98.6	99.8
Common shares outstanding at year end	99.3	97.9	97.5

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in millions)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares
Fiscal year ended 1999	\$ 124.1	\$ 962.3	\$ 1,288.5	\$ (16.8)
Comprehensive income:				
Net income			283.5	
Foreign currency translation adjustment				
Total comprehensive income				
Repurchase of 2.4 million shares for treasury				
Stock issued under option plans, net of \$36.3 of tax and dividends paid on stock held in stock trusts		(28.9)		
Dividends: \$1.11 per share			(123.7)	
ESOP transactions, net				1.5
Employee stock benefit trust market value adjustment		(241.4)		
Fiscal year ended 2000	124.1	692.0	1,448.3	(15.3)
Comprehensive income:				
Net income			243.2	
Other comprehensive loss:				
Foreign currency translation adjustment				
Minimum pension liability adjustment				
Effective portion of gains or losses on cash flow hedges				
Other comprehensive loss				
Total comprehensive income				
Repurchase of .4 million shares for treasury, net of shares issued				
Stock issued under option plans, net of \$22.3 of tax and dividends paid on stock held in stock trusts		.2		
Dividends: \$1.23 per share			(135.4)	
ESOP transactions, net				1.6
Employee stock benefit trust market value adjustment		15.0		
Fiscal year ended 2001	124.1	707.2	1,556.1	(13.7)
Comprehensive income:				
Net income			257.2	
Other comprehensive loss:				
Foreign currency translation adjustment				
Minimum pension liability adjustment				
Effective portion of gains or losses on cash flow hedges				
Other comprehensive loss				
Total comprehensive income				
Treasury stock issued of .7 million shares for L&E acquisition				
Repurchase of .2 million shares for treasury, net of shares issued				
Stock issued under option plans, net of \$26.5 of tax and dividends paid on stock held in stock trusts		(3.5)		
Dividends: \$1.35 per share			(148.5)	
ESOP transactions, net				1.5
Employee stock benefit trust market value adjustment		36.5		
Fiscal year ended 2002	\$ 124.1	\$ 740.2	\$ 1,664.8	\$ (12.2)

(Dollars in millions)	Employee stock trusts	Treasury stock	Accumulated other comprehensive income (loss)	Total
Fiscal year ended 1999	\$ (1,014.0)	\$ (481.3)	\$ (52.9)	\$ 809.9
Comprehensive income:				
Net income				283.5
Foreign currency translation adjustment			(52.5)	(52.5)
Total comprehensive income				231.0
Repurchase of 2.4 million shares for treasury		(134.4)		(134.4)
Stock issued under option plans, net of \$36.3 of tax and dividends paid on stock held in stock trusts	72.7			43.8
Dividends: \$1.11 per share				(123.7)
ESOP transactions, net				1.5
Employee stock benefit trust market value adjustment	241.4			-
Fiscal year ended 2000	(699.9)	(615.7)	(105.4)	828.1
Comprehensive income:				
Net income				243.2

Other comprehensive loss:				
Foreign currency translation adjustment		(17.7)		(17.7)
Minimum pension liability adjustment		(14.3)		(14.3)
Effective portion of gains or losses on cash flow hedges		1.0		1.0

Other comprehensive loss		(31.0)		(31.0)

Total comprehensive income				212.2
Repurchase of .4 million shares for treasury, net of shares issued	(17.7)			(17.7)
Stock issued under option plans, net of \$22.3 of tax and dividends paid on stock held in stock trusts	40.4			40.6
Dividends: \$1.23 per share				(135.4)
ESOP transactions, net				1.6
Employee stock benefit trust market value adjustment	(15.0)			-

Fiscal year ended 2001	(674.5)	(633.4)	(136.4)	929.4
Comprehensive income:				
Net income				257.2
Other comprehensive loss:				
Foreign currency translation adjustment		11.7		11.7
Minimum pension liability adjustment		(53.9)		(53.9)
Effective portion of gains or losses on cash flow hedges		(26.3)		(26.3)

Other comprehensive loss		(68.5)		(68.5)

Total comprehensive income				188.7
Treasury stock issued of .7 million shares for L&E acquisition	46.9			46.9
Repurchase of .2 million shares for treasury, net of shares issued	(10.4)			(10.4)
Stock issued under option plans, net of \$26.5 of tax and dividends paid on stock held in stock trusts	52.3			48.8
Dividends: \$1.35 per share				(148.5)
ESOP transactions, net				1.5
Employee stock benefit trust market value adjustment	(36.5)			-

Fiscal year ended 2002	\$ (658.7)	\$ (596.9)	\$ (204.9)	\$ 1,056.4
				=====

See Notes to Consolidated Financial Statements

EVERY DENNISON CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2002	2001	2000
OPERATING ACTIVITIES			
Net income	\$ 257.2	\$ 243.2	\$ 283.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	127.1	124.1	126.0
Amortization	25.7	31.9	30.9
Deferred taxes	22.2	3.0	11.8
Asset impairment and net (gain) or loss on sale of assets of \$3.2 in 2002 and \$ (20.2) in 2001	20.7	(0.3)	-
Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures:			
Trade accounts receivable	(41.1)	7.8	(37.0)
Inventories	(16.7)	1.9	8.8
Other current assets	1.3	(4.4)	(8.4)
Accounts payable and accrued liabilities	142.9	(58.3)	(4.3)
Taxes on income	6.2	27.4	6.5
Long-term retirement benefits and other accrued liabilities	(22.7)	(.8)	(7.9)
Net cash provided by operating activities	522.8	375.5	409.9
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(151.8)	(135.4)	(198.3)
Purchase of software	(20.1)	(50.3)	(35.0)
Payments for acquisitions	(397.4)	(63.9)	(75.3)
Proceeds from sale of assets	10.7	33.7	10.6
Other	(16.8)	(52.4)	(17.5)
Net cash used in investing activities	(575.4)	(268.3)	(315.5)
FINANCING ACTIVITIES			
Additional borrowings	697.0	364.8	373.8
Payments of debt	(520.2)	(343.5)	(228.3)
Dividends paid	(148.5)	(135.4)	(123.7)
Purchase of treasury stock	(10.4)	(17.9)	(134.4)
Proceeds from exercise of stock options, net	22.1	17.4	19.7
Other	17.0	15.5	3.9
Net cash provided by (used in) financing activities	57.0	(99.1)	(89.0)
Effect of foreign currency translation on cash balances	(0.7)	(.4)	(.9)
Increase in cash and cash equivalents	3.7	7.7	4.5
Cash and cash equivalents, beginning of year	19.1	11.4	6.9
Cash and cash equivalents, end of year	\$ 22.8	\$ 19.1	\$ 11.4

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 adhesives and materials, and consumer and converted products. The Company's major markets are in office products, data processing, health care, retail, transportation, industrial and durable goods, food and apparel. The Pressure-sensitive Adhesives and Materials segment contributes approximately 60 percent of the Company's total sales while the Consumer and Converted Products segment contributes approximately 40 percent of the Company's total sales. Sales are generated primarily in the United States and continental Europe.

PRINCIPLES OF CONSOLIDATION

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

FISCAL YEAR

The Company's 2002, 2001 and 2000 fiscal years reflected 52-week periods ending December 28, 2002, December 29, 2001, and December 30, 2000, 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 generally accepted accounting principles 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 revenues and expenses. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

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

(In millions)	2002	2001	2000
Interest, net of capitalized amounts	\$ 44.4	\$ 50.0	\$ 54.8
Income taxes, net of refunds	91.6	95.1	142.8

In 2002, non-cash activities included the issuance of approximately \$47 million in Avery Dennison common shares for the L&E acquisition and the assumption of approximately \$100 million in debt from the Jackstadt acquisition. Refer to Note 2 "Acquisitions" for further detail. In 2001, non-cash activities included the receipt of \$16.7 million in notes and receivables related to the sale of assets and the sale of the Company's specialty coatings business.

INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using methods that approximate both the first-in, first-out (FIFO) and last-in, first-out (LIFO) methods. Inventories valued using the LIFO method comprised 34 percent and 39 percent of inventories before LIFO adjustment at year end 2002 and 2001, respectively. Inventories at year end were as follows:

(In millions)	2002	2001
Raw materials	\$ 101.9	\$ 82.9
Work-in-progress	81.5	67.6
Finished goods	176.9	134.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	360.3	285.1
Less LIFO adjustment	(16.7)	(17.7)
	\$ 343.6	\$ 267.4

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

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

(In millions)	2002	2001
Land	\$ 54.9	\$ 45.7
Buildings and improvements	537.9	469.4
Machinery and equipment	1,574.8	1,457.6
Construction-in-progress	122.8	84.8
	2,290.4	2,057.5
Accumulated depreciation	(1,091.2)	(982.9)
	\$ 1,199.2	\$ 1,074.6

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

SOFTWARE

The Company capitalizes software costs in accordance with American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and are included in "Other assets" in the Consolidated Balance Sheet. Capitalized software is amortized on a straight-line basis over the estimated useful life of the software, not to exceed ten years. Capitalized software costs were as follows:

(In millions)	2002	2001
Cost	\$ 176.4	\$ 158.0
Accumulated amortization	(63.0)	(55.5)
	\$ 113.4	\$ 102.5

GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

The Company adopted all provisions of Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," at the beginning of fiscal 2002. However, because certain provisions of the Statement apply to business combinations initiated after June 30, 2001, the Company adopted those provisions as of the beginning of the third quarter of 2001. For business combinations accounted for using the purchase method before July 1, 2001, the provisions of the Statement were effective at the beginning of fiscal 2002. All business combinations are accounted for by the purchase method, and the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired is considered goodwill. As a result, the Company discloses goodwill separately from other intangible assets and, as of the beginning of fiscal 2002, recorded no amortization on goodwill. Other acquisition intangibles are identified using the criteria included in this Statement, including trademarks and tradenames, patented and other acquired technology, customer relationships and other intangibles.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," at the beginning of fiscal 2002. As required, the Company identified its reporting units and the amounts of goodwill, other intangible assets, and other assets and liabilities allocated to those reporting units. This Statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that (i) goodwill and indefinite-lived intangible assets will no longer be amortized, (ii) impairment will be measured using various valuation techniques based on discounted cash flows, (iii) goodwill will be tested for impairment at least annually at the reporting unit level, (iv) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (v) intangible assets with finite lives will be amortized over their useful lives.

SFAS No. 142 requires that goodwill be tested for impairment upon adoption of the Statement, as well as annually thereafter. The Company completed its transitional goodwill impairment test during the first quarter of 2002 and had no impairment losses. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with indefinite lives. See Note 3 "Goodwill and Other Intangibles Resulting from Business Acquisitions" for more information.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCY TRANSLATION

All asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenue, costs and expenses are translated at the weighted-average currency rate, which prevailed during the fiscal year. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2002, 2001 and 2000. Gains and losses resulting from foreign currency transactions are included in income currently, except for gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements which are recorded directly to a component of other comprehensive loss.

Transaction and translation losses decreased net income in 2002, 2001 and 2000 by \$3.5 million, \$2.7 million and \$3 million, respectively.

FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in foreign currencies. The Company also enters into interest rate contracts to manage its exposure to interest rate fluctuations.

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 hold or purchase any foreign currency or interest rate 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 loss, and the ineffective portion is reported currently in earnings. Amounts in accumulated other comprehensive loss are reclassified into earnings in the same period during which the hedged forecasted transaction is consummated. In the event the anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the instrument in earnings currently. Changes in fair value hedges are recognized currently in earnings. Changes in the fair values of underlying hedged items (such as unrecognized firm commitments) are also recognized currently in earnings and offset the changes in the fair value of the derivative.

REVENUE RECOGNITION

Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales.

SHIPPING AND HANDLING COSTS

Shipping and handling costs, which consist primarily of transportation charges incurred to move finished goods to customers, are included in "Cost of products sold" for the Pressure-sensitive Adhesives and Materials segment and in "Marketing, general and administrative expense" for the Consumer and Converted Products segment. Shipping and handling costs included in "Marketing, general and administrative expense" were \$47.1 million, \$32.2 million and \$32.9 million for 2002, 2001 and 2000, respectively.

ADVERTISING COSTS

Advertising costs included in "Marketing, general and administrative expense" were \$8.3 million, \$6.1 million and \$8.1 million for 2002, 2001 and 2000, respectively.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Research and development expense for 2002, 2001 and 2000 was \$74.5 million, \$69.9 million and \$67.8 million, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and cost per claim to satisfy the Company's warranty obligation. 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)	2002	2001
Balance at beginning of year	\$ 1.3	\$ 1.3
Accruals for warranties issued	1.5	.9
Payments	(1.4)	(.9)
Balance at end of year	\$ 1.4	\$ 1.3

STOCK-BASED COMPENSATION

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

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

(In millions, except per share amounts)	2002	2001	2000
Net income, as reported	\$ 257.2	\$ 243.2	\$ 283.5
Compensation expense, net of tax	(16.5)	(12.6)	(12.4)
Pro forma net income	\$ 240.7	\$ 230.6	\$ 271.1
Earnings per share, as reported	\$ 2.61	\$ 2.49	\$ 2.88
Earnings per share, assuming dilution, as reported	2.59	2.47	2.84
Pro forma earnings per share	\$ 2.44	\$ 2.36	\$ 2.75
Pro forma earnings per share, assuming dilution	2.42	2.34	2.72

ENVIRONMENTAL EXPENDITURES

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

INVESTMENT TAX CREDITS

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

EVERY DENNISON CORPORATION

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET INCOME PER SHARE

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2002	2001	2000
(A) Net income available to common shareholders	\$ 257.2	\$ 243.2	\$ 283.5
(B) Weighted-average number of common shares outstanding	98.5	97.8	98.3
Additional common shares issuable under employee stock options using the treasury stock method	.9	.8	1.5
(C) Weighted-average number of common shares outstanding assuming the exercise of stock options	99.4	98.6	99.8
Net income per common share (A) / (B)	\$ 2.61	\$ 2.49	\$ 2.88
Net income per common share, assuming dilution (A) / (C)	2.59	2.47	2.84

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of antidilutive stock options (which are options that have exercise prices greater than the average market price for the period) excluded from the computation were .2 million, 1.8 million and 1 million for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively.

COMPREHENSIVE INCOME

Comprehensive income for the Company includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability and the effective portion of gains or losses on cash flow hedges which are currently presented as a component of shareholders' equity.

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

(In millions)	2002	2001
Foreign currency translation adjustment	\$ (111.4)	\$ (123.1)
Minimum pension liability	(68.2)	(14.3)
Net (loss) gain on derivative instruments designated as cash flow instruments	(25.3)	1.0
Total accumulated other comprehensive loss	\$ (204.9)	\$ (136.4)

Cash flow hedging instrument activity in other comprehensive income (loss) was as follows:

(In millions)	2002	2001
Beginning accumulated derivative gain	\$ 1.0	-
Net gain reclassified to earnings	(.6)	(\$ (.6))
Net change in the revaluation of hedging transactions	(25.7)	1.6
Ending accumulated derivative (loss) gain	\$ (25.3)	\$ 1.0

The Company entered into a forward starting interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance. The principal amount hedged was \$250 million. Because of a shift in interest rates, an unrealized loss of approximately \$37.4 million (\$26.2 million, net of tax) was included in other comprehensive loss during 2002. In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003 (see Note 4 "Debt" for further detail), the Company settled the interest rate swap at a loss of approximately \$32.5 million. The loss will be amortized to interest expense over 10 years, which corresponds to the term of the related debt.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECENT ACCOUNTING REQUIREMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51." The Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of this Interpretation are effective for all enterprises with variable interests in variable interest entities created after January 31, 2003. The adoption of this Interpretation is not expected to have a significant impact on the Company's financial results.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The provisions of this Statement are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has continued to use the intrinsic value method of accounting for stock-based compensation in 2002 in accordance with APB Opinion No. 25. The Company, however, has adopted the disclosure provisions of SFAS No. 148 as presented in "Stock Based Compensation" in this Note.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation clarifies the requirements for a guarantor's accounting for and disclosures of certain guarantees issued and outstanding. This Interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The disclosure provisions of the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has adopted the disclosure provisions of this Interpretation as disclosed in Notes 1, 4 and 8 of these consolidated financial statements. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company is currently in the process of determining the impact of this Interpretation on the Company's financial results for those provisions effective in 2003.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement will be effective after December 31, 2002. The adoption of SFAS No. 146 will affect the timing of the recognition of future costs associated with exit or disposal activities and will not affect previous charges related to such activities.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of SFAS No. 4 are effective beginning in 2003. All other provisions were effective May 16, 2002. The provisions adopted, effective May 16, 2002, did not have a significant impact on the Company's financial results. The adoption of this Statement for those provisions effective in 2003 is not expected to have a significant impact on the Company's financial results.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement was effective for the Company on December 30, 2001, and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and amends APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This Statement requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used, and (b) measurement of long-lived assets to be disposed of by sale. This Statement also retains APB Opinion No. 30's requirement that companies report discontinued operations separately from continuing operations. For the year ended December 28, 2002, the Company divested operations whose results, including the gain/loss on asset sales, did not have a significant impact on the income statement and were, therefore, not reflected as discontinued operations in the Company's Consolidated Statement of Income.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. All provisions of this Statement will be effective at the beginning of fiscal 2003. The adoption of this Statement is not expected to have a significant impact on the Company's financial results.

The Company is currently reviewing the requirements of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF Issue No. 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The provisions of EITF Issue No. 00-21 will be effective in fiscal periods beginning after June 15, 2003. The Company is in the process of determining the impact of EITF Issue No. 00-21 on the Company's financial results when effective.

RELATED PARTY TRANSACTIONS

From time to time, the Company enters into transactions in the normal course of business with related parties. The Company 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, Mr. Peter W. Mullin, is the chairman and 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. During 2002 and 2001, the Company paid insurance companies premiums for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2002, 2001 and 2000, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.3 million, \$1.7 million, and \$1.6 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$0.9 million in 2002 and \$1 million in each of the years 2001 and 2000. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC), and another affiliate, to administer benefit plans and provide benefit statements to participants under various Company employee benefit plans. None of these transactions are significant to the financial position or results of operations of the Company.

FINANCIAL PRESENTATION

Certain prior year amounts have been reclassified to conform with the 2002 financial statement presentation.

NOTE 2. ACQUISITIONS

On November 5, 2002, the Company acquired 100 percent of RVL Packaging, Inc. ("RVL"), a provider of brand identification products to apparel manufacturers and retailers. RVL designs, markets and distributes woven and printed labels, graphic tags and specialty packaging products. On the same day, the Company also acquired the assets of L&E Packaging ("L&E"), one of RVL's suppliers. L&E offers a broad range of printing products tailored to the specific needs of the apparel and retail industries. Both transactions included the acquisition of certain related entities. The combination of existing data management and ticketing businesses with the operations of RVL and L&E is expected to provide apparel manufacturers and retailers with a comprehensive range of products and services that offer a total solution for their entire supply chain, including a full array of brand identification and data management tools. On a combined basis, unaudited revenues for RVL, L&E and affiliated companies were approximately \$175 million in 2001. The RVL and L&E operations are included in the Company's Consumer and Converted Products segment. RVL and L&E's results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

NOTE 2. ACQUISITIONS (Continued)

The purchase price, net of cash acquired, for these transactions was approximately \$222 million, including cash of approximately \$175 million and approximately \$47 million in Avery Dennison common shares (743,108). The value of these common shares issued was determined based on the average closing market price of the Company's common shares for a three-day period before and after the date the parties agreed to the number of shares to be issued. Funds to complete the acquisitions were also derived from short-term borrowings. The Company assumed liabilities of approximately \$38 million, including accounts payable and other current and long-term liabilities.

The preliminary allocation of the purchase price as of December 28, 2002 has been made and recorded in these financial statements. Although the Company has obtained third-party valuations of acquired assets, ongoing assessments may impact the allocation of the purchase price.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

(In millions)	November 5, 2002	
Current assets, net of cash acquired	\$	41.2
Property, plant, and equipment and other assets		28.8
Intangible assets		19.9
Goodwill		169.8
<hr/>		
Total assets acquired		259.7
Current liabilities		(30.2)
Other long-term liabilities		(8.0)
<hr/>		
Total liabilities assumed		(38.2)
<hr/>		
Net assets acquired	\$	221.5

The excess of the cost-basis over the fair value of net tangible assets acquired is currently estimated to be approximately \$190 million, including goodwill of approximately \$170 million and identified amortizable intangible assets of approximately \$20 million. Of the total goodwill, approximately \$54 million is expected to be deductible for tax purposes. The acquired intangible assets have a weighted-average useful life of sixteen years. These assets include approximately \$16 million for customer relationships (nineteen-year weighted-average useful life), approximately \$2 million for design intellectual property (three-year weighted-average useful life), and approximately \$2 million of other intangibles (six-year weighted-average useful life). Additionally, approximately \$2 million of computer software (three-year weighted-average useful life) is included in "Other assets" in the Consolidated Balance Sheet.

On May 17, 2002, the Company acquired Jackstadt GmbH ("Jackstadt"), a manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstadt has an international customer base and had consolidated revenues of approximately \$400 million in 2001. The Jackstadt business is included in the Company's Pressure-sensitive Adhesives and Materials segment. Jackstadt complements the Company's operations in Europe, Latin America, Asia and North America. Jackstadt enhances the Company's international presence, including its capability to grow in Eastern Europe, and enables it to offer a broader selection of products and services.

The purchase price, net of cash acquired, was approximately \$311 million, which included approximately \$211 million in cash and assumed debt of approximately \$100 million. The purchase price paid at closing was based on financial statement values at a date prior to closing and adjusted based upon a formula in the purchase agreement. The Company assumed liabilities of approximately \$189 million, including the assumed debt, accrued payroll and benefits, accounts payable, other accrued liabilities, long-term retirement benefits and other current and long-term liabilities. The Company funded the transaction with cash and short-term commercial paper. Jackstadt's results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

The preliminary allocation of the purchase price as of December 28, 2002 has been made and recorded in these financial statements. The Company is currently reviewing its plans with regard to facilities rationalization that may require adjustments to estimated amounts recorded for closure of certain facilities and carrying values of acquired assets. Although the Company has obtained third-party valuations of acquired assets, ongoing assessments may impact the allocation of the purchase price.

The Company has determined certain costs related to exit activities and integration costs. These costs have been recognized as liabilities assumed, totaling approximately \$18 million, and are included in the liabilities aforementioned, and in "Accrued payroll and employee benefits" and "Other accrued liabilities" in the Consolidated Balance Sheet. The costs were primarily related to severance costs for involuntary terminations of approximately 500 employees of Jackstadt, to be paid through 2004. Also included are lease exit costs, which are expected to be completed through 2003. At year end 2002, approximately \$12 million remained accrued. Of the total positions under these actions, approximately 225 employees had left the Company at the end of 2002.

NOTE 2. ACQUISITIONS (Continued)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

(In millions)	May 17, 2002	
Current assets, net of cash acquired	\$	155.7
Property, plant, and equipment and other assets		92.6
Intangible assets		11.4
Goodwill		140.7

Total assets acquired		400.4
Current liabilities		(166.5)
Long-term debt and other long-term liabilities		(22.6)

Total liabilities assumed		(189.1)

Net assets acquired	\$	211.3
=====		

The excess of the cost-basis over the fair value of net tangible assets acquired is currently estimated to be approximately \$152 million, including goodwill of approximately \$141 million and identified amortizable intangible assets of approximately \$11 million. No portion of the total goodwill is expected to be deductible for tax purposes. The acquired intangible assets consisting of tradenames have a weighted-average useful life of five years.

In the first quarter of 2001, the Company acquired Dunsirn Industries, Inc. ("Dunsirn"). Dunsirn is a supplier of non-adhesive materials to the narrow-web printing industry, as well as a provider of customized slitting and distribution services for roll pressure-sensitive materials manufacturers. Customized slitting and distribution services refers to the process of cutting bulk rolls of material into sizes requested by customers and then shipping these materials to customers. The Dunsirn operation is included within the Company's Pressure-sensitive Adhesives and Materials segment. Sales in 2000 for Dunsirn were approximately \$68 million, including sales to the Company. The excess of the cost-basis over the fair value of net tangible assets acquired was \$30.8 million, which included identified intangible assets of \$5.5 million.

In the first quarter of 2001, the Company acquired CD Stomper, a product line consisting of CD and DVD labels, software and a label applicator, from Stomp Inc., a software developer and manufacturer based in California. Sales in 2000 for the CD Stomper product line were approximately \$20 million. The CD Stomper product line is included in the Company's Consumer and Converted Products segment. The excess of the cost-basis over the fair value of net tangible assets acquired was \$22.6 million, which included identified intangible assets of \$9.7 million.

In the first quarter of 2000, the Company acquired the Adespan pressure-sensitive materials operation of Panini S.p.A., a European printing and publishing company based in Italy. Adespan had sales of approximately \$75 million in 1999. The Adespan business operates as a division within the Company's Pressure-sensitive Adhesives and Materials segment. The excess of the cost-basis over the fair value of net tangible assets acquired was \$25.4 million, which included identified intangible assets of \$12.4 million.

The aggregate cost of acquired companies was approximately \$546 million, \$66 million and \$76 million in 2002, 2001 and 2000, respectively. Goodwill resulting from these business acquisitions was approximately \$326 million, \$34 million and \$13 million in 2002, 2001 and 2000, respectively. Intangibles resulting from these business acquisitions were approximately \$31 million, \$15 million and \$12 million in 2002, 2001 and 2000, respectively. Other acquisitions during 2002, 2001 and 2000 not described above were not significant to the consolidated position of the Company. In 2002, 2001 and 2000, acquired businesses added approximately seven percent, two percent and three percent, respectively, to the Company's total sales. Pro forma results for significant acquisitions in 2002 are presented below. Pro forma results for acquisitions in 2001 and 2000 are not presented, as the acquired businesses did not have a significant impact on the Company's results of operations for the two years ended December 29, 2001.

The following represents the unaudited pro forma results of operations for the Company as though the acquisitions of Jackstadt, RVL and L&E had occurred at the beginning of the periods presented. The pro forma results include interest expense on additional debt that would have been needed to finance the purchase, amortization of intangibles that would have been acquired, and certain adjustments that would have been required to conform to the Company's accounting policies. The pro forma results of operations have been prepared based on the preliminary allocation of the purchase price and may require adjustment in accordance with the terms of the purchase agreement or 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 acquisitions been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

EVERY DENNISON CORPORATION

NOTE 2. ACQUISITIONS (Continued)

(In millions, except per share amounts)	2002	2001
Net sales	\$ 4,590.0	\$ 4,387.3
Net income	\$ 260.4	\$ 232.1
Net income per common share	\$ 2.64	\$ 2.36
Net income per common share, assuming dilution	2.62	2.34

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Changes in the net carrying amount of goodwill for the year ended December 28, 2002, by reportable segment, are as follows:

(In millions)	Consumer and Converted Products	Pressure-sensitive Adhesives and Materials	Total
Balance as of December 29, 2001	\$ 148.9	\$ 144.3	\$ 293.2
Goodwill acquired during the period	176.2	150.3	326.5
Translation adjustments	11.3	(2.3)	9.0
Balance as of December 28, 2002	\$ 336.4	\$ 292.3	\$ 628.7

Amortization expense on goodwill was \$14.8 million and \$13.2 million for the years ended December 29, 2001 and December 30, 2000, respectively.

The following table sets forth the Company's acquired other intangible assets at December 28, 2002 and December 29, 2001, which will continue to be amortized:

(In millions)	2002			2001		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Tradenames and trademarks	\$ 36.6	\$ 11.4	\$ 25.2	\$ 23.4	\$ 6.8	\$ 16.6
Patented and other acquired technology	65.4	9.2	56.2	63.6	5.8	57.8
Customer relationships	70.1	6.1	64.0	47.6	3.6	44.0
Other intangibles	4.0	1.5	2.5	2.3	.7	1.6
Total	\$ 176.1	\$ 28.2	\$ 147.9	\$ 136.9	\$ 16.9	\$ 120.0

Amortization expense on intangible assets resulting from business acquisitions was \$9.7 million for the year ended December 28, 2002, \$7.3 million for the year ended December 29, 2001 and \$6.3 million for the year ended December 30, 2000. The weighted-average amortization periods for intangible assets resulting from business acquisitions are thirteen years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-two years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for such acquired intangible assets for each of the next five succeeding fiscal years is expected to be approximately \$12 million, \$12 million, \$12 million, \$11 million and \$8 million, respectively.

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NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS
(CONTINUED)

As required by SFAS No. 142, the results for the prior years have not been restated. Had the Company applied the non-amortization provisions related to goodwill under SFAS No. 142 for all periods presented, the Company's net income and earnings per share would have been as follows:

(In millions, except per share amounts)	2002	2001	2000
Reported net income	\$ 257.2	\$ 243.2	\$ 283.5
Goodwill amortization, net of tax	-	13.8	12.9
Adjusted net income	\$ 257.2	\$ 257.0	\$ 296.4
Basic earnings per share:			
As reported	\$ 2.61	\$ 2.49	\$ 2.88
Goodwill amortization	-	.14	.13
Adjusted basic earnings per share	\$ 2.61	\$ 2.63	\$ 3.01
Diluted earnings per share:			
As reported	\$ 2.59	\$ 2.47	\$ 2.84
Goodwill amortization	-	.14	.13
Adjusted diluted earnings per share	\$ 2.59	\$ 2.61	\$ 2.97

NOTE 4. DEBT

Long-term debt and its respective weighted-average interest rates at December 28, 2002 consisted of the following:

(In millions)	2002	2001
Medium-term notes		
Series 1993 at 6.6% - due 2003 through 2005	\$ 98.0	\$ 98.0
Series 1994 at 7.7% - due 2003 through 2004	80.0	100.0
Series 1995 at 7.3% - due 2005 through 2025	100.0	100.0
Series 1997 at 6.6% - due 2007	60.0	60.0
Series 1998 at 5.9% - due 2008	50.0	50.0
Series 2000 at 2.0% - due 2006	-	40.0
Other long-term borrowings	13.5	4.1
Variable rate short-term borrowings at 1.87% to be refinanced on a long-term basis/(1)/	512.2	195.0
Less amount classified as current	(76.5)	(20.4)
	\$ 837.2	\$ 626.7

/(1)/ In January 2003, the Company refinanced \$400 million of its variable rate short-term borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033.

The Company's medium-term notes have maturities from 2003 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2003 through 2007 are \$76.5 million (classified as current), \$86.5 million, \$76.1 million, \$112.6 million and \$60.4 million, respectively, with \$501.6 million maturing thereafter.

The Company's total interest costs in 2002, 2001 and 2000 were \$47.6 million, \$57.1 million and \$59 million, respectively, of which \$3.9 million, \$6.9 million and \$4.4 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

The Company had \$80.5 million of borrowings outstanding under short-term lines of credit with a weighted-average interest rate of 7.7 percent for 2002.

NOTE 4. DEBT (Continued)

Variable rate short-term borrowings at December 28, 2002 were \$512.2 million with a weighted average interest rate of 1.87 percent. In January 2003, the Company refinanced \$400 million of these variable rate short-term borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033. The aggregate \$400 million refinancing was issued under the Company's existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001, permitting the Company to issue up to \$600 million in debt and equity securities. After the issuance of the \$400 million, there is a remaining \$200 million available for general corporate purposes including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital. Remaining variable rate short-term borrowings that the Company does not intend to repay within the next year and had the ability to refinance under its long-term revolving credit agreement, discussed above, are classified as long-term liabilities.

In December 2002, the Company issued \$150 million one-year callable commercial notes at a weighted-average interest rate of 2.5 percent. The issuance replaced the December 2001 issuance of \$150 million of one-year callable commercial notes at a weighted-average interest rate of 2.1 percent.

At December 28, 2002, the Company had additional available short-term lines of credit totaling \$558.1 million. These available lines of credit included a 364-day revolving credit facility with eight domestic and foreign banks to provide up to \$200 million in borrowings through December 5, 2003. The Company may annually extend the revolving period and due date with the approval of the banks or may convert the loan to a one-year term loan at the Company's option. Financing available under this agreement will be used as a commercial paper back-up facility and to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2002. The Company also has a bridge credit agreement with two domestic financial institutions to provide up to \$200 million in borrowings through January 31, 2003. There was no debt outstanding under this agreement as of year end 2002.

The Company also has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2006. The Company may annually extend the revolving period and due date with the approval of the banks. Financing available under this agreement will be used as a commercial paper back-up facility and to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2002.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on consolidated debt and consolidated interest expense in relation to certain measures of income. Under the loan agreements, consolidated debt as a ratio to consolidated earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2002 was 2.0 to 1.0. Consolidated earnings before interest and taxes, as a ratio to consolidated interest may not be less than 3.5 to 1.0. The Company's ratio at year end 2002 was 9.3 to 1.0.

Commitment fees relating to the financing arrangements are not significant. The debt assumed in connection with the acquisition of Jackstadt is securitized by the acquired assets. At December 28, 2002, the total Jackstadt debt balance was approximately \$33.2 million.

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 debts of the same remaining maturities. At year end 2002 and 2001, the fair value of the Company's total debt, including short-term borrowings, was \$1.18 billion and \$857.6 million, respectively.

The Company had standby letters of credit outstanding of \$182.7 million and \$217.9 million at the end of 2002 and 2001, respectively. The aggregate contract amount of all outstanding standby letters of credit approximated fair value.

In addition, the Company had uncommitted lines of credit of approximately \$237.4 million at year end 2002. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

The Company guaranteed \$349.3 million of its foreign subsidiaries' lines of credit and foreign exchange lines, as well as \$15.9 million of its foreign subsidiaries' certain obligations to their suppliers as of December 28, 2002.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Buro-Produkte GmbH, a German office products supplier. The obligation of \$84.5 million is the only amount reported in the "Other long-term obligation" line in the Consolidated Balance Sheet. The obligation is guaranteed by a standby letter of credit and it is the intention of the Company to pay the entire obligation in early 2004.

NOTE 5. FINANCIAL INSTRUMENTS

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, in the first quarter of 2001 and recorded a transition adjustment reducing net income by \$.2 million (net of tax). This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value.

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

During the year ended December 28, 2002, the ineffectiveness related to cash flow hedges was not significant. The reclassification from other comprehensive loss to earnings was a net gain of approximately \$.6 million during 2002 and 2001. A net loss of approximately \$1.1 million is expected to be reclassified from other comprehensive loss to earnings within the next 12 months. The maximum length of time in which the Company hedges its exposure to the variability in future cash flows for forecasted foreign currency transactions is generally 12 months. The Company entered into a forward starting interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance to finance the acquisition of Jackstadt. The principal amount hedged was \$250 million. Because of a shift in interest rates, an unrealized loss of approximately \$37.4 million was included in other comprehensive loss at the end of 2002. In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003, the Company settled the interest rate swap at a loss of approximately \$32.5 million. The loss will be amortized to interest expense over 10 years, which corresponds to the term of the related debt.

A loss of approximately \$2.7 million related to a net investment hedge was included in the foreign currency translation adjustment reported in accumulated other comprehensive loss.

The carrying value of the foreign exchange forward contracts approximated the fair value, which, based on quoted market prices of comparable instruments, was a net asset of approximately \$.5 million and \$1 million at the end of 2002 and 2001, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of approximately \$.1 million and net liability of approximately \$.1 million at the end of 2002 and 2001, respectively. The carrying value of the foreign exchange option contracts approximated the fair market value.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately \$9 million over a five-year period. The carrying value of this contract approximated fair value, which was an asset of approximately \$.5 million and \$.4 million at the end of 2002 and 2001, respectively.

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

At year end 2002 and 2001, approximately 17 percent and 23 percent, respectively, of trade accounts receivable were from nine retail customers of the Company's Office Products business. The Company does not require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis. The Company may be exposed to losses and maintains reserves in the event of nonpayment.

NOTE 6. COMMITMENTS

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

(In millions)

Year	
2003	\$ 41.0
2004	32.8
2005	25.1
2006	15.6
2007	12.1
Thereafter	45.6
Total minimum lease payments	\$ 172.2

AVERY DENNISON CORPORATION

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

Rent expense for 2002, 2001 and 2000 was \$60 million, \$50 million and \$49 million, respectively.

NOTE 7. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2002	2001	2000

Current:			
U.S. federal tax	\$ 43.0	\$ 47.5	\$ 68.6
State taxes	3.3	7.5	12.3
International taxes	39.1	45.5	50.6
	-----	-----	-----
	85.4	100.5	131.5
=====			
Deferred:			
U.S. taxes	11.0	8.5	8.4
International taxes	11.2	7.4	2.9
	-----	-----	-----
	22.2	15.9	11.3

Taxes on income	\$ 107.6	\$ 116.4	\$ 142.8
=====			

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)	2002	2001	2000

Computed tax at 35% of income before taxes	\$ 127.7	\$ 125.9	\$ 149.2
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	3.8	4.9	8.0
Foreign earnings taxed at different rates	(12.1)	(9.1)	(9.7)
Tax credits	(6.9)	(5.6)	(4.2)
Other items, net	(4.9)	.3	(.5)
	-----	-----	-----
Taxes on income	\$ 107.6	\$ 116.4	\$ 142.8
=====			

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

(In millions)	2002	2001	2000

U.S.	\$ 194.4	\$ 182.8	\$ 245.5
International	170.4	177.0	180.8
	-----	-----	-----
	\$ 364.8	\$ 359.8	\$ 426.3
=====			

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries of approximately \$800 million and \$700 million at year ended 2002 and 2001, respectively, because such earnings are considered to be reinvested indefinitely or because U.S. income taxes on dividends would be substantially offset by foreign tax credits.

Operating loss carryforwards of foreign subsidiaries for 2002 and 2001 are \$58.4 million and \$25 million, respectively, and credit carryforwards are \$6.2 million for federal income tax purposes. Net operating losses of \$9.3 million expire from 2003 through 2012, while net operating losses of \$49.1 million can be carried forward indefinitely. The credit carryforwards will expire from 2003 through 2007. The Company has established a valuation allowance for the net operating loss carryforwards not expected to be utilized.

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NOTE 7. TAXES BASED ON INCOME (CONTINUED)

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 which give rise to the Company's deferred tax assets and liabilities were as follows:

(In millions)	2002	2001
Accrued expenses not currently deductible	\$ 33.2	\$ 86.7
Net operating losses and foreign tax credit carryforwards	24.9	13.1
Postretirement and postemployment benefits	46.2	14.1
Pension costs	(13.3)	(18.7)
Depreciation and amortization	(136.7)	(127.6)
Inventory reserves	11.1	14.0
Other	3.9	(2.0)
Valuation allowance	(17.6)	(4.4)
Total net deferred tax liabilities	\$ (48.3)	\$ (24.8)

NOTE 8. CONTINGENCIES

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 eight waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed upon. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum 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 sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company, and based upon current information, management believes that it is unlikely that final resolution of these matters will significantly impact the consolidated financial position and operations of the Company.

The Company participates in an international receivable financing program with a financial institution whereby advances may be requested from the financial institution. All advances are guaranteed by the Company. At December 28, 2002, the Company had guaranteed \$1.8 million.

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. In the opinion of management, the resolution of these matters will not materially affect the Company.

NOTE 9. SHAREHOLDERS' EQUITY

COMMON STOCK AND COMMON STOCK REPURCHASE PROGRAM

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

In December 1997, the Company redeemed the outstanding preferred stock purchase rights and issued new preferred stock purchase rights, declaring a dividend of one such right on each outstanding share of common stock, and since such time, the Company has issued such rights with each share of common stock that has been subsequently issued. When exercisable, each new right will entitle its holder to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of \$150.00 per one one-hundredth of a share until October 31, 2007. The rights will become exercisable if a person acquires 20 percent or more of the Company's common stock or makes an offer, the consummation of which will result in the person's owning 20 percent or more of the Company's common stock. In the event the Company is acquired in a merger, each right entitles the holder to purchase common stock of the acquiring company having a market value of twice the exercise price of the right. If a person or group acquires 20 percent or more of the Company's common stock, each right entitles the holder to purchase the Company's common stock with a market value equal to twice the exercise price of the right. The rights

NOTE 9. SHAREHOLDERS' EQUITY (CONTINUED)

may be redeemed by the Company at a price of one cent per right at any time prior to a person's or group's acquiring 20 percent of the Company's common stock. The 20 percent threshold may be reduced by the Company to as low as 10 percent at any time prior to a person's acquiring a percent of Company stock equal to the lowered threshold.

The Board of Directors has authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At year end 2002, approximately 3.2 million shares were still available for repurchase pursuant to this authorization.

STOCK OPTION AND INCENTIVE PLANS

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

The Company maintains various stock option and incentive plans which are fixed employee stock-based compensation plans. Under the plans, incentive stock options and stock options granted to directors may be granted at not less than 100 percent of the fair market value of the Company's common stock on the date of the grant, whereas nonqualified options granted to employees may be issued at prices no less than par value. The Company has a policy whereby all stock option grants are priced at fair market value on the date of the grant and generally vest ratably over a two-year period for directors, or over a four-year period for employees, except that options may cliff-vest over a 3 to 9.75 year period for certain officers based on the Company's performance. Unexercised options expire ten years from the date of grant. The following table sets forth stock option information relative to these plans (options in thousands):

	2002		2001		2000	
	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options
Outstanding at beginning of year	\$ 46.07	6,843.1	\$ 40.75	6,071.2	\$ 35.49	7,252.1
Granted	62.80	1,384.4	54.72	1,929.6	54.57	744.0
Exercised	33.50	(1,050.1)	27.69	(902.0)	22.34	(1,611.6)
Forfeited or expired	51.88	(235.0)	49.95	(255.7)	46.43	(313.3)
Outstanding at year end	\$ 51.10	6,942.4	\$ 46.07	6,843.1	\$ 40.75	6,071.2
Options exercisable at year end	\$ 41.91	2,939.3	\$ 36.72	3,079.4	\$ 30.90	3,095.2

The following table summarizes information on fixed stock options outstanding at December 28, 2002 (options in thousands):

Range of exercise prices	Options outstanding		Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable
\$ 12.88 to 50.72	2,520.2	5.0 years	\$ 38.37	2,163.4
51.13 to 59.16	2,888.8	8.1 years	56.05	696.0
59.18 to 68.31	1,533.4	9.7 years	62.73	79.9
\$ 12.88 to 68.31	6,942.4	7.3 years	\$ 51.10	2,939.3

NOTE 9. SHAREHOLDERS' EQUITY (Continued)

The weighted-average fair value of options granted during 2002, 2001 and 2000 was \$16.94, \$18.31 and \$22.16, respectively. Option grant date fair values were determined using a Black-Scholes option pricing model. The underlying assumptions used were as follows:

	2002	2001	2000
Risk-free interest rate	4.43%	5.14%	6.10%
Expected stock price volatility	29.06	33.37	34.63
Expected dividend yield	2.14	2.30	1.43
Expected option term	7 years	10 years	10 years

NOTE 10. COMPONENTS OF OTHER INCOME AND EXPENSE

The Company recorded a charge in the fourth quarter of 2002 relating to cost reduction actions. The 2002 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of \$10.7 million, which consisted of employee severance and related costs for approximately 300 positions worldwide. The positions eliminated included approximately 80 employees in the Pressure-sensitive Adhesives and Materials segment and approximately 220 employees in the Consumer and Converted Products segment. Severance and related costs represent cash paid or to be paid to employees terminated under the program. At year end 2002, \$9.8 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits" in the Consolidated Balance Sheet). At the end of 2002, of the approximate 300 positions affected by these actions, approximately 50 employees (10 employees from the Consumer and Converted Products segment and 40 employees from the Pressure-sensitive Adhesives and Materials segment) had left the Company. The Company expects to complete this cost reduction program in 2003.

In the fourth quarter of 2002, the Company recorded a \$6.2 million pretax charge for the disposition of fixed assets (comprised of machinery and equipment) related to a reduction of costs in the Reflective business, as well as the Jackstadt integration. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, related entirely to assets owned by the Company prior to the acquisition of Jackstadt.

In the third quarter of 2002, the Company recorded a \$15.2 million pretax charge for the disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of Jackstadt operations, as well as the planned closure of a plant facility, costs to exit leases and other fixed asset impairments related to other businesses. Approximately 60 percent of the charge related to the integration of Jackstadt. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, related entirely to assets and leases owned by the Company prior to the acquisition of Jackstadt. Of the \$15.2 million charge, approximately \$11.3 million related to asset impairments for property, plant and equipment (\$1.3 million for buildings and \$10 million for machinery and equipment) and \$3.9 million related to lease cancellation costs. The Company expects to pay the lease cancellation costs through 2011. The lease contracts extend for a period of up to eight years at which time the accruals for these leases will be fully utilized.

The table below details the lease cancellation cost activity:

(In millions)

Accrued lease cancellation costs	\$ 3.9
Cancellation costs paid	(.2)
Accrued lease cancellation costs, end of period	\$ 3.7

In the fourth quarter of 2001, the Company sold its specialty coatings business, reported within the Pressure-sensitive Adhesives and Materials segment. Cash proceeds and \$11.5 million in notes and receivables were received in conjunction with the sale, which resulted in a pretax gain of approximately \$20.2 million. Net sales from this business were \$26.7 million for ten months in 2001 and \$37.7 million in 2000.

NOTE 10. COMPONENTS OF OTHER INCOME AND EXPENSE (Continued)

The Company also recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The 2001 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of \$19.9 million, which consisted of employee severance and related costs of \$13.1 million for approximately 400 positions worldwide, and asset impairments of \$6.8 million. The positions eliminated included approximately 170 employees in the Pressure-sensitive Adhesives and Materials segment, 210 employees in the Consumer and Converted Products segment and 20 Corporate employees. Severance and related costs represented cash paid or to be paid to employees terminated under the program. Asset impairments represented non-cash charges required to reduce the carrying value of the assets that were disposed of to net realizable value as of the planned date of disposal. At year end 2002, \$1.9 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits" in the Consolidated Balance Sheet), associated with long-term severance contracts, which will be paid through 2004. All amounts related to asset impairments were utilized.

NOTE 11. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

DEFINED BENEFIT PLANS AND POSTRETIREMENT HEALTH BENEFITS

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

The Company provides postretirement health benefits to certain of its U.S. retired employees up to the age of 65 under a cost-sharing arrangement, and 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.

AVERY DENNISON CORPORATION

NOTE 11. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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

(In millions)	Pension Benefits				Postretirement Health Benefits	
	2002		2001		2002	2001
	U.S.	Int'l	U.S.	Int'l	U.S.	
CHANGE IN BENEFIT OBLIGATION:						
Benefit obligation at beginning of year	\$ 340.1	\$ 189.5	\$ 309.8	\$ 176.9	\$ 45.7	\$ 26.1
Service cost	9.4	6.4	8.1	5.3	.9	.7
Interest cost	24.0	12.2	23.3	10.7	2.8	2.5
Participant contribution	-	2.3	-	2.0	-	-
Amendments	(.2)	.2	-	.2	-	-
Actuarial loss	12.1	13.7	19.0	4.4	2.3	18.8
Plan transfer	5.6	-	3.5	-	-	-
Benefits paid	(25.4)	(6.5)	(23.6)	(5.9)	(4.1)	(2.4)
Acquisition	-	8.9	-	-	-	-
Foreign currency translation	-	31.2	-	(4.1)	-	-
Benefit obligation at end of year	\$ 365.6	\$ 257.9	\$ 340.1	\$ 189.5	\$ 47.6	\$ 45.7
CHANGE IN PLAN ASSETS:						
Fair value of plan assets at beginning of year	\$ 396.9	\$ 217.5	\$ 415.1	\$ 235.8	-	-
Actual return on plan assets	(26.2)	(23.7)	.8	(7.0)	-	-
Plan transfer	5.6	-	3.5	-	-	-
Employer contribution	16.0	4.4	1.1	1.7	\$ 4.1	\$ 2.4
Participant contribution	-	2.3	-	1.9	-	-
Benefits paid	(25.4)	(6.5)	(23.6)	(5.9)	(4.1)	(2.4)
Foreign currency translation	-	15.6	-	(9.0)	-	-
Fair value of plan assets at end of year	\$ 366.9	\$ 209.6	\$ 396.9	\$ 217.5	\$ -	\$ -
FUNDED STATUS OF THE PLANS:						
Plan assets in excess of (less than) benefit obligation	\$ 1.3	\$ (48.2)	\$ 56.7	\$ 28.1	\$ (47.6)	\$ (45.7)
Unrecognized net actuarial loss (gain)	75.6	91.2	(5.6)	18.7	12.1	9.9
Unrecognized prior service cost	(3.2)	5.2	(3.1)	5.1	1.0	1.1
Unrecognized net asset	(1.2)	(7.2)	(1.9)	(8.4)	-	-
Net amount recognized	\$ 72.5	\$ 41.0	\$ 46.1	\$ 43.5	\$ (34.5)	\$ (34.7)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET CONSIST OF:						
Prepaid benefit cost	\$ 106.9	\$ 36.3	\$ 90.0	\$ 52.3	-	-
Accrued benefit liability	(89.7)	(48.0)	(64.7)	(8.8)	\$ (34.5)	\$ (34.7)
Intangible asset	5.4	5.2	6.5	-	-	-
Other comprehensive income	49.9	47.5	14.3	-	-	-
Net amount recognized	\$ 72.5	\$ 41.0	\$ 46.1	\$ 43.5	\$ (34.5)	\$ (34.7)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for U.S. plans were \$246.4 million, \$244.2 million and \$154.7 million, respectively, at year end 2002, and \$227.6 million, \$224.8 million and \$162.1 million, respectively, at year end 2001.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for international plans were \$125.4 million, \$114.9 million and \$68.8 million, respectively, at year end 2002, and \$12.8 million, \$12.1 million and \$3.9 million, respectively, at year end 2001.

AVERY DENNISON CORPORATION

NOTE 11. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (Continued)

	Pension Benefits						Postretirement Health Benefits		
	2002		2001		2000		2002	2001	2000
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
WEIGHTED-AVERAGE ASSUMPTIONS USED:									
Discount rate	7.0%	5.5%	7.3%	5.9%	7.8%	6.2%	7.00%	7.25%	7.75%
Expected long-term rate of return on plan assets	9.5	7.1	9.8	7.5	10.0	7.8	-	-	-
Rate of increase in future compensation levels	3.6	2.6	4.1	3.7	4.0	4.0	-	-	-

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

(In millions)	Pension Benefits						Postretirement Health Benefits		
	2002		2001		2000		2002	2001	2000
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
COMPONENTS OF NET PERIODIC BENEFIT (INCOME) COST:									
Service cost	\$ 9.4	\$ 6.4	\$ 8.1	\$ 5.3	\$ 6.5	\$ 5.5	\$.9	\$.7	\$.6
Interest cost	24.0	12.2	23.3	10.7	22.3	10.0	2.9	2.5	1.9
Expected return on plan assets	(41.0)	(16.8)	(39.2)	(16.4)	(36.8)	(16.4)	-	-	-
Recognized net actuarial (gain) loss	(2.1)	.5	(3.4)	(.2)	(1.6)	(.3)	-	-	(.4)
Amortization of prior service cost	.2	.4	.5	.3	.5	.3	.1	.1	.1
Amortization of transition obligation or asset	(.7)	(1.1)	(.7)	(1.0)	(.7)	(1.2)	-	-	-
Curtailment	(.2)	(.2)	-	-	-	-	-	-	-
Net periodic benefit (income) cost	\$ (10.4)	\$ 1.4	\$ (11.4)	\$ (1.3)	\$ (9.8)	\$ (2.1)	\$ 3.9	\$ 3.3	\$ 2.2

For measurement purposes, an 11 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate is expected to decrease to 6 percent by 2008.

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

(In millions)	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	\$.4	\$ (.4)
Effect on postretirement benefit obligation	4.6	(4.0)

As a result of changes in assumptions and the negative return on plan assets during 2002 and 2001, an additional minimum pension liability of \$34.5 million and \$20.2 million, respectively, for U.S. pension plans and an additional minimum pension liability of \$52.7 million in 2002 for international pension plans is reflected in the Company's Consolidated Balance Sheet. There was no additional minimum pension liability for international pension plans in 2001. These transactions generated an additional intangible pension asset or liability of \$(1.1) million and \$6.2 million, respectively, in 2002 and 2001 for U.S. pension plans and \$5.2 million in 2002 for international pension plans with a charge to equity for the remainder. There was no additional intangible pension asset recognized in 2001 for international pension plans.

DEFINED CONTRIBUTION PLANS

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

ESOP expense is accounted for under the cost of shares allocated method. Total ESOP (income) expense for 2002, 2001 and 2000 was \$(.1) million, \$.1 million and \$(1.6) million, respectively. Company contributions to pay interest or principal on ESOP borrowings were \$.8 million and \$1.8 million in 2002 and 2001, respectively. There were no Company contributions to pay interest or principal on ESOP borrowings for 2000.

Interest costs incurred by the ESOPs for 2002, 2001 and 2000 were \$.5 million, \$1.2 million and \$1.7 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.6 million in 2002, 2001 and 2000.

Consolidated expense (income) for all defined contribution plans (including total ESOP expense) for 2002, 2001 and 2000 was \$1.6 million, \$1.7 million and \$(.5) million, respectively. Of the total shares held by the ESOP, 4.1 million shares were allocated and 1.1 million shares were unallocated at year end 2002, and 4.7 million shares were allocated and 1.3 million shares were unallocated at year end 2001.

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 2002 and 2001, the Company had accrued \$114 million and \$115.9 million, respectively, for its obligations under these plans. These obligations are secured by standby letters of credit of \$82.5 million for 2002 and \$127.6 million for 2001. The Company's expense, which includes Company contributions and interest expense, was \$10 million, \$12.7 million and \$11.5 million for 2002, 2001 and 2000, respectively. A portion of the interest may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

To assist in the funding of these plans, the Company purchases corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of the participant. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet was \$109.8 million and \$101.4 million at year end 2002 and 2001, respectively.

NOTE 12. SEGMENT INFORMATION

The Company manages its business in two operating segments: Pressure-sensitive Adhesives and Materials and Consumer and Converted Products. The segments were determined based upon the types of products produced and markets served by each segment. The Pressure-sensitive Adhesives and Materials segment manufactures pressure-sensitive adhesives and base materials that are sold primarily to converters and label printers for further processing. Products in this segment include Fasson-brand papers, films and foils, graphic and reflective films, specialty tapes and chemicals. The Consumer and Converted Products segment manufactures products for home, school and office uses, and for the retail industry and original-equipment manufacturers. This segment includes Avery-brand labels and other consumer products, custom labels, tickets and tags, high performance specialty films and labels, battery labels, postage stamps, automotive applications and fasteners.

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

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

EVERETT DENNISON CORPORATION

NOTE 12. SEGMENT INFORMATION (Continued)

Financial information by operating segment is set forth below:

(In millions)	2002/(2)/	2001/(3)/	2000
NET SALES:			
Pressure-sensitive Adhesives and Materials	\$ 2,568.0	\$ 2,188.8	\$ 2,136.4
Consumer and Converted Products	1,811.7	1,783.8	1,898.3
Intersegment/(1)/	(172.8)	(169.3)	(141.2)
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
INCOME FROM OPERATIONS BEFORE TAXES:			
Pressure-sensitive Adhesives and Materials	\$ 198.0	\$ 192.1	\$ 212.4
Consumer and Converted Products	245.5	244.4	293.2
Corporate administrative and research and development expenses	(35.0)	(26.5)	(24.7)
Interest expense	(43.7)	(50.2)	(54.6)
Income before taxes	\$ 364.8	\$ 359.8	\$ 426.3
CAPITAL EXPENDITURES:			
Pressure-sensitive Adhesives and Materials	\$ 93.3	\$ 75.7	\$ 110.8
Consumer and Converted Products	49.2	48.9	74.2
Corporate	9.3	10.8	13.3
Capital expenditures	\$ 151.8	\$ 135.4	\$ 198.3
DEPRECIATION EXPENSE:			
Pressure-sensitive Adhesives and Materials	\$ 71.9	\$ 69.4	\$ 69.9
Consumer and Converted Products	49.0	49.2	48.7
Corporate	6.2	5.5	7.4
Depreciation expense	\$ 127.1	\$ 124.1	\$ 126.0

- /(1)/ The majority of intersegment sales represent sales from the Pressure-sensitive Adhesives and Materials segment to the Consumer and Converted Products segment.
- /(2)/ Results for 2002 include a pretax charge of \$21.4 million for asset impairment charges and lease cancellation costs. This charge was recorded as follows: \$17.2 million to the Pressure-sensitive Adhesives and Materials segment and \$4.2 million to the Consumer and Converted Products segment. Results for 2002 also include a pretax cost reduction charge of \$10.7 million. This charge was recorded as follows: \$4.8 million to the Pressure-sensitive Adhesives and Materials segment and \$5.9 million to the Consumer and Converted Products segment. See Note 10 "Components of Other Income and Expense" for further information.
- /(3)/ Results for 2001 include a pretax gain of \$20.2 million from the sale of the Company's specialty coatings business included in the Pressure-sensitive Adhesives and Materials segment results. Results for 2001 also include a pretax cost reduction charge of \$19.9 million. This charge was recorded as follows: \$7.6 million to the Pressure-sensitive Adhesives and Materials segment, \$9.4 million to the Consumer and Converted Products segment, and \$2.9 million to Corporate. See Note 10 "Components of Other Income and Expense" for additional information regarding the Company's 2001 cost reduction program.

EVERETT DENNISON CORPORATION

NOTE 12. SEGMENT INFORMATION (CONTINUED)

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

(In millions)	2002	2001	2000
NET SALES:			
U.S.	\$ 2,433.7	\$ 2,318.8	\$ 2,393.9
International	1,941.5	1,561.7	1,539.9
Intersegment	(168.3)	(77.2)	(40.3)
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
PROPERTY, PLANT AND EQUIPMENT, NET:			
U.S.	\$ 659.1	\$ 673.6	\$ 665.8
International	540.1	401.0	413.2
Property, plant and equipment, net	\$ 1,199.2	\$ 1,074.6	\$ 1,079.0

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

NOTE 13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter/(1)/	Fourth Quarter/(2)/ / (3)/
2002				
Net sales	\$ 930.8	\$ 1,056.3	\$ 1,114.5	\$ 1,105.3
Gross profit	308.9	346.5	353.2	345.1
Net income	64.8	73.8	63.1	55.5
Net income per common share	.66	.75	.64	.56
Net income per common share, assuming dilution	.66	.74	.64	.56
2001				
Net sales	\$ 963.2	\$ 960.8	\$ 966.7	\$ 912.6
Gross profit	319.0	311.8	312.8	296.6
Net income	63.6	59.8	61.7	58.1
Net income per common share	.65	.61	.63	.60
Net income per common share, assuming dilution	.65	.61	.63	.59
2000				
Net sales	\$ 965.3	\$ 993.4	\$ 1,001.7	\$ 933.1
Gross profit	334.1	343.7	340.3	314.1
Net income	70.2	72.8	73.0	67.5
Net income per common share	.71	.74	.74	.69
Net income per common share, assuming dilution	.70	.73	.73	.69

- /(1)/ Results in the third quarter 2002 include a \$15.2 million pretax charge for the disposition of fixed assets and lease cancellation costs associated with the integration of the Jackstadt operations, as well as the planned closure of a plant facility, costs to exit leases and other fixed asset impairments related to other businesses.
- /(2)/ Results in the fourth quarter 2002 include a \$10.7 million pretax charge for severance and related costs for cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments as well as a \$6.2 million pretax charge for the disposition of fixed assets related to a reduction of costs in the Reflective business, as well as the Jackstadt integration.
- /(3)/ Results in the fourth quarter 2001 include a pretax gain of \$20.2 million for the sale of the Company's specialty coatings business and a pretax cost reduction charge of \$19.9 million.

EVERY DENNISON CORPORATION

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 generally accepted accounting principles and, as such, include amounts that are based on management's best estimates and judgments.

The internal control systems are designed to provide reliable financial information for the preparation of financial statements, to safeguard assets against loss or unauthorized use and to ensure that transactions are executed consistent with Company policies and procedures. Management believes that existing internal accounting control systems are achieving their objectives and that they provide reasonable assurance concerning the accuracy of the financial statements.

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 7 of the Company's Proxy Statement - Schedule 14A). The Committee meets periodically with financial management, internal auditors and the independent accountants to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent accountants and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.

Philip M. Neal
Chairman and
Chief Executive Officer

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

EVERY DENNISON CORPORATION

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF EVERY 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 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company adopted Statement of Financial Accounting Standards No 142, "Goodwill and Other Intangible Assets." Accordingly, the Company ceased amortizing goodwill as of December 30, 2001.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
January 27, 2003

EVERY DENNISON CORPORATION

CORPORATE INFORMATION

COUNSEL

Latham & Watkins LLP
Los Angeles, California

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Los Angeles, California

TRANSFER AGENT-REGISTRAR

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 756-8200
(201) 222-4955 (hearing impaired number)
www.equiserve.com (Web site)

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 1:30 pm, Thursday, April 24, 2003, in the Conference Center of Avery Dennison's Charles D. Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

THE DIRECTSERVICE(TM) 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(TM) Investment Program, c/o EquiServe (include a reference to Avery Dennison in the correspondence), P.O. Box 2598, Jersey City, NJ 07303-2598, or calling (800) 649-2291, or logging onto their Web site at <http://www.equiserve.com>.

EVERY DENNISON CORPORATION

DIRECT DEPOSIT OF DIVIDENDS

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

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished to shareholders and interested investors free of charge upon written request to the Secretary of the Corporation.

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

AVERY DENNISON CORPORATION

STOCK AND DIVIDEND DATA

Common shares of Avery Dennison are listed on the New York and Pacific stock exchanges.
 Ticker symbol: AVY

	2002		2001	
	High	Low	High	Low
MARKET PRICE				
First Quarter	\$ 64.00	\$ 53.63	\$ 56.25	\$ 50.50
Second Quarter	69.49	59.64	60.24	48.88
Third Quarter	65.23	52.86	52.24	44.39
Fourth Quarter	65.69	55.21	56.81	46.30

Prices shown represent closing on the NYSE

	2002		2001	
DIVIDENDS PER COMMON SHARE				
First Quarter	\$.33		\$.30	
Second Quarter	.33		.30	
Third Quarter	.33		.30	
Fourth Quarter	.36		.33	
Total	\$ 1.35		\$ 1.23	

Number of shareholders of record as of year end 2002 11,765

Avery Dennison Corporation

NAME OF CURRENT SUBSIDIARY	JURISDICTION IN WHICH ORGANIZED
Avery Dennison Dover S.A.	Argentina
Austracote PTY Ltd.	Australia
Avery Dennison Australia Group Holdings Pty Limited	Australia
Avery Dennison Holdings Limited	Australia
Avery Dennison Materials Pty Limited	Australia
Avery Dennison Office Products Pty Limited	Australia
Avery Properties Pty. Limited	Australia
JAC Asia Pacific Pty Ltd.	Australia
JAC Australia Pty Ltd.	Australia
Stimsonite Australia Pty Limited	Australia
Avery Dennison Osterreich G.m.b.H.	Austria
Avery Dennison Zweckform Austria G.m.b.H.	Austria
Avery Dennison Foreign Sales Corporation	Barbados
Avery Dennison Belgie B.V. B.A.	Belgium
Avery Dennison Coordination Center B.V.B.A.	Belgium
Cardinal Insurance Limited	Bermuda (U.S.A.)
Avery Dennison do Brasil Ltda.	Brazil
Dennison Comercio, Importacas E Exportacao Ltda.	Brazil
JAC do Brasil Ltda	Brazil
Stimsonite do Brasil Ltda	Brazil
Tiadeco Participacoes, Ltda.	Brazil
Avery Dennison Canada Inc.	Canada
Fasson Canada Inc.	Canada
JAC Canada Inc.	Canada
Spartan Plastics Canada, Ltd	Canada
Dennison Manufacturing (Trading) Ltd.	Channel Islands
Avery Dennison Chile S.A.	Chile
Avery (China) Company Limited	China
Avery Dennison (Guangzhou) Co. Ltd.	China
Avery Dennison (Guangzhou) Converted Products Limited	China
Avery Dennison (Kunshan) Limited	China
Avery Dennison (Shanghai) International Trading Limited	China
Yue Hwa Industrial Co. Ltd.	China
Avery Dennison Colombia S.A.	Colombia
Jackstadt Praha spol. R.o.	Czech Republic
Avery Dennison Finance Danmark A.p. S.	Denmark
Avery Dennison Group Danmark A.p.S.	Denmark
Avery Dennison Nordic A/S	Denmark
Avery Dennison Scandinavia A/S	Denmark
Avery Dennison Security Printing Europe A/S	Denmark
Avery Etiketsystemer A/S	Denmark
Etikettrykkeriet A/S	Denmark
IWACO A/S	Denmark
JAC Skandinavia A/S	Denmark
JAC Caribe C.s.Z.	Dominican Republic
Avery Dennison Converted Products El Salvador S.A. de C.V.	El Salvador
Avery Dennison (Fiji) Limited	Fiji
Avery Dennison Suomi OY	Finland
IWACO Labels & Labelling Systems OY	Finland
Avery Dennison Finance France S. A. S.	France
Avery Dennison France S.A.S.	France
Avery Dennison Materials France S.A.R.L.	France
Avery Dennison Office Products France S. A. S.	France

Avery Dennison Corporation

NAME OF CURRENT SUBSIDIARY	JURISDICTION IN WHICH ORGANIZED
Avery Dennison Systemes d'etiquetage France S.A.S.	France
Avery Holding S.A.	France
CELT SNC	France
JAC France S.a.r.l. et CIE SNC	France
Jackstadt France S.N.C.	France
Jackstadt France SARL	France
Avery Dennison Deutschland G.m.b.H.	Germany
Avery Dennison Europe Holding (Deutschland) G.m.b.H & Co KG	Germany
Avery Dennison Finance Germany G.m.b.H.	Germany
Avery Dennison Holding G.m.b.H.	Germany
Avery Dennison Materials G.m.b.H.	Germany
Avery Dennison Verwaltungs G.m.b.H.	Germany
Avery Dennison Zweckform Office Products Europe G.m.b.H.	Germany
Avery Dennison Zweckform Unterstutzungskasse G.m.b.H.	Germany
Avery Maschinen G.m.b.H.	Germany
Blitz 02-050 GmbH	Germany
Jackstadt GmbH	Germany
Jackstadt Vermogensverwaltungs Gmb	Germany
RVL Europe GmbH	Germany
Steinbeis Office Products Beteiligungs G.m.b.H.	Germany
Universal Packaging & Design GmbH	Germany
Avery Dennison G Investments I Limited	Gibraltar
Avery Dennison G Investments II Limited	Gibraltar
Avery Dennison G Investments III Limited	Gibraltar
Avery Dennison G Investments IV Limited	Gibraltar
Avery Dennison G Investments V Limited	Gibraltar
RVL Central America, S.A.	Guatemala
Avery Dennison (Hong Kong) Limited	Hong Kong
L&E Packaging Far East Limited	Hong Kong
Modern Mark International Limited	Hong Kong
RVL Packaging Far East Limited	Hong Kong
RVL Printed Label Far East Limited	Hong Kong
Universal Packaging & Design, Ltd.	Hong Kong
Avery Dennison Hungary Limited	Hungary
Avery Dennison Office Products Manufacturing & Trading Limited	
Liability Company (Avery Dennison Ltd.)	Hungary
Jackstadt Trade Ltd.	Hungary
Avery Dennison (India) Private Limited	India
RVL Packaging India Private Limited	India
PT Arvilindo Sentosa	Indonesia
PT Avery Dennison Indonesia	Indonesia
PT Robert Vincent Lyle Packaging Indonesia	Indonesia
PT Universal Globalindo	Indonesia
Avery Dennison (Ireland) Limited	Ireland
Avery Dennison Materials Ireland Limited	Ireland
Dennison Ireland Limited	Ireland
Dennison Office Products Limited	Ireland
Retail Products Limited	Ireland
ADESPAN S.R.L.	Italy
Avery Dennison Italia S.p.A.	Italy
Avery Dennison Office Products Italia S.r.l.	Italy
JAC Italia SRL	Italy
Avery Dennison-Maxell K.K.	Japan

Avery Dennison Corporation

NAME OF CURRENT SUBSIDIARY	JURISDICTION IN WHICH ORGANIZED
Avery Dennison Korea Limited	Korea
RVL Packaging Korea Ltd.	Korea
Avery Dennison Finance Luxembourg S. A. R. L.	Luxembourg
Avery Dennison Holding Luxembourg S. A. R. L.	Luxembourg
Avery Dennison Luxembourg S.A.	Luxembourg
Avery Dennison (Malaysia) SDN. BHD.	Malaysia
Avery Dennison Materials SDN BHD	Malaysia
JAC Asia/Pacific SDN BHD	Malaysia
Avery de Mexico S.A. de C.V.	Mexico
Avery Dennison Converted Products de Mexico, S.A. de C.V.	Mexico
Avery Dennison Office Products De Mexico, S.A. de C.V.	Mexico
Avery Dennison, S.A. de C.V.	Mexico
L&E Americas Servicios, S.A. de C.V.	Mexico
L&E Americas, S.A. de C.V.	Mexico
RVL Americas, S de R.L. de C.V.	Mexico
RVL Service, S. DE R.L. de C.V.	Mexico
Avery Dennison B. V.	Netherlands
Avery Dennison Holding & Finance The Netherlands B. V.	Netherlands
Avery Dennison Hong Kong B.V.	Netherlands
Avery Dennison Investments The Netherlands B. V.	Netherlands
Avery Dennison Materials Nederland B.V.	Netherlands
Avery Holding B.V.	Netherlands
Dennison International Holding B.V.	Netherlands
Avery Dennison Office Products (NZ) Limited	New Zealand
JAC New Zealand Limited	New Zealand
Avery Dennison Norge A/S	Norway
Iwaco Norge AS	Norway
Avery Dennison Peru S. A.	Peru
ADC Philippines, Inc.	Philippines
RVL Packaging Philippines, Inc.	Philippines
Avery Dennison Polska Sp. Z O.O.	Poland
IWACO Polska	Poland
Jackstadt Polska sp. Zo.o	Poland
Fasson Portugal Produtos Auto-Adesivos LDA.	Portugal
Avery Dennison Singapore (PTE) Ltd	Singapore
RVL Packaging Singapore PTE Ltd.	Singapore
Universal Packaging & Design PTE Ltd.	Singapore
Avery Dennison Office Products (PTY.) Ltd.	South Africa
Avery Dennison South Africa (Proprietary) Limited	South Africa
Jackstadt South Africa (Pty.) Ltd.	South Africa
Avery Dennison Iberica, S.A.	Spain
Avery Dennison Sverige AB	Sweden
Avery Etikettssystem Svenska AB	Sweden
Ocawi Sverige AB	Sweden
A.V. Chemie GmbH	Switzerland
Avery Dennison Holding AG	Switzerland
Avery Dennison Office Products Europe GmbH	Switzerland
Avery Dennison Schweiz AG	Switzerland
Jackstadt (Switzerland) AG	Switzerland
RVL Packaging Taiwan Ltd.	Taiwan
Avery Dennison (Thailand) Ltd.	Thailand
JAC Thai KK	Thailand
Avery Dennison Etiket Ticaret Limited Sirketi	Turkey

Avery Dennison Corporation

NAME OF CURRENT SUBSIDIARY	JURISDICTION IN WHICH ORGANIZED
RVL Foreign Trade Ltd.	Turkey
RVL Textile Corporation Turkey	Turkey
AEAC, Inc.	U.S.A.
Avery Corp.	U.S.A.
Avery Dennison G Holdings I Company	U.S.A.
Avery Dennison G Holdings II Company	U.S.A.
Avery Dennison Health Management Corporation	U.S.A.
Avery Dennison Office Products Company	U.S.A.
Avery Dennison Overseas Corporation	U.S.A.
Avery Dennison Shared Services, Inc.	U.S.A.
Avery Graphic Systems, Inc.	U.S.A.
Avery Pacific Corporation	U.S.A.
Avery Research Center, Inc.	U.S.A.
Avery, Inc.	U.S.A.
Dennison Development Associates	U.S.A.
Dennison International Company	U.S.A.
Dennison Manufacturing Company	U.S.A.
DMC Development Corporation	U.S.A.
JAC USA, Inc.	U.S.A.
Monarch Industries, Inc.	U.S.A.
RVL Packaging, Inc.	U.S.A.
Security Printing Division, Inc.	U.S.A.
Spartan International, Inc.	U.S.A.
Stimsonite Corporation	U.S.A.
Stimsonite International, Inc.	U.S.A.
ADESPAN U.K. Limited	United Kingdom
Avery Automotive Limited	United Kingdom
Avery Dennison Materials U.K. Limited	United Kingdom
Avery Dennison Office Products U.K. Limited	United Kingdom
Avery Dennison Pension Trustee Limited	United Kingdom
Avery Dennison U.K. Limited	United Kingdom
Avery Guidex Limited	United Kingdom
Avery Holding Limited	United Kingdom
JAC (U.K.) Limited	United Kingdom
LAC Retail Systems Limited	United Kingdom
Stimsonite Europa Limited	United Kingdom
Zweckform U.K. Ltd.	United Kingdom
Avery Dennison C.A.	Venezuela

CAUTIONARY STATEMENT FOR PURPOSES OF THE
"SAFE HARBOR" PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information provided by the Company may contain certain forward-looking information, as defined by the Private Securities Litigation Reform Act of 1995 (the "Act"). Words such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "intend," "may," "objective," "plan," "potential," "project," "shall," "should," "target," "will," and other expressions, which refer to future events and trends, identify forward-looking statements that involve risks and uncertainties. Forward-looking information may relate to such matters as sales, unit volume, income, margins, earnings per share, return on equity, return on total capital, economic value added, capital expenditures, dividends, cash flow, debt to capital ratios, growth rates, future economic performance and trends, short- and long-term plans (including financing, operating and strategic plans) and objectives for future operations as well as assumptions, expectations, projections and estimates relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called "safe harbor" provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in attempting to predict the outcome of future events. Therefore, actual results may differ materially from those expressed or implied. Investors are therefore cautioned not to place undue reliance on any forward-looking statements as a prediction of future results. The Company assumes no obligation to update any forward-looking statements, other than as may be required by law.

The ability of the Company to attain management's goals and objectives are materially dependent on numerous factors, including but not limited to, those set forth herein.

Operating results are importantly influenced by general economic conditions and growth (or contraction) of the principal economies in which the Company operates, including the United States, Canada, Europe, Latin America and the Asia-Pacific region. All economies in which the Company operates are cyclical and the rates of growth (or contraction) can vary substantially. More than forty-percent of the Company's sales are in foreign currencies, which fluctuate in relation to one another and to the United States dollar. Fluctuations in currencies can cause transaction, translation and other losses to the Company, which can negatively impact the Company's sales and earnings projections. The Company has operations in over 40 countries and its domestic and international operations are strongly influenced by matters beyond its control, including but not limited to changes in the political, social, economic, tax and regulatory environment (including tariffs) in the countries in which the Company conducts its operations.

As a manufacturer, the Company's sales and profitability are also dependent upon availability and cost of raw materials and components, which are subject to price fluctuations, and the ability to control or pass on costs of raw materials and labor. Inflationary and other increases in the costs of raw materials and labor have occurred in the past and are expected to recur, and the Company's performance depends in part on: its ability to reflect changes in costs in its selling prices for product; its productivity; and its focus on higher margin businesses. Past performance may or may not be replicable in the future.

The Company's customers are widely diversified, but in certain portions of its business, industry concentration has increased the importance and decreased the number of significant customers. In particular, sales of the Company's consumer products in the United States are concentrated in a few major customers, principally office product superstores, mass merchandisers, and distributors. These market conditions, including increased credit risks for these and other customers and the possibility of related bad debt write-offs, increase pressures on the Company's margins and profits.

A significant portion of the revenues in recent fiscal years has been represented by sales of products introduced by the Company within five years prior to the period in question. The Company's ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights and enforce patents, are therefore, important to maintaining the Company's growth, which ability cannot be assured.

Other factors, which are not exhaustive, include costs and other effects of interest rate increases, legal and administrative cases and proceedings (whether civil, such as environmental and product related, or criminal), settlements, judgments and investigations, claims, and changes in those items; developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses; adoption of new, or change in, accounting policies and practices and the application of such policies and practices; changes in business mix; successful integration of new acquisitions; customer or supplier business reorganizations or combinations; increase in cost of debt; ability to retain adequate levels of insurance coverage at acceptable rates; loss of a significant contract(s) or customer(s); customer acceptance of new products; pricing of competitive products; disruptions in transportation networks; increased participation in potentially less stable emerging markets; fluctuations in interest rates; dependability of utilities; impact of computer viruses; general or specific economic conditions and the ability and willingness of purchasers to substitute other products for the products that the Company manufactures or distributes; financial condition and inventory strategies of customers and suppliers; pricing, purchasing, financing and promotional decisions by intermediaries in the distribution channel, which could affect orders, or end-user demand, for the Company's products; other risks associated with foreign operations, acts of war, terrorism, weather and other natural disasters; and other factors.

The factors identified in this statement are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to be materially different from those that may be expressed or implied in any forward-looking statement made by, or on behalf, of the Company. Other factors not discussed in this statement could also have material adverse effects concerning forward-looking objectives or estimates.

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2002 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2003

By: /s/ Philip M. Neal

 Name: Philip M. Neal
 Title: Chairman and Chief Executive Officer

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 * A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, has been provided to Avery Dennison Corporation and will be retained by Avery Dennison Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION OF CHIEF FINANCIAL OFFICER*

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2002 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2003

By: /s/ Daniel R. O'Bryant

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

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* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, has been provided to Avery Dennison Corporation and will be retained by Avery Dennison Corporation and furnished to the Securities and Exchange Commission or its staff upon request.