

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 27, 2003

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 27, 2003, was approximately \$4,799,798,427.

Number of shares of common stock, \$1 par value, outstanding as of February 23, 2004: 110,462,042.

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

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended December 27, 2003 (the "2003 Annual Report")	Parts I, II
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 22, 2004 (the "2004 Proxy Statement")	Parts III, IV

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FISCAL YEAR 2003 FORM 10-K ANNUAL REPORT
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PART I

Item 1. BUSINESS

Avery Dennison Corporation (“Registrant” or “Avery Dennison”) 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 Avery Dennison and its subsidiaries (Avery Dennison 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, as well as tickets, tags, labels, and imprinting equipment for retail and apparel manufacturers.

A pressure-sensitive, or self adhesive, material is one that adheres to a surface by press-on contact. It generally consists of four elements: 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 provides 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 and represent approximately 50 percent of the Company’s sales. In addition, the Company continues to expand its operations in Asia, Latin America and Eastern Europe. As of December 27, 2003, the Company manufactured and sold its products from approximately 275 sales offices and distribution and manufacturing facilities located in 44 countries, and employed approximately 20,300 persons worldwide.

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark, as well as a package label converting facility in France, to CCL Industries Inc. The results from this business, which was previously reported in the Company’s Consumer and Converted Products segment, have been accounted for as discontinued operations for all periods presented in the Company’s Consolidated Financial Statements.

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

Except as set forth below, no material part of 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 6 in the Notes to Consolidated Financial Statements beginning on page 63 of the 2003 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.

Corporate Governance and Available Information Related to SEC Filings

Avery Dennison's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge by way of a third-party hyperlink service through the Company's website, www.averydennison.com (in the "Investors" section), as soon as reasonably practical after electronic filing or furnishing of such material with the SEC. In addition, Avery Dennison makes available at the website its (i) Corporate Governance Guidelines, (ii) Code of Ethics and Business Conduct, which applies to its directors and all employees, (iii) Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (iv) the charters of the Audit, Compensation and Executive Personnel, and Nominating and Governance Committees of its Board of Directors, and (v) Audit Committee Complaint Handling Procedures. These materials are also available free of charge in print to stockholders who request them by writing to: Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103. The Company's website address provided herein is not intended to function as a hyperlink and the information on the Company's website is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document.

The Board has designated Frank V. Cahouet as its presiding director to preside at executive sessions of the Board. During 2003, the Board held two executive sessions with non-management directors only during regularly scheduled Board meetings. Stockholders and other interested parties may write to Mr. Cahouet concerning matters other than accounting and auditing matters c/o Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103. Stockholders may also write to Kent Kresa, Chairman of the Audit Committee, regarding accounting and auditing matters c/o Secretary at the same address.

Pressure-sensitive 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 performance polymers. 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 consumer disposables producers (diaper tapes) 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. The Company also manufactures and sells proprietary films that are used for outdoor, weather resistant applications.

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

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 may be limited by capital requirements and a need for technical knowledge. 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 tickets, tags, labels and fasteners for the retail apparel industry. 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, binder 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, HI-LITER and Index Maker. 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 the 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.

The Company designs, fabricates and sells a wide variety of tags and labels, including graphic and 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 retail apparel identification, industrial products identification, and tracking and control applications principally in North America, Europe and Asia Pacific. Fastener products include plastic tying and attaching products for apparel, 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. The Company is an integrated supplier of adhesive coating, security printing and converting technologies for postage stamp production. Specialty automotive films products are used for interior and exterior vehicle finishes and identification. Other products include pressure-sensitive sheeted and die-cut papers and films, which are sold through distributors.

In this segment, the Company competes, both domestically and internationally, with a number of small to large firms (among the principal competitors are Esselte and Fortune Brands, Inc.). The Company believes that its ability to serve its customers with an extensive product line, its distribution and brand strength, its ability to

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develop and to commercialize new products, and its diverse technical foundation, including 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 \$74.8 million, \$74.5 million and \$69.9 million, in 2003, 2002 and 2001, respectively, on research-related activities by operating units and the Avery Research Center (the "Research Center"), located in Pasadena, California. A significant number 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 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 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 27, 2003, which appear in Note 13 in the Notes to Consolidated Financial Statements on pages 73 and 74 of the 2003 Annual Report, are incorporated herein by reference.

Other Matters

The raw materials used by the Company are primarily paper, plastic and specialty polymers, 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.

The Company has developed 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

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environment, will have a material effect upon the capital expenditures, consolidated financial position and results of 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 27, 2003, 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— | Melbourne, Australia; Turnhout, Belgium; Vinhedo, Brazil; Ajax, Canada; Kunshan, China; Champ-sur-Drac and Valenciennes, France; Gotha and Schwelm, Germany; Bomporto, Italy; Rodange, Luxembourg; Johannesburg, South Africa; Rayong, Thailand; Hazerswoude, the Netherlands and Cramlington, United Kingdom. |

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; Wuppertal, Germany; and Zug, Switzerland.

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

All of the buildings comprising the facilities identified above were constructed after 1954. 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 expands production capacity and provides facilities as needed to meet increased demand. 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 eleven 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 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 Company's consolidated financial position, results of operations or cash flows.

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

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

In connection with the U.S. Department of Justice's investigation into the proposed merger, the Company produced documents and provided testimony by Messrs. Neal, Scarborough, and Simcic (CEO, President, and Group Vice President—Roll Materials Worldwide, respectively).

On July 25, 2003, the United States District Court for the Northern District of Illinois entered an order enjoining the proposed merger. UPM and Bemis thereafter agreed to terminate the merger agreement. The Court's decision incorporated a stipulation by the U.S. Department of Justice that the paper label industry is competitive.

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

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

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On May 21, 2003, The Harman Press filed a purported class action in the Superior Court for the County of Los Angeles, California against the Company, UPM and UPM's subsidiary Raflatac, seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. The Company is attempting to have all these cases coordinated before a single Superior Court judge. A further similar complaint has been filed in the Superior Court for Maricopa County, Arizona. The Company intends to defend these matters vigorously.

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

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

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

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. 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 AVERY DENNISON(1)

<u>Name</u>	<u>Age</u>	<u>Served as Executive Officer since</u>	<u>Former Positions and Offices with Avery Dennison</u>	
Philip M. Neal Chairman and Chief Executive Officer (also Director of Avery Dennison)	63	January 1974	1998-2000	President and Chief Executive Officer
Dean A. Scarborough President and Chief Operating Officer (also Director of Avery Dennison)	48	August 1997	1997-1999	Group V.P., Fasson Roll North America and Europe
			1999-2000	Group V.P., Fasson Roll Worldwide
Robert G. van Schoonenberg Executive Vice President, General Counsel and Secretary	57	December 1981	1997-2000	S.V.P., General Counsel and Secretary
Daniel R. O'Bryant Senior Vice President, Finance and Chief Financial Officer	46	January 2001	1997-1999	General Manager, Business Forms Division, Fasson Roll N.A.
			1999-2000	V.P. and General Manager, Product Identification Division, Fasson Roll N.A.
			2000-2001	V.P. and General Manager, Fasson Roll N.A.
Diane B. Dixon Senior Vice President, Worldwide Communications and Advertising	52	December 1985	1997-2000	V.P., Worldwide Communications and Advertising
Robert M. Malchione Senior Vice President, Corporate Strategy and Technology	46	August 2000	1997-2000	V.P., Boston Consulting Group(2)
			2000-2001	S.V.P., Corporate Strategy
Karyn E. Rodriguez Vice President and Treasurer	44	June 2001	1997-1999	Director, Corporate Finance and Investments
			1999-2001	Assistant Treasurer, Corporate Finance and Investments
Michael A. Skovran Vice President and Controller	45	January 2002	1998-2001	V.P., Finance, Worldwide Office Products
Christian A. Simcic Group Vice President, Roll Materials Worldwide	47	May 2000	1997-2000	V.P. and Managing Director, Asia Pacific
Timothy S. Clyde Group Vice President, Office Products Worldwide	41	February 2001	1998-1999	General Manager, OF&P Division, Office Products N.A.
			1999-2000	V.P. and General Manager OF&P Division, Office Products N.A.
			2000-2001	V.P. and General Manager Office Products N.A.

(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 MATTERS

The information called for by this item appears on page 78 of Avery Dennison's 2003 Annual Report and on page 12 of the 2004 Proxy Statement, and is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of Avery Dennison's last five fiscal years appears on page 26 of Avery Dennison's 2003 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 sales from continuing operations in 2003 increased 15 percent compared to 2002 to \$4.76 billion, primarily due to incremental sales from acquisitions completed in 2002 and the benefit of foreign currency translation. Net income and diluted earnings per share increased by 4 percent and 3 percent, respectively, including the impact of charges taken in both 2003 and 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures (see *Productivity Improvement Programs* below), as well as a gain on the sale of the Company's European package label converting business in 2003. The slower rate of growth in earnings compared to sales was due to a decline in the Company's gross profit margin (see "Analysis of Results of Operations" below).

The year 2003 was characterized by weak industrial and consumer demand in many of the Company's businesses. Core unit volumes grew an estimated 4 percent in 2003, compared to an estimated 7 percent to 8 percent in 2002. (Core unit volume growth is a measure of sales performance that excludes the estimated impact of acquisitions, divestitures, changes in product mix and pricing, and currency translation. Management uses this measure to evaluate underlying demand for the Company's products and services, and to assess sales trends over time.) The year 2003 was particularly challenging for the Company's office products business, where sales declined during the year, due to weak end-user demand. In the fourth quarter, the office products business began to reflect the impact of an estimated \$35 million loss in annualized sales related to one major customer. In addition, weak underlying demand in the Company's North American and Western European markets created a difficult pricing environment for several of the Company's businesses. In Europe, for example, the roll materials business was unable to secure adequate price increases to offset the negative margin impact of the British Pound ("GBP") weakening relative to the Euro.

In the fourth quarter, the Company experienced an acceleration of the rate of growth in ongoing unit volumes compared to the rate of growth experienced in the preceding three quarters, which resulted in better than expected net sales and net income for the quarter. This acceleration in growth was experienced in most of the Company's businesses and geographic regions in which it competes. The Company believes that this improvement in underlying demand reflected the generally improving economic and market conditions affecting the Company's businesses, as well as the success of the Company's growth initiatives, discussed below.

Acquisitions and Divestitures

During 2003, the Company continued to integrate the operations of the 2002 acquisitions of Jackstädt GmbH ("Jackstädt"), RVL Packaging, Inc. ("RVL") and L&E Packaging ("L&E") into the Company's existing businesses. The Jackstädt integration actions included facility closures and headcount reductions, as well as the addition of new manufacturing capacity in the roll materials business in Europe, to support the consolidation of the Company's operations in that region. The Company expects to complete these integration actions in 2004.

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark and a package label converting facility in France, which combined represented approximately \$50 million in sales in 2002. In the fourth quarter, the Company recognized a \$19.7 million after-tax gain related to this sale. The results from this business, which was previously reported in the Company's Consumer and Converted Products segment, have been accounted for as discontinued operations for all periods presented in the Company's Consolidated Financial Statements.

In general, the discussions which follow reflect summary results from the Company's continuing operations unless otherwise noted. However, the net income and net income per share discussions include the impact of discontinued operations.

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Summary Results by Operating Segment

The Pressure-sensitive Adhesives and Materials segment reported a 17 percent increase in sales in 2003 compared to 2002. An estimated 30 to 35 percent of the incremental sales for 2003 were a result of the acquisition of Jackstädt in May 2002. Approximately 45 percent of the incremental sales in 2003 were due to the favorable impact of foreign currency translation. The remaining 20 to 25 percent of the incremental sales were attributable to growth in the roll materials business, primarily due to stronger sales in Asia, Latin America, and Eastern Europe, as well as increased sales in other businesses. Operating income (operating income refers to income before interest and taxes) for this segment increased approximately \$12 million or 6 percent compared to 2002. Operating income reflected a charge of approximately \$13 million in 2003 compared to approximately \$22 million in 2002, related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Operating income for this segment also reflected higher sales, partially offset by a more competitive pricing environment, start-up costs for new manufacturing equipment in Europe and the incremental costs associated with growth initiatives in 2003.

The Consumer and Converted Products segment reported a 10 percent increase in sales in 2003 compared to 2002. An estimated 65 percent of the incremental sales for 2003 resulted from the acquisitions of RVL and L&E in November 2002, partially offset by a reduction in sales from divested lines of business during the first quarter of 2003 and in late 2002. The balance of the incremental sales reflected the favorable impact of foreign currency translation. Operating income for this segment decreased approximately \$10 million or 4 percent compared to 2002. The operating income reflected a charge of approximately \$22 million in 2003 compared to approximately \$10 million in 2002, related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Operating income for this segment also reflected higher sales, offset by the impact of a more competitive pricing environment and negative product mix in the office products business, as well as higher manufacturing costs related to a reduction in the average order size in the retail information services business, unanticipated incremental costs related to back-to-school orders for office products during the third quarter and the incremental costs associated with growth initiatives in 2003.

Sales Growth by Region

Sales increased an estimated 1 percent in the U.S., an estimated 15 percent in Asia, an estimated 15 percent in Latin America and an estimated 4 percent in Europe, excluding the impact of acquisitions, divestitures, and foreign currency translation.

Impact of Currency Exchange Rates

International operations constitute approximately 50 percent of the Company's net sales. As a result, the Company is exposed to foreign currency exchange rate risk, and changes to foreign currency exchange rates will impact the Company's financial results. As previously noted, in 2003, the Company benefited from foreign currency translation, particularly from the strengthening of the Euro against the U.S. dollar, representing approximately \$235 million of growth in net sales compared to 2002. The benefit of currency translation added approximately \$0.14 to diluted earnings per share in 2003, which was partially offset by the reduction in operating margin associated with the weakening of the GBP relative to the Euro. Specifically, operating margin for products sold in the U.K. declined since selling prices were GBP-denominated, while raw materials were Euro-denominated.

Growth Initiatives

In 2003, the Company implemented a growth acceleration program ("Horizons"), which is designed to strengthen sales by developing new products, applications and services. By the end of 2003, the Horizons program had generated estimated incremental sales of \$50 million on an annualized basis. The Company expects continued success from this initiative in 2004 and beyond.

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During 2003, the Company invested in other ongoing growth initiatives. In particular, the Company continued to expand its presence in the emerging markets of Asia, Latin America and Eastern Europe. These markets represented approximately 15 percent of the Company's total sales in 2003, excluding the effects of foreign currency translation and acquisitions. Product-based, long-term growth initiatives include, among others, a new line of photo identification badges that provide organizations with an easy-to-use system to log in and track visitors, heat-activated permanent care labels for the apparel market, and radio-frequency identification ("RFID") labels and label material.

Productivity Improvement Programs

The Company remains focused on its cost management efforts. In 2002, the Company recorded charges totaling \$32.1 million for cost reduction programs and the reorganization of manufacturing and administrative facilities of the Company. The charges included employee severance and related costs for approximately 300 employees worldwide, as well as charges related to the disposition of fixed assets.

In the fourth quarter of 2003, the Company announced cost reduction actions associated with productivity improvement initiatives, as well as its ongoing integration of the Jackstädt acquisition. The Company recorded charges related to these actions totaling \$34.3 million in the fourth quarter of 2003 for severance, impairment and planned disposition of property, plant and equipment, lease cancellation costs and net losses associated with several product line divestitures (see "Analysis of Results of Operations" discussed below). The productivity improvement initiatives included headcount reductions of approximately 420 positions, with approximately half from the office products business. These headcount reductions are anticipated to yield annualized savings of approximately \$25 million to \$30 million when completed by the end of 2004. In addition, the Jackstädt integration actions included headcount reductions of 110 positions.

The completion of the Jackstädt integration in 2004 includes a further headcount reduction of approximately 500 positions. Final restructuring charges associated with these actions, in the range of \$30 million to \$35 million, are expected to be recognized during the first half of 2004. These actions are anticipated to result in annualized savings of approximately \$25 million to \$30 million, which the Company expects to begin realizing in the second half of 2004.

In addition to these cost reduction actions, the Company expects continued profitability improvement from its ongoing Six Sigma efforts, a program designed to improve productivity and quality, and other productivity initiatives.

Operating Expenses, Interest and Taxes

Marketing, general and administrative expenses increased 14 percent to \$1.03 billion in 2003 compared to \$905.2 million in 2002, reflecting the impact of the 2002 acquisitions, foreign currency translation, and incremental costs associated with growth initiatives.

In addition, insurance and employee benefit costs (including pension expense, discussed below) increased by approximately \$15 million in 2003 compared to 2002, while legal costs associated with the U.S. Department of Justice's investigation of the label stock industry and related matters were approximately \$4 million in 2003.

Weakness in the equity markets during 2002 and the lower interest rate environment resulted in adjustments to the 2003 pension assumptions. As a result of these changes, pension expense for 2003 increased approximately \$11 million compared to 2002.

Interest expense was \$57.7 million for 2003, compared to \$44 million for 2002. Interest expense increased due to higher debt levels resulting from the acquisitions in 2002, as well as higher interest rates following the Company's refinancing of \$400 million of variable rate short-term borrowings through the issuance of long-term Senior Notes in January 2003.

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

Free Cash Flow

Free cash flow for 2003 decreased \$227 million to \$134 million in 2003 compared to \$361 million in 2002, due to net changes in assets and liabilities, as well as higher capital expenditures in 2003. See "Liquidity" below for more details. Free cash flow refers to cash flow from operating activities less spending on property, plant and equipment.

<u>(In millions)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net cash provided by operating activities from continuing operations	\$ 334.9	\$ 511.0	\$ 365.8
Purchase of property, plant and equipment	(201.4)	(150.4)	(133.0)
Free cash flow	<u>\$ 133.5</u>	<u>\$ 360.6</u>	<u>\$ 232.8</u>

U.S. Department of Justice Investigation

In April 2003, the Company was notified by the U.S. Department of Justice's Antitrust Division that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the U.S. Department of Justice issued a subpoena to the Company in connection with the investigation. The Company is cooperating in the investigation. The Company is a named defendant in purported class actions seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the investigation. The Company is also a named defendant in purported stockholder class actions seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. The Company is unable to predict the effect of these matters at this time, although the effect may be adverse and material. These matters are reported in Note 9 "Contingencies" to the Consolidated Financial Statements and Item 3. Legal Proceedings herein.

Outlook

The Company anticipates improvement in global economic and market conditions in 2004, and increases in sales and net income as a result of its growth and productivity improvement initiatives. The Company also expects to benefit from foreign currency translation in 2004, based on its expectation that the Euro to U.S. dollar exchange rate will remain above the average rate in 2003. The Company believes that the benefit from foreign currency translation may be partially offset if it is unable to successfully increase prices to recover operating margin loss due to the weaker GBP relative to the Euro.

The Company expects higher earnings in the second half of 2004 than in the first half, due to the timing of the savings associated with its cost reduction programs.

Offsetting these positive expectations, the Company anticipates that revenue growth will be constrained by a continued decline in sales in the office products business, primarily due to the market share loss previously described, as well as other factors impacting end-user demand. Annual pension, medical, and insurance costs are expected to increase by approximately \$13 million to \$14 million before taxes, due in part to an estimated increase of \$9 million for pension expense resulting from the reduction in the weighted-average discount rate assumption. (See Note 12 "Pensions and Other Postretirement Benefits," to the Consolidated Financial Statements for additional information on pension plan assumptions.) However, this increase could vary based upon the impact of foreign currency movements on expense. The Company also anticipates increased spending related to certain long-term growth initiatives.

The Company estimates that interest expense in 2004 will be comparable to 2003. Anticipated increases in interest rates are expected to be offset by debt reductions in the second half of the year.

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The Company anticipates that the effective tax rate will remain stable during 2004 at approximately 27.5 percent, subject to changes in the geographic mix of income.

ANALYSIS OF RESULTS OF OPERATIONS

	2003	2002	2001
(In millions)			
Net sales	\$ 4,762.6	\$ 4,155.9	\$ 3,755.5
Cost of products sold	3,304.6	2,820.3	2,532.5
Gross profit	1,458.0	1,335.6	1,223.0
Marketing, general and administrative expense	1,034.9	905.2	823.3
Interest expense	57.7	44.0	50.7
Other expense (income), net	30.5	32.1	(.3)
Income from continuing operations before taxes and accounting change	334.9	354.3	349.3
Taxes on income	92.1	104.5	113.0
Income from continuing operations before accounting change	242.8	249.8	236.3
Income from discontinued operations, net of tax (including gain on disposal of \$19.7, net of tax of \$5.8 in 2003)	25.1	7.4	7.1
Income before accounting change	267.9	257.2	243.4
Cumulative effect of accounting change, net of tax	—	—	(.2)
Net income	\$ 267.9	\$ 257.2	\$ 243.2

2003 vs. 2002

Sales increased 15 percent to \$4.76 billion in 2003, compared to \$4.16 billion in 2002. The increase in sales in 2003 reflected incremental sales from the acquisitions of Jackstädt in May 2002 and RVL and L&E in November 2002 (estimated to be \$310 million), favorable impact of foreign currency translation (approximately \$235 million) and growth in the existing businesses (approximately \$106 million). The impact of incremental sales in 2003 from the 2002 acquisitions can only be estimated due to the fact that the Jackstädt, RVL and L&E acquisitions have been integrated with the Company's existing businesses. These increases were partially offset by a reduction in sales from divested lines of business (2002 sales of approximately \$45 million).

Gross profit margins for the years ended 2003 and 2002 were 30.6 percent and 32.1 percent, respectively. The Company's gross profit margins for individual products within business units can vary significantly. The decrease in 2003 was partially due to changes in business and product mix within the Company's operations. Sales in the lower gross profit margin businesses and product lines grew more rapidly than the higher gross profit margin businesses and product lines. The decrease also reflected a more competitive pricing environment (including the impact of the GBP weakening relative to the Euro, approximately \$10 million), start-up costs for new manufacturing equipment in Europe (approximately \$9 million), higher manufacturing costs associated with a reduction in average order size in the retail information services business (approximately \$4 million) and unanticipated incremental costs related to back-to-school orders for office products during the third quarter (approximately \$3 million).

Marketing, general and administrative expense as a percent of sales was 21.7 percent in 2003 and 21.8 percent in 2002. The ratio in 2003 decreased partially due to increased sales, although the absolute amount of expenses increased. The increase in expenses reflected incremental expenses resulting from the acquisitions during 2002, as well as higher pension, insurance and employee benefit costs, legal costs associated with the U.S. Department of Justice investigation of the label stock industry and incremental costs associated with growth initiatives during the year. Additionally, expenses were negatively impacted by changes in foreign currency exchange rates.

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The Company recorded charges totaling \$34.3 million in the fourth quarter of 2003 and \$32.1 million during 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. The 2003 charges were related to severance (approximately \$22 million), impairment and planned disposition of property, plant and equipment (approximately \$8 million) and lease cancellation costs and net losses associated with several product line divestitures (approximately \$4 million). Refer to Note 11 "Components of Other Income and Expense," to the Consolidated Financial Statements for more information.

Interest expense for the years ended 2003 and 2002 was \$57.7 million and \$44 million, respectively. Interest expense in 2003 increased due to higher debt levels resulting from the acquisitions completed in 2002, as well as higher interest rates following the Company's refinancing of \$400 million of variable short-term borrowings through the issuance of \$250 million 10-year and \$150 million 30-year Senior Notes in January 2003. In connection with the issuance of the 10-year Senior Note, the Company settled the related forward starting interest rate swap at a loss of approximately \$32.5 million, which is currently being amortized over the term of the related debt.

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

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

Net income from discontinued operations was \$25.1 million for 2003, which included a gain on sale of \$19.7 million, net of tax of \$5.8 million, compared to \$7.4 million in 2002. Income from discontinued operations included net sales of approximately \$44 million for nine months in 2003 compared to \$51 million for twelve months in 2002. Refer to Note 2 "Discontinued Operations," to the Consolidated Financial Statements for more detail.

2002 vs. 2001

Sales increased 11 percent to \$4.16 billion in 2002, compared to \$3.76 billion in 2001. The increase in sales included incremental sales from acquisitions (estimated to be \$270 million), increases from existing businesses (approximately \$180 million) and the favorable impact of foreign currency translation (approximately \$20 million). These increases were partially offset by a reduction in sales in 2002 from divested lines of business (approximately \$70 million).

Gross profit margins for the years ended 2002 and 2001 were 32.1 percent and 32.6 percent, respectively. The decrease in 2002 was due to the lower gross profit margin on the Jackstädt business, partially offset by reduced expenses as a result of cost reduction programs and other productivity initiatives.

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

The Company also 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. Also 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 Jackstädt integration.

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

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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.

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 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 final severance payments related to this action were completed in the fourth quarter of 2003.

Refer to Note 11 "Components of Other Income and Expense," to the Consolidated Financial Statements for more information.

Interest expense for the years ended 2002 and 2001 was \$44 million and \$50.7 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 of 2002, as well as the RVL and L&E acquisitions in the fourth quarter of 2002.

Income before taxes, as a percent of sales, was 8.5 percent in 2002 and 9.3 percent in 2001. The percentage decrease in 2002 reflected the total third and fourth quarter pretax charges of \$32.1 million related to cost reduction actions 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 effective tax rate was 29.5 percent in 2002 and 32.4 percent in 2001. 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.

Net Income and Earnings Per Share

	2003	2002	2001
(In millions, except share amounts)			
Net income	\$267.9	\$257.2	\$243.2
Net income per common share	2.70	2.61	2.49
Net income per common share, assuming dilution	2.68	2.59	2.47

Net income for 2003 increased 4.2 percent compared to 2002. Net income for 2002 increased 5.8 percent compared to 2001. Net income, as a percent of sales, was 5.6 percent, 6.2 percent and 6.5 percent in 2003, 2002 and 2001, respectively.

Net income per common share for 2003 increased 3.4 percent compared to 2002. Net income per common share for 2002 increased 4.8 percent compared to 2001. Net income per common share, assuming dilution, for 2003 increased 3.5 percent compared to 2002. Net income per common share, assuming dilution, for 2002 increased 4.9 percent compared to 2001.

RESULTS OF OPERATIONS BY OPERATING SEGMENT**Pressure-sensitive Adhesives and Materials:**

(In millions)	2003	2002	2001
Sales – U.S.	\$1,372.4	\$1,329.6	\$1,268.9
Sales – International	1,804.4	1,374.0	1,023.0
Intrasegment sales	(167.9)	(135.6)	(103.1)
Net sales	\$3,008.9	\$2,568.0	\$2,188.8
Income before interest and taxes	206.9	194.8	192.1

2003 vs. 2002

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and income for 2003 compared to 2002. Sales increased approximately \$441 million or 17 percent to \$3.01 billion in 2003 compared to \$2.57 billion in 2002 as a result of higher sales in both the domestic and international operations. Operating income increased approximately \$12 million or 6 percent to \$207 million in 2003 compared to \$195 million in 2002, reflecting increases in both the domestic and international operations. Operating income for this segment also reflected a charge of approximately \$13 million in 2003 compared to \$22 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures.

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately \$43 million or 3 percent due to higher sales in the roll materials business (approximately \$14 million), graphics and reflective business (approximately \$13 million) and specialty tapes business (approximately \$10 million). Increased sales in the roll materials business reflected modest growth in the existing business. Higher sales in the graphics and reflective business and specialty tapes business included the benefit from new product launches and applications, as a result of the Company's Horizons growth initiatives during the year.

Income from domestic operations increased approximately \$8 million. The increase reflected a charge of approximately \$1 million in 2003 compared to approximately \$9 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Excluding the impact of these charges, income from domestic operations was comparable to 2002, reflecting higher sales in the roll materials business, graphics and reflective business and specialty tapes business, offset by a more competitive pricing environment and incremental costs associated with growth initiatives during 2003.

Results from International Operations

International sales, including intrasegment sales, increased approximately \$430 million or 31 percent due to higher sales in the roll materials business (approximately \$312 million), graphics and reflective business (approximately \$81 million) and specialty tapes business (approximately \$35 million). Included in these increases in international sales was the favorable impact of foreign currency translation (approximately \$181 million). Increases in the roll materials business and graphics and reflective business reflected incremental sales from the Jackstädt acquisition in May 2002 (estimated to be \$150 million), as well as stronger sales in the roll materials business in Asia, Latin America and Eastern Europe. Higher sales in the specialty tapes business included the benefit of new product launches and applications, as a result of the Company's Horizons growth initiatives during the year.

Income from international operations increased approximately \$4 million. The increase reflected a charge of approximately \$12 million in 2003 compared to approximately \$13 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Excluding

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the impact of these charges, income from international operations increased approximately \$4 million due to higher sales in the roll materials business, graphics and reflective business and specialty tapes business, as well as the favorable impact of foreign currency translation. These increases were partially offset by the impact of a more competitive pricing environment, including the impact of the GBP weakening relative to the Euro and the start-up costs for new manufacturing equipment in Europe.

2002 vs. 2001

The Pressure-sensitive Adhesives and Materials segment reported increased sales and income for 2002 compared to 2001. Sales increased approximately \$379 million or 17 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. The segment's 2002 operating income increased 1 percent to \$195 million compared to 2001.

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately \$61 million or 5 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.

Income from domestic operations decreased approximately \$3 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 offset by a \$20.2 million pretax gain on the sale of a business in 2001. Additionally, domestic income reflected the benefit from the change in accounting for goodwill (approximately 4 million). Excluding the impact of these items, income from domestic operations increased approximately \$18 million. 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.

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 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.

Results from International Operations

International sales, including intrasegment sales, increased approximately \$351 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 \$262 million). Excluding sales from the Jackstädt business, international sales reflected strong sales growth in roll materials in Asia (approximately \$34 million). In addition, higher sales in the roll materials and graphics businesses in Europe (approximately \$33 million) were due to the favorable impact of foreign currency translation.

Income from international operations increased approximately \$6 million. This included a charge of approximately \$13 million in 2002 compared to approximately \$4 million in 2001 related to restructuring, asset impairments and lease cancellation costs, as well as the positive impact from the change in accounting for goodwill (approximately \$2 million). Excluding the impact of these items, income from international operations

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increased approximately \$15 million due to sales growth, improved profitability achieved through cost reductions and productivity gains.

Consumer and Converted Products:

(In millions)	2003	2002	2001
Sales – U.S.	\$1,252.3	\$1,228.2	\$1,206.5
Sales – International	746.1	579.1	558.1
Intrasegment sales	(61.9)	(46.6)	(28.7)
Net sales	\$1,936.5	\$1,760.7	\$1,735.9
Income before interest and taxes	225.6	235.1	233.9

2003 vs. 2002

The Consumer and Converted Products segment reported increased sales and a decrease in operating income for 2003 compared to 2002. Sales increased approximately \$176 million or 10 percent to \$1.94 billion in 2003 compared to \$1.76 billion in 2002, reflecting increases in sales in both the domestic and international operations. Operating income decreased approximately \$10 million or 4 percent to \$226 million in 2003 compared to \$235 million in 2002, reflecting a charge of approximately \$22 million in 2003 compared to \$10 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Segment operating income also reflected a decline in income in domestic operations, partially offset by an increase in income in international operations.

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately \$24 million or 2 percent to \$1.25 billion in 2003 compared to \$1.23 billion in 2002 reflecting higher sales in the retail information services business (approximately \$55 million), partially offset by decreased sales in the office products business (approximately \$14 million) and a reduction in sales from a divested line of business during the first quarter of 2003 (approximately \$17 million). Higher sales in the retail information services business reflected incremental sales from the RVL and L&E acquisitions in November 2002. Lower sales in the office products business reflected the weak economic conditions impacting end-user demand related to white collar unemployment and reductions in direct mail marketing, as well as continued erosion in market share of the Company's Avery-brand products, in favor of private label brands and the loss in sales from a product line with one major customer of approximately \$6 million for 2003 (estimated to be \$35 million in annualized sales).

Income from domestic operations decreased approximately \$24 million. The decrease reflected a charge of approximately \$10 million in 2003 compared to approximately \$6 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Excluding the impact of these charges, income from domestic operations decreased approximately \$19 million reflecting declines in sales in the office products business, as well as a more competitive pricing environment and negative product mix. In addition, the decrease in income reflected higher manufacturing costs related to a decrease in average order size in the retail information services business, unanticipated incremental costs related to back-to-school orders during the third quarter of 2003 and incremental costs associated with growth initiatives.

Results from International Operations

International sales, including intrasegment sales, increased approximately \$167 million or 29 percent to \$746 million in 2003 compared to \$579 million in 2002 reflecting higher sales in the retail information services business (approximately \$152 million) and office products business (approximately \$45 million), partially offset by a reduction in sales from a divested line of business in late 2002 (approximately \$23 million). Included in

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these increases was the favorable impact of foreign currency translation (approximately \$61 million). Higher sales in the retail information services business were due to the incremental sales from the RVL and L&E acquisitions in November 2002 (estimated to be \$160 million), as well as sales growth in the Asian markets. Increased sales in the office products business were due to the favorable impact of foreign currency translation (approximately \$42 million), partially offset by weak economic conditions impacting end-user demand and continued erosion in market share of the Company's Avery-brand products, in favor of private label brands.

Income from international operations increased approximately \$14 million. The increase in international operations reflected a charge of approximately \$12 million in 2003 compared to approximately \$4 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Excluding the impact of these charges, operating income increased approximately \$22 million reflecting higher sales in the retail information services business, as well as the favorable impact of foreign currency translation. These increases were partially offset by incremental costs associated with growth initiatives.

In October 2003, the Company completed the sale of its package label converting business in Europe, which was previously reported in the Consumer and Converted Products segment. The results for this business were accounted for as discontinued operations for all periods presented herein.

2002 vs. 2001

The Consumer and Converted Products segment reported increased sales for 2002 compared to 2001. Sales increased approximately \$25 million or 1 percent to \$1.76 billion in 2002 compared to \$1.74 billion in 2001. The segment's 2002 income was comparable to 2001.

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately \$22 million or 2 percent, principally due to increases in the retail information services business (approximately \$13 million) and strong sales in the industrial and automotive products business (approximately \$8 million). Sales in the retail information services business included the operations of RVL and L&E acquired in November 2002, which contributed approximately \$9 million in sales. Sales from the domestic office products business were flat in 2002 compared to 2001. The office products environment was challenging, with superstores closing stores and reducing inventory, while white collar layoffs reduced end-user demand.

Income from domestic operations decreased approximately \$4 million, which included a charge of approximately \$6 million in 2002 compared to approximately \$5 million in 2001 related to restructuring, asset impairments and lease cancellation costs and a benefit from the change in accounting for goodwill (approximately \$5 million).

Results from International Operations

International sales, including intrasegment sales, increased approximately \$21 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). These increases were partially offset by a reduction in sales in 2002 from divested lines of business (approximately \$30 million).

Income from international operations increased approximately \$5 million. Results from the international operations also included a charge of approximately \$4 million in both 2002 and 2001, related to restructuring, asset impairments and lease cancellation costs and the positive impact from the change in accounting for goodwill (approximately \$4 million). Excluding the effect of these items, income from international operations reflected strong sales in the ticketing business in Asia.

FINANCIAL CONDITION**LIQUIDITY****Cash Flow Provided by Operating Activities**

Net cash flow provided by operating activities was \$334.9 million in 2003, \$511 million in 2002 and \$365.8 million in 2001. Cash flow from operating activities for 2003 was negatively impacted by changes in assets and liabilities of approximately \$90 million. Cash flow from operating activities for 2002 was positively impacted by changes in assets and liabilities of approximately \$68 million. For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation, the impact of acquisitions and divestitures and certain non-cash transactions (discussed in more detail in the “Analysis of Selected Balance Sheet Accounts” below).

Changes in assets and liabilities, net of the effect of business acquisitions and divestitures:

	2003	2002
(In millions)		
Trade accounts receivable	\$(40.8)	\$ (41.5)
Inventories	(37.4)	(16.5)
Other current assets	(3.9)	.3
Accounts payable and accrued liabilities	46.3	141.7
Taxes on income	(17.6)	6.2
Long-term retirement benefits and other liabilities	(36.3)	(22.7)
Total	\$(89.7)	\$ 67.5

2003

The decrease in cash flow from accounts receivable was due to higher sales late in the fourth quarter of 2003. Given the timing of these sales, management anticipates a decline in accounts receivable in the first quarter of 2004. This was partially offset by a decrease in the average number of days sales outstanding, from 61 in 2002 to 60 in 2003. (See “Accounts Receivable Ratios” discussed below.) The decrease in cash flow from inventory was due to continued growth in Asia, as well as intentional inventory build up in Europe to mitigate potential supply chain disruptions associated with the Jackstädt integration actions. The Company expects to reduce inventory levels in Europe during 2004 as it completes its integration actions. The increase in cash flow from accounts payable and accrued liabilities was due to changes in accounts payable (an increase of approximately \$61 million) due to increased inventory purchases, as well as extended payment terms with suppliers, partially offset by a reduction in payroll and benefits (a decrease of approximately \$28 million) as a result of lower bonus and vacation accruals. The decrease in taxes on income was primarily due to a \$30 million payment for taxes in the fourth quarter of 2003, as a result of timing differences. The decrease in long-term retirement benefits and other liabilities reflected a contribution of approximately \$31 million to the Company’s retirement plans during 2003.

2002

The decrease in cash flow from accounts receivable was due to higher sales levels and an increase in the average number of days sales outstanding, from 58 in 2001 to 61 in 2002 reflecting longer payment terms associated with international sales. The decrease in cash flow from inventory was due to higher inventory levels associated with higher sales in 2002 and a slight reduction in inventory turnover due to acquisition integration. The increase in cash flow from accounts payable and accrued liabilities was primarily associated with increases in accounts payable (approximately \$81 million) as a result of negotiating longer payment terms with vendors, increases in payroll and benefits (approximately \$34 million) as a result of higher bonus accruals and the timing of payroll payments, and increases in other accrued liabilities including accrued trade rebates (approximately

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\$27 million) as a result of increased sales. The decrease in cash flow from long-term retirement benefits and other liabilities reflected a contribution of approximately \$20 million to the Company's retirement plans during 2002.

Cash Flow Used in Investing Activities

Net cash flow used in investing activities was \$165.6 million in 2003, \$575.3 million in 2002 and \$266.3 million in 2001.

Capital Spending

Capital expenditures in 2003 were \$201.4 million compared to \$150.4 million in 2002. The Company's major capital projects in 2003 included two new coaters in the Company's roll materials business in Europe, as well as expansions in China and other regions of Asia.

Expenditures related to capitalized software were \$22.8 million in 2003 and \$20.1 million in 2002.

Acquisitions and Divestitures

In 2003, payments for acquisitions of \$6.9 million were primarily due to the final settlement of certain contingencies related to the achievement of performance targets associated with the 2001 acquisition of Dunsirn Industries, Inc. ("Dunsirn"). Proceeds from the sale of discontinued operations were \$58.8 million in 2003.

In 2002, payments for acquisitions of \$397.4 million were primarily for Jackstädt, RVL and L&E.

Cash Flow (Used in) Provided by Financing Activities

Net cash flow (used in) provided by financing activities was (\$166.7 million) in 2003, \$68.7 million in 2002 and (\$91.4 million) in 2001.

Borrowings and Repayment of Debt

Total commercial paper borrowings at year end 2003 were \$281.7 million with a weighted-average interest rate of 2.16 percent, of which \$250 million was classified as long-term, under the Company's available revolving credit agreement, compared to \$512.2 million (classified as long-term) at year end 2002.

The Company had \$82.9 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 8.9 percent for 2003, compared to \$80.5 million outstanding at year end 2002.

In April 2003, the Company issued \$150 million one-year callable commercial notes at a weighted-average interest rate of 1.71 percent. This replaced the December 2002 issuance of \$150 million one-year callable commercial notes at a weighted-average interest rate of 2.5 percent. In October 2003, the Company called \$60 million of the notes issued in April 2003. The remaining \$90 million was outstanding at year end. In January 2004, the Company reissued the \$60 million notes called in October at a weighted-average interest rate of 1.3 percent.

The Company had medium-term notes of \$318 million and \$388 million at year end 2003 and 2002, respectively. Medium-term notes have maturities from 2004 through 2025 and accrue interest at fixed rates.

In January 2003, the Company refinanced \$400 million of its variable rate commercial paper borrowings through the offering of \$250 million of 4.9 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033.

The Company's repayment of debt totaled approximately \$448 million in 2003 compared to approximately \$509 million in 2002.

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Shareholders' Equity

Shareholders' equity increased to \$1.32 billion at year end 2003 from \$1.06 billion at year end 2002. During 2003, the Company purchased approximately 5,000 shares of common stock at a cost of approximately \$.3 million. Dividends paid for 2003 totaled \$160.2 million compared to \$148.5 million in 2002. The annual dividend per share increased to \$1.45 in 2003 from \$1.35 in 2002.

Effect of Foreign Currency Translation

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 2003, sales were favorably impacted by currency fluctuations by approximately \$235 million. In 2002, sales were favorably impacted by currency fluctuations by approximately \$20 million. 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. As a result, the impact of foreign exchange rates on sales is matched with a partially offsetting impact on reported expenses, thereby reducing the impact of foreign currency fluctuations on net income. To reduce 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 2003, 2002 and 2001. These operations were not significant to the Company's consolidated financial position or results of operations.

The effect of foreign currency translation on cash was \$4.1 million in 2003, (\$.7 million) in 2002 and (\$.4 million) in 2001.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill increased \$98 million during 2003 due to foreign currency translation (approximately \$60 million), payments made in August and February due to meeting certain performance targets associated with the 2001 acquisition of Dunsirn (approximately \$6 million) and certain purchase price allocation adjustments associated with the acquisitions of Jackstädt (approximately \$20 million) and RVL and L&E (approximately \$12 million).

Other intangibles resulting from business acquisitions, net of accumulated amortization, increased \$3.4 million during 2003 due to foreign currency translation (approximately \$14 million) and certain purchase price allocation adjustments for Jackstädt (approximately \$3 million). This increase was partially offset by amortization expense recorded during 2003 (approximately \$13 million).

Other assets increased approximately \$20 million during 2003 due to increases in the cash surrender value of corporate owned life insurance contracts (approximately \$14 million), capitalized software, net of accumulated amortization (approximately \$9 million) and pension assets (approximately \$6 million). In addition, the increase in other assets reflected approximately \$5 million of deferred financing costs in connection with the issuance of the \$400 million Senior Notes in January 2003. Other assets in 2002 included assets held for sale in connection with the disposition of the Company's package label converting business in Europe.

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Other Accrued Liabilities

Other accrued liabilities increased approximately \$98 million during 2003 reflecting the reclassification of \$101.5 million long-term obligation to short-term during 2003 (see “Commitment and Contingencies” discussed below).

Other Shareholders' Equity Accounts

The market value of shares held in the employee stock benefit trust decreased by \$48 million during 2003 due to changes in stock price and the issuance of shares from the trust. The total number of shares issued under the Company's stock and incentive plans for 2003 was valued at approximately \$15 million.

As of year end 2003, 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.

Analysis of Selected Financial Ratios

Management utilizes certain financial ratios to assess its financial condition and operating performance, as discussed in detail below.

Working Capital Ratio

Working capital (current assets minus current liabilities), as a percent of net sales, increased to (1.2) percent for 2003 from (2.1) percent for 2002. Management utilizes the working capital from continuing operations ratio as a measurement tool to assess the working capital requirements of the Company, because it eliminates the impact of fluctuations due to financing activities of the Company. The timing of financing activities is not necessarily related to current operations and would tend to distort the working capital ratio from period to period. Working capital from continuing operations, as a percent of net sales, as shown below, increased to 7.1 percent for 2003 from 5.3 percent for 2002. Management's objective is to minimize its investment in working capital from operations by reducing this ratio, to maximize cash flow and return on investment.

Working capital from continuing operations consists of:

	2003	2002
(In millions)		
(A) Working capital (current assets minus current liabilities)	\$ (55.1)	\$ (85.3)
Reconciling items:		
Short-term and current portion of long-term debt	292.6	307.0
Steinbeis obligation (See Note 5 “Debt”)	101.5	—
(B) Working capital from continuing operations	339.0	221.7
(C) Net sales	4,762.6	4,155.9
Working capital, as a percent of net sales (A) ÷ (C)	(1.2)%	(2.1)%
Working capital from continuing operations as a percent of net sales (B) ÷ (C)	7.1 %	5.3 %

The increase in working capital from continuing operations in 2003, as a percent of sales, was due to higher balances in accounts receivable (approximately \$110 million) and inventory (approximately \$64 million) and a lower balance in hedge liabilities (a decrease of \$37 million), partially offset by increased balances in accounts payable (approximately \$110 million). Included in the changes in working capital balances from the prior year was the impact of changes in foreign currency translation. Higher accounts receivable balances at the end of 2003 reflected an increase in sales late in the fourth quarter. Given the timing of these sales, management believes that

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accounts receivable will be reduced in the first quarter of 2004. Increased inventory balances were a result of continued growth in Asia, as well as intentional inventory build up in Europe to mitigate potential supply chain disruptions associated with the Jackstädt integration actions. The Company expects to reduce inventory levels in Europe during 2004 as it completes its integration actions. Decreased hedge liabilities were due to the settlement of a forward starting interest swap in connection with the issuance of the \$250 million 10-year Senior Notes in January 2003. Higher balances in accounts payable were due to increased inventory purchases, as well as extended payment terms with suppliers in 2003.

Accounts Receivable Ratios

The average number of days sales outstanding in accounts receivable decreased to 60 days in 2003 compared to 61 days in 2002 due to improved terms with customers, as well as the impact of the Company's receivable financing programs (see "Commitments and Contingencies" discussed below).

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 2003 and 2002, approximately 15 percent and 17 percent, respectively, of trade accounts receivable were from eight 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.

Inventory Ratio

Inventory turnover decreased from 8.6 in 2002 to 8.4 in 2003 as a result of intentional inventory build up in Europe to mitigate potential supply chain disruptions associated with the Jackstädt integration actions.

Debt Ratios

Total debt to total capital was 47.2 percent at year end 2003 compared to 52 percent at year end 2002. This decrease was due to higher equity balances at the end of 2003.

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 2003 and 2002, the fair value of the Company's total debt, including short-term borrowings, was \$1.21 billion and \$1.18 billion, respectively.

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. In 2003, the Company's ratios were within required ranges. Specifically, under the loan agreements, the ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2003 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 2003 was 7.3 to 1.0.

Shareholder's Equity Ratios

Return on average shareholders' equity was 22.3 percent in 2003, 25.7 percent in 2002 and 27.4 percent in 2001. Return on average total capital was 14.3 percent in 2003, 15.8 percent in 2002 and 16.2 percent in 2001. Decreases in these returns in 2003 compared to 2002 was primarily due to the impact of foreign currency translation in other comprehensive income (see "Capital from Equity" discussed below).

CAPITAL RESOURCES

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 programs in the U.S. and Europe, committed and uncommitted bank lines of credit throughout the world, callable commercial notes and long-term debt, including medium-term notes.

Capital from Debt

Total debt increased approximately \$36 million in 2003 to \$1.18 billion compared to year end 2002. This increase reflected additional borrowings as a result of the timing of the Company's financing needs (see also *Commitments and Contingencies* discussed below).

The Company's committed credit availability at year end 2003 was as follows:

	Total Amounts Committed	Amount of Commitment Expiration				
		2004	2005	2006	2007	2008
(In millions)						
Lines of credit – committed, unused	\$ 481.4	\$ 231.4	—	\$ 250.0	—	—
Standby letters of credit outstanding:						
General	19.0	19.0	—	—	—	—
Deferred compensation	75.0	—	—	—	—	\$ 75.0
Steinbeis obligation	101.5	101.5	—	—	—	—
Total	\$ 676.9	\$ 351.9	—	\$ 250.0	—	\$ 75.0

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2006. It is the intention of management to renegotiate this agreement during 2004. Financing available under this agreement is used as a commercial paper back-up facility and is available to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2003.

Available lines of credit also included a 364-day revolving credit facility with eight domestic and foreign banks to provide up to \$200 million in borrowings through December 3, 2004. 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. It is the intention of management to renegotiate this agreement during 2004. Financing available under this agreement is used as a commercial paper back-up facility and is available to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2003.

In addition, the Company has a 364-day revolving credit facility with one foreign bank to provide up to Euro 30 million (\$36.9 million) in borrowings through May 25, 2004. The Company may annually extend the revolving period and due date with the approval of the bank. It is the intention of management to renegotiate this agreement during 2004. Financing under this agreement will be used to finance cash requirements in Europe. There was \$5.5 million outstanding under this agreement as of year end 2003.

The Company had standby letters of credit outstanding of \$195.5 million and \$182.7 million at the end of 2003 and 2002, respectively.

Uncommitted lines of credit were approximately \$314 million at year end 2003. 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.

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Available short-term financing arrangements as of year end 2003 totaled approximately \$436 million.

The aggregate \$400 million refinancing in January 2003 (discussed in “Cash Flow (Used in) Provided by Financing Activities” above), 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 \$200 million remaining that is available for issuance for general corporate purposes, including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital.

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, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team.

The ratings assigned to the Company also impact the interest rates on its commercial paper and other borrowings. The Company’s credit ratings are as follows:

	<u>Short-term</u>	<u>Long-term</u>	<u>Outlook</u>
Standard & Poor’s Rating Service	A-1	A	Negative
Moody’s Investor Service	P2	A3	Stable

Capital from Equity

The Company had \$124.1 million in common stock (with \$1 par value), \$703.7 million in capital in excess of par at the end of 2003 and 99.6 million shares outstanding at the end of 2003. Additionally, the Company had total retained earnings of \$1.77 billion, which included \$267.9 million of net income, less dividends paid of \$160.2 million in 2003.

Accumulated other comprehensive loss decreased \$127.3 million in 2003 due to a \$150.7 million benefit from foreign currency translation during the year, as well as a net benefit of \$5.8 million resulting from the revaluation of hedging transactions during the year. These benefits were partially offset by an additional pension liability of \$27.8 million for both the U.S. and international pension plans and \$1.4 million loss on cash flow hedges recognized to income in 2003. The increase in pension liability was a result of changes in assumptions and lower than anticipated value of the pension plan assets at the end of 2003.

Commitments and Contingencies

The Company’s contractual obligations at year end 2003 were as follows:

	<u>Payments Due by Period</u>						
	<u>Total</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	
(In millions)							
Short-term lines of credit	\$ 114.6	\$ 114.6	—	—	—	—	—
Callable commercial notes	90.0	90.0	—	—	—	—	—
Steinbeis obligation	101.5	101.5	—	—	—	—	—
Long-term debt	975.7	88.0	\$ 74.8	\$ 250.5	\$ 60.4	\$ 50.4	\$ 451.6
Operating leases	207.9	50.9	40.8	29.4	21.4	17.4	48.0
Purchase obligation(1)	34.0	11.2	12.3	4.0	3.7	2.8	—
Total contractual obligations	\$ 1,523.7	\$ 456.2	\$ 127.9	\$ 283.9	\$ 85.5	\$ 70.6	\$ 499.6

- (1) Purchase obligations include commitments to purchase inventory and services under long-term supply agreements. Purchase orders for items other than such commitments have not been included.

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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 2004 through 2008 and thereafter, are included in the above table.

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 was reclassified from the "Other long-term obligation" to the "Other accrued liabilities" line in the Consolidated Balance Sheet during the first quarter of 2003. The amount of this obligation increased to \$101.5 million at the end of 2003 reflecting the impact of changes in foreign currency exchange rates. The Company paid the entire obligation in February 2004.

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 eleven 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 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 the final resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

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.

In April 2003, the Company was notified by the U.S. Department of Justice's Antitrust Division that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the U.S. Department of Justice issued a subpoena to the Company in connection with the investigation. The Company is cooperating in the investigation. The Company is a named defendant in purported class actions seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the investigation. The Company is also a named defendant in purported stockholder class actions seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. The Company is unable to predict the effect of these matters at this time, although the effect may be adverse and material. These matters are reported in Note 9 "Contingencies," to the Consolidated Financial Statements and Item 3. Legal Proceedings herein.

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

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The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At December 27, 2003, the Company had guaranteed \$8.4 million.

In February 2003, the Company entered into a five-year operating lease on equipment that contains a residual value guarantee of \$10.6 million. In the opinion of management, the amount guaranteed will not significantly impact the consolidated financial position of the Company.

The Company guaranteed approximately \$18 million of certain foreign subsidiaries' obligations to their suppliers as of December 27, 2003.

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

2004 Capital Spending Plan

Capital expenditures for 2004 are expected to be in the range of \$175 million to \$200 million. The Company's major projects in 2004 include expansion of the Company's capacity in Asia, as well as projects related to productivity improvement in the Company's North American roll materials operation. The projected increase in capital expenditures in 2004 is expected to be funded through operating cash flows.

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, 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 2003, 2002 and 2001, the Company paid premiums to insurance companies for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2003, 2002 and 2001, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.1 million, \$1.3 million and \$1.7 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$.7 million, \$.9 million and \$1 million in 2003, 2002 and 2001, respectively. 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

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 judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution

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of such matters is unknown. The Company believes that critical accounting policies include accounting for revenue recognition, accounts receivable allowances and customer complaint reserves, inventory reserves, long-lived asset impairments and pensions and postretirement benefits.

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.

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.

Accounts Receivable Allowances and Customer Complaint Reserves

Management is required to make judgments, based on established aging policy, 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. Approximately 15 percent and 17 percent of trade receivables were from eight customers of the Company's office products business in 2003 and 2002, respectively. The financial position and operations of these customers are monitored on an ongoing basis.

Inventory Reserves

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

Long-lived Asset Impairments

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

Pensions and Postretirement Benefits

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

RECENT ACCOUNTING REQUIREMENTS

In December 2003, the Financial Accounting Standards Board (FASB) reissued Interpretation No. 46, "Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51." The Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support. The provisions of this Interpretation will be effective for the Company for interim periods ending after March 15, 2004. The adoption of this Interpretation is not expected to have a significant impact on the Company's financial results of operations and financial position, since the Company did not have an interest in any variable interest entities at December 27, 2003.

In December 2003, the FASB reissued Statement of Financial Accounting Standards ("SFAS") No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106." This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement retains the disclosure requirements contained in the original SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revised Statement also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The provisions of the original SFAS No. 132 will remain in effect until the provisions of this Statement are adopted. Certain new provisions are effective for financial statements with fiscal years ending after December 15, 2003, while other provisions are effective for fiscal years ending after June 15, 2004. The interim period disclosures are effective for interim periods beginning after December 15, 2003. See Note 12 "Pensions and Other Postretirement Benefits," to the Consolidated Financial Statements for disclosures required under the revised SFAS No. 132.

In August 2003, the consensus of Emerging Issues Task Force (EITF) Issue No. 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan" was published. EITF Issue No. 03-4 determines that for the purposes of applying SFAS No. 87, "Employers' Accounting for Pensions," the cash balance plan should be considered a defined benefit plan. The provisions of EITF Issue No. 03-4 were effective during the fourth quarter of 2003. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FASB Staff Position No. FAS 150-3, "Effective Date for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," was issued on November 7, 2003. This FASB Staff Position deferred the effective date for the classification and measurement provisions for certain mandatorily redeemable noncontrolling interests for an indefinite period. The other provisions of this Statement were effective for financial instruments entered into or modified after May 31, 2003, and otherwise were effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 for those provisions effective in the current period has not had a significant impact on the Company's financial results of operations and financial position. The adoption of those provisions effective in 2004 is not expected to have a significant impact on the Company's financial results of operations and financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative

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instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) used for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this Statement were effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this Statement has not had a significant impact on the Company's financial results of operations and financial position.

In March 2003, the consensus of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor," was published. EITF Issue No. 02-16 addresses how a reseller of a vendor's products should account for cash consideration received from a vendor. The provisions of EITF Issue No. 02-16 were effective for new arrangements entered after December 31, 2002. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In March 2003, the consensus of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," was published. 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 were effective in fiscal periods beginning after June 15, 2003. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

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. This Statement also amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The provisions of this Statement were 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 2003 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 Note 1 "Summary of Significant Accounting Policies," to the Consolidated Financial Statements.

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 were effective for financial statements of interim or annual periods ending after December 15, 2002, and applicable disclosures are presented in Notes 1, 3, 5 and 9 of the Consolidated Financial Statements. The initial recognition and initial measurement provisions of this Interpretation were effective during the beginning of fiscal 2003. The adoption of this Interpretation has not had a significant impact on the Company's financial results of operations and financial position.

In June 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 were effective for new restructuring activities subsequent to December 31, 2002. The adoption

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of SFAS No. 146 affects the timing of the recognition of future costs associated with exit or disposal activities and did not affect previous charges related to such activities. The adoption of this Statement impacted the timing of recognition of liabilities associated with the fourth quarter of 2003 integration and productivity improvement initiatives detailed in Note 11 “Components of Other Income and Expense,” to the Consolidated Financial Statements.

In April 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 were effective at the beginning of 2003. All other provisions were effective May 16, 2002. The adoption of this Statement has not had a significant impact on the Company’s financial results of operations and financial position.

In June 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 were effective at the beginning of fiscal 2003. The adoption of this Statement has not had a significant impact on the Company’s financial results of operations and financial position.

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,” “could,” “estimate,” “expect,” “may,” “plan,” “project,” “will,” and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause actual results to differ materially from 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 more detail in Exhibit 99.1 hereto, which is incorporated by reference, and include, but are not limited to, risks and uncertainties relating to worldwide and local economic conditions, 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, fluctuations in pension, insurance and benefit costs, successful integration of new acquisitions, projections related to estimated cost savings from integration and productivity improvement actions, 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 including the U.S. Department of Justice criminal investigation into competitive practices in the label stock industry and any related proceedings pertaining to the subject matter including purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the investigation, changes in governmental regulations, fluctuations in interest rates, fluctuations in foreign exchange rates, ability to estimate the impact of foreign currency on financial results and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism,

natural disasters, impact of Severe Acute Respiratory Syndrome (“SARS”) on the economy, the Company’s customers and business, and other factors.

Any forward-looking statements should also be considered in light of the factors detailed in Exhibit 99.1 in the Company’s Annual Report on Form 10-K for the year ended December 27, 2003.

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

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 may periodically use interest rate contracts to manage net exposure to interest rate changes related to its borrowings. In connection with the issuance of the \$250 million 10-year Senior Notes, the Company settled a forward starting interest rate swap at a loss of approximately \$32.5 million. The loss is currently being amortized to interest expense over 10 years, which corresponds to the term of the related debt. The Company entered into the 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 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.

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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 \$3.2 million at year end 2003.

Interest Rate Sensitivity

An assumed 20 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 2003 earnings.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in Avery Dennison's Consolidated Financial Statements and the Notes thereto appearing on pages 47 through 74, and in the Report of Independent Auditors on page 75 of Avery Dennison's 2003 Annual Report and is incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) 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 Securities and Exchange Commission'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 judgment 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. As required by SEC Rule 13a-15(b), 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 as of the end of the fiscal year covered by this report.

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 effective to provide reasonable assurance that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

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

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors called for by this item is incorporated by reference from pages 2-4 and 7 of the 2004 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 2004 Proxy Statement.

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

Item 11. EXECUTIVE COMPENSATION

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

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by items 11, 12, 13 and 14 is incorporated by reference from pages 5 through 25 of the 2004 Proxy Statement, filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

PART IV

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

(a) Financial Statements, Financial Statement Schedule and Exhibits

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

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

(b) Reports on Form 8-K:

Registrant furnished a current report on Form 8-K on October 21, 2003, providing a copy of a news release relating to its financial results for the quarter ending September 27, 2003.

Registrant furnished a current report on Form 8-K on December 16, 2003, announcing that in connection with certain antitrust complaints against the Registrant and certain other label stock manufacturers ("Defendants"), the Defendants had filed a joint initial pre-trial conference brief in the U.S. Federal District Court for the Middle District of Pennsylvania.

Registrant furnished a current report on Form 8-K on January 27, 2004, providing a copy of a news release relating to its financial results for the quarter ending December 27, 2003.

(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 2003 Annual Report by Rule 14a-3(b)(1), and which are required to be filed as financial statement schedule to this report, are indicated in the accompanying Index to Financial Statements and Financial Statement Schedule.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION

By: /s/ DANIEL R. O'BRYANT

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

Dated: March 11, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and as of the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ PHILIP M. NEAL</u> Philip M. Neal	Chairman and Chief Executive Officer, Director	March 11, 2004
<u>/s/ DEAN A. SCARBOROUGH</u> Dean A. Scarborough	President and Chief Operating Officer, Director	March 11, 2004
<u>/s/ DANIEL R. O'BRYANT</u> Daniel R. O'Bryant	Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	March 11, 2004
<u>/s/ MICHAEL A. SKOVVAN</u> Michael A. Skovvan	Vice President and Controller (Principal Accounting Officer)	March 11, 2004

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <i>/s/</i> PETER K. BARKER <hr/> Peter K. Barker	Director	March 11, 2004
<hr/> <i>/s/</i> FRANK V. CAHOUET <hr/> Frank V. Cahouet	Director	March 11, 2004
<hr/> <i>/s/</i> RICHARD M. FERRY <hr/> Richard M. Ferry	Director	March 11, 2004
<hr/> <i>/s/</i> BRUCE E. KARATZ <hr/> Bruce E. Karatz	Director	March 11, 2004
<hr/> <i>/s/</i> KENT KRESA <hr/> Kent Kresa	Director	March 11, 2004
<hr/> <i>/s/</i> CHARLES D. MILLER <hr/> Charles D. Miller	Director	March 11, 2004
<hr/> <i>/s/</i> PETER W. MULLIN <hr/> Peter W. Mullin	Director	March 11, 2004
<hr/> <i>/s/</i> DAVID E. I. PYOTT <hr/> David E. I. Pyott	Director	March 11, 2004
<hr/> <i>/s/</i> JULIA A. STEWART <hr/> Julia A. Stewart	Director	March 11, 2004

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULE

	Reference (page)	
	Form 10-K Annual Report	Annual Report to Shareholders
Data incorporated by reference from the attached portions of the 2003 Annual Report to Shareholders of Avery Dennison Corporation:		
Report of Independent Auditors	—	75
Consolidated Balance Sheet at December 27, 2003 and December 28, 2002	—	47
Consolidated Statement of Income for 2003, 2002 and 2001	—	48
Consolidated Statement of Shareholders' Equity for 2003, 2002 and 2001	—	49
Consolidated Statement of Cash Flows for 2003, 2002 and 2001	—	50
Notes to Consolidated Financial Statements	—	51-74

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. Investments in certain affiliates (20 percent to 50 percent) are accounted for by the equity method of accounting.

With the exception of the consolidated financial statements and the report of independent auditors thereon listed in the above index, and certain information referred to in Items 1, 5 and 6, which information is included in the 2003 Annual Report and is incorporated herein by reference, the 2003 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 Auditors on Financial Statement Schedule	S-2	—
Financial Statement Schedules		
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 AUDITORS
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, 2004 appearing in the 2003 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.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
January 27, 2004

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		
2003					
Allowance for doubtful accounts	\$ 25.1	\$ 10.2	\$.6	\$ (6.0)	\$ 29.9
Allowance for sales returns	20.8	15.3	—	(11.8)	24.3
Inventory reserve	40.8	24.3	3.4	(18.7)	49.8
2002					
Allowance for doubtful accounts	\$ 17.7	\$ 13.4	\$ 5.6	\$ (11.6)	\$ 25.1
Allowance for sales returns	19.5	17.2	.6	(16.5)	20.8
Inventory reserve	34.8	14.9	7.9	(16.8)	40.8
2001					
Allowance for doubtful accounts	\$ 19.3	\$ 11.2	\$.3	\$ (13.1)	\$ 17.7
Allowance for sales returns	17.9	9.8	—	(8.2)	19.5
Inventory reserve	30.3	15.4	1.0	(11.9)	34.8

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, 333-38709, 333-107370, 333-107371, 333-107372 and 333-109814) of Avery Dennison Corporation of our report dated January 27, 2004 relating to the financial statements, which appears in the 2003 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, 2004 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
March 11, 2004

AVERY DENNISON CORPORATION
EXHIBIT INDEX
For the Year Ended December 27, 2003

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 the Office of Delaware Secretary of State	3(i)	Third Quarterly report for 2002 on Form 10-Q, filed November 12, 2002
(3.2)	By-laws, as amended	3(ii)	2002 Annual Report on Form 10-K, filed March 28, 2003
(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

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(10.13)	*Retirement Plan for Directors, amended and restated	10.13.1	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.15)	*Director Equity Plan, amended and restated (“Director Plan”)	10.15.4	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.16)	*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)	*Amendment No. 2 to 1990 Plan	10.19.5	1996 Annual Report on Form 10-K, filed March 28, 1997
(10.19.3)	*Employee Stock Option and Incentive Plan, amended and restated (“Stock Option Plan”)	10.19.6	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.21)	*Stock Incentive Plan, amended and restated (“Stock Incentive Plan”)	10.21.2	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.21.1)	*Forms of NQSO Agreement under the Stock Incentive Plan	10.21.3	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.27)	*Executive Long-Term Incentive Plan (“LTIP”)	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
(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

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(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	1997 Annual Report on Form 10-K, filed March 26, 1998
(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
(10.31.4)	*2004 EVDRP		Registration Statement on Form S-8 (File No. 333-109814), filed October 20, 2003
(10.32)	*Benefits Restoration Plan, amended and restated (“BRP”)	10.32.1	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.33)	*Restated Trust Agreement for Employee Stock Benefit Trust	10.33.1	1997 Annual Report on Form 10-K, filed March 26, 1998
(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 4, 2003
10.15.1	*Form of Non-Employee Director Stock Option Agreement under Director Plan
10.19.4	*Amendment No. 1 to Stock Option Plan
10.19.5	*Forms of NQSO Agreement under Stock Option Plan
10.27.1	*LTIP, amended and restated
10.29.2	*ELCP, amended and restated
10.30.2	*SELCP, amended and restated
10.31.5	*EVDRP, amended and restated
12	Computation of Ratio of Earnings to Fixed Charges
13	Portions of Annual Report to Shareholders for fiscal year ended December 27, 2003
21	List of Subsidiaries
23	Consent of Independent Accountants (see page S-4)
24	Power of Attorney
31.1	Philip M. Neal Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Daniel R. O'Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Philip M. Neal Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Daniel R. O'Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995
99.2	Stock Ownership Policy

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

STATEMENT AND AGREEMENT REGARDING LONG-TERM DEBT OF REGISTRANT

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

**BYLAWS
OF
AVERY DENNISON CORPORATION**

**ARTICLE I
OFFICES**

Section 1. Registered Office.

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

Section 2. Principal Office.

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

Section 3. Other Offices.

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

**ARTICLE II
STOCKHOLDERS**

Section 1. Place of Meetings.

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

Section 2. Annual Meetings of Stockholders.

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

Section 3. Special Meetings.

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

Section 4. Notice of Stockholders' Meetings.

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

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

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

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

Section 6. Quorum.

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

Section 7. Adjourned Meeting and Notice Thereof.

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

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

Section 8. Voting.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the Chairman of the meeting. Any stockholder entitled to vote on any matter (other than the election of directors)

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

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

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

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

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

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

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

Section 11. Record Date for Stockholder Notice and Voting.

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

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

Section 12. Proxies.

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

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

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

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

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

Section 14. *Nomination and Stockholder Business Bylaw.*

(A) Annual Meetings of Stockholders.

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

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

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

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

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

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to be elected at an annual or special meeting of stockholders and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this

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

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

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

ARTICLE III **DIRECTORS**

Section 1. Powers.

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

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

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

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

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

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

Section 2. Number and Qualification of Directors.

The number of directors of the corporation shall be Eleven (11) 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 ($\frac{2}{3}$) 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 4, 2003

AVERY DENNISON CORPORATION
DIRECTOR EQUITY PLAN AGREEMENT

THIS AGREEMENT, dated December 4, 2003 is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, a non-employee director of Company, hereinafter referred to as "Optionee."

WHEREAS, Company wishes to afford Optionee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Avery Dennison Corporation Director Equity Plan (hereinafter referred to as the "Plan"), as amended and restated, and

WHEREAS, The Company's Board of Directors (hereinafter referred to as the "Board"), appointed to administer said Plan, has determined that it would be to the advantage and best interest of Company and its stockholders to grant the Option provided for herein to Optionee as an inducement to provide services as a Director of the Company and as an incentive for increased efforts during such service. The Board has advised Company of its determination and instructed the undersigned officers to issue said Option, which is a Non-Qualified Stock Option, as required 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 Optionee do hereby agree as follows:

ARTICLE I DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning set forth below or as set forth in the Plan unless the context clearly indicates to the contrary.

1.1 Agreement

"Agreement" shall mean this Director Equity Plan Agreement.

1.2 Beneficiary

"Beneficiary" shall mean a person properly designated by the Optionee, including his/her spouse or heirs at law, to exercise such Optionee'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.

1.3 Change of Control

"Change of Control" shall have the same meaning given in Article 9 of the Plan.

1.4 Option

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

* Refer to attached Notice.

1.5 Optionee

“Optionee” shall mean a non-employee Director eligible under the terms of the Plan.

1.6 Plan

The “Plan” shall mean the Avery Dennison Corporation Director Equity Plan, as amended and restated.

1.7 Pronouns

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

1.8 Secretary

“Secretary” shall mean the Secretary of the Company.

1.9 Termination

“Termination” shall mean the time when the Optionee ceases to be a Director of the Company for any reason, including, but not limited to, a termination by resignation, removal, death, retirement, or failure to be elected.

1.10 Transferee

“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 person (or the employee) own more than fifty percent of the voting interests.

ARTICLE II GRANT OF OPTION

2.1 Grant of Option

In consideration of Optionee’s agreement to provide services as a director of the Company and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Optionee the option to purchase any part or all of an aggregate of 2,000 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 which is incorporated herein by reference.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty five and 5500/10000 dollars (\$55.55) per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Optionee agrees to render services as a Director to the Company, for a period of at least one (1) year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon the Optionee any right to continue as a Director of the Company, nor shall it interfere with or restrict in any way, other than the loss of rights as provided in Article III of this Agreement, the right of the Optionee voluntarily to resign as a Director of the Company.

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

ARTICLE III PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

- (i) The first installment shall consist of fifty percent (50%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
- (ii) The second installment shall consist of an additional fifty percent (50%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment which becomes exercisable shall remain exercisable during the term of the Option, subject to Section 3.3.

- (b) No portion of the Option which is an unexercisable installment under Subsection (a) above at Termination shall thereafter become exercisable.
- (c) Notwithstanding Subsection 3.1(a) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.
- (d) Notwithstanding Subsection 3.1(a) above, when the Optionee retires from the Board at or after age seventy-two, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

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

3.3 Exercise of Option after Termination

This Option is exercisable by the Optionee only while he is a Director of the Company, subject to the following exceptions and Section 5.2 below:

- (a) If the Optionee dies while the Option is exercisable under the terms of this Agreement, the Optionee's Beneficiary or a Transferee, as applicable, may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Optionee's death, but not later than the Option's Expiration Date.
- (b) If the Optionee ceases to be a Director due to his Retirement, the Optionee or a Transferee, as applicable, may exercise the Option, subject to the limitation in Subsection 3.1(b), within sixty (60) months after Termination, but not later than the Option's Expiration Date.
- (c) If the Optionee ceases to be a Director other than for the reasons set forth in Subsections (a) or (b) above, the Optionee or a Transferee, as applicable, may exercise the Option, subject to the limitations of Subsection 3.1(b), within three (3) months after Termination, 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 one hundred (100) 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 delivering to the Secretary or his office all of the following:

- (a) A written notice, complying with the applicable rules established by the Board, stating that the Option or portion is thereby exercised. The notice shall be signed by the Optionee or the other person then entitled to exercise the Option;
- (b) Full payment (in cash or by cashier's check) for the shares with respect to which the Option or portion is exercised. Payment may be made by surrendering Company common stock owned by the Optionee or a Transferee, as applicable, with a fair market value (as defined in Paragraph 5(c) of the Plan) on the date the Option is exercised equal to the aggregate purchase price of the shares with respect to which the Option, or portion thereof, is exercised; and

- (c) In the event the Option or portion thereof 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.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and non-assessable. 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 Board 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 Board 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 Board 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 Stockholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder 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 Board 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 Board in good faith shall be final and binding upon the Optionee, the Company and all other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Option.

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, or to a Beneficiary, a Transferee, or except as permitted by the Plan. The Option shall be exercised during the Optionee's lifetime only by the Optionee, or his guardian or legal representative or by a Transferee.

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 Optionee 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 Optionee shall, if Optionee is then deceased, be given to Optionee'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 wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.4 Adoption by the Board, Approval by Stockholders and Receipt of Interpretive Letter

The Plan was approved and adopted by the Board on February 27, 2003 and approved by the Company's stockholders on April 24, 2003. The Company received an interpretive letter dated April 22, 1988 from the Securities and Exchange Commission to the effect that the Plan meets the requirements of Rule 16b-3 of the Securities Exchange Act of 1934 and that non-employee directors receiving Options under the Plan are disinterested persons within the meaning of Rule 16b-3 for the purpose of administering certain compensation plans of the Company.

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 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 and Chief Executive Officer

By: _____
*
Secretary

By: _____
*
Optionee

Address*:

* Refer to attached Notice.

**AMENDMENT No. 1 to
AVERY DENNISON CORPORATION
EMPLOYEE STOCK OPTION AND INCENTIVE PLAN**

The Employee Stock Option and Incentive Plan, as amended and restated (the "Plan"), and as approved by the stockholders on April 24, 2003, is hereby amended effective December 4, 2003, as follows:

1. The first paragraph of Article 12.4 "Amendment, Suspension, or Termination of this Plan" is amended to read as follows:

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

2. All other terms and conditions of the Plan remain in full force and effect.

**AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT**

THIS AGREEMENT, dated December 4, 2003, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

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

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

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

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

ARTICLE I - DEFINITIONS

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

1.1 **Beneficiary**

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

1.2 **Change of Control**

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

1.3 **Option**

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

1.4 **Plan**

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

1.5 **Pronouns**

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

* Refer to attached Notice

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

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

1.8 Termination of Employment

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

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty-five and 55000/10000 dollars (\$55.55) per share without commission or other charge.

2.3 Consideration to Company

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

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or

* Refer to attached Notice

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

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

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

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

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

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

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

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.

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

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option, or alternatively, if the option exercise is executed through the Company's designated broker (including execution of stock option exercise electronically through the Web site of the Company's designated broker), then such notice shall not be required; and

- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise, 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 upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

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

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option

unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

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

5.3 Option Not Transferable

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

5.4 Notices

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

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

By: _____
Optionee
Address*: _____

By: _____
Chairman and Chief Executive Officer
By: _____
Secretary

* Refer to attached Notice.

AVERY DENNISON CORPORATION

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated December 4, 2003, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

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

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

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

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

ARTICLE I - DEFINITIONS

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

1.1 Beneficiary

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

1.2 Change of Control

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

1.3 Option

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

1.4 Plan

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

1.5 Pronouns

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

* Refer to attached Notice

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

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

1.8 Termination of Employment

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

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty-five and 55000/10000 dollars (\$55.55) per share without commission or other charge.

2.3 Consideration to Company

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

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the

* Refer to attached Notice

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

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

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

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

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

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

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

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.

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

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option, or alternatively, if the option exercise is executed through the Company's designated broker (including execution of stock option exercise electronically through the Web site of the Company's designated broker), then such notice shall not be required; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or

(ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and

- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise, 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 upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

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

4.4 Rights as Shareholders

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

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

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

5.3 Option Not Transferable

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

5.4 Notices

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

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

* Refer to attached Notice.

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated December 4, 2003, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

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

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

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

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

ARTICLE I - DEFINITIONS

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

1.1 Beneficiary

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

1.2 Change of Control

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

1.3 Option

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

1.4 Plan

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

1.5 Pronouns

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

* Refer to attached Notice

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

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

1.8 Termination of Employment

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

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be fifty-five and 55000/10000 dollars (\$55.55) per share without commission or other charge.

2.3 Consideration to Company

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

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the

* Refer to attached Notice

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

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

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

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

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

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

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

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

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

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

4.4 Rights as Shareholders

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

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

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

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned

or transferred in any manner other than by will or by the applicable laws of descent and distribution. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

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

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

* Refer to attached Notice.

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

EVERY DENNISON CORPORATION EMPLOYEE STOCK OPTION AND INCENTIVE PLAN (as amended effective April 24, 2003) - 2003 UK APPROVED RULES

AWARD AGREEMENT ("THE AGREEMENT")

THIS AGREEMENT, dated December 18, 2003, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and * an employee of a Constituent Company, hereinafter referred to as "Employee."

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

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

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

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

ARTICLE I - DEFINITIONS

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

1.1 Change of Control

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

1.2 Constituent Company

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

1.3 Option

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

1.5 Pronouns

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

* Refer to attached Notice

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Termination of Employment

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

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Option Price

The option price of the shares of stock shall be fifty-five and 0000/1000 dollars (US\$55.00) per share without commission or other charge, which was the equivalent of £31.00. (For informational purposes, on December 18, 2003 the exchange rate of £ to US\$, as reported by Bloomberg L.P., was £1.00 equals US\$1.7738).

2.3 Consideration to Company

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

2.4 Adjustments in Option

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

* Refer to attached Notice

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

(b) The Option shall become exercisable as follows:

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

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

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

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

- (c) Termination by Reason of Retirement - If the Employee's employment is terminated due to his retirement the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) Other Termination - If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

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

4.3 Conditions to Issuance of Stock Certificates

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

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

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

4.4 Rights as Shareholders

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

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

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

5.3 Option Not Transferable

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

5.4 Notices

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

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

* Refer to attached Notice.

EVERY DENNISON CORPORATION EMPLOYEE STOCK OPTION AND INCENTIVE PLAN (as amended effective April 24, 2003) - 2003 UK APPROVED RULES

AWARD AGREEMENT ("THE AGREEMENT")

THIS AGREEMENT, dated December 18, 2003, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and * an employee of a Constituent Company, hereinafter referred to as "Employee."

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

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

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

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

ARTICLE I - DEFINITIONS

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

1.1 Change of Control

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

1.3 Constituent Company

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

1.3 Option

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

1.5 Pronouns

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

* Refer to attached Notice

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Termination of Employment

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

ARTICLE II - GRANT OF OPTION

2.1 Grant of Option

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

2.2 Option Price

The option price of the shares of stock shall be fifty-five and 0000/10000 dollars (US\$55.00) per share without commission or other charge, which was the equivalent of £31.00. (For informational purposes, on December 18, 2003 the exchange rate of £ to US\$, as reported by Bloomberg L.P., was £1.00 equals US\$1.7738).

2.3 Consideration to Company

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

2.4 Adjustments in Option

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

* Refer to attached Notice

ARTICLE III - PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

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

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

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

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

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

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

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

ARTICLE IV - EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

same group of companies as the Constituent Company on the exercise of the Option in accordance with Rule 7.4 of the Sub-Plan.

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

4.3 Conditions to Issuance of Stock Certificates

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

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

4.4 Rights as Shareholders

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

ARTICLE V - MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

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

5.3 Option Not Transferable

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

5.4 Notices

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

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

By: _____ *

Optionee

Address*: _____

By: _____ *

Chairman and Chief Executive Officer

By: _____ *

Secretary

* Refer to attached Notice.

EXECUTIVE LONG-TERM INCENTIVE PLAN

1. PURPOSE

The purpose of the Executive Long-Term Incentive Plan, as amended and restated, (the “Plan”) is to focus key executives of Avery Dennison Corporation (the “Company”) on factors that influence the Company’s long-term growth and success. The Plan provides a means whereby Participants are given an opportunity to share financially in the future value they help to create for the Company and its stockholders.

The Plan is also intended to enable the Company to provide that bonuses paid under the Plan qualify for the exemption for certain performance-based compensation from the limits on deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986.

2. PARTICIPATION

Participation in the Plan is limited to key executives of the Company who, in the opinion of the Compensation and Executive Personnel Committee (“Committee”) of the Board of Directors, have the responsibility to influence the Company’s long-range performance materially, and who have been recommended for participation by the Chief Executive Officer of the Company and designated as Participants by the Committee.

3. DEFINITIONS

“**Achievement Factor**” means the percentage to be used in determining a Participant’s deferred cash incentive Award for achieving a specified percentage or percentile of the pre-established Performance Objectives.

“**Average Capital**” means the numerical average for a given year of ending Capital for the Company’s five most recently completed fiscal quarters, including the last quarter of that year.

“**Average Shareholders’ Equity**” means the numerical average for a given year of ending Shareholders’ Equity for the Company’s five most recently completed fiscal quarters, including the last quarter of that year.

“**Award**” refers to a deferred cash incentive earned by a Participant based on the achievement of Company and, in some cases, Business Unit financial objectives.

“**Base Salary**” means the annual base salary rate in effect for a Participant as of the end of a Performance Cycle.

“**Business Unit**” or “**Unit**” refers to a group, division or subsidiary of the Company.

“**Business Unit Cumulative Economic Value Added**” or “**Business Unit CEVA**” means the Cumulative Economic Value Added of a Business Unit.

“**Business Unit Net Income**” means net income of a Business Unit.

“Business Unit ROTC” means the return on total capital of a Business Unit.

“Capital” means the sum of the Company’s Shareholders’ Equity and Long-Term Debt.

“Cash Flow from Operations” means the Company’s net cash provided by operating activities.

“Cause” means (i) continued failure by a Participant to perform his or her duties (except as a direct result of the Participant’s incapacity due to physical or mental illness) after receiving notification by the Chief Executive Officer or an individual designated by the Chief Executive Officer (or the Board of Directors in the case of the Chief Executive Officer) identifying the manner in which the Participant has failed to perform his or her duties, (ii) engaging in conduct, which, in the opinion of a majority of the Board of Directors, is materially injurious to the Company, or (iii) conviction of the Participant of any felony involving moral turpitude.

“Change of Control” means 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 definition; 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 definition, 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.

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

“Committee” refers to the Compensation and Executive Personnel Committee of the Board of Directors of the Company.

“Company Cumulative Economic Value Added” or **“Company CEVA”** means the Cumulative Economic Value Added of the Company.

“Company ROTC” means the return on total capital of the Company.

“Cumulative Economic Value Added” or **“CEVA”** means the Economic Value Added over a defined period of time (for example, over the Performance Cycle).

“Disability” refers to a physical or mental condition that prevents a Participant from performing his or her normal duties of employment. If a Participant makes application for disability benefits under the Company's long-term disability program and qualifies for such benefits, the Participant shall be deemed to qualify as totally and permanently disabled under the Plan.

“Discretionary Pool” or **“Pool”** refers to the sum of cash payments made available by the Committee to Participants who have achieved exceptional performance and to other Company employees who have made significant contributions to the achievement of Performance Objectives.

“Earnings Per Share” or **“EPS”** means the Company's diluted earnings per share.

“Economic Value Added” means net operating profit after taxes on income minus a capital charge based upon the Company's weighted average cost of capital.

“Effective Date” means January 1, 2004.

“Long-Term Debt” means the Company's long-term debt

“Net Income” means the Company’s after-tax net income.

“Net Sales” means the Company’s net sales.

“Participant” means an executive of the Company in a position designated by the Committee to participate in the Plan.

“Performance Cycle” or **“Cycle”** refers to a three-year period during which performance is measured for purposes of determining cash Awards under the Plan. The initial Performance Cycle will cover the Company’s 2004 through 2006 fiscal years.

“Performance Objective” means one of the following pre-established performance objectives for the Company or its Business Units for a Performance Cycle as determined by the Committee: ROTC, EPS, ROS, ROE, Net Income, Net Sales, Sales Growth, Cash Flow from Operations, Total Shareholder Return, and Economic Value Added.

“Retirement” means a termination of service in accordance with the retirement provisions of the Company sponsored tax qualified defined benefit retirement plan in which a Participant is participating immediately prior to the date of such termination of service.

“ROE” means the percentage determined by dividing Net Income by Average Shareholders’ Equity.

“ROS” means the percentage determined by dividing Net Income by Net Sales.

“ROTC” means the Company’s return on total capital.

“Sales Growth” means the Company’s increase in Net Sales from the prior measurement period as compared to the current measurement period.

“Service” means continuous and substantially full-time employment with the Company.

“Shareholders’ Equity” means the Company’s total shareholders’ equity.

“Success Factor Award” refers to the additional deferred cash incentive Award earned for achieving greater than the Target Performance Objectives established for a Performance Cycle.

“Success Factor Performance Objective” means one of the pre-established Company Performance Objectives used to determine the Success Factor Award.

“Standard & Poor’s 500 Return Percentile Ranking” means the Standard & Poor’s annual percentile total shareholder return ranking (not using a weighted average) of Standard & Poor’s 500 public companies, which total shareholder return calculation process is the same as the one described in the definition of Total Shareholder Return.

“Target Award” refers to the deferred cash incentive Award earned for achieving the Target Performance Objectives established for a Performance Cycle.

“Target Performance Objective” means one of the pre-established Performance Objectives used to determine the Target Award.

“Termination of Service” means a termination of Service from the Company for any reason, whether voluntary or involuntary, including death, Retirement and Disability.

“Total Shareholder Return” means the cumulative shareholder return on the Company’s common stock, including the reinvestment of dividends, as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between (1) the average of the Company’s closing stock price for the three months prior to the beginning of the measurement period and (2) the average of the Company’s closing stock price for the three months prior to the end of the measurement period, by (ii) the average of the Company’s closing stock price for the three months prior to the beginning of the measurement period.

“Transfer” refers to the appointment of a Participant to a new position within the Company, which may either be within the same position classification under the Plan or in a different position classification under the Plan.

“Weighting Factor” means the percentage of a Participant’s Target Award or Success Factor Award, which will be calculated based on the achievement of a particular Performance Objective.

4. GENERAL PLAN DESCRIPTION

A. Overview

Commencing as of the Effective Date, the Plan provides for each Participant the opportunity to earn a deferred cash incentive Award based on the financial performance of the Company and, in some cases, its Business Units. Within 90 days of the commencement of each Cycle, the Committee will establish (and the Committee has established for the 2004-2006 Cycle) one or more Performance Objectives; provided that such Performance Objectives may be adjusted by the Committee within the first 90 days of the beginning of each Cycle. The definitions of the terms used to determine the Performance Objectives for a Cycle shall be based upon the definitions of such terms as set forth in Section 2 and as such terms may be used in preparing the Company’s annual reports (including financial statements or reports) or other management reports or as such definitions may be adjusted by the Committee for the purpose of this Plan, all as the Committee shall determine within the first 90 days of such Plan Year.

B. Deferred Cash Incentive Awards

Each Participant will be provided with the opportunity to earn a deferred cash incentive Award after the end of a three-year Performance Cycle equal to the Target Award plus the Success Factor Award. The maximum cash payment to a participant for a Performance Cycle is \$4 million.

(1) Performance Cycle

The initial Performance Cycle will cover the period beginning with the Company’s 2004 fiscal year and ending with the Company’s 2006 fiscal year. Subsequent three-year Performance Cycles will begin every two years, starting with the Company’s 2006 fiscal year.

(2) Range of Target and Success Factor Award Opportunities

The deferred cash incentive Target Award opportunity for each Participant during each Performance Cycle ranges from 20% to 100% of Base Salary depending upon position classification as illustrated in Table 1 below. The deferred cash incentive Success Factor Award opportunity for each Participant during each Performance Cycle also ranges from 20% to 100%. Classification of Participants into the categories listed in Table 1 will be recommended by the Chief Executive Officer of the Company and approved by the Committee.

Table 1
Deferred Cash Incentive Award Range
By Position Classification

<u>Category</u>	<u>Position Classification</u>	<u>Total Award Range as % of Base Salary</u>	<u>Target Award as % of Base Salary</u>	<u>Success Factor Award as % of Base Salary</u>
1	Chief Executive Officer	0% - 200%	100%	100%
1	Chief Operating Officer	0% - 180%	90%	90%
1	Senior Executive Officers	0% - 160%	80%	80%
1	Corporate & Staff Officers	0% - 160%	20% - 80%	20% - 80%
2	Group and Sub-Group VP's	0% - 160%	40% - 80%	40% - 80%
2	Division VP/GM's and Officers	0% - 120%	30% - 60%	30% - 60%

The actual total Award earned within the above range will depend upon the level of achievement versus specific Performance Objectives established by the Committee under the Plan for each Performance Cycle within the first 90 days of such Performance Cycle.

(3) Performance Measurement and Calculation of Target Awards

(a) Calculation Formula

Target Awards will be determined based upon the Company's, or in some cases, Business Unit's achievement versus pre-established Target Performance Objectives. The total Target Award will equal the sum of Awards for each Target Performance Objective. The Target Award for each Target Performance Objective will equal the product of the Base Salary times the Target Award as a percent of Base Salary times the Weighting Factor (set forth in (4)(a) and (5)(a) below) times the Achievement Factor (set forth in (4)(b) and (5)(b) below) for that Target Performance Objective.

The foregoing formula can be expressed as the following mathematical equation:

Total Target Award = [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for first Target Performance Objective] + [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for second Target Performance Objective] + [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for third Target Performance Objective, if any] + [Target Award (Base Salary x Target

Award as % of Base Salary) x Weighting Factor x Achievement Factor for fourth Target Performance Objective, if any].

(4) Category 1 Participants

(a) Weighting Factors

For Participants classified in Category 1, Target Awards will be determined based upon the Company's achievement versus pre-established Company Target Performance Objectives.

For the initial Performance Cycle, the Company Target Performance Objectives will be weighted as follows in determining the Target Award:

<u>Target Performance Objective</u>	<u>Weighting Factor</u>
Company TSR	33.3%
Company EPS	33.3%
Company CEVA	33.3%

In subsequent Performance Cycles, the Committee will select one or more Performance Objectives and weightings to determine such Target Awards within the first 90 days of such Performance Cycle.

(b) Achievement Factor

The Achievement Factor for each Company Target Performance Objective will be between a threshold Achievement Factor of 70% (for achieving 80% of the Target Performance Objective or 35th percentile Company TSR ranking as compared to the S&P 500 Return Percentile Ranking) and a maximum Achievement Factor of 100% (for achieving the Target Performance Objective or 50th percentile Company TSR ranking as compared to the S&P 500 Return Percentile Ranking) as illustrated in the table below. The Achievement Factors for performance between the threshold and 100% Achievement Factors will be linearly interpolated. For the initial Performance Cycle, the Company Target Performance Objectives will be EPS, CEVA and TSR.

<u>Percent Achievement of Target Performance Objective for EPS and CEVA</u>	<u>Achievement Factor</u>	<u>Percentile Achievement of Company TSR as compared to S&P 500 Return Percentile Rankings</u>
Less than 80%	0	Less than 35 th percentile
80%	70%	35 th percentile
85%	77.5%	38.8 th percentile
90%	85.0%	42.5 th percentile
95%	92.5%	46.3 th percentile
100%	100%	50 th percentile

(c) Measurement Process

For the initial Performance Cycle, the measurement of Company Target Performance Objectives will be based upon performance during the final year of the Cycle, except for CEVA which will be measured at the end of each year of the Cycle and totaled at the end of the Cycle, and for TSR which will be measured at the end of the Cycle. For subsequent Performance Cycles, performance measurement may be based upon different criteria (e.g., average performance during the Cycle) at the discretion of the Committee as determined within the first 90 days of such Performance Cycle

(5) Category 2 Participants

(a) Weighting Factors

For Participants classified in Category 2, deferred cash incentive Target Awards will be determined based upon the performance of the Participant's Business Unit against pre-established Business Unit Target Performance Objectives.

For the initial Performance Cycle, the Business Unit Target Performance Objectives will have the following Weighting Factors:

<u>Target Performance Objective</u>	<u>Weighting Factor</u>
Business Unit ROTC	33.3%
Business Unit Net Income	33.3%
Business Unit CEVA	33.3%

In subsequent Performance Cycles, the Committee will select one or more Performance Objectives and weightings to determine such Target Awards within the first 90 days of such Performance Cycle.

(b) Achievement Factor

The Achievement Factor for each Business Unit Target Performance Objective will be between a threshold Achievement Factor of 70% (for achieving 80% of the Target Performance Objective) and a maximum Achievement Factor of 100% (for achieving the Target Performance Objective) as illustrated in the table below. The Achievement Factors for performance between the threshold and 100% Achievement Factors will be linearly interpolated. For the initial Performance Cycle, the Business Unit Performance Objectives will be Business Unit ROTC, Business Unit Net Income and Business Unit CEVA.

<u>Percent Achievement of Target Performance Objective for Business Unit ROTC, Net Income and CEVA</u>	<u>Achievement Factor</u>
Less than 80%	0
80%	70%
85%	77.5%
90%	85.0%
95%	92.5%
100%	100%

(c) Measurement Process

For the initial Performance Cycle, the measurement of Business Unit Target Performance Objectives will be based upon performance during the final year of the Cycle, except for CEVA which will be measured at the end of each year of the Cycle and totaled at the end of the Cycle. For subsequent Performance Cycles, performance measurement may be based upon different criteria (e.g., average performance during the Cycle) at the discretion of the Committee as determined within the first 90 days of such Performance Cycle

(d) Performance Measurement and Calculation of Success Factor Awards

Participants in Category 2 are eligible for a Success Factor Award only if the percentage of achievement of each of their Business Unit Target Performance Objectives equals or exceeds 80% and only if the average of the percentages of achievement of their Business Unit Target Performance Objectives equals or exceeds 100%.

Success Factor Awards will be determined based on the Company's achievement versus pre-established Success Factor Performance Objectives which exceed the Target Performance Objectives. The total Success Factor Award will equal the sum of the Success Factor Awards for each Success Factor Performance Objective. The Success Factor Award for each Success Factor Performance Objective will equal the product of the Base Salary times the Success Factor Award as a percent of Base Salary times the Weighting Factor (set forth in (6)(a) below) times the Achievement Factor (set forth in (6)(b) below) for that Success Factor Performance Objective.

The foregoing formula can be expressed as the following mathematical equation:

Total Success Factor Award = [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for first Success Factor Performance Objective] + [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for second Success Factor Performance Objective] + [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for third Success Factor Performance Objective, if any] + [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for fourth Success Factor Performance Objective, if any].

(6) Success Factor Awards

(a) Weighting Factors

For Participants in both Category 1 and Category 2, Success Factor Awards will be determined based upon the Company's achievement versus pre-established Company Performance Objectives which exceed the Target Performance Objectives.

For the initial Performance Cycle, the Success Factor Performance Objectives will be weighted as follows in determining the Success Factor Award:

Success Factor Performance Objective	Weighting Factor
Company TSR	33.3%
Company EPS	33.3%
Company CEVA	33.3%

In subsequent Performance Cycles, the Committee will select one or more Performance Objectives and weightings to determine such Target Awards within the first 90 days of such Performance Cycle.

(b) Achievement Factor

At the beginning of each Performance Cycle, the Committee will establish two levels of Success Factor Performance Objectives that are in excess of the Target Performance Objectives.

If the Company's performance is between the Target Performance Objective and the first level Success Factor Performance Objective for Company EPS and Company CEVA, then the Achievement Factor for that Success Factor Performance Objective will be between 0% and 50%. If the Company TSR is between the 50th and the 60th percentile as compared to the S&P 500 Return Percentile Ranking, then the Achievement Factor for that Success Factor Performance Objective will be between 0% and 50%. The Achievement Factor for performance between the Target Performance Objective and the first level Success Factor Performance Objective will be linearly interpolated.

If the Company's performance is between the first level Success Factor Performance Objective and the second level Success Factor Performance Objective for Company EPS and Company CEVA, then the Achievement Factor for that Success Factor Performance Objective will be between 50% and 100%. If the Company TSR is between the 60th and the 70th percentile as compared to the S&P 500 Return Percentile Ranking, then the Achievement Factor for that Success Factor Performance Objective will be between 50% and 100%. The Achievement Factor for performance between the first level Success Factor Performance Objective and the second level Success Factor Performance Objective will be linearly interpolated.

(c) Measurement Process

For the initial Performance Cycle, the measurement of Company Success Factor Performance Objectives will be based upon performance during the final year of the Performance Cycle, except for Company CEVA which will be measured at the end of each year of the Cycle and totaled at the end of the Cycle and the Company TSR which will be measured at the end of the Cycle. For subsequent Performance Cycles, performance measurement may be based upon different criteria (e.g., average performance during the Cycle) at the discretion of the Committee within the first 90 days of such Performance Cycle.

(7) Discretionary Pool Participation

A Discretionary Pool will be available for each Performance Cycle to provide the opportunity for Participants (other than those Participants whose Target Award is 80% or more) who have achieved exceptional performance to earn more than the Target Award plus the Success Factor Award, or for individuals who are not selected to be Participants in the Plan but who have made significant contributions to the achievement of Performance Objectives to earn cash payments. A “target” Discretionary Pool will be determined by the Committee prior to the beginning of each Performance Cycle. The actual Discretionary Pool made available will be determined by the Committee at the end of the Performance Cycle and may exceed or fall below the “target” Pool based upon the Committee’s assessment of (i) overall Company performance during the Cycle and (ii) the performance of the individual Business Units.

The actual Discretionary Pool approved by the Committee will be allocated among individuals recommended by the Chief Executive Officer and approved by the Committee; provided, however, that Participants whose Target Award is 80% or more will not be eligible for participation in the Discretionary Pool. No payments will be made from the Discretionary Pool unless at least one of the Company threshold Target Performance Objectives (i.e., 80% of the Target Performance Objective) for the Performance Cycle has been met.

(8) Deferral of Bonus

A Participant may elect to defer receipt of an Award under the deferred compensation plans offered by the Company, in accordance with the terms of such plans.

5. NEW PARTICIPANTS

New Participants may be added to the Plan at any time at the discretion of the Committee. The Award opportunity of a new Participant will be prorated for each Performance Cycle based on the number of months of participation in the Plan divided by 36. Notwithstanding the above, an individual must participate in the Plan for at least 12 months during any Performance Cycle to be eligible to receive a deferred cash incentive Award for that Cycle.

6. TERMINATION OF SERVICE

If a Participant terminates Service with the Company prior to the end of a Performance Cycle due to voluntary termination or termination for Cause, the Participant will not receive any deferred cash incentive Award for that Performance Cycle.

Upon a Termination of Service during a Performance Cycle due to death or Disability, a Participant’s deferred cash incentive Award opportunity for that Cycle will be prorated by dividing the number of full months of participation in the Cycle by thirty-six (36).

If a Participant's Service is terminated involuntarily without Cause prior to the completion of a Performance Cycle, the Participant will be entitled to receive the following percentage of his or her earned deferred cash incentive Award for the Cycle:

If Termination Occurs Between X Months From Start of Cycle	% of Earned Award to be Paid
0 - 27 Months	0%
27 - 36 Months	33 1/3%

Upon a Termination of Service due to Retirement prior to the completion of a Performance Cycle, the Participant will be entitled to receive the following percentage of his or her earned deferred cash incentive Award for the Cycle:

If Termination Occurs Between X Months From Start of Cycle	% of Earned Award to be Paid
0 - Months	0%
3 - 12 Months	33 1/3%
12 - 8 Months	50%
18 - 4 Months	66 2/3%
24 - 6 Months	Prorate to 100%

7. PAYMENT OF EARNED DEFERRED CASH INCENTIVE

Earned Awards under the Plan (net of any applicable taxes) will be paid in cash as soon as possible following the determination of Company and Business Unit performance for the Performance Cycle. Upon the death of a Participant, the Committee may elect to provide early payment in order to facilitate the settlement of the Participant's estate.

8. TRANSFERS

Upon a Transfer prior to the completion of a Performance Cycle, the Participant will earn his or her deferred cash incentive Award for the Cycle based on his or her old and/or new positions, as follows:

If Transfer Occurs Between X Months from Start of Cycle	Award Earned in Old/New Position
0 - 6 Months	100% in new position
6 - 30 Months	Prorated between old and new positions
30 - 36 Months	100% in old position

9. PLAN ADMINISTRATION

A. General Administration

The Committee will administer the Plan, and will interpret the provisions of the Plan. The interpretation and application of these terms by the Committee shall be binding and conclusive. The Committee's authority will include, but is not limited to:

- Selecting the Participants;
- Establishing and adjusting the Performance Objectives (including the definitions therefor), and weighting the Performance Objectives; and
- Determining and certifying performance results and Awards based on achievement of Performance Objectives, subject to the Committee's discretion to decrease the Awards.

B. Amendment, Suspension or Termination of the Plan

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

C. Designation of Beneficiaries

Each Participant shall have the right at any time to designate any person or persons as beneficiary(ies) to whom any cash payments earned under the Plan shall be made in the event of the Participant's death prior to the distribution of all benefits due the Participant under the Plan. Each beneficiary designation shall be effective only when filed in writing with the Company during the Participant's lifetime.

The filing of a new Beneficiary Designation Form will cancel all designations previously filed. Any finalized divorce or marriage (other than a common law marriage) of a Participant subsequent to the date of filing of a Beneficiary Designation Form shall revoke such designation unless:

In the case of divorce, the previous spouse was not designated as beneficiary; and

In the case of marriage, the Participant's new spouse had previously been designated as beneficiary.

The spouse of a married Participant shall join in any designation of a beneficiary other than the spouse on a form prescribed by the Committee or the Company.

If a Participant fails to designate a beneficiary as provided for above, or if the beneficiary designation is revoked by marriage, divorce or otherwise without execution of a new designation, then the Committee or the Company shall direct the distribution of Plan benefits to the Participant's estate.

10. CHANGE OF CONTROL

A. Immediately upon a Change of Control, each Participant shall receive a fixed cash payment equivalent to his or her Target Award (such term is defined for the purpose of this paragraph as the percentage of his or her Base Salary targeted either (i) within 90 days of the beginning of the Performance Cycle by the Committee for officers who are or might be "covered employees" as that term is defined in Section 162(m) of the Code, or (ii) during the Performance Cycle for other officers, at the annual base salary rate for each Participant in effect at the time of the Change of Control and without regard to the achievement of any of the Performance Objectives) for each Performance Cycle that begins before the date of the Change of Control and ends after the date of the Change of Control.

B. Following a Change of Control, each Participant shall continue to be entitled to receive payments under the Plan for each Performance Cycle that begins on or before the date of the Change of Control and ends after the date of the Change of Control, as earned in accordance with the terms of the Plan, to the extent such Participant has not already received such payment for that Performance Cycle pursuant to paragraph (A) of this Section 10.

11. MISCELLANEOUS PROVISIONS

A. Unsecured Status of Claim

Participants and their beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any specific property or assets of the Company. No assets of the Company shall be held under any trust for the benefit of Participants, their beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfillment of the Company's obligations under the Plan.

Any and all of the Company's assets shall be, and shall remain, the general unpledged and unrestricted assets of the Company. The Company's obligations under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay benefits in the future.

B. Employment Not Guaranteed

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

C. Nonassignability

No person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, hypothecate or convey, in advance of actual receipt, the benefits, if any, payable under the Plan, or any part thereof, or any interest therein, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No portion of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, lien or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of the Participant's or any other person's bankruptcy or insolvency. Any such transfer or attempted transfer in violation of the preceding provisions shall be null and void.

D. Validity

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

E. Withholding-Tax

The Company shall withhold from all benefits due under the Plan an amount sufficient to satisfy any federal, state and local tax withholding requirements.

F. Applicable Law

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

G. Inurement of Rights and Obligations

The rights and obligations under the Plan shall inure to the benefit of, and shall be binding upon the Company, its successors and assigns, and the Participants and their beneficiaries.

EXECUTIVE LEADERSHIP COMPENSATION PLAN**1. PURPOSE**

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

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

2. DEFINITIONS

- a. Average Shareholders’ Equity. “Average Shareholders’ Equity” means the numerical average for a given year of ending Shareholders’ Equity for the Company’s five most recently completed fiscal quarters, including the last quarter of that year.
- b. Bonus Maximum. “Bonus Maximum” means a bonus payment of not more than \$1 million dollars.
- c. Cash Flow from Operations. “Cash Flow from Operations” means the Company’s net cash provided by operating activities.
- d. Code. “Code” means the Internal Revenue Code of 1986, as amended.
- e. Committee. “Committee” means the Compensation and Executive Personnel Committee of the Company’s Board of Directors.
- f. Company. “Company” means Avery Dennison Corporation.
- g. Economic Value Added. “Economic Value Added” means the Company’s net operating profit after taxes on income minus a capital charge based upon the Company’s weighted average cost of capital
- h. ELCP. “ELCP” means the Executive Leadership Compensation Plan of the Company.
- i. EPS. “EPS” means the Company’s diluted earnings per share.
- j. Income Before Taxes on Income. “Income Before Taxes on Income” means the Company’s income before income taxes.
- k. MMBP. “MMBP” means the Middle Management Bonus Plan.
- l. Net Income. “Net Income” means the Company’s after-tax net income.

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

3. PARTICIPATION

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

4. ANNUAL BONUS OPPORTUNITY

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

a. Target Bonus

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

b. Establishment of Performance Objectives; Bonus Payout

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

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

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

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

iv. Bonus payouts will be determined based on the formula used to measure the Company's or the respective business unit(s) (as applicable) results for each Participant, and calculated in accordance with the Performance Objectives. The maximum annual business unit bonus payout is 175% of the Participant's base salary in effect at the end of the year (150% for Participants measured by corporate Performance Objectives).

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

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

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

c. Bonus Determination in Cases of Prior Participation in MMBP.

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

d. Bonus Determination in Cases of Leave of Absence

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

e. Bonus Determination in Cases of Termination

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

f. Other Bonus Programs

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

5. TIMING OF PAYMENT OF BONUSES

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

6. PLAN ADMINISTRATION

a. General Administration

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

- i. Approving the Designation of Participants;
- ii. Establishing and adjusting Performance Objectives (including the definitions therefor) for the Company; provided that the Chief Executive Officer will establish and adjust the Performance Objectives (including the definitions therefor) for groups, divisions and subsidiaries of the Company;
- iii. Approving performance results and bonus payments; and
- iv. Making exceptions to the provisions of the Plan made in good faith and for the benefit of the Company

b. Adjustments for Extraordinary Events

If an event occurs during a Plan Year that materially influences the performance measures of the Company and is deemed by the Committee to be extraordinary and out of the

control of management, the Committee may, in its sole discretion, increase or decrease the Performance Objectives used to determine the annual bonus payout. Events warranting such action may include, but are not limited to, changes in accounting, tax or regulatory rulings and significant changes in economic conditions resulting in windfall gains or losses.

c. Amendment, Suspension, or Termination

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

7. MISCELLANEOUS PROVISIONS

a. Effective Date

The effective date of the Plan is January 1, 2004.

b. Titles

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

c. Employment Not Guaranteed

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

d. Validity

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

e. Withholding-Tax

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

f. Applicable Law

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

SENIOR EXECUTIVE LEADERSHIP COMPENSATION PLAN**1. PURPOSE**

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

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

The Plan is also intended to enable the Company to provide that bonuses paid under the Plan qualify for the exemption for certain performance-based compensation from the limits on deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986.

2. DEFINITIONS

- a. Average Shareholders’ Equity. “Average Shareholders’ Equity” means the numerical average for a given year of ending Shareholders’ Equity for the Company’s five most recently completed fiscal quarters, including the last quarter of that year.
- b. Bonus Maximum. “Bonus Maximum” means a bonus payment of not more than \$3.0 million dollars.
- c. Cash Flow from Operations. “Cash Flow from Operations” means the Company’s net cash provided by operating activities.
- d. Code. “Code” means the Internal Revenue Code of 1986, as amended.
- e. Committee. “Committee” means the Compensation and Executive Personnel Committee of the Company’s Board of Directors.
- f. Company. “Company” means Avery Dennison Corporation.
- g. Economic Value Added. “Economic Value Added” means the Company’s net operating profit after taxes on income minus a capital charge based upon the Company’s weighted average cost of capital.
- h. ELCP. “ELCP” means the Executive Leadership Compensation Plan of the Company.
- i. EPS. “EPS” means the Company’s diluted earnings per share.
- j. Income Before Taxes on Income. “Income Before Taxes on Income” means the Company’s income before income taxes.

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

3. PARTICIPATION

Participation in the Plan is limited to key executives of the Company who have been designated as Participants by the Committee. Current Participants in the Plan are the Chairman and Chief Executive Officer and the President and Chief Operating Officer. The Committee may designate other officers in the future.

4. ANNUAL BONUS OPPORTUNITY

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

a. Target Bonus

The Target Bonus for each Participant is 150% of Base Salary.

b. Establishment of Performance Objectives; Bonus Payout

i. A Participant's annual bonus payout is based on the Company's achievement versus pre-established Performance Objectives; provided that such Performance Objectives may be adjusted by the Committee within the first 90 days of the beginning of each Plan Year. The definitions of the terms used to determine the Performance Objectives for a Plan Year shall be based upon the definitions of such terms as set forth in Section 2 and as such terms may be used in preparing the Company's annual reports (including financial statements or reports) or other management reports or as such definitions may be adjusted by the Committee for the purpose of this Plan, all as the Committee shall determine within the first 90 days of such Plan Year.

ii. Within the first 90 days of the beginning of each Plan Year, the Committee will establish Performance Objectives for the Participants (or for each Participant, as determined by the Committee). Specific Performance Objectives will be based upon one or more of the following:

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

iii. Bonus payouts will be determined based upon a schedule as approved by the Committee within 90 days of the beginning of each Plan Year.

iv. Bonus payouts will be determined based on the formula used to measure the Company's or the respective business unit(s) (as applicable) results for each Participant, and calculated in accordance with the Performance Objectives as approved by the Committee. The highest annual bonus payout is 225% of the Participant's base salary in effect at the end of the Plan Year for which the bonus is being paid.

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

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

c. **Bonus Determination In Cases Of Prior Participation in ELCP**

Participants who are eligible to receive a bonus under the ELCP during part of the Plan Year and are later designated as Participants under the Plan may, in the Committee's discretion, receive a bonus under the Plan on a prorated basis.

d. **Bonus Determination In Cases Of Leave Of Absence**

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

e. **Bonus Determination In Cases Of Termination**

Participants, who terminate prior to payment of the annual bonus for any reason other than death, disability, or retirement, are not eligible to receive bonus payments under this Plan.

f. **Other Bonus Programs**

No Participant may participate in any other annual Company bonus plan.

5. TIMING OF PAYMENT OF BONUSES

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

6. PLAN ADMINISTRATION

a. **General Administration**

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

- i. Selecting Participants;
- ii. Establishing and adjusting the Performance Objectives (including the definitions therefor), and weighting the Performance Objectives, and
- iii. Determining and certifying performance results and bonus payments based on achievement of Performance Objectives, subject to the Committee's discretion to decrease the bonus payments pursuant to Section 4.b.v.

b. Amendment, Suspension, or Termination

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

7. MISCELLANEOUS PROVISIONS

a. Effective Date

The effective date of the Plan is January 1, 2004.

b. Titles

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

c. Employment Not Guaranteed

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

d. Validity

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

e. Withholding-Tax

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

f. Applicable Law

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

AVERY DENNISON CORPORATION
EXECUTIVE VARIABLE DEFERRED RETIREMENT PLAN
Amended and Restated

ARTICLE I - PURPOSE

The Executive Variable Deferred Retirement Plan, as amended and restated ("Plan") is adopted by Avery Dennison Corporation, a Delaware Corporation (the "Company"), effective as of December 1, 2003. The Plan provides a deferred compensation plan for executive employees of the Company and its subsidiaries, and amends and restates the current Executive Variable Deferred Retirement Plan ("Prior Plan") in its entirety. The Plan applies to all Participants and/or Beneficiaries of the Plan and deferrals thereunder for the period December 1, 1995 through November 30, 2003.

ARTICLE 2 - DEFINITIONS AND CERTAIN PROVISIONS

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

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

Annual Base Salary. "Annual Base Salary" means an Eligible Employee's rate of salary in effect on August 1 of the prior plan year, or any other subsequent date as determined by the Administrator in his discretion.

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

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

Benefit. "Benefit" means a Retirement Benefit, Survivor Benefit, Termination Benefit, Disability Benefit, Emergency Benefit or Discounted Cash Out, as appropriate.

Bonus. "Bonus" means the bonus paid to the Participant in such Plan Year under any bonus plan or incentive program (as determined by the Administrator), including any annual bonus plan or long-term incentive plan (LTIP).

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

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

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

Disability. “Disability” means any inability on the part of an Employee, commencing before age 64 1/2, as determined by the Administrator, in his sole discretion, to perform the substantial and material duties of an Employee’s job due to injury or sickness lasting for more than one hundred eighty (180) consecutive days. Disability for purposes of this Plan shall be deemed to commence as of the first day following the end of such one hundred eighty (180) day period. If an Employee makes application for disability benefits under the Social Security Act, as in effect as of the date of this Plan or as such Act may hereafter be amended, and qualifies for such benefits, the Employee shall be presumed to suffer from a Disability under this Plan. The Administrator may require the Employee to submit to an examination by a physician or medical clinic selected by the Administrator. On the basis of such medical evidence and in the absence of qualification for disability benefits under the Social Security Act, the determination of the Administrator as to whether or not a condition of Disability exists shall be conclusive. To constitute Disability, the same must commence after the Employee has become a Participant in the Plan.

Discounted Cash Out. “Discounted Cash Out” shall mean a distribution made pursuant to Section 7.9.

Discounted Cash Out Election. “Discounted Cash Out Election” means the written election by a Participant or Beneficiary to receive all or part of the Participant’s Deferral Account pursuant to Section 7.9.

Distribution. “Distribution” means any payment to a Participant or Beneficiary according to the terms of this Plan including, but not limited to Benefit.

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

Eligible Employee. “Eligible Employee” means an Employee who is a member of a select group of management, or a highly compensated employee who meets the annually indexed salary requirement determined by the Committee in its sole discretion.

Emergency Benefit. “Emergency Benefit” means the Benefit that is payable pursuant to Section 7.8 of the Plan.

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

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

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

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

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

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

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

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

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

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

Rabbi Trust. "Rabbi Trust" means the trust described in Section 12.15.

Retirement. "Retirement" shall mean a termination of employment upon Early Retirement or Normal Retirement, and the Participant retires under the Retirement Plan.

Retirement Benefit. "Retirement Benefit" means Benefits payable to a Participant when Participant has satisfied the requirements Early Retirement or Normal Retirement pursuant to Article 7.

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

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

Survivor Benefit. "Survivor Benefit" means those Plan Benefits that become payable upon the death of a Participant pursuant to Section 7.7.

Survivor Rate. "Survivor Rate" means the interest rate credited to the Beneficiary's unpaid balance in the Deferral Account at a rate to be determined by the Administrator, in his sole discretion, but in no event less than 7% per annum.

Termination Benefit. "Termination Benefit" means the lump sum amount payable to a Participant who ceases to be an Employee pursuant to the provisions of Section 7.6.

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

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

ARTICLE 3 - PARTICIPATION

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

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

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

ARTICLE 4 - PARTICIPANT DEFERRALS

4.1 Annual Deferral. On the Participation Election Form, and subject to the restrictions set forth herein, the Eligible Employee shall designate the amount of Annual Base Salary and Bonus to be deferred for the next Plan Year.

4.2 Minimum Deferral. The minimum amount of Annual Deferral that may be deferred shall be \$2,000 (two thousand dollars).

4.3 Maximum Deferral. The standard maximum amount of Annual Deferral that may be deferred shall be 20% of an Eligible Employee's Annual Base Salary and 20% of an Eligible Employee's Bonus; provided that officers of the Company may defer up to 50% of their Annual Base Salary, and up to 100% of their Bonus with the approval of the Administrator. The maximum deferral amount is established at the discretion of the Administrator.

4.4 Deferral Accounts. Solely for record keeping purposes, the Company shall maintain a Deferral Account for each Participant. The amount of a Participant's Annual Deferral pursuant to this Article 4 shall be credited by the Employer to the Participant's Deferral Account on the date(s) that such Annual Deferral would otherwise have been paid. The Deferral Account may be credited with Company contributions pursuant to Article 5. All Distributions and penalties (related to a Discounted Cash Out Election under Section 7.9) will be debited to the Deferral Account on the Valuation Date.

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

4.6 Statement of Accounts. The Administrator shall provide to each Participant periodic statements (no less than semi-annually) setting forth the Participant's deferrals, Declared Rate(s) (credits or debits), distributions and Deferral Account balance.

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

limited to salary, bonuses, expense reimbursements, severance benefits or other nonqualified employee benefit arrangements) to recoup the amount of such overpayment(s).

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

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

ARTICLE 5 - MATCHING CONTRIBUTIONS

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

ARTICLE 6 - INVESTMENT OPTIONS

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

6.2 Declared Rates. A Participant may select from Declared Rates currently representing ten (10) investment funds, which may from time to time be established under the Plan and the number of which may be expanded by the Committee; it being the intention that at all times Participants will have at least nine (9) core investment fund choices comparable in focus, type and quality to those listed on Exhibit A. The Declared Rates provide a rate of return (positive or negative) that are is based on the actual net performance of the Declared Rate(s) selected by the Participant. The Declared Rates credited to Participant Deferral Accounts will be the actual net performance of the Declared Rates, to which will be added a basis point credit, which credit when added to the actual net performance of the Declared Rates will together be approximately equivalent on average to crediting the actual gross performance of the Declared Rates less 20 basis points.

ARTICLE 7 - BENEFITS

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

7.2 Benefit Election Alternatives. The Retirement Benefit will be paid beginning on the Settlement Date, and in the manner which the Participant elects no later than thirteen months prior to retirement. A Participant may elect to receive his Retirement Benefit at retirement in either a lump sum or installments during 10, 15 or 20 years, or a combination of a lump sum payment (in 10% increments) and payments during one installment period; provided, however, that the maximum payout period for Retirement Benefits shall be subject to Section 7.3. In the event a payout election period exceeds the maximum period permitted by Section 7.3, the payout period shall be reduced to the maximum period permitted by Section 7.3.

7.3 Maximum Payout Period. Notwithstanding any Eligible Employee's election to the contrary, the maximum number of years over which retirement Benefits may be paid from the Plan shall be limited as follows:

- (i) Retirement ages 55-59 - lump sum or over ten years;
- (ii) Retirement ages 60-61 - lump sum or over ten or fifteen years; or
- (iii) Retirement ages 62 and above - lump sum or over ten, fifteen or twenty years;

provided that in cases of involuntary or mutual separation or termination the Chief Executive Officer or Senior Vice President, Human Resources shall have the right to extend the payment period, as elected by the Participant at least 13 months prior to retirement, without regard to the limits in (i) or (ii) above, subject to the Participant being eligible for Early Retirement.

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

7.5 Disability. If a Participant suffers a Disability, Participant deferrals that otherwise would have been credited to the Participant's Deferral Accounts will cease during such Disability. The Participant's Deferral Accounts will continue to earn interest at the Declared Rate(s) that he has chosen. If the Participant terminates employment because of the Disability, the Participant's Deferral Account will be distributed as a Retirement Benefit, Termination Benefit or Survivor Benefit, whichever is applicable, beginning on the date and in the form which the Participant elected in his Participant Election Form. In the sole discretion of the Committee, the Employer may commence payments on an earlier date. If a Participant recovers from a Disability and returns to employment with the Employer the Participant shall resume making deferrals pursuant to his Participant Election Form.

7.6 Termination Benefit. If a Participant ceases to be an Employee for any reason other than death, or Normal or Early Retirement, the Employer shall pay to the Participant in one lump sum an amount (the "Termination Benefit") equal to the value of the Deferral Account, provided that the Company reserves the right to distribute this Benefit in installment payments, and in such event the Termination Benefit will be calculated in accordance with Section 7.4. The Participant shall be entitled to no further Benefits under this Plan.

7.7 Survivor Benefits.

(a) Pre-Retirement. If a Participant dies and has not yet commenced receiving Retirement Benefit payments, a Survivor Benefit will be paid to his Beneficiary in annual installments over ten years except as set forth below. The aggregate Survivor Benefit will be equal to the Deferral Account balance plus interest. The annual Survivor Benefit payments shall be re-determined each year based upon the value of the Deferral Account at that time plus interest based on the Survivor Rate.

(b) Post-Retirement. If a Participant dies after payment of Benefits has commenced, his Beneficiary will be entitled to receive the remainder of the payments not yet paid to the Participant in accordance with the election of the Participant then in effect. After the Participant's death, interest will be credited at the Survivor Rate.

7.8 Emergency Benefit. In the event that the Committee, upon written petition of the Participant or Beneficiary, determines, in its sole discretion, that the Participant or Beneficiary has suffered an unforeseeable financial emergency, the Employer shall pay to the Participant or Beneficiary, as soon as practicable following such determination, an amount necessary to meet the emergency not in excess of the Termination Benefit to which the Participant is entitled hereunder if said Participant had a termination of service on the date of such determination (the "Emergency Benefit"). For purposes of this Plan, an unforeseeable financial emergency is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. An unforeseeable financial emergency for purposes of this Plan shall exist for any Participant or Beneficiary who is deemed to be in constructive receipt of income on account of deferred benefits payable under the terms of the Plan, and in such event all deferred benefits giving rise to said constructive receipt of income shall be paid to the Participant or Beneficiary in question. Notwithstanding the foregoing, the final determination by the Internal Revenue Service ("IRS") or court of competent jurisdiction, all time for appeal having lapsed, that the Employer is not the owner of the assets of the Rabbi Trust, with the result that the income of the Rabbi Trust is not treated as income of the Company pursuant to Sections 671 through 679 of the Code, or the final determination by (i) the IRS, (ii) a court of competent jurisdiction, all time for appeal having lapsed, or (iii) counsel to the Company that a federal tax is payable by the Participant or Beneficiary with respect to assets of the Rabbi Trust or the Participant's or Beneficiary's Deferral Accounts prior to the distribution of those assets or Deferral Accounts to the Participant or Beneficiary shall in any event constitute an unforeseeable financial emergency entitling such Participant or Beneficiary to an Emergency Benefit provided for in this Section. Cash needs arising from foreseeable events such as the purchase of a home or education expenses for children shall not be considered to be the result of an unforeseeable financial emergency. The amount of benefits otherwise payable under the Plan shall thereafter be adjusted to reflect the reduction of a Deferral Account due to the early payment of the Emergency Benefit.

A Participant, or a Beneficiary receiving payments, may request an Emergency Benefit distribution or a cessation of the current Annual Deferral by submitting a written request to the Committee. The Committee, or designated subcommittee thereof, shall have the authority to require such evidence as it deems, in its sole discretion, necessary to determine if such a distribution or cessation of deferrals is warranted. If the request is approved, any Distribution will be limited to an amount sufficient to meet the emergency up to the Deferral Account balance. Any Distribution will be calculated and paid in a manner determined solely by the Committee. The balance of the Deferral Account and any Benefits otherwise payable under the Plan shall thereafter be adjusted accordingly. Following such Distribution, current deferrals will cease and the Participant may not make deferrals for one full plan year after the date of the distribution.

7.9 Discounted Cash Out Election

(a) At any time a Participant or a Beneficiary has a Deferral Account balance in the Plan, the Participant or a Beneficiary may elect to receive all or part of the Participant's Deferral Account balance in a lump sum by filing a written election with the Administrator to receive a Discounted Cash Out pursuant to this Section. Crediting of Declared Rates to the amount elected to be withdrawn shall cease to accrue as of the Valuation date. The requirements for a Discounted Cash Out Election and the manner of determining the amount to be paid to a Participant who makes a Discounted Cash Out Election are set forth below.

(b) Minimum Amount. Except as otherwise determined by the Committee, the Discounted Cash Out must be in an amount of at least \$200,000, unless the Participant's Deferral Account has an aggregate balance of less than \$200,000 as of the date of the Discounted Cash Out Election, in which case the amount of the Discounted Cash Out shall be equal to 100% of the aggregate balance of the Participant's Deferral Accounts.

(c) Deferral Account Value. The amount available for the Discounted Cash Out shall be determined no later than the last day of the month during which the Participant or Beneficiary delivers to the Administrator a written Discounted Cash Out Election, provided, however, that the Administrator shall have at least fifteen (15) business days to make such determination.

(d) Adjustment of Accounts; Penalty. If a Participant or Beneficiary elects to receive a Discounted Cash Out, the amount actually distributed to the Participant shall be the amount of the requested Discounted Cash Out Election less a 6% penalty. If required by law or regulation, the Committee reserves the right to change the amount of the penalty.

(e) Number of Distributions. During the course of any calendar year and prior to Early or Normal Retirement or Death, a Participant or a Beneficiary may make one Discounted Cash Out Election per year; following Early or Normal Retirement, a Participant or a Beneficiary in a payout status, may make two Discounted Cash Out Elections per year.

7.10 Small Benefit. Notwithstanding anything herein to the contrary, with the exception of normal Plan installment Distributions, in the event the Deferral Account balance of a Participant or a Beneficiary after a benefit Distribution is \$50,000 or less, the Administrator, in his sole discretion, may elect to distribute any such amount in a single lump sum payment.

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

7.12 Settlement Date. Unless otherwise provided by the Administrator, the Settlement Date for Benefit payments shall be within 90 days or as soon as possible following the Valuation Date.

ARTICLE 8 - BENEFICIARY DESIGNATION

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

during the Participant's or Beneficiary's lifetime, as the case may be, on a form prescribed by the Administrator.

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

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

ARTICLE 9 - ADMINISTRATION OF THE PLAN

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

ARTICLE 10 - AMENDMENT OR TERMINATION OF PLAN

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

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

ARTICLE 11 - MAINTENANCE OF ACCOUNTS

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

The Company is not required to segregate physically any assets with respect to the Deferral Accounts under this Plan from any other assets of the Company and may commingle any such assets with any other monies, securities and properties of any kind of the Company. Separate accounts or records for the respective Participants' Deferred Accounts shall be maintained for operational and accounting purposes, but no such account or record shall be considered as creating a lien of any nature whatsoever on or as segregating any of the assets with respect to the accounts under this Plan from any other funds or property of the Company.

ARTICLE 12 - MISCELLANEOUS

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

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

12.3 Employment Not Guaranteed. Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Company.

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

12.5 Section 162(m). Notwithstanding anything to the contrary, no Benefit or Distribution shall be made hereunder in any year, if payment of such Benefit or Distribution during such year would create nondeductible compensation for the Company under Section 162(m) of the Internal Revenue Code.

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

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

12.8 Obligations To Employer. If a Participant becomes entitled to a Distribution of Benefits under the Plan, and if at such time the Participant has outstanding any debt, obligation, or other liability representing

an amount owing to the Employer, then the Employer may offset such amount owed to it against the amount of Benefits otherwise distributable. Such determination shall be made by the Committee.

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

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

12.11 Unfunded Status of Plan; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for deferred compensation and Participants shall rely solely on the unsecured promise of the Company for payment hereunder. With respect to any payment not yet made to a Participant under the Plan, nothing contained in the Plan shall give a Participant any rights that are greater than those of a general unsecured creditor of the Company; provided, however, that the Administrator may authorize the creation of trusts, including but not limited to the Trust referred to in this Section 12.15, or make other arrangements to meet the Company's obligations under the Plan, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

12.12 Compliance. A Participant in the Plan shall have no right to receive payment with respect to the Participant's Deferral Account until legal and contractual obligations of the Company relating to establishment of the Plan and the making of such payments shall have been complied with in full.

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

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

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

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

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

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

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

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

ARTICLE 13 - EFFECTIVE DATE

The effective date of this amended and restated Plan is December 1, 2003.

EXHIBIT A

EVDRP DECLARED RATES

<u>Pacific Select Fund</u>	<u>Fund Manager</u>
Money Market	Pacific Life
Managed Bond	Pacific Investment Management Company (PIMCO)
Equity Index	Mercury Advisors
International Value	Lazard
Growth LT	Janus Capital Corporation
Small-Cap Equity	Capital Guardian Trust Company
Large-Cap Value	Salomon Brothers
Equity	Putnam Investments
Mid-Cap Value	Lazard
Fixed Account (offered 12/1/03)	N/A – not a managed fund

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Earnings			
Income from continuing operations before taxes	\$ 334.9	\$ 354.3	\$ 349.3
Add: Fixed charges from continuing operations*	87.6	69.6	75.5
Amortization of capitalized interest	2.3	2.0	2.0
Less: Capitalized interest from continuing operations	(6.1)	(3.9)	(6.9)
	<u>\$ 418.7</u>	<u>\$ 422.0</u>	<u>\$ 419.9</u>
* Fixed charges from continuing operations:			
Interest expense	\$ 57.7	\$ 44.0	\$ 50.7
Capitalized interest	6.1	3.9	6.9
Amortization of debt issuance costs	0.8	0.7	0.3
Interest portion of leases	23.0	21.0	17.6
	<u>\$ 87.6</u>	<u>\$ 69.6</u>	<u>\$ 75.5</u>
Ratio of Earnings to Fixed Charges	<u>4.8</u>	<u>6.1</u>	<u>5.6</u>

* The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, "earnings" consist of income before taxes plus fixed charges and amortization of capitalized interest, less capitalized interest from continuing operations. "Fixed charges" consist of interest expense, capitalized interest, amortization of debt issuance costs and the portion of rent expense (estimated to be 35%) on operating leases deemed representative of interest.

EVERY DENNISON CORPORATION
FINANCIAL OVERVIEW

	<u>2003</u>	<u>2002</u>	<u>2001</u>
(In millions, except per share amounts)			
FOR THE YEAR:			
Net sales from continuing operations	\$4,762.6	\$4,155.9	\$3,755.5
Net income	267.9	257.2	243.2
Net income as a percent of sales	5.6	6.2	6.5
Net income per common share, assuming dilution	\$ 2.68	\$ 2.59	\$ 2.47
Dividends per common share	1.45	1.35	1.23
Capital expenditures	201.4	150.4	133.0
Return on average shareholders' equity (percent)	22.3	25.7	27.4

FIVE-YEAR SUMMARY

	5 Year Compound Growth Rate	2003(1)		2002(2)		2001(3)		2000		1999(4)	
		Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
(In millions, except per share amounts)											
FOR THE YEAR											
Net sales	6.6%	\$ 4,762.6	100.0	\$ 4,155.9	100.0	\$ 3,755.5	100.0	\$ 3,845.0	100.0	\$ 3,726.1	100.0
Gross profit	5.0	1,458.0	30.6	1,335.6	32.1	1,223.0	32.6	1,315.3	34.2	1,266.8	34.0
Marketing, general and administrative expense	6.0	1,034.9	21.7	905.2	21.8	823.3	21.9	843.7	21.9	836.7	22.5
Interest expense	10.8	57.7	1.2	44.0	1.1	50.7	1.4	56.4	1.5	44.7	1.2
Income from continuing operations (before taxes)	(.1)	334.9	7.0	354.3	8.5	349.3	9.3	415.2	10.8	320.4	8.6
Taxes on income	(4.1)	92.1	1.9	104.5	2.5	113.0	3.0	139.1	3.6	111.5	3.0
Income from continuing operations	1.7	242.8	5.1	249.8	6.0	236.1	6.3	276.1	7.2	208.9	5.6
Income from discontinued operations, net of tax	N/A	25.1	N/A	7.4	N/A	7.1	N/A	7.4	N/A	6.5	N/A
Net income	3.7	267.9	5.6	257.2	6.2	243.2	6.5	283.5	7.4	215.4	5.8

	5 Year Compound Growth Rate	2003		2002		2001		2000		1999	
		Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
(In millions, except per share amounts)											
PER SHARE INFORMATION											
Income per common share from continuing operations	2.2%	\$ 2.45		\$ 2.54		\$ 2.42		\$ 2.81		\$ 2.11	
Income per common share from continuing operations, assuming dilution	2.5	2.43		2.51		2.40		2.77		2.06	
Net income per common share	4.2	2.70		2.61		2.49		2.88		2.17	
Net income per common share, assuming dilution	4.5	2.68		2.59		2.47		2.84		2.13	
Dividends per common share	10.8	1.45		1.35		1.23		1.11		.99	
Average common shares outstanding	(.4)	99.4		98.5		97.8		98.3		99.2	
Average common shares outstanding, assuming dilution	(.8)	100.0		99.4		98.6		99.8		101.3	
Book value at fiscal year end	9.7	\$ 13.24		\$ 10.64		\$ 9.49		\$ 8.49		\$ 8.20	
Market price at fiscal year end	4.0	54.71		59.05		56.20		54.88		72.88	
Market price range		47.75 to 63.51		52.86 to 69.49		44.39 to 60.24		43.31 to 78.00		39.75 to 72.88	

AT YEAR END											
Working capital(5)		\$ (55.1)		\$ (85.3)		\$ 27.4		\$ 178.0		\$ 101.8	
Property, plant and equipment, net(5)		1,289.8		1,184.4		1,060.0		1,064.5		1,032.8	
Total assets		4,105.3		3,652.4		2,909.6		2,766.3		2,647.1	
Long-term debt(5)		887.7		837.2		626.7		772.3		617.4	
Total debt(5)		1,180.3		1,144.2		849.7		826.6		685.6	
Shareholders' equity		1,318.7		1,056.4		929.4		828.1		809.9	
Number of employees		20,300		20,500		17,300		17,900		17,400	

OTHER INFORMATION											
Depreciation expense(5)		\$ 143.9		\$ 125.1		\$ 122.1		\$ 124.0		\$ 125.1	
Research and development expense		74.8		74.5		69.9		67.8		64.3	
Effective tax rate		27.5%		29.5%		32.4%		33.5%		34.8%	
Long-term debt as a percent of total long-term capital		40.2		44.2		40.3		48.3		43.3	
Total debt as a percent of total capital		47.2		52.0		47.8		50.0		45.8	
Return on average shareholders' equity (percent)		22.3		25.7		27.4		34.6		27.1	
Return on average total capital (percent)		14.3		15.8		16.2		19.6		17.0	

- (1) Results for 2003 include a pretax charge of \$30.5 million for asset impairments, restructuring costs, lease cancellation charges and net losses associated with several product line divestitures, partially offset by a gain from settlement of a lawsuit. Additionally, results for 2003 included a pretax gain on sale of discontinued operations of \$25.5 million.
- (2) Results for 2002 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.
- (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.
- (5) Certain amounts for prior years were reclassified to conform with the current year presentation.

AVERY DENNISON CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollars in millions)	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29.5	\$ 22.8
Trade accounts receivable, less allowances of \$54.2 and \$45.9 for 2003 and 2002, respectively	833.2	723.4
Inventories, net	406.1	342.1
Deferred taxes	29.5	25.7
Other current assets	142.6	101.5
Total current assets	<u>1,440.9</u>	<u>1,215.5</u>
Property, plant and equipment, net	1,289.8	1,184.4
Goodwill	716.6	618.2
Other intangibles resulting from business acquisitions, net	151.3	147.9
Other assets	506.7	486.4
	<u>\$4,105.3</u>	<u>\$3,652.4</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 292.6	\$ 307.0
Accounts payable	548.5	438.6
Accrued payroll and employee benefits	156.9	178.7
Accrued trade rebates	134.4	119.7
Other accrued liabilities	272.5	181.2
Income taxes payable	91.1	70.9
Total current liabilities	<u>1,496.0</u>	<u>1,296.1</u>
Long-term debt	887.7	837.2
Long-term retirement benefits and other liabilities	335.5	304.2
Non-current deferred taxes	67.4	74.0
Other long-term obligation	—	84.5
Commitments and contingencies (see Notes 7 and 9)		
Shareholders' equity:		
Common stock, \$1 par value, authorized – 400,000,000 shares at year end 2003 and 2002; issued – 124,126,624 shares at year end 2003 and 2002; outstanding – 99,569,383 shares and 99,303,840 shares at year end 2003 and 2002, respectively	124.1	124.1
Capital in excess of par value	703.7	740.2
Retained earnings	1,772.5	1,664.8
Cost of unallocated ESOP shares	(11.6)	(12.2)
Employee stock trusts, 10,897,033 shares and 11,163,451 shares at year end 2003 and 2002, respectively	(595.4)	(658.7)
Treasury stock at cost, 13,660,208 shares and 13,659,333 shares at year end 2003 and 2002, respectively	(597.0)	(596.9)
Accumulated other comprehensive loss	(77.6)	(204.9)
Total shareholders' equity	<u>1,318.7</u>	<u>1,056.4</u>
	<u>\$4,105.3</u>	<u>\$3,652.4</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	2003	2002	2001
Net sales	\$4,762.6	\$4,155.9	\$3,755.5
Cost of products sold	3,304.6	2,820.3	2,532.5
Gross profit	1,458.0	1,335.6	1,223.0
Marketing, general and administrative expense	1,034.9	905.2	823.3
Interest expense	57.7	44.0	50.7
Other expense (income), net	30.5	32.1	(.3)
Income from continuing operations before taxes and accounting change	334.9	354.3	349.3
Taxes on income	92.1	104.5	113.0
Income from continuing operations before accounting change	242.8	249.8	236.3
Income from discontinued operations, net of tax (including gain on disposal of \$19.7, net of tax of \$5.8 in 2003)	25.1	7.4	7.1
Income before accounting change	267.9	257.2	243.4
Cumulative effect of accounting change, net of tax	—	—	(.2)
Net income	\$ 267.9	\$ 257.2	\$ 243.2
Per share amounts:			
Net income per common share:			
Continuing operations before accounting change	\$ 2.45	\$ 2.54	\$ 2.42
Discontinued operations	.25	.07	.07
Cumulative effect of accounting change	—	—	—
Net income per common share	\$ 2.70	\$ 2.61	\$ 2.49
Net income per common share, assuming dilution:			
Continuing operations before accounting change	\$ 2.43	\$ 2.51	\$ 2.40
Discontinued operations	.25	.08	.07
Cumulative effect of accounting change	—	—	—
Net income per common share, assuming dilution	\$ 2.68	\$ 2.59	\$ 2.47
Dividends	\$ 1.45	\$ 1.35	\$ 1.23
Average shares outstanding:			
Common shares	99.4	98.5	97.8
Common shares, assuming dilution	100.0	99.4	98.6
Common shares outstanding at year end	99.6	99.3	97.9

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	<u>Common stock, \$1 par value</u>	<u>Capital in excess of par value</u>	<u>Retained earnings</u>	<u>Cost of unallocated ESOP shares</u>	<u>Employee stock trusts</u>	<u>Treasury stock</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total</u>
(Dollars in millions)								
Fiscal year ended 2000	\$ 124.1	\$ 692.0	\$ 1,448.3	\$ (15.3)	\$ (699.9)	\$ (615.7)	\$ (105.4)	\$ 828.1
Comprehensive income:								
Net income			243.2					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		.2			40.4			40.6
Dividends: \$1.23 per share			(135.4)					(135.4)
ESOP transactions, net				1.6				1.6
Employee stock benefit trust market value adjustment		15.0			(15.0)			—
Fiscal year ended 2001	124.1	707.2	1,556.1	(13.7)	(674.5)	(633.4)	(136.4)	929.4
Comprehensive income:								
Net income			257.2					257.2
Other comprehensive loss:								
Foreign currency translation adjustment							11.7	11.7
Minimum pension liability adjustment							(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		(3.5)			52.3			48.8
Dividends: \$1.35 per share			(148.5)					(148.5)
ESOP transactions, net				1.5				1.5
Employee stock benefit trust market value adjustment		36.5			(36.5)			—
Fiscal year ended 2002	124.1	740.2	1,664.8	(12.2)	(658.7)	(596.9)	(204.9)	1,056.4
Comprehensive income:								
Net income			267.9					267.9
Other comprehensive income:								
Foreign currency translation adjustment							150.7	150.7
Minimum pension liability adjustment							(27.8)	(27.8)
Effective portion of gains or losses on cash flow hedges							4.4	4.4
Other comprehensive income							127.3	127.3
Total comprehensive income								395.2
Repurchase of 875 shares for treasury, net of shares issued						(1)		(1)
Stock issued under option plans, net of \$19.5 of tax and dividends paid on stock held in stock trusts		11.9			13.5			25.4
Dividends: \$1.45 per share			(160.2)					(160.2)
ESOP transactions, net				.6	1.4			2.0
Employee stock benefit trust market value adjustment		(48.4)			48.4			—
Fiscal year ended 2003	\$ 124.1	\$ 703.7	\$ 1,772.5	\$ (11.6)	\$ (595.4)	\$ (597.0)	\$ (77.6)	\$ 1,318.7

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2003	2002	2001
OPERATING ACTIVITIES			
Net income	\$ 267.9	\$ 257.2	\$ 243.2
Less: income from discontinued operations	25.1	7.4	7.1
Income from continuing operations	242.8	249.8	236.1
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation	143.9	125.1	122.1
Amortization	35.4	25.7	31.4
Deferred taxes	(5.2)	22.2	3.0
Asset impairment and net loss (gain) on sale of assets of \$.1, \$3.2 and \$(20.2) in 2003, 2002 and 2001, respectively	7.7	20.7	(.3)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures:			
Trade accounts receivable	(40.8)	(41.5)	7.9
Inventories	(37.4)	(16.5)	1.7
Other current assets	(3.9)	.3	(4.6)
Accounts payable and accrued liabilities	46.3	141.7	(58.1)
Taxes on income	(17.6)	6.2	27.4
Long-term retirement benefits and other liabilities	(36.3)	(22.7)	(.8)
Net cash provided by operating activities from continuing operations	334.9	511.0	365.8
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(201.4)	(150.4)	(133.0)
Purchase of software	(22.8)	(20.1)	(50.3)
Payments for acquisitions	(6.9)	(397.4)	(64.2)
Proceeds from sale of assets	15.4	9.4	33.6
Proceeds from sale of business	58.8	—	—
Other	(8.7)	(16.8)	(52.4)
Net cash used in investing activities from continuing operations	(165.6)	(575.3)	(266.3)
FINANCING ACTIVITIES			
Additional borrowings	417.9	697.0	364.8
Payments of debt	(447.7)	(508.5)	(335.8)
Dividends paid	(160.2)	(148.5)	(135.4)
Purchase of treasury stock	(.3)	(10.8)	(17.9)
Proceeds from exercise of stock options, net	5.5	22.1	17.4
Other	18.1	17.4	15.5
Net cash (used in) provided by financing activities from continuing operations	(166.7)	68.7	(91.4)
Effect of foreign currency translation on cash balances	4.1	(.7)	(.4)
Increase in cash and cash equivalents	6.7	3.7	7.7
Cash and cash equivalents, beginning of year	22.8	19.1	11.4
Cash and cash equivalents, end of year	\$ 29.5	\$ 22.8	\$ 19.1

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 in certain affiliates (20 percent to 50 percent ownership) are accounted for by the equity method of accounting. Investments representing less than 20 percent ownership are accounted for by the cost method of accounting.

Financial Presentation

The Company sold its package label converting business in Europe in 2003. As a result, the Company's previously reported consolidated financial statements for 2002 and 2001 have been restated to present the discontinued operations separate from continuing operations. See Note 2 "Discontinued Operations," for further detail. Certain other prior year amounts have been reclassified to conform with the 2003 financial statement presentation.

Fiscal Year

The Company's 2003, 2002 and 2001 fiscal years reflected 52-week periods ending December 27, 2003, December 28, 2002 and December 29, 2001, respectively. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

Use of Estimates

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

	2003	2002	2001
(In millions)			
Interest, net of capitalized amounts	\$ 49.5	\$44.4	\$50.0
Income taxes, net of refunds	122.2	91.6	95.1

In 2002, non-cash activities included the issuance of approximately \$47 million in Avery Dennison common shares for the L&E acquisition and the assumption of approximately \$100 million in debt from the Jackstädt acquisition. Refer to Note 3 "Acquisitions," for further detail.

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 30 percent and 34 percent of inventories before LIFO adjustment at year end 2003 and 2002, respectively. Inventories at year end were as follows:

	2003	2002
(In millions)		
Raw materials	\$124.8	\$100.9
Work-in-progress	92.7	81.1
Finished goods	204.6	176.8
Inventories at lower of FIFO cost or market (approximates replacement cost)	422.1	358.8
Less LIFO adjustment	(16.0)	(16.7)
	\$406.1	\$342.1

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)	2003	2002
Land	\$ 57.1	\$ 54.3
Buildings and improvements	579.3	530.1
Machinery and equipment	1,714.3	1,548.3
Construction-in-progress	149.6	122.7
	<u>2,500.3</u>	<u>2,255.4</u>
Accumulated depreciation	(1,210.5)	(1,071.0)
	<u>\$ 1,289.8</u>	<u>\$ 1,184.4</u>

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets ranging from five to fifty years for buildings and improvements and two to fifteen years for machinery and equipment. 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)	2003	2002
Cost	\$206.2	\$176.4
Accumulated amortization	(83.6)	(63.0)
	<u>\$122.6</u>	<u>\$113.4</u>

Goodwill and Other Intangibles Resulting from Business Acquisitions

The Company accounts for all business combinations in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." All business combinations are accounted for by the purchase method, and the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired is considered goodwill. As a result, the Company discloses goodwill separately from other intangible assets and, as of the beginning of fiscal 2002, 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 the following five reporting units for the purposes of performing the impairment tests for goodwill and other intangible assets. Materials, performance polymers and ventures and specialty tapes are reported in the Pressure-sensitive Adhesives and Materials segment. Office products and converting are reported in the Consumer and Converted Products segment. For the purposes of performing the required impairment tests, a present value (discounted cash flow) method was used to determine fair value of the materials, office products and converting reporting units. No goodwill and other intangible assets are associated with the performance polymers and ventures or specialty tapes reporting units. The Company performed its annual impairment test in the fourth quarter of 2003, with an assessment that no impairment had occurred. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with an indefinite life. See Note 4 "Goodwill and Other Intangibles Resulting from Business Acquisitions," for more information.

Foreign Currency Translation

All asset and liability accounts of international operations are translated into U.S. dollars at current rates. 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 2003, 2002 and 2001. Gains and losses resulting from foreign currency transactions are included in income currently, except for gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements which are recorded directly to a component of other comprehensive income.

Transaction and translation losses decreased net income in 2003, 2002 and 2001 by \$.9 million, \$3.5 million and \$2.7 million, respectively.

Note 1. Summary of Significant Accounting Policies (continued)

Financial Instruments

The Company enters into certain foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of its operations outside the United States of America. The Company also enters into certain interest rate contracts to help 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 income, and the ineffective portion is reported currently in earnings. Amounts in accumulated other comprehensive loss are reclassified into earnings in the same period during which the hedged forecasted transaction is consummated. In the event the anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the instrument in earnings currently. Changes in fair value hedges are recognized currently in earnings. Changes in the fair 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 \$50.4 million, \$46.4 million and \$31.7 million for 2003, 2002 and 2001, respectively.

Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were \$8.2 million, \$8.3 million and \$6.1 million for 2003, 2002 and 2001, respectively. The Company's policy is to expense advertising costs as incurred.

Research and Development

Research and development costs are expensed as incurred. Research and development expense for 2003, 2002 and 2001 was \$74.8 million, \$74.5 million and \$69.9 million, respectively.

Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units 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:

	<u>2003</u>	<u>2002</u>
(In millions)		
Balance at beginning of year	\$ 1.4	\$ 1.3
Accruals for warranties issued	3.2	1.5
Payments	(2.1)	(1.4)
	<u> </u>	<u> </u>
Balance at end of year	\$ 2.5	\$ 1.4
	<u> </u>	<u> </u>

Note 1. Summary of Significant Accounting Policies (continued)**Stock-Based Compensation**

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

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

	2003	2002	2001
(In millions, except per share amounts)			
Net income, as reported	\$267.9	\$257.2	\$243.2
Compensation expense, net of tax	(19.4)	(16.5)	(12.6)
Pro forma net income	\$248.5	\$240.7	\$230.6
Earnings per share, as reported	\$ 2.70	\$ 2.61	\$ 2.49
Earnings per share, assuming dilution, as reported	2.68	2.59	2.47
Pro forma earnings per share	\$ 2.50	\$ 2.44	\$ 2.36
Pro forma earnings per share, assuming dilution	2.49	2.42	2.34

Environmental Expenditures

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

Investment Tax Credits

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

Note 1. Summary of Significant Accounting Policies (continued)**Net Income Per Share**

Net income per common share amounts were computed as follows:

	2003	2002	2001
<i>(In millions, except per share amounts)</i>			
(A) Income from continuing operations	\$ 242.8	\$ 249.8	\$ 236.1
(B) Income from discontinued operations	25.1	7.4	7.1
(C) Net income available to common shareholders	267.9	257.2	243.2
(D) Weighted average number of common shares outstanding	99.4	98.5	97.8
Additional common shares issuable under employee stock options using the treasury stock method and contingently issuable shares under an acquisition agreement	.6	.9	.8
(E) Weighted average number of common shares outstanding assuming the exercise of stock options and contingently issuable shares under an acquisition agreement	100.0	99.4	98.6
Income from continuing operations per common share (A) ÷ (D)	\$ 2.45	\$ 2.54	\$ 2.42
Income from discontinued operations per common share (B) ÷ (D)	.25	.07	.07
Net income per common share (C) ÷ (D)	\$ 2.70	\$ 2.61	\$ 2.49
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	\$ 2.43	\$ 2.51	\$ 2.40
Income from discontinued operations per common share, assuming dilution (B) ÷ (E)	.25	.08	.07
Net income per common share, assuming dilution (C) ÷ (E)	\$ 2.68	\$ 2.59	\$ 2.47

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of stock options excluded from the computation were 3.8 million, .2 million and 1.8 million for 2003, 2002 and 2001, respectively.

Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability and the gains or losses on the effective portion of cash flow and firm commitment hedges that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was \$395.2 million and \$188.7 million for 2003 and 2002, respectively.

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

	2003	2002
<i>(In millions)</i>		
Foreign currency translation adjustment	\$ 39.3	\$ (111.4)
Minimum pension liability	(96.0)	(68.2)
Net loss on derivative instruments designated as cash flow and firm commitment instruments	(20.9)	(25.3)
Total accumulated other comprehensive loss	\$ (77.6)	\$ (204.9)

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

	2003	2002
<i>(In millions)</i>		
Beginning accumulated derivative (loss) gain	\$ (25.3)	\$ 1.0
Net gain reclassified to earnings	(1.4)	(.6)
Net change in the revaluation of hedging transactions	5.8	(25.7)
Ending accumulated derivative loss	\$ (20.9)	\$ (25.3)

Note 1. Summary of Significant Accounting Policies (continued)

In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003 (see Note 5 “Debt,” for further detail), the Company settled a forward starting interest rate swap at a loss of approximately \$32.5 million. This unrecognized loss is being amortized to interest expense over 10 years, which corresponds to the term of the related debt. The pretax loss recognized during 2003 was approximately \$2.4 million. The Company entered into the 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.

Recent Accounting Requirements

In December 2003, the Financial Accounting Standards Board (FASB) reissued Interpretation No. 46, “Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51.” The Interpretation clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support. The provisions of this Interpretation will be effective for the Company for interim periods ending after March 15, 2004. The adoption of this Interpretation is not expected to have a significant impact on the Company’s financial results of operations and financial position, since the Company did not have an interest in any variable interest entities at December 27, 2003.

In December 2003, the FASB reissued SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106.” This Statement revises employers’ disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, “Employers’ Accounting for Pensions,” SFAS No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,” and SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” This Statement retains the disclosure requirements contained in the original SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” The revised Statement also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The provisions of the original SFAS No. 132 will remain in effect until the provisions of this Statement are adopted. Certain new provisions are effective for financial statements with fiscal years ending after December 15, 2003, while other provisions are effective for fiscal years ending after June 15, 2004. The interim period disclosures are effective for interim periods beginning after December 15, 2003. See Note 12 “Pensions and Other Postretirement Benefits,” for disclosures required under the revised SFAS No. 132.

In August 2003, the consensus of Emerging Issues Task Force (EITF) Issue No. 03-4, “Determining the Classification and Benefit Attribution Method for a ‘Cash Balance’ Pension Plan” was published. EITF Issue No. 03-4 determines that for the purposes of applying SFAS No. 87, “Employers’ Accounting for Pensions,” the cash balance plan should be considered a defined benefit plan. The provisions of EITF Issue No. 03-4 were effective during the fourth quarter of 2003. The adoption of this guidance has not had a significant impact on the Company’s financial results of operations and financial position.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FASB Staff Position No. FAS 150-3, “Effective Date for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,” was issued on November 7, 2003. This FASB Staff Position deferred the effective date for the classification and measurement provisions for certain mandatorily redeemable noncontrolling interests for an indefinite period. The other provisions of this Statement were effective for financial instruments entered into or modified after May 31, 2003, and otherwise were effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 for those provisions effective in the current period has not had a significant impact on the Company’s financial results of operations and financial position. The adoption of those provisions effective in 2004 is not expected to have a significant impact on the Company’s financial results of operations and financial position.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) used for hedging activities under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The provisions of this Statement were effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this Statement has not had a significant impact on the Company’s financial results of operations and financial position.

Note 1. Summary of Significant Accounting Policies (continued)

In March 2003, the consensus of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor," was published. EITF Issue No. 02-16 addresses how a reseller of a vendor's products should account for cash consideration received from a vendor. The provisions of EITF Issue No. 02-16 were effective for new arrangements entered after December 31, 2002. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In March 2003, the consensus of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," was published. 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 were effective in fiscal periods beginning after June 15, 2003. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

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. This Statement also amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The provisions of this Statement were 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 2003 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 were effective for financial statements of interim or annual periods ending after December 15, 2002, and applicable disclosures are presented in Notes 1, 3, 5 and 9 of these consolidated financial statements. The initial recognition and initial measurement provisions of this Interpretation were effective during the beginning of fiscal 2003. The adoption of this Interpretation has not had a significant impact on the Company's financial results of operations and financial position.

In June 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 were effective for new restructuring activities subsequent to December 31, 2002. The adoption of SFAS No. 146 affects the timing of the recognition of future costs associated with exit or disposal activities and did not affect previous charges related to such activities. The adoption of this Statement impacted the timing of recognition of liabilities associated with the fourth quarter of 2003 integration and productivity improvement initiatives detailed in Note 11 "Components of Other Income and Expense."

In April 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 were effective at the beginning of 2003. All other provisions were effective May 16, 2002. The adoption of this Statement has not had a significant impact on the Company's financial results of operations and financial position.

In June 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

Note 1. Summary of Significant Accounting Policies (continued)

long-lived asset. All provisions of this Statement were effective at the beginning of fiscal 2003. The adoption of this Statement has not had a significant impact on the Company's financial results of operations and financial position.

Related Party Transactions

From time to time, the Company enters into transactions in the normal course of business with related parties. 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, 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 2003, 2002 and 2001, the Company paid premiums to insurance companies for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2003, 2002 and 2001, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.1 million, \$1.3 million and \$1.7 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$0.7 million, \$0.9 million and \$1 million in 2003, 2002 and 2001, respectively. 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.

Note 2. Discontinued Operations

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark, as well as a package label converting facility in France, to CCL Industries, Inc. Accordingly, the results for this business were accounted for as discontinued operations for all periods presented in these consolidated financial statements. This business was previously reported in the Company's Consumer and Converted Products segment.

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

Summarized financial information for discontinued operations is as follows:

Combined Statement of Income

	2003	2002	2001
(In millions)			
Net sales	\$44.1	\$51.0	\$47.8
Income before taxes	\$ 7.9	\$10.5	\$10.5
Taxes on income	2.5	3.1	3.4
Income from operations, net of tax	5.4	7.4	7.1
Gain on sale of discontinued operations	25.5	—	—
Tax on gain from sale	5.8	—	—
Income from discontinued operations, net of tax	\$25.1	\$ 7.4	\$ 7.1

Combined Balance Sheet

	2002
(In millions)	
Current assets	\$11.6
Property, plant and equipment, net	14.8
Goodwill	10.5
Other assets	5
Current liabilities	(6.9)
Net assets held for sale	\$30.5

Note 3. Acquisitions

In August 2003, the Company made a \$1.9 million payment in final settlement of all future performance-related obligations pursuant to the amended stock purchase agreement with the former shareholders of Dunsirn Industries, Inc. ("Dunsirn"), a company acquired in 2001. In February 2003, the Company paid an additional \$4.4 million related to meeting certain performance targets included in the

Note 3. Acquisitions (continued)

2001 stock purchase agreement with the shareholders of Dunsirn. These payments increased the excess of the cost-basis over the fair value of net tangible assets acquired related to Dunsirn to approximately \$37 million, with the change entirely attributable to goodwill. The operations of Dunsirn are included within the Company's Pressure-sensitive Adhesives and Materials segment.

On November 5, 2002, the Company acquired RVL Packaging, Inc. ("RVL"), a provider of brand identification products to apparel manufacturers and retailers. On the same day, the Company also acquired the assets of L&E Packaging ("L&E"), one of RVL's suppliers. Both transactions included the acquisition of certain related entities. The RVL and L&E operations have been included in the Company's Consumer and Converted Products segment as of the acquisition date.

The purchase price, net of cash acquired, for RVL and L&E was approximately \$218 million, including cash of approximately \$171 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 ("Closing Price").

The final allocation of the purchase price for RVL and L&E has been made and is included in these financial statements. In the event certain performance targets are met in 2004, the Company will be obligated to make an additional payment in early 2005. The total amount of this contingent payment is estimated to be approximately \$.5 million. Because performance targets were not met in 2003, based on the same agreement, no additional payment is expected to be made in 2004. In addition, in the event the value of the Company's common shares falls below the Closing Price, adjusted for dividends received, during the period from January 1, 2005 through December 31, 2007, the Company may be obligated to pay the difference in value, in the form of cash or common shares.

The excess of the cost-basis over the fair value of net tangible assets acquired from RVL and L&E was approximately \$204 million, including goodwill of approximately \$182 million and identified amortizable intangible assets of approximately \$22 million. The allocation and useful lives of these identified intangible assets have not changed significantly from 2002. This goodwill is not expected to be deductible for U.S. tax purposes.

On May 17, 2002, the Company acquired Jackstädt GmbH ("Jackstädt"), a manufacturer of pressure-sensitive adhesive materials headquartered in Germany, with an international customer base. The purchase price, net of cash acquired, was approximately \$312 million, which included approximately \$212 million in cash and assumed debt of approximately \$100 million. The final allocation of the purchase price has been made and is included in these financial statements. Jackstädt's results of operations have been included in the Company's Pressure-sensitive Adhesives and Materials segment as of the acquisition date.

The excess of the cost-basis over the fair value of net tangible assets acquired from Jackstädt was approximately \$175 million, including goodwill of approximately \$161 million and identified amortizable intangible assets of approximately \$14 million. This goodwill is not expected to be deductible for tax purposes. The acquired intangible assets have a weighted-average useful life of seven years. These assets include approximately \$11 million for tradenames (five-year weighted-average useful life) and approximately \$3 million for customer relationships and other intangibles (twenty-year weighted-average useful life).

The Company has recognized certain costs related to exit activities and integration costs attributable to the Jackstädt acquisition. These costs have been recognized as part of the assumed liabilities totaling approximately \$25 million included in "Other accrued liabilities" in the Consolidated Balance Sheet. At year end 2003, approximately \$5 million of the \$25 million remained accrued. The costs were primarily related to severance costs for involuntary terminations of approximately 560 employees of Jackstädt, to be paid through the end of 2004. Of the total positions eliminated under these actions, all of the employees had left the Company at the end of 2003. Also included were lease exit costs and costs to terminate contracts with sales agents.

The aggregate cost of acquired companies and contingent payments was approximately \$9 million and \$546 million in 2003 and 2002, respectively. Goodwill resulting from these business acquisitions was approximately \$7 million and \$326 million in 2003 and 2002, respectively. Intangibles resulting from these business acquisitions were approximately \$1 million and \$31 million in 2003 and 2002, respectively. These amounts do not include acquisition adjustments in subsequent years. Other acquisitions during 2003 and 2002 not described above were not significant to the consolidated position of the Company. Pro forma results for acquisitions in 2003 and 2001 are not presented, as the acquired businesses did not have a significant impact on the Company's results of operations for those years.

Note 3. Acquisitions (continued)

The following represents the unaudited pro forma results of operations for the Company as though the acquisitions of Jackstädt, RVL and L&E had occurred at the beginning of the periods presented. The pro forma results included interest expense on additional debt that would have been needed to finance the purchases, amortization of intangibles that would have been acquired, and certain adjustments that would have been required to conform to the Company's accounting policies. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

(Unaudited) (In millions, except per share amounts)	2002	2001
Net sales from continuing operations	\$4,539.0	\$4,339.5
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 4. Goodwill and Other Intangibles Resulting from Business Acquisitions

Changes in the net carrying amount of goodwill from continuing operations for 2002 and 2003, by reportable segment, are as follows:

(In millions)	Consumer and Converted Products	Pressure- sensitive Adhesives and Materials	Total
Balance as of December 29, 2001	\$ 139.6	\$ 144.3	\$283.9
Goodwill acquired during the period	176.2	150.3	326.5
Translation adjustments	10.1	(2.3)	7.8
Balance as of December 28, 2002	325.9	292.3	618.2
Goodwill acquired during the period	.7	6.3	7.0
Acquisition adjustments (see Note 3 "Acquisitions")	12.1	20.4	32.5
Divestiture	(.9)	—	(.9)
Translation adjustments	17.9	41.9	59.8
Balance as of December 27, 2003	\$ 355.7	\$ 360.9	\$716.6

Amortization expense on goodwill from continuing operations was \$14.4 million for the year ended December 29, 2001.

The following table sets forth the Company's other intangible assets at December 27, 2003 and December 28, 2002, which continue to be amortized:

(In millions)	2003			2002		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Tradenames and trademarks	\$ 42.7	\$ 18.5	\$ 24.2	\$ 36.6	\$ 11.4	\$ 25.2
Patented and other acquired technology	65.4	13.0	52.4	65.4	9.2	56.2
Customer relationships	84.1	11.3	72.8	70.1	6.1	64.0
Other intangibles	4.4	2.5	1.9	4.0	1.5	2.5
Total	\$ 196.6	\$ 45.3	\$ 151.3	\$ 176.1	\$ 28.2	\$ 147.9

Amortization expense on other intangible assets resulting from business acquisitions was \$13.3 million for 2003, \$9.7 million for 2002 and \$7.3 million for 2001. The weighted-average amortization periods for intangible assets resulting from business acquisitions are twelve years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-three years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for acquired intangible assets for each of the next five succeeding fiscal years is expected to be approximately \$14 million, \$13 million, \$12 million, \$9 million and \$8 million, respectively.

Note 4. 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)	2003	2002	2001
Reported net income	\$267.9	\$257.2	\$243.2
Goodwill amortization, net of tax	—	—	13.8
Adjusted net income	\$267.9	\$257.2	\$257.0
Basic earnings per share:			
As reported	\$ 2.70	\$ 2.61	\$ 2.49
Goodwill amortization	—	—	.14
Adjusted basic earnings per share	\$ 2.70	\$ 2.61	\$ 2.63
Diluted earnings per share:			
As reported	\$ 2.68	\$ 2.59	\$ 2.47
Goodwill amortization	—	—	.14
Adjusted diluted earnings per share	\$ 2.68	\$ 2.59	\$ 2.61

Note 5. Debt

Long-term debt and its respective weighted-average interest rates at December 27, 2003 consisted of the following:

(In millions)	2003	2002
Medium-term notes		
Series 1993 at 6.7% – due 2004 through 2005	\$ 28.0	\$ 98.0
Series 1994 at 7.7% – due 2004	80.0	80.0
Series 1995 at 7.3% – due 2005 through 2025	100.0	100.0
Series 1997 at 6.6% – due 2007	60.0	60.0
Series 1998 at 5.9% – due 2008	50.0	50.0
Senior notes due 2013 at 4.9%	250.0	—
Senior notes due 2033 at 6.0%	150.0	—
Other long-term borrowings	7.7	13.5
Variable rate commercial paper borrowings at 2.24% classified as long-term	250.0	512.2
Less amount classified as current	(88.0)	(76.5)
	\$887.7	\$837.2

The Company's medium-term notes have maturities from 2004 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2004 through 2008 are \$88 million (classified as current), \$74.8 million, \$250.5 million, \$60.4 million and \$50.4 million, respectively, with \$451.6 million maturing thereafter.

In January 2003, the Company refinanced \$400 million of its variable rate commercial paper borrowings through the offering of \$250 million of 4.9 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033. The aggregate \$400 million refinancing was issued under the Company's 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 \$200 million remaining that is available for issuance for general corporate purposes, including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital.

Variable rate commercial paper borrowings at December 27, 2003 were \$281.7 million with a weighted-average interest rate of 2.16 percent. Of these variable rate commercial paper borrowings, \$31.7 million was classified as short-term debt and \$250 million was classified as long-term debt, because the Company has the ability and intent to refinance this debt under its \$250 million revolving credit agreement, discussed below.

Note 5. Debt (continued)

In April 2003, the Company issued \$150 million one-year callable commercial notes at a weighted-average interest rate of 1.71 percent. This replaced the December 2002 issuance of \$150 million one-year callable commercial notes at a weighted-average interest rate of 2.5 percent. In October 2003, the Company called \$60 million of the notes issued in April 2003. The remaining \$90 million was outstanding at year-end. In January 2004, the Company reissued the \$60 million notes called in October 2003 at a weighted-average interest rate of 1.3 percent.

At December 27, 2003, the Company had \$82.9 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 8.9 percent.

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2006. Financing available under this agreement is used as a commercial paper back-up facility and is available to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2003.

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 3, 2004. 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 is used as a commercial paper back-up facility and is available to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2003.

In addition, the Company has a 364-day revolving credit facility with one foreign bank to provide up to Euro 30 million (\$36.9 million) in borrowings through May 25, 2004. The Company may annually extend the revolving period and due date with the approval of the bank. Financing under this agreement will be used to finance cash requirements in Europe. There was \$5.5 million outstanding under this agreement as of year end 2003.

Uncommitted lines of credit were \$313.6 million at year end 2003. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

At December 27, 2003, the Company had available short-term financing arrangements totaling \$435.9 million.

Commitment fees relating to the financing arrangements are not significant.

The Company's total interest costs in 2003, 2002 and 2001 were \$63.8 million, \$47.6 million and \$57.1 million, respectively, of which \$6.1 million, \$3.9 million and \$6.9 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on consolidated debt and consolidated interest expense in relation to certain measures of income. Under the loan agreements, the ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2003 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 2003 was 7.3 to 1.0.

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debts of the same remaining maturities. At year end 2003 and 2002, the fair value of the Company's total debt, including short-term borrowings, was \$1.21 billion and \$1.18 billion, respectively.

The Company had standby letters of credit outstanding of \$195.5 million and \$182.7 million at the end of 2003 and 2002, respectively. The aggregate contract amount of all outstanding standby letters of credit approximated fair value.

The Company guaranteed approximately \$18.3 million of certain foreign subsidiaries' obligations to their suppliers as of December 27, 2003.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. This obligation of \$84.5 million was reclassified from "Other long-term obligation" to the "Other accrued liabilities" line in the Consolidated Balance Sheet during the first quarter of 2003. This amount increased to \$101.5 million at the end of 2003 reflecting the impact of changes in foreign currency exchange rates. The entire obligation was paid by the Company in February 2004.

Note 6. 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 2003, the ineffectiveness related to cash flow hedges was not significant. The reclassification from other comprehensive loss to earnings was a net gain of approximately \$1.4 million and \$.6 million during 2003 and 2002, respectively. A net loss of approximately \$2.3 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.

In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003, the Company settled a forward starting interest rate swap at a loss of approximately \$32.5 million. The loss is being amortized to interest expense over a 10-year period, which corresponds to the term of the related debt. The Company entered into the 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 was included in other comprehensive loss at the end of 2002.

A loss of approximately \$2.7 million related to a net investment hedge was included in the foreign currency translation adjustment in 2002 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 \$2.3 million and \$.5 million at the end of 2003 and 2002, 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 at the end of 2003 and 2002. The carrying value of the foreign exchange option contracts approximated the fair market value.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately \$9 million over a five-year period. In June 2003, this swap contract expired resulting in a loss of approximately \$.6 million. The carrying value of this contract approximated fair value, which was an asset of approximately \$.5 million at the end of 2002.

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 2003 and 2002, approximately 15 percent and 17 percent, respectively, of trade accounts receivable were from eight 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 7. Commitments

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

Year	(In millions)
2004	\$ 50.9
2005	40.8
2006	29.4
2007	21.4
2008	17.4
Thereafter	48.0
Total minimum lease payments	\$ 207.9

Note 7. Commitments (continued)

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 2003, 2002 and 2001 was \$65 million, \$60 million and \$50 million, respectively.

The Company's total purchase obligations at December 27, 2003 were approximately \$34 million, which included commitments to purchase inventory and services under long-term supply agreements.

Note 8. Taxes Based on Income

Taxes based on income were as follows:

(In millions)	2003	2002	2001
Current:			
U.S. federal tax	\$ 48.4	\$ 43.0	\$ 47.5
State taxes	8.3	3.3	7.5
International taxes	35.8	39.1	45.5
	<u>92.5</u>	<u>85.4</u>	<u>100.5</u>
Deferred:			
U.S. federal tax	5.0	8.3	7.7
State taxes	-	2.7	.8
International taxes	2.9	11.2	7.4
	<u>7.9</u>	<u>22.2</u>	<u>15.9</u>
Taxes on income	<u>\$100.4</u>	<u>\$107.6</u>	<u>\$116.4</u>

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)	2003	2002	2001
Computed tax at 35% of income from continuing operations before taxes	\$ 117.2	\$ 124.0	\$ 122.3
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	5.4	3.8	4.9
Foreign earnings taxed at different rates	(22.0)	(12.1)	(9.1)
Tax credits	(4.5)	(6.9)	(5.6)
Other items, net	(4.0)	(4.3)	.5
	<u>92.1</u>	<u>104.5</u>	<u>113.0</u>
Taxes on income from continuing operations	<u>92.1</u>	<u>104.5</u>	<u>113.0</u>
Taxes on income and gain on sale of discontinued operations	<u>8.3</u>	<u>3.1</u>	<u>3.4</u>
Taxes on income	<u>\$100.4</u>	<u>\$107.6</u>	<u>116.4</u>

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

(In millions)	2003	2002	2001
U.S.	\$152.0	\$194.4	\$182.8
International	182.9	159.9	166.5
	<u>334.9</u>	<u>354.3</u>	<u>349.3</u>
Income from continuing operations before taxes	<u>334.9</u>	<u>354.3</u>	<u>349.3</u>
Income from discontinued operations before taxes	<u>33.4</u>	<u>10.5</u>	<u>10.5</u>
Income before taxes	<u>\$368.3</u>	<u>\$364.8</u>	<u>\$359.8</u>

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries of approximately \$918.6 million and \$800 million at year ended 2003 and 2002, 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.

Note 8. Taxes Based on Income (continued)

Operating loss carryforwards of foreign subsidiaries for 2003 and 2002 are \$125.6 million and \$58.4 million, respectively, and there are no credit carryforwards for federal income tax purposes. Net operating losses of \$37.3 million expire from 2004 through 2013, while net operating losses of \$88.3 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss carryforwards not expected to be utilized.

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that give rise to the Company's deferred tax assets and liabilities were as follows:

	2003	2002
(In millions)		
Accrued expenses not currently deductible	\$ 27.1	\$ 33.2
Net operating losses and foreign tax credit carryforwards	34.1	24.9
Postretirement and postemployment benefits	43.2	46.2
Pension costs	9.0	(13.3)
Depreciation and amortization	(138.2)	(136.7)
Inventory reserves	11.0	11.1
Other	3.3	3.9
Valuation allowance	(27.4)	(17.6)
Total net deferred tax liabilities	\$ (37.9)	\$ (48.3)

Note 9. 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 eleven 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 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 the final resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

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

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

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

Note 9. Contingencies (continued)

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

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

On May 21, 2003, The Harman Press filed a purported class action in the Superior Court for the County of Los Angeles, California against the Company, UPM and UPM's subsidiary Raflatac, seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. The Company is attempting to have all these cases coordinated before a single Superior Court judge. A further similar complaint has been filed in the Superior Court for Maricopa County, Arizona. The Company intends to defend these matters vigorously.

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

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

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

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

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At December 27, 2003, the Company had guaranteed \$8.4 million.

In February 2003, the Company entered into a five-year operating lease on equipment that contains a residual value guarantee of \$10.6 million. In the opinion of management, the amount guaranteed will not significantly impact the consolidated financial position of the Company.

Note 10. Shareholders' Equity

Common Stock and Common Stock Repurchase Program

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

In December 1997, the Company redeemed the outstanding preferred stock purchase rights and issued new preferred stock purchase rights, declaring a dividend of one such right on each outstanding share of common stock, and since such time, the Company has issued such rights with each share of common stock that has been subsequently issued. When exercisable, each new right will entitle its holder to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of \$150 per one one-hundredth of a share until October 31, 2007. The rights will become exercisable if a person acquires 20 percent or more of the Company's common stock or makes an offer, the consummation of which will result in the person's owning 20 percent or more of the Company's common stock. In the event the Company is acquired in a merger, each right entitles the holder to purchase common stock of the acquiring company having a market value of twice the exercise price of the right. If a person or group acquires 20 percent or more of the Company's common stock, each right entitles the holder to purchase the Company's common stock with a market value equal to twice the exercise price of the right. The rights may be redeemed by the Company at a price of one cent per right at any time prior to a person's or group's acquiring 20 percent of the

Note 10. Shareholders' Equity (continued)

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 2003, 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's policy is to price stock option grants 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):

	2003		2002		2001	
	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	\$ 51.10	6,942.4	\$ 46.07	6,843.1	\$ 40.75	6,071.2
Granted	55.66	1,490.8	62.80	1,384.4	54.72	1,929.6
Exercised	26.09	(267.1)	33.50	(1,050.1)	27.69	(902.0)
Forfeited or expired	56.41	(214.2)	51.88	(235.0)	49.95	(255.7)
Outstanding at year end	52.66	7,951.9	51.10	6,942.4	46.07	6,843.1
Options exercisable at year end	\$ 46.64	3,428.1	\$ 41.91	2,939.3	\$ 36.72	3,079.4

The following table summarizes information on fixed stock options outstanding at December 27, 2003 (options in thousands):

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$15.28 to 50.72	2,240.3	4.1	\$ 39.84	1,961.4	\$ 38.36
51.13 to 59.16	4,213.2	8.1	55.89	1,224.6	56.85
59.18 to 68.31	1,498.4	8.6	62.71	242.1	62.08
\$15.28 to 68.31	7,951.9	7.1	\$ 52.66	3,428.1	\$ 46.64

Note 10. Shareholders' Equity (continued)

The weighted-average fair value of options granted during 2003, 2002 and 2001 was \$11.71, \$16.94 and \$18.31, respectively. Option grant date fair values were determined using a Black-Scholes option pricing model. The underlying assumptions used were as follows:

	2003	2002	2001
Risk-free interest rate	3.86%	4.43%	5.14%
Expected stock price volatility	\$ 21.41	\$ 29.06	\$ 33.37
Expected dividend yield	\$ 2.59	\$ 2.14	\$ 2.30
Expected option term	7 years	7 years	10 years

Note 11. Components of Other Income and Expense

The Company recorded a charge of \$34.3 million pretax in the fourth quarter of 2003 relating to integration actions and productivity improvement initiatives, as well as net losses associated with several production line divestitures. The 2003 charge involved both of the Company's operating segments. Approximately 530 positions worldwide have been eliminated resulting in a pretax charge of \$22 million in employee severance and related costs. The positions eliminated included approximately 180 employees in the Pressure-sensitive Adhesives and Materials segment, approximately 335 employees in the Consumer and Converted Products segment, and approximately 15 Corporate employees. Severance and related costs represent cash paid or to be paid to employees terminated under the program. At the end of 2003, \$17.2 million remained accrued for severance and related costs (included in "Other accrued liabilities" in the Consolidated Balance Sheet). At the end of 2003, of the approximately 530 positions affected under these actions, approximately 230 employees (approximately 175 employees from the Consumer and Converted Products segment, approximately 45 employees from the Pressure-sensitive Adhesives and Materials segment, and approximately 10 Corporate employees) had left the Company. The Company expects to complete this cost reduction program in 2004.

Included in the fourth quarter of 2003 was a pretax charge of \$8.2 million for asset impairments, planned disposition of fixed assets (land, buildings, machinery and equipment), lease cancellation charges and other associated costs. Of this charge, \$4.2 million related to impairment of production software assets, \$3.4 million related to planned disposition for property, plant and equipment (\$2.5 million for buildings and land and \$.9 million for machinery and equipment), \$.3 million related to lease cancellation costs and \$.3 million for other associated costs. The Company expects to pay the lease cancellation costs in 2004.

Other expense for 2003 also included a \$9 million pretax gain from settlement of a lawsuit during the second quarter of 2003, which was partially offset by net losses from disposition of fixed assets during the year.

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 the end of 2003, \$2.7 million remained accrued for severance and related costs (included in "Other accrued liabilities" in the Consolidated Balance Sheet). At the end of 2003, of the approximately 300 positions affected under these actions, approximately 295 employees (approximately 225 employees from the Consumer and Converted Products segment and approximately 70 employees from the Pressure-sensitive Adhesives and Materials segment) had left the Company. The Company expects to complete this cost reduction program in early 2004.

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 Jackstädt integration. The charge 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 planned disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of Jackstädt operations, as well as the 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 Jackstädt. The charge was 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.

Note 11. Components of Other Income and Expense (continued)

The table below details lease cancellation cost activities:

	2003	2002
(In millions)		
Beginning of the year	\$3.7	—
Additional accrual	.3	\$3.9
Cancellation costs paid	(.9)	(.2)
Accrued lease cancellation costs, end of the year	\$3.1	\$3.7

The Company recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. 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 and asset impairments of \$6.8 million. The final severance payments related to this action were completed in the fourth quarter of 2003.

In the fourth quarter of 2001, the Company sold its specialty coatings business, resulting in a pretax gain of \$20.2 million.

Note 12. 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 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.

In January 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," in response to a new law regarding prescription drug benefits under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans. The Company is evaluating the impact of the new law and will defer recognition, as permitted by FSP 106-1, until authoritative guidance is issued.

The Company's U.S. plan assets are invested in a diversified portfolio that consists primarily of equity and debt securities. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, including growth, value and small and large capitalization stocks. The Company's target plan asset investment allocations are 75 percent in equity securities and 25 percent in debt securities, subject to periodic fluctuations in the respective asset classes above.

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

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

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

Note 12. Pensions and Other Postretirement Benefits (continued)

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

	Pension Benefits				Postretirement Health Benefits	
	2003		2002		2003	2002
	U.S.	Int'l	U.S.	Int'l	U.S.	
(In millions)						
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 365.6	\$ 257.9	\$ 340.1	\$ 189.5	\$ 47.6	\$ 45.7
Service cost	12.3	8.5	9.4	6.4	1.4	.9
Interest cost	25.0	15.2	24.0	12.2	2.9	2.9
Participant contribution	—	2.7	—	2.3	—	—
Amendments	—	(4.1)	(.2)	.2	(15.2)	—
Actuarial loss	31.8	14.7	12.1	13.7	9.9	2.2
Plan transfer(1)	4.2	—	5.6	—	—	—
Benefits paid	(26.1)	(8.2)	(25.4)	(6.5)	(3.5)	(4.1)
Acquisition	—	—	—	8.9	—	—
Net transfer in(2)	—	4.8	—	—	—	—
Foreign currency translation	—	43.9	—	31.2	—	—
Benefit obligation at end of year	\$ 412.8	\$ 335.4	\$ 365.6	\$ 257.9	\$ 43.1	\$ 47.6
Accumulated benefit obligation at end of year	\$ 406.9	\$ 314.3	\$ 363.2	\$ 229.8		
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 366.9	\$ 209.6	\$ 396.9	\$ 217.5	\$ —	\$ —
Actual return on plan assets	46.9	17.1	(26.2)	(23.7)	—	—
Plan transfer(1)	4.2	—	5.6	—	—	—
Employer contribution	25.5	5.5	16.0	4.4	3.5	4.1
Participant contribution	—	2.7	—	2.3	—	—
Benefits paid	(26.1)	(7.2)	(25.4)	(6.5)	(3.5)	(4.1)
Foreign currency translation	—	36.8	—	15.6	—	—
Fair value of plan assets at end of year	\$ 417.4	\$ 264.5	\$ 366.9	\$ 209.6	\$ —	\$ —
Funded status of the plans:						
Plan assets in excess of (less than) benefit obligation	\$ 4.6	\$ (71.0)	\$ 1.3	\$ (48.2)	\$ (43.1)	\$ (47.6)
Unrecognized net actuarial loss	101.1	120.3	75.6	91.2	21.4	12.1
Unrecognized prior service cost	(3.3)	.9	(3.2)	5.2	(13.8)	1.0
Unrecognized net asset	(.7)	(7.1)	(1.2)	(7.2)	—	—
Net amount recognized	\$ 101.7	\$ 43.1	\$ 72.5	\$ 41.0	\$ (35.5)	\$ (34.5)
Amounts recognized in the Consolidated Balance Sheet consist of:						
Prepaid benefit cost	\$ 116.9	\$ 45.8	\$ 106.9	\$ 36.3	\$ —	\$ —
Accrued benefit liability	(91.4)	(69.5)	(89.7)	(48.0)	(35.5)	(34.5)
Intangible asset	4.4	.9	5.4	5.2	—	—
Other comprehensive income	71.8	65.9	49.9	47.5	—	—
Net amount recognized	\$ 101.7	\$ 43.1	\$ 72.5	\$ 41.0	\$ (35.5)	\$ (34.5)

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

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

Note 12. Pensions and Other Postretirement Benefits (continued)

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 \$281.7 million, \$277.5 million and \$186.3 million, respectively, at year end 2003, and \$246.4 million, \$244.2 million and \$154.7 million, respectively, at year end 2002.

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 \$162.9 million, \$156.6 million and \$92 million, respectively, at year end 2003, and \$125.4 million, \$114.9 million and \$68.8 million, respectively, at year end 2002.

	Pension Benefits						Postretirement Health Benefits		
	2003		2002		2001		2003	2002	2001
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
Weighted-average assumptions used for determining year end obligations:									
Discount rate	6.3%	5.3%	7.0%	5.5%	7.3%	5.9%	6.3%	7.0%	7.3%
Rate of increase in future compensation levels	3.6	2.6	3.6	2.6	4.1	3.7	—	—	—

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

	Pension Benefits						Postretirement Health Benefits		
	2003		2002		2001		2003	2002	2001
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
(In millions)									
Components of net periodic benefit (income) cost:									
Service cost	\$ 12.3	\$ 8.5	\$ 9.4	\$ 6.4	\$ 8.1	\$ 5.3	\$ 1.4	\$.9	\$.7
Interest cost	25.0	15.2	24.0	12.2	23.3	10.7	2.9	2.9	2.5
Expected return on plan assets	(40.3)	(19.1)	(41.0)	(16.8)	(39.2)	(16.4)	—	—	—
Recognized net actuarial (gain) loss	(.3)	1.3	(2.1)	.5	(3.4)	(.2)	.6	—	—
Amortization of prior service cost	.1	.4	.2	.4	.5	.3	(.3)	.1	.1
Amortization of transition obligation or asset	(.5)	(1.1)	(.7)	(1.1)	(.7)	(1.0)	—	—	—
Curtailement	—	—	(.2)	(.2)	—	—	—	—	—
Net periodic benefit (income) cost	\$ (3.7)	\$ 5.2	\$ (10.4)	\$ 1.4	\$ (11.4)	\$ (1.3)	\$ 4.6	\$ 3.9	\$ 3.3

	Pension Benefits						Postretirement Health Benefits		
	2003		2002		2001		2003	2002	2001
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
Weighted-average assumptions used for determining net periodic cost:									
Discount rate	7.0%	5.5%	7.3%	5.9%	7.8%	6.2%	7.0%	7.3%	7.8%
Expected long-term rate of return on plan assets	9.0	6.8	9.5	7.1	9.8	7.5	—	—	—
Rate of increase in future compensation levels	3.6	2.6	4.1	3.7	4.0	4.0	—	—	—

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004. The rate is expected to decrease to 6 percent by 2008.

Note 12. Pensions and Other Postretirement Benefits (continued)

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	4.2	(3.6)

As a result of changes in assumptions during 2003 and 2002 and the negative return on plan assets in 2002, an additional minimum pension liability of \$20.9 million and \$34.5 million in 2003 and 2002, respectively, for U.S. pension plans and an additional minimum pension liability of \$14.1 million and \$52.7 million in 2003 and 2002, respectively, for international pension plans are reflected in the Company's Consolidated Balance Sheet. These transactions generated an additional intangible pension asset or liability of \$(1.0) million and \$(1.1) million, respectively, in 2003 and 2002 for U.S. pension plans and \$(4.3) million and \$5.2 million in 2003 and 2002, respectively, for international pension plans with a charge to equity for the remainder.

The weighted-average asset allocations for the Company's U.S. pension plans at December 31, 2003 and 2002, by asset category are as follows:

	2003	2002
Equity securities	78%	77%
Debt securities	22	23
Total	100%	100%

The Company expects to contribute a minimum of \$7.4 million to its U.S. pension plans and approximately \$3.9 million to its postretirement benefit plan in 2004.

Defined Contribution Plans

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

ESOP expense is accounted for under the cost of shares allocated method. Total ESOP expense (income) for 2003, 2002 and 2001 was \$.7 million, \$(.1) million and \$.1 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were \$1.1 million, \$.8 million and \$1.8 million in 2003, 2002 and 2001, respectively.

Interest costs incurred by the ESOPs for 2003, 2002 and 2001 were \$.3 million, \$.5 million and \$1.2 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.5 million in 2003 and \$1.6 million in 2002 and 2001.

The cost of shares allocated for the ESOP for 2003, 2002 and 2001 was \$2.2 million, \$1.6 million and \$1.7 million, respectively. Of the total shares held by the ESOP, 3.7 million shares were allocated and 1.0 million shares were unallocated at year end 2003, and 4.1 million shares were allocated and 1.1 million shares were unallocated at year end 2002.

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 2003 and 2002, the Company had accrued \$129.4 million and \$114 million, respectively, for its obligations under these plans. These obligations are secured by standby letters of credit of \$75 million for 2003 and \$82.5 million for 2002. The Company's expense, which includes Company contributions and interest expense, was \$11 million, \$10 million and \$12.7 million for 2003, 2002 and 2001, 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 \$124.1 million and \$109.8 million at year end 2003 and 2002, respectively.

Note 13. 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 performance polymers. 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.

Note 13. Segment Information (continued)

Financial information by operating segment from continuing operations is set forth below:

(In millions)	2003(2)	2002(3)	2001(4)
Net sales:			
Pressure-sensitive Adhesives and Materials	\$3,008.9	\$2,568.0	\$2,188.8
Consumer and Converted Products	1,936.5	1,760.7	1,735.9
Intersegment(1)	(182.8)	(172.8)	(169.2)
Net sales	\$4,762.6	\$4,155.9	\$3,755.5
Income from operations before taxes:			
Pressure-sensitive Adhesives and Materials	\$ 206.9	\$ 194.8	\$ 192.1
Consumer and Converted Products	225.6	235.1	233.9
Corporate administrative and research and development expenses	(39.9)	(31.6)	(26.0)
Interest expense	(57.7)	(44.0)	(50.7)
Income before taxes	\$ 334.9	\$ 354.3	\$ 349.3
Capital expenditures:			
Pressure-sensitive Adhesives and Materials	\$ 145.2	\$ 93.3	\$ 75.7
Consumer and Converted Products	51.7	47.8	46.5
Corporate	4.5	9.3	10.8
Capital expenditures	\$ 201.4	\$ 150.4	\$ 133.0
Depreciation expense:			
Pressure-sensitive Adhesives and Materials	\$ 88.6	\$ 71.9	\$ 69.4
Consumer and Converted Products	48.5	47.0	47.2
Corporate	6.8	6.2	5.5
Depreciation expense	\$ 143.9	\$ 125.1	\$ 122.1

- (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 2003 include a pretax charge of \$30.5 million for asset impairments, restructuring costs, lease cancellation costs and net losses associated with several product line divestitures, partially offset by a gain from settlement of a lawsuit during the second quarter of 2003, of which the Pressure-sensitive Adhesives and Materials segment recorded \$13.6 million, the Consumer and Converted Products segment recorded \$21.8 million, and Corporate recorded (\$4.9 million). See Note 11 "Components of Other Income and Expense" for further information.
- (3) 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 11 "Components of Other Income and Expense" for further information.
- (4) 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 11 "Components of Other Income and Expense" for additional information.

Note 13. Segment Information (continued)

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

(In millions)	2003	2002	2001
Net sales:			
U.S.	\$2,497.9	\$2,438.5	\$2,374.6
International	2,479.9	1,895.8	1,537.0
Intersegment	(215.2)	(178.4)	(156.1)
Net sales	<u>\$4,762.6</u>	<u>\$4,155.9</u>	<u>\$3,755.5</u>
Property, plant and equipment, net:			
U.S.	\$ 614.2	\$ 659.4	\$ 673.6
International	675.6	525.0	386.4
Property, plant and equipment, net	<u>\$1,289.8</u>	<u>\$1,184.4</u>	<u>\$1,060.0</u>

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 14. Quarterly Financial Information (Unaudited)

(In millions, except per share data)(4)	First Quarter	Second Quarter	Third Quarter(1)	Fourth Quarter(2)(3)
2003				
Net sales from continuing operations	\$1,135.2	\$1,192.2	\$1,204.1	\$ 1,231.1
Gross profit from continuing operations	358.4	371.4	355.5	372.7
Net income	70.8	71.3	66.5	59.3
Net income per common share	.71	.72	.67	.60
Net income per common share, assuming dilution	.71	.71	.67	.59
2002				
Net sales from continuing operations	\$ 918.2	\$1,044.0	\$1,101.7	\$ 1,092.0
Gross profit from continuing operations	304.4	342.3	348.6	340.3
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

- (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 Jackstädt 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 2003 include a \$34.3 million pretax charge for asset impairments, restructuring costs, lease cancellation costs and net losses associated with several product line divestitures.
- (3) 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 Jackstädt integration.
- (4) Net income and net income per share included discontinued operations.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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 76). 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.

/s/ PHILIP M. NEAL

/s/ DANIEL R. O'BRYANT

Philip M. Neal
Chairman and Chief Executive Officer

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

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 27, 2003 and December 28, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2003 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 changed its method of accounting for goodwill and other intangible assets in connection with its adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of December 30, 2001.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
January 27, 2004

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 43069
Providence, RI 02940-3069
(800) 756-8200
(800) 952-9245 (hearing impaired number)
www.equiserve.com (Website)

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:30 pm, April 22, 2004, in the Conference Center of Avery Dennison's Charles D. Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

The DirectSERVICE™ Investment Program

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by writing to The DirectSERVICE™ Investment Program, c/o EquiServe (include a reference to Avery Dennison in the correspondence), P.O. Box 43081, Providence, RI 02940-3081, or calling (800) 756-8200, or logging onto their website at <http://www.equiserve.com>.

Direct Deposit of Dividends

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

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. Copies may also be obtained from the Company's website www.averydennison.com under the "Investors" section.

Corporate Headquarters

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

Mailing Address:
P.O. Box 7090
Pasadena, California 91109-7090

Stock and Dividend Data

Common shares of Avery Dennison are listed on the New York Stock Exchange (“NYSE”).

Ticker symbol: AVY

	2003		2002	
	High	Low	High	Low
Market Price				
First Quarter	\$ 63.51	\$ 51.95	\$ 64.00	\$ 53.63
Second Quarter	61.07	47.75	69.49	59.64
Third Quarter	55.81	48.85	65.23	52.86
Fourth Quarter	56.25	50.28	65.69	55.21

Prices shown represent closing prices on the NYSE

	2003	2002
Dividends Per Common Share		
First Quarter	\$.36	\$.33
Second Quarter	.36	.33
Third Quarter	.36	.33
Fourth Quarter	.37	.36

Total	\$ 1.45	\$ 1.35
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Number of shareholders of record as of year end 2003	11,287
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Name of Current Subsidiary	Jurisdiction in Which Organized
1. A.V. CHEMIE GMBH	SWITZERLAND
2. ADC PHILIPPINES, INC.	PHILIPPINES
3. ADESPAN S.R.L.	ITALY
4. ADESPAN U.K. LIMITED	UNITED KINGDOM
5. AEAC, INC.	U.S.A.
6. AUSTRACOTE PTY LTD.	AUSTRALIA
7. AVERY (CHINA) COMPANY LIMITED	CHINA
8. AVERY AUTOMOTIVE LIMITED	UNITED KINGDOM
9. AVERY CORP.	U.S.A.
10. AVERY de MEXICO S.A. de C.V.	MEXICO
11. AVERY DENNISON (FIJI) LIMITED	FIJI
12. AVERY DENNISON (GUANGZHOU) CO. LTD.	CHINA
13. AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED	CHINA
14. AVERY DENNISON (HONG KONG) LIMITED	HONG KONG
15. AVERY DENNISON (INDIA) PRIVATE LIMITED	INDIA
16. AVERY DENNISON (IRELAND) LIMITED	IRELAND
17. AVERY DENNISON (KUNSHAN) LIMITED	CHINA
18. AVERY DENNISON (MALAYSIA) SDN. BHD.	MALAYSIA
19. AVERY DENNISON (SHANGHAI) INTERNATIONAL TRADING LIMITED	CHINA
20. AVERY DENNISON (THAILAND) LTD.	THAILAND
21. AVERY DENNISON (VIETNAM) LIMITED	VIETNAM
22. AVERY DENNISON ACQUISITION GmbH	GERMANY
23. AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
24. AVERY DENNISON BELGIE BVBA	BELGIUM
25. AVERY DENNISON BV	NETHERLANDS
26. AVERY DENNISON C.A.	VENEZUELA
27. AVERY DENNISON CANADA INC.	CANADA
28. AVERY DENNISON CHILE S.A.	CHILE
29. AVERY DENNISON COLOMBIA S. A.	COLOMBIA
30. AVERY DENNISON CONVERTED PRODUCTS de MEXICO, S.A. de C.V.	MEXICO
31. AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. de C.V.	EL SALVADOR
32. AVERY DENNISON COORDINATION CENTER BVBA	BELGIUM
33. AVERY DENNISON DEUTSCHLAND GmbH	GERMANY
34. AVERY DENNISON do BRASIL LTDA.	BRAZIL
35. AVERY DENNISON DOVER S.A.	ARGENTINA
36. AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
37. AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GmbH & Co KG	GERMANY
38. AVERY DENNISON FINANCE FRANCE S. A. S.	FRANCE
39. AVERY DENNISON FINANCE GERMANY GmbH	GERMANY
40. AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L.	LUXEMBOURG
41. AVERY DENNISON FRANCE S.A.S.	FRANCE
42. AVERY DENNISON G HOLDINGS I COMPANY	U.S.A.
43. AVERY DENNISON G HOLDINGS III COMPANY	U.S.A.
44. AVERY DENNISON G INVESTMENTS I LIMITED	GIBRALTAR
45. AVERY DENNISON G INVESTMENTS II LIMITED	GIBRALTAR
46. AVERY DENNISON G INVESTMENTS III LIMITED	GIBRALTAR
47. AVERY DENNISON G INVESTMENTS IV LIMITED	GIBRALTAR
48. AVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
49. AVERY DENNISON GROUP DANMARK ApS	DENMARK
50. AVERY DENNISON HEALTH MANAGEMENT CORPORATION	U.S.A.
51. AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS

Name of Current Subsidiary	Jurisdiction in Which Organized
52. AVERY DENNISON HOLDING AG	SWITZERLAND
53. AVERY DENNISON HOLDING GmbH	GERMANY
54. AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
55. AVERY DENNISON HOLDINGS LIMITED	AUSTRALIA
56. AVERY DENNISON HONG KONG BV	NETHERLANDS
57. AVERY DENNISON HUNGARY LIMITED	HUNGARY
58. AVERY DENNISON IBERICA, S.A.	SPAIN
59. AVERY DENNISON INVESTMENTS LUXEMBOURG S.a.r.l.	LUXEMBOURG
60. AVERY DENNISON INVESTMENTS THE NETHERLANDS BV	NETHERLANDS
61. AVERY DENNISON INVESTMENTS VI LIMITED	GIBRALTAR
62. AVERY DENNISON ITALIA S.R.L.	ITALY
63. AVERY DENNISON KOREA LIMITED	KOREA
64. AVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
65. AVERY DENNISON MANAGEMENT GmbH	GERMANY
66. AVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
67. AVERY DENNISON MATERIALS GmbH	GERMANY
68. AVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
69. AVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
70. AVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
71. AVERY DENNISON MATERIALS SDN BHD	MALAYSIA
72. AVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
73. AVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
74. AVERY DENNISON NETHERLANDS INVESTMENT III B.V.	NETHERLANDS
75. AVERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
76. AVERY DENNISON NORDIC ApS	DENMARK
77. AVERY DENNISON NORGE A/S	NORWAY
78. AVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM
79. AVERY DENNISON OFFICE PRODUCTS (NZ) LIMITED	NEW ZEALAND
80. AVERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
81. AVERY DENNISON OFFICE PRODUCTS COMPANY	U.S.A.
82. AVERY DENNISON OFFICE PRODUCTS de MEXICO, S.A. de C.V.	MEXICO
83. AVERY DENNISON OFFICE PRODUCTS EUROPE GmbH	SWITZERLAND
84. AVERY DENNISON OFFICE PRODUCTS FRANCE S. A. S.	FRANCE
85. AVERY DENNISON OFFICE PRODUCTS ITALIA S.r.l.	ITALY
86. AVERY DENNISON OFFICE PRODUCTS MANUFACTURING & TRADING LIMITED LIABILITY COMPANY (AVERY DENNISON LTD.)	HUNGARY
87. AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
88. AVERY DENNISON OFFICE PRODUCTS PTY LIMITED	AUSTRALIA
89. AVERY DENNISON OFFICE PRODUCTS U.K. LTD.	UNITED KINGDOM
90. AVERY DENNISON OSTERREICH GMB	Austria
91. AVERY DENNISON OVERSEAS CORPORATION	U.S.A.
92. AVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
93. AVERY DENNISON PERU S. R. L.	PERU
94. AVERY DENNISON POLSKA SP. Z O.O.	POLAND
95. AVERY DENNISON PRAHA SPOL. R. O.	CZECH REPUBLIC
96. AVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
97. AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
98. AVERY DENNISON RVL EUROPE GmbH	GERMANY
99. AVERY DENNISON SCANDINAVIA ApS	DENMARK
100. AVERY DENNISON SCHWEIZ AG	SWITZERLAND
101. AVERY DENNISON SECURITY PRINTING EUROPE ApS	DENMARK
102. AVERY DENNISON SHARED SERVICES, INC.	U.S.A.
103. AVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE

Name of Current Subsidiary	Jurisdiction in Which Organized
104. AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
105. AVERY DENNISON SUOMI OY	FINLAND
106. AVERY DENNISON SVERIGE AB	SWEDEN
107. AVERY DENNISON SYSTEMES d'ETIQUETAGE FRANCE S.A.S.	FRANCE
108. AVERY DENNISON U.K. LIMITED	UNITED KINGDOM
109. AVERY DENNISON VERMONGENSVERWALTUNGS GmbH & Co K.G.	GERMANY
110. AVERY DENNISON VERWALTUNGS GmbH	GERMANY
111. AVERY DENNISON ZWECKFORM AUSTRIA GmbH	AUSTRIA
112. AVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GmbH	GERMANY
113. AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GmbH	GERMANY
114. AVERY DENNISON ZWECKFORM UNTERSTUTZUNGSKASSE GmbH	GERMANY
115. AVERY DENNISON, S.A. de C.V.	MEXICO
116. AVERY DENNISON-MAXELL K. K.	JAPAN
117. AVERY ETIKETTSYSTEM SVENSKA AB	SWEDEN
118. AVERY GRAPHIC SYSTEMS, INC.	U.S.A.
119. AVERY GUIDEX LIMITED	UNITED KINGDOM
120. AVERY HOLDING BV	NETHERLANDS
121. AVERY HOLDING LIMITED	UNITED KINGDOM
122. AVERY HOLDING S.A.S.	FRANCE
123. AVERY MASCHINEN GmbH	GERMANY
124. AVERY PACIFIC LLC	U.S.A.
125. AVERY PROPERTIES PTY. LIMITED	AUSTRALIA
126. AVERY RESEARCH CENTER, INC.	U.S.A.
127. AVERY, INC.	U.S.A.
128. CELT SNC	FRANCE
129. DENNISON COMERCIO, IMPORTACAS E EXPORTACAO LTDA.	BRAZIL
130. DENNISON DEVELOPMENT ASSOCIATES	U.S.A.
131. DENNISON INTERNATIONAL COMPANY	U.S.A.
132. DENNISON INTERNATIONAL HOLDING BV	NETHERLANDS
133. DENNISON IRELAND LIMITED	IRELAND
134. DENNISON MANUFACTURING COMPANY	U.S.A.
135. DENNISON OFFICE PRODUCTS LIMITED	IRELAND
136. DMC DEVELOPMENT CORPORATION	U.S.A.
137. ETIKETTRYKKERJET A/S	DENMARK
138. FASSON CANADA INC.	CANADA
139. FASSON PORTUGAL PRODUTOS AUTO-ADESIVOS LDA.	PORTUGAL
140. JAC (U.K.) LIMITED	UNITED KINGDOM
141. JAC ASIA PACIFIC PTY LTD.	AUSTRALIA
142. JAC ASIA/PACIFIC SDN BHD	MALAYSIA
143. JAC AUSTRALIA PTY LTD.	AUSTRALIA
144. JAC CARIBE C.S.Z.	DOMINICAN REPUBLIC
145. JAC DO BRASIL LTDA.	BRAZIL
146. JAC FRANCE SARL ET CIE SNC	FRANCE
147. JAC ITALIA SRL	ITALY
148. JAC NEW ZEALAND LIMITED	NEW ZEALAND
149. JAC SKANDINAVIA A/S	DENMARK
150. JAC THAI KK	THAILAND
151. JAC USA, INC.	U.S.A.
152. JACFRANCE S.A.R.L.	FRANCE
153. JACKSTADT FRANCE S.N.C.	FRANCE
154. JACKSTADT FRANCE SARL	FRANCE
155. JACKSTADT GMBH	GERMANY

Name of Current Subsidiary	Jurisdiction in Which Organized
156. JACKSTADT POLSKA SP. ZO.O	POLAND
157. JACKSTADT SKANDINAVISKA AB	SWEDEN
158. JACKSTADT SOUTH AFRICA (PTY) LTD.	SOUTH AFRICA
159. JACKSTADT TRADE LTD.	HUNGARY
160. JACKSTADT VERMOGENSVERWALTUNGS Gmb	GERMANY
161. KNAUP ELEKTRO GMBH I.L.	GERMANY
162. L& E AMERICAS, S. A. de C.V.	MEXICO
163. L&E AMERICAS SERVICIOS, S. A. de C.V.	MEXICO
164. L&E PACKAGING FAR EAST LIMITED	HONG KONG
165. MODERN MARK INTERNATIONAL LIMITED	HONG KONG
166. MONARCH INDUSTRIES, INC.	U.S.A.
167. PT ARVILINDO SENTOSA	INDONESIA
168. PT AVERY DENNISON INDONESIA	INDONESIA
169. PT ROBERT VINCENT LYLE PACKAGING INDONESIA	INDONESIA
170. PT UNIVERSAL GLOBALINDO	INDONESIA
171. RETAIL PRODUCTS LIMITED	IRELAND
172. RVL AMERICAS, S de R.L. de C.V.	MEXICO
173. RVL CENTRAL AMERICA, S. A.	GUATEMALA
174. RVL PACKAGING FAR EAST LIMITED	HONG KONG
175. RVL PACKAGING INDIA PRIVATE LIMITED	INDIA
176. RVL PACKAGING KOREA CO. LTD.	KOREA
177. RVL PACKAGING MIDDLE EAST F.Z.C.	DUBAI
178. RVL PACKAGING SINGAPORE PTE LTD.	SINGAPORE
179. RVL PACKAGING TAIWAN LTD.	TAIWAN
180. RVL PACKAGING, INC.	U.S.A.
181. RVL PHILIPPINES, INC.	PHILIPPINES
182. RVL PRINTED LABEL FAR EAST LIMITED	HONG KONG
183. RVL PRINTED LABELS, LLC	USA
184. RVL SERVICE, S. DE R. L. de C. V.	MEXICO
185. RVL TEXTILE CORPORATION TURKEY	TURKEY
186. SECURITY PRINTING DIVISION, INC.	U.S.A.
187. SPARTAN INTERNATIONAL, INC.	U.S.A.
188. SPARTAN PLASTICS CANADA, LTD	CANADA
189. STEINBEIS OFFICE PRODUCTS BETEILIGUNGS GmbH	GERMANY
190. STIMSONITE AUSTRALIA PTY LIMITED	AUSTRALIA
191. STIMSONITE CORPORATION	U.S.A.
192. STIMSONITE do BRASIL LTDA	BRAZIL
193. STIMSONITE EUROPA LIMITED	UNITED KINGDOM
194. TIADECO PARTICIPACOES, LTDA.	BRAZIL
195. UNIVERSAL PACKAGING & DESIGN GMBH	GERMANY
196. UNIVERSAL PACKAGING & DESIGN PTE LTD.	SINGAPORE
197. UNIVERSAL PACKAGING & DESIGN, LTD.	HONG KONG

POWER OF ATTORNEY

WHEREAS, Avery Dennison Corporation, a Delaware corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an Annual Report on Form 10-K for the fiscal year ended December 27, 2003; and

WHEREAS, the undersigned is a director of the Company;

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

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney on March 11, 2004.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ PETER K. BARKER _____ Peter K. Barker	Director	March 11, 2004
/s/ FRANK V. CAHOUET _____ Frank V. Cahouet	Director	March 11, 2004
/s/ RICHARD M. FERRY _____ Richard M. Ferry	Director	March 11, 2004
/s/ BRUCE E. KARATZ _____ Bruce E. Karatz	Director	March 11, 2004
/s/ KENT KRESA _____ Kent Kresa	Director	March 11, 2004
/s/ CHARLES D. MILLER _____ Charles D. Miller	Director	March 11, 2004

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ PETER W. MULLIN _____ Peter W. Mullin	Director	March 11, 2004
/s/ PHILIP M. NEAL _____ Philip M. Neal	Chairman and Chief Executive Officer, Director	March 11, 2004
/s/ DAVID E. I. PYOTT _____ David E. I. Pyott	Director	March 11, 2004
/s/ DEAN A. SCARBOROUGH _____ Dean A. Scarborough	President and Chief Operating Officer, Director	March 11, 2004
/s/ JULIA A. STEWART _____ Julia A. Stewart	Director	March 11, 2004

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

CERTIFICATION

I, Philip M. Neal, certify that:

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

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and Chief Executive Officer

March 11, 2004

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

CERTIFICATION

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

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

/s/ DANIEL R. O'BRYANT

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

March 11, 2004

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 27, 2003 (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 11, 2004

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and Chief Executive Officer

* The above certification accompanies the issuer's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

CERTIFICATION OF CHIEF FINANCIAL OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 27, 2003 (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 11, 2004

/s/ DANIEL R. O'BRYANT

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

* The above certification accompanies the issuer's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

**CAUTIONARY STATEMENT FOR PURPOSES OF THE
“SAFE HARBOR” PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Information provided by the Company may contain certain forward-looking information, as defined by the Private Securities Litigation Reform Act of 1995 (the “Act”). Words such as “aim,” “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “objective,” “plan,” “potential,” “project,” “shall,” “should,” “target,” “will,” and other expressions, which refer to future events and trends, identify forward-looking statements that involve risks and uncertainties. Forward-looking information may relate to such matters as sales, unit volume, income, margins, earnings per share, return on equity, return on total capital, economic value added, capital expenditures, dividends, cash flow, debt to capital ratios, growth rates, future economic performance and trends, short- and long-term plans (including financing, operating and strategic plans) and objectives for future operations, as well as assumptions, expectations, projections and estimates relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called “safe harbor” provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in attempting to predict the outcome of future events. Therefore, actual results and trends may differ materially from those expressed or implied. Investors are therefore cautioned not to place undue reliance on any forward-looking statements as a prediction of future results. The Company assumes no obligation to update any forward-looking statements, other than as may be required by law.

The ability of the Company to attain management’s goals and objectives are materially dependent on numerous factors, including but not limited to, those set forth herein.

Operating results are importantly influenced by general economic conditions and growth (or contraction) of the principal economies in which the Company operates, including the United States, Canada, Europe, Latin America and the Asia-Pacific region. All economies in which the Company operates are cyclical and the rates of growth (or contraction) can vary substantially. Approximately fifty-percent of the Company’s sales are in foreign currencies, which fluctuate in relation to one another and to the United States dollar. Fluctuations in currencies can cause transaction, translation and other losses to the Company, which can negatively impact the Company’s sales and earnings projections. The Company has operations in over 40 countries and its domestic and international operations are strongly influenced by matters beyond its control, including but not limited to changes in the political, social, economic, tax and regulatory environment (including tariffs) in the countries in which the Company conducts its operations.

As a manufacturer, the Company’s sales and profitability are also dependent upon availability and cost of raw materials and components, which are subject to price fluctuations, and the ability to control or pass on costs of raw materials and labor. Inflationary and other increases in the costs of raw materials and labor have occurred in the past and are expected to recur, and the Company’s performance depends in part on: its ability to reflect changes in costs in its selling prices for product; its productivity; and its focus on higher margin businesses. Past performance may or may not be replicable in the future.

The Company’s customers are widely diversified, but in certain portions of its business, industry concentration has increased the importance and decreased the number of significant customers. In particular, sales of the Company’s 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.

The Company's ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights and enforce patents is important to maintaining the Company's growth, which ability cannot be assured.

Other factors, which are not exhaustive, include 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, including the U.S. Department of Justice criminal investigation into competitive practices in the label stock industry and any related proceedings or lawsuits pertaining to the subject matter, 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; projections related to estimated cost savings from integration and productivity improvement actions; 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); timely development and successful market acceptance of new products; pricing of competitive products; disruptions in transportation networks; increased participation in potentially less stable emerging markets; fluctuations in interest rates; reliability of utility services; 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, ability to estimate the impact of foreign currency on financial results, impact of epidemiological events such as Severe Acute Respiratory Syndrome ("SARS") on the economy and the Company's customers and suppliers, 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.

AVERY DENNISON
STATEMENT OF STOCK OWNERSHIP POLICY
FOR OFFICERS AND DIRECTORS

Avery Dennison believes that the ownership of Company stock is both a privilege and a responsibility that executive management should be encouraged to exercise. By holding a significant stake in the future of the Company, management demonstrates its commitment to the long-term profitability of the Corporation and better serves the interests of the Company and all of its shareholders.

It is the policy of the Company that each officer and director should commit to achieving and maintaining a certain level of stock ownership, including stock purchased with employee contributions in the Employee Savings Plan, during tenure with the Company:

<u>Officers/Directors</u>	<u>Target</u>
CEO	400%*
COO	300 %*
Executive/Senior Corporate Officers	200%*
Corporate Officers	2,000 shares
Certain Division Officers (VPs and Division Officers for the two largest economic value divisions)	2,000 shares
Staff Officers	1,000 shares
Division Officers (all others)	1,000 shares
Non-Employee Directors	2 x board meeting and retainer fees for the year

Officers and directors should achieve and maintain these levels of ownership. Newly elected or appointed officers and directors should work toward achieving these levels of ownership over a three- to five-year period.

The Company is mindful that each individual's personal circumstances will affect progress toward the targeted levels of stock ownership. Officers who are unable to achieve or maintain the targeted level of ownership within the prescribed time period should consult with the Executive Vice President and General Counsel, who will review the situation with the Senior Vice President of Human Resources and, in appropriate circumstances, with the Chairman and CEO.

* Base salary multiplied by ownership guideline (percentage), divided by market value of stock equals number of target shares.