



On the following pages of this report, employees from throughout Avery Dennison describe what makes their businesses successful.

ON THE COVER:

D.J. Lee ✦ Fasson Roll North America

“The best part of new product development is the opportunity to interact with our customers and end-users to find solutions. We do whatever it takes to reach our goals and often go further.”

Emily Maglott ✦ Graphics Division North America

“We challenge the status quo and are willing to break down barriers in the process. We always look at challenges and opportunities through our customers’ eyes in order to develop successful results.”

Roger Maerki ✦ Performance Polymers Europe

“Our division employs cross-functional work groups with skills in materials science, coating technology and consumer marketing, which makes our product development cycle short and efficient. These work groups are key to serving our customers and creating growth for Avery Dennison.”

FINANCIAL OVERVIEW

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000
FOR THE YEAR:			
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
Income before taxes	364.8	359.8	426.3
Net income	257.2	243.2	283.5
Net income as a percent of sales	6.1	6.4	7.3
Net income per common share, assuming dilution	\$ 2.59	\$ 2.47	\$ 2.84
Dividends per common share	1.35	1.23	1.11
Capital expenditures	151.8	135.4	198.3
Return on average shareholders’ equity (percent)	25.7	27.4	34.6

IN 2002, AVERY DENNISON REPORTED...

- ✦ **EARNINGS PER SHARE**, on a diluted basis, of \$2.59 compared with \$2.47 a year ago. Excluding restructuring and asset impairment charges, annual earnings were \$2.81 per share.
- ✦ **NET INCOME** of \$257.2 million, compared with \$243.2 million in 2001. Excluding the impact of restructuring and asset impairment charges, annual net income was \$279.8 million.
- ✦ **SALES** of \$4.2 billion, an increase of 10.6 percent from \$3.8 billion in 2001.
- ✦ **CASH FLOW** from operations increased to \$523 million, a 39 percent increase over 2001.
- ✦ **RETURNS ON INVESTMENT** remained high with return on shareholders’ equity at 25.7 percent and return on total capital at 15.8 percent, compared with 2001 returns of 27.4 percent and 16.2 percent, respectively.
- ✦ **THE QUARTERLY DIVIDEND** payment increased 10 percent, providing shareholders with a 2002 annual dividend of \$1.35 per share. This was the 27th consecutive year that the Company raised dividends per share, reflecting an annual compound growth rate of 14.2 percent.



Opportunities for growth can be found everywhere. With the resources, the expertise and the determination to fulfill customer needs wherever they exist, Avery Dennison aggressively seeks out and pursues growth possibilities around the world. In 2002, our relentless pursuit of new business opportunities established a solid foundation for accelerating long-term growth.



LETTER TO OUR SHAREHOLDERS

DEAR AVERY DENNISON SHAREHOLDERS :

⊕ Avery Dennison had a solid year in 2002 and achieved a number of milestones, even with challenging economic conditions. Our sales grew by 11 percent, reaching a new high of \$4.2 billion. We completed three acquisitions that we expect will provide superior future growth by expanding our operations in key businesses.

Compared with 2001 results, reported net income grew 6 percent, and diluted earnings per share increased 5 percent. Excluding charges for restructuring and asset impairment, as well as a gain from a divestiture, net income and earnings per share returned to double-digit growth rates, with 2002 net income up 15 percent over the prior year and earnings-per-share growth of 14 percent.

We are pleased that your investment in Avery Dennison provided superior shareholder return during 2002, delivering total annualized return of more than 10 percent, which ranks in the top 14 percent of companies in the S&P 500.

ACCELERATING GROWTH

⊕ In 2002, we launched a broad-based program to transform our approach to generating top-line growth. This rigorous undertaking redefines how we identify opportunities and capitalize on our capabilities. Under the Company-wide theme of *"Growth: It's Everybody's Business!"*, we are providing employees with a proven structure and process to accelerate top-line growth.

This framework segments new growth efforts into three distinct, concurrent levels:

- The first level focuses on new products that can be developed and introduced to market in a short time-frame – typically 100 days to six months at the longest – utilizing existing resources and capabilities.
- The second level looks at businesses or product lines that are new to Avery Dennison, which may require up to 18 months or even two years to become fully developed and commercialized. These projects require more up-front research work and are supported with dedicated resources.

- The third level seeks longer term growth opportunities for Avery Dennison – the yet-to-be-conceived products and business lines that we will pioneer. Since we expect products at this level to take considerably longer to fully develop – possibly several years – we may have a number of “misses” in this category as the research and development process moves along. However, we know that a number of cutting-edge ideas will also emerge that we expect to provide us with groundbreaking products in the future.

Even though we are still in the early stage of this transformation, teams of employees are working with our customers to fill the pipeline with new business ideas that will lead to new products and services with high growth potential. The first level of this new initiative, which we introduced in August, has already launched more than 80 projects, with more than 30 of them already generating revenue.

It is gratifying and exciting to see the level of energy and enthusiasm building throughout the organization for this important growth program. We expect a constant stream of new business initiatives to evolve from this new process.

ACQUISITIONS FUEL GROWTH

⊕ 2002 was our most active year for acquisitions in more than a decade. We completed three acquisitions that have provided us with immediate sales growth, strengthened market positions and expanded geographic reach. The acquisitions of Jackstädt, a pressure-sensitive materials manufacturer located in important international markets, and RVL and L&E, two companies that supply a wide range of label and tag products to the retail and apparel industries, are an ideal fit with our operations. All three companies operate directly in our key markets and are an excellent complement to our existing businesses.

Immediately following the completion of the Jackstädt acquisition in May, we began integrating its operations into our worldwide pressure-sensitive roll materials and graphics businesses. We are pleased with the integration progress around the world. This acquisition has reinforced our market position and expanded our capabilities. In addition, Jackstädt brings us considerable opportunity for cost reduction and operational efficiencies – a benefit of larger scale.

The dual acquisitions of RVL and L&E were completed in November, and both operations joined our existing Retail Information Services business. The combination of these businesses positions us as a full-range supplier of labeling and brand identification products to global retailers and apparel manufacturers.

As brand identification becomes more and more important in retail and apparel markets, our global capabilities now encompass a complete garment labeling system from start to finish. The process begins in the manufacturing plant where our customized price tags and woven labels, graphically designed to match a product's overall brand identity, are attached to merchandise. As products move through the delivery channel, our data-management systems provide accurate product shipment and tracking, right up to the retail store sales floor where the products are sold to consumers.

As manufacturing operations of our retail and apparel customers continue to move offshore, our strengthened presence in Asia and other key apparel manufacturing locations around the world is not only critical to our customer service capabilities, but also is a major competitive advantage for us. These acquisitions provide enhanced product and service offerings and a stronger market position that are expected to fuel the growth of our expanded Retail Information Services business.

NEW PRODUCTS CONTRIBUTE TO SUCCESS

⊕ Innovation has been the foundation of Avery Dennison's growth since its founding 68 years ago. New product and new application development remains at the heart of our strategies for top-line growth. Our businesses around the globe are successfully introducing a variety of new products and services:

- Our office products business launched a number of new Avery-brand products, including a series of binders with enhanced features, clean edge business cards for desktop printers and Hi-Liters that are virtually smear proof, strengthening our offerings to the office products superstore and mass market channels.
- Our pressure-sensitive roll materials business continued to introduce enhancements to its market-leading service programs, as well as a variety of new products developed by its specialty division,

including clear vinyl shelf-marking labels and security labels that are being used by leading national retail chains.

- Our graphics business introduced several new products for digital printing applications, including the first ever pressure-sensitive material for use with ultraviolet flatbed printers. These products are meeting the growing demand for durable, high-quality media for commercial graphics that include signage, point-of-sale promotions and outdoor billboards.
- Our specialty tape business continues to launch new applications of adhesive products specifically for medical uses.

BUSINESS ALLIANCES FORMED

⊕ Close relationships with our customers – whom we truly consider our partners in business – have led to the development of numerous new products and applications. When our customers need applications that will enable them to grow, they look to Avery Dennison’s technology and expertise to develop appropriate, functional solutions.

For example, our office products business recently partnered with Microsoft to co-brand and co-market a new line of digital photo paper that offers consumers a combined package of software and easy-to-use photo-quality printing paper products for the rapidly growing digital photography market. Our office products business also has partnered with Brother International to offer co-branded Avery-Brother one-at-a-time labeling systems to provide an entry for Avery-brand products into this market segment.

The medical business within our specialty tape operations has a real success story with the introduction of ThermoCare heat wraps by Procter & Gamble. Our experts collaborated with P&G to deliver a product with the ideal adhesive for human skin that would allow the therapeutic heat pad to maintain a firm bond, yet remain easy to remove and reposition. Our technology and expertise enabled us to coat an adhesive on nonwoven material that met unique and demanding product specifications.

EMERGING MARKETS PROVIDE GROWTH

⊕ Expansion in emerging markets continues to be a key growth driver for Avery Dennison. In 2002, reported sales in the Asia Pacific, Latin American and Eastern European regions grew more than 35 percent. Even excluding the impact of currency exchange rates and acquisitions, we achieved sales growth in these regions of more than 20 percent. With the addition of our recent acquisitions, annualized sales in these regions will now represent nearly one-fifth of our total sales.

A prime example of our successful growth in emerging markets is our experience in China. Our business there continues to expand at a rapid pace, as demonstrated by more than 30 percent growth in 2002, the fifth consecutive year of profitable growth and double-digit sales increases. With China's entry into the World Trade Organization in 2002, we expect continued high demand for pressure-sensitive materials as consumer markets in China develop further.

Avery Dennison operates a pressure-sensitive roll materials plant in Kunshan, near Shanghai, and recently added a new roll materials plant in Guangzhou to serve the rapidly growing southern region of China. In addition, we just opened a new ticketing and fastener plant in Nansha, also located in southern China. Within the next two years, we plan to open up to three more manufacturing facilities, so that every major Avery Dennison business will be making and selling products in the region. As consumer and industrial markets advance in China, the Company will be developing, producing and selling products to serve these local markets.

PRODUCTIVITY IMPROVEMENT REMAINS A PRIORITY

⊕ Growth programs require funding, and our efforts at productivity improvement are providing much of the support for our growth initiatives. Our Six Sigma program continues to be the cornerstone of our Company-wide productivity improvement efforts. The cost savings we are achieving enable us to redeploy resources to invest in growth initiatives. Six Sigma has become a way of life for employees worldwide in operations and activities across the Company.

In fact, the benefits we have realized from Six Sigma, and the productivity improvement expertise that we have gained as a result, are now being offered to our key customers. Our Fasson Roll North America business has created a new service called “Avery Dennison Optimum Performance . . . *Six Sigma Working for You*,” which involves consulting with our customers on their toughest business issues and using Six Sigma tools to help improve their operations. Through this new program, our customers will experience productivity gains that are designed to improve their operations, while Fasson Roll North America will benefit from incremental sales to those customers.

DEVELOPING OUR PEOPLE

⊕ We recognize we can achieve our aggressive growth goals only if the people leading our businesses are successful. Therefore, leadership development continues to be a top priority for Avery Dennison. We have a multi-faceted program in place to identify and develop talented employees, and we strive to provide a working environment that attracts and keeps the brightest people in our industries and disciplines. The results of our most recent Company-wide employee survey provide ample evidence of our position as an employer of choice around the world. The survey indicates that employees are proud to work for Avery Dennison, and a large majority intend to remain with us for the long term. They view us as a company that provides high-quality products and customer service, and they are optimistic about our future business prospects.

BOARD TRANSITIONS

⊕ We are pleased to welcome two new directors to our board: Julia A. Stewart, president, chief executive officer and chief operating officer of IHOP Corp., the company that owns, operates and franchises the International House of Pancakes restaurant chain; and Peter K. Barker, retired partner in Goldman, Sachs & Company. We know the Company will benefit immensely from the extensive retail marketing experience and financial management expertise that these two outstanding executives bring to our board.



PHILIP M. NEAL
CHAIRMAN AND
CHIEF EXECUTIVE
OFFICER

The future is very bright for Avery Dennison as we climb to the next level of growth. Our new process for stimulating growth throughout the Company positions us well for expanded top-line results.



DEAN A. SCARBOROUGH
PRESIDENT AND
CHIEF OPERATING OFFICER

Our gratitude goes to both Joan T. Bok and Dwight L. Allison, Jr., who retired from our board of directors in April 2002. Formerly members of the board of directors of Dennison Manufacturing Company, they joined the Avery Dennison board in 1990, following our merger with that company. We appreciate the many contributions they provided during their 12 years of service on our board.

We were deeply saddened by the untimely death of our fellow board member John C. Argue, who passed away in August 2002. He had served as a dedicated member of our board for 14 years. His valuable insights, wise counsel and unique spirit are missed.

A PROMISING FUTURE OF TOP-LINE GROWTH

⊕ The future is very bright for Avery Dennison as we climb to the next level of growth. Our new process for stimulating growth throughout the Company positions us well for expanded top-line results. Our ability to develop new products and applications – and even create entirely new markets – will accelerate in the coming years, driven by our technical capabilities, marketing strengths and manufacturing expertise.

We are in the right places around the world, where demand for Avery Dennison products continues to grow as economies and consumer markets develop and expand. Our more than 20,000 employees worldwide are committed to growing Avery Dennison, and they are putting their ambitious and creative minds to work, ready to identify and seize the abundant opportunities that will contribute to our growth and continued success.

Thank you for your continued support and confidence in Avery Dennison.



Philip M. Neal
Chairman and
Chief Executive Officer



Dean A. Scarborough
President and
Chief Operating Officer

March 10, 2003

REVIEW OF OPERATIONS FOR 2002



During 2002, Avery Dennison operations achieved significant results by focusing on key growth strategies...

TO LEVERAGE TECHNOLOGIES TO CREATE NEW PRODUCTS AND APPLICATIONS



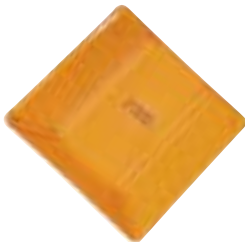
- ◆ Developed a laminated label for popular Caldo Caldo brand hot beverage containers in Italy, featuring a unique construction and a new adhesive technology that provide insulation from the heat.
- ◆ Launched new Avery-brand writing instruments, including multifunctional tripleClick pens, a new line of doubleClick pens and SmearSafe Hi-Liters.
- ◆ Introduced new product lines of durable films for signage applications and new multipurpose materials designed for digital printing applications in the commercial graphics industry.
- ◆ Created a new business unit to develop products featuring proprietary microreplication technology.
- ◆ Supplied global consumer products manufacturers with materials for flexible packaging solutions that include features such as resealable closures.



TO EXPAND IN GROWING MARKETS



- ◆ Continued to expand capacity in China with the opening of a new, state-of-the-art roll materials manufacturing plant in Guangzhou, a new ticketing and fastener plant in Nansha, and a new office products manufacturing unit in Kunshan.
- ◆ Opened a new distribution center for pressure-sensitive and graphics materials in Brazil.



TO MEET CONSUMER DEMAND

- ✦ Continued to provide consumers with Avery-brand customizable products for use with their personal computers and desktop printers, including professional-looking, clean edge business cards.
- ✦ Provided more than one million downloads to Internet users of templates for Avery-brand products at Microsoft's Office Template Gallery Web site.
- ✦ Expanded capabilities for global sourcing of Fasson-brand pressure-sensitive materials to consumer products manufacturers for their labeling needs in markets around the world.
- ✦ Printed more than 7.4 billion self-adhesive postage stamps for the U.S. Postal Service, with a record 23 different stamp issues.

TO FORM NEW BUSINESS ALLIANCES

- ✦ Worked with Procter & Gamble to provide the ideal adhesive material for its ThermaCare heat wrap.
- ✦ Joined with Microsoft to develop and market a co-branded line of digital photo paper products that provide a combined package of software and photo-quality printing paper products for the rapidly growing digital photography market.
- ✦ Teamed with Brother International to launch co-branded electronic labeling systems for consumer and business markets.

TO STRENGTHEN CORE CAPABILITIES

- ✦ Printed more than 55 million vehicle air bag warning labels as a leading supplier of labels for automobile manufacturers around the world.
- ✦ Expanded market position for pressure-sensitive roll and graphics materials through the acquisition of Jackstädt.
- ✦ Created the ability to offer a complete line of products and services to retail and apparel customers, including woven labels, graphic tags, brand identification systems and supply-chain data management, by acquiring RVL and L&E.
- ✦ Supplied a complete line of reflective products to the global highway safety market, including raised pavement markers and road sign materials.

Peter Verbist
Specialty Tape
Europe

"We achieve profitable growth by partnering with our customers whenever we can. We can provide them with a total solution, from raw materials to production and packaging."



Lisa Edler
Fasson Roll
North America

"We focus on differentiating the Fasson brand in the marketplace with unique service programs. Our customers know we're willing to tackle their business issues and that we can offer innovative solutions."



Chris Oelsner
Office Products
Europe

"Avery Dennison fosters an environment that allows us to remove internal barriers – whether we're developing a new product or tackling a complex manufacturing issue."



Wine producers around the world have discovered the many advantages of pressure-sensitive adhesive materials for their all-important labels. An attractive, eye-catching label on the bottle ranks high among consumers in influencing their purchasing decisions. More than half of all wine bottles produced in North America now feature pressure-sensitive adhesive labels, and nearly all of them are printed on Avery Dennison's Fasson-brand materials.

A company's ability to identify and seize opportunities defines its success. From the ability to better serve customers by anticipating their unmet needs, to developing innovative solutions for a myriad of technical challenges – our employees are capitalizing on opportunities to achieve significant long-term growth.



The Avery brand is known throughout the world for innovative products and consistent high quality. Responding to consumer need for a highlighter that does not smear the ink on documents produced by laser and ink-jet printers, Avery Dennison introduced the SmearSafe Hi-Liter.

o p p o r t u n i t y

THROUGHOUT ITS HISTORY, Avery Dennison has been successful at recognizing market needs and developing innovative solutions to meet those needs. From the Company's first product – a pressure-sensitive adhesive price sticker for retail shops – to the introduction of extruded clear film materials for consumer products labeling and the development of office label templates compatible with personal computers and desktop printers, Avery Dennison has earned an outstanding reputation for its ability to apply inventive technologies to develop products for customers around the world.

AVERY DENNISON IS AN ENTREPRENEURIAL company at heart.

The Company has built a culture in which forward-thinking new business opportunity concepts are fundamental to running its businesses. Innovation has always been a key value at Avery Dennison. The Company thrives on a deeply rooted resolve to grow by being the first in the marketplace to identify customer needs and trends, and the first to develop products and applications that provide solutions that capitalize on opportunities and meet unmet customer needs.





Monica Hammer
Fasson Roll
North America

"Avery Dennison is constantly looking for new ways to differentiate itself from the competition. We help our customers improve their business performance and, at the same time, create growth and customer satisfaction."



Kofi Genfi
Office Products
North America

"Our customers want the right product, in the right quantity, at the right time. By using Six Sigma tools, we drive efficiency and productivity to successfully meet their critical needs."



Saragur Srihari
Industrial and
Automotive Products

"We've made great strides to improve manufacturing flexibility and enhance customer service. That's given us a significant competitive advantage."



André Lehmann
Roll Materials
Europe

"We stay very close to not only our direct customers, but to the end-users of our products as well. Our sales, marketing and technical experts work together with our key customers and end-users to drive new business projects that grow not only our business, but the business of our customers."



Johanna Samot
Office Products
North America

"We are continually looking at the best practices in our industry, and we are always ready to adopt new processes for maximizing our business potential."



Ryan White
Fasson Roll
North America

"Our customers have strict inventory and lead-time requirements. We find innovative ways to use our proprietary product and service programs to stimulate growth and better serve their needs."

The acquisitions of RVL and L&E are an ideal complement to Avery Dennison's Retail Information Services business – positioning the Company as a global leader in the branded tags and ticketing market serving the retail and apparel industries.



EVERY DENNISON HAS THE

financial discipline, technical expertise, operational strength and leadership

talent necessary to leverage business opportunities to create profitable products and businesses. Most important, Avery Dennison has developed a culture that encourages and rewards exceptional performance. The Company has achieved its consistent history of growth by strategically building on its core competencies and manufacturing capabilities.

GEOGRAPHIC EXPANSION WAS ONE OF THE EARLIEST growth-generating opportunities that the Company identified. From the beginning, our approach to introducing products and services to international markets has focused on having a strong local presence – from building a manufacturing capability in a region where we saw an opportunity or acquiring an existing local business, to hiring local managers and employees to run the operation and market products to local customers. This same approach has remained the foundation of our successful global expansion efforts, whether we are entering a new market or are adding to an existing operation in a region. We see the ability to operate as a local business in the markets we serve as key to our success.

DEVELOPING CLOSE RELATIONSHIPS WITH OUR CUSTOMERS and providing them with a high level of support are essential to how we conduct business. We have long known that helping customers to grow their capabilities and operations will lead to expanded business for us. The Avery Dennison Converting College in Kunshan, China, demonstrates the extent to which we go to ensure that our customers have the tools and expertise they need to grow their businesses. Established three years ago, the college is a state-of-the-art training facility for converters and label printers throughout the Asia Pacific region. We conduct training sessions – free of charge – so our customers

Avery Dennison continues to redefine the market for binders by creating innovative features that consumers value. The Design Edge View Binder and Flexi-View Binder are among the most recent Avery-brand binders introduced.

can learn the best processes and techniques on the latest printing equipment. They return to their businesses trained and ready to improve and expand their operations. Our exceptional growth in China – more than 30 percent annually – proves that when our customers succeed, we succeed.

MANY OF AVERY DENNISON'S GROWTH SUCCESS STORIES began as a single creative idea sparked by the prospect of an opportunity. For example, our leading market position as a supplier of laser and ink-jet office labels resulted from identifying a market trend and creating a solution for an unmet need. Nearly 20 years ago, as the use of personal computers began to revolutionize the performance of office tasks around the world, we saw an opportunity to develop a product that would combine our pressure-sensitive technology with the burgeoning move towards business automation. We created the first pressure-sensitive adhesive label compatible with desktop printers. The Avery brand of office labels has been the market leader ever since.

PRESSURE-SENSITIVE ADHESIVE TECHNOLOGY PROVIDES countless opportunities because it lends itself to so many different applications in multiple industries. Our roll materials

business operates an extremely successful specialty business, which designs and produces customized pressure-sensitive adhesive solutions that address specific

customer needs. Often, a specialty application created for a single customer has broader market appeal, providing us an opportunity to potentially create a whole new product line or business.



A man with glasses and a dark jacket stands in front of a brick building with large windows.

Harry Meredith
Retail Information
Services

"We rely on strong customer relationship management, market analysis and internal collaboration to stay ahead of market trends and anticipate our customers' needs."

A man with glasses and a dark blazer stands in a warehouse with large rolls of material on shelves.

John Boogaard
Graphics Division
Europe

"We value new product development and align our global research and development resources to meet customer needs – sometimes before they even know they have them."

A woman with short dark hair and a dark blazer stands in a laboratory with various pieces of equipment.

Ceri Thompson
Roll Materials
Europe

"Our customers are very much integral to our team. When we're developing solutions for them, we translate their requirements deep into the heart of product design and process capabilities. This approach is one key to our success in the marketplace."



Nancy Mack
Office Products
North America

“We work to make our customers’ businesses more profitable. We recently helped one of our major customers significantly reduce their shortages. This is what our customers want – a company that will partner with them to improve their business.”



John Peck
Reflective Products
Division

“We recently created a new retro-reflective product for use on police cars, ambulances and other emergency vehicles. The end-users liked the product, but also wanted a removable version, which we promptly developed. Our ability to respond quickly builds stronger long-term relationships.”



John Quinn
Retail Information
Services

“We know our individual success is key to Avery Dennison’s growth. We foster a culture that values innovation and risk taking, instills accountability and rewards results.”

Emerging markets have historically provided Avery Dennison with tremendous growth opportunities – and the trend continues today. The rapidly developing consumer products market in China has resulted in growing demand for Avery Dennison's pressure-sensitive adhesive label materials.

LABELS HAVE ALWAYS BEEN an ideal medium for communicating information – from the simple, self-adhesive price stickers developed in the Company's early years to the more recent, complex computer-readable bar-code labels. Today, we are exploring ways to take labels to the next level, from radio frequency identification to materials that have the ability to sense time and temperature – opportunities to enable us to create “smart” labels that communicate an even wider range of data.

WE IDENTIFY OPPORTUNITIES THAT WILL HELP US GROW not only in the marketplace, but internally as well. That's why, when we identified the need to improve productivity several years ago, we began implementing Six Sigma at operations across Avery Dennison. As a result, we have significantly improved our operational efficiency and generated cost savings that have freed resources to help support our growth initiatives.

WHILE IDENTIFYING OPPORTUNITIES and acting on them quickly are key to our successful growth, we also know when a product line or business has outlived its ability to contribute to our growth. We divest operations that no longer provide the rate of growth we seek for our businesses.



Among the 23 different self-adhesive stamp issues printed in 2002 by Avery Dennison for the U.S. Postal Service are the "Love" stamp and commemorative stamps honoring Irving Berlin and Duke Kahanamoku. The first self-adhesive postage stamp in the U.S. was developed by Avery Dennison.

With the processes, the technology, the focus and the people to capitalize on opportunities, Avery Dennison continues to advance its strategies for long-term growth.





Miguel Solivan
Specialty Tape
U.S.

“With the help of our customers, we not only created a new product, but an entirely new core competency. The product was developed with input from our customer, key outside vendors and our own manufacturing representatives. Leveraging this breadth of expertise helped to ensure the product’s immediate success.”



Brian Zweig
Performance Polymers
U.S.

“We have a customer-driven product development program that provides the tools and resources necessary to optimize our products and processes through design, scale-up and commercialization.”



Dave DeRosier
Office Products
North America

“In our plant, employee ideas are taken very seriously. Who knows which one will lead to the next productivity or product breakthrough? Our employees are very good at identifying opportunities to develop new processes and programs that contribute to the Company’s growth.”

Dieu Dai Huynh
Roll Materials
Worldwide

"We stimulate sales in China, and the entire Asia Pacific region, by teaching our customers how to manufacture their products with our materials. We spend considerable time showing them how to convert pressure-sensitive material into more business for them. This process helps us develop relationships and drive demand for our products."



Swea Hart
Graphics Division
North America

"We partner with our suppliers and customers to develop a forward and backward integration system to help with new product development and drive growth to a new level."



Kent Pellegrini
Retail Information
Services

"We work very hard at listening to our customers to determine where they are taking their business. This customer-focused culture enables us to be the vendor of choice in our industry."



OUR WORLDWIDE BUSINESSES

OUR PRESSURE-SENSITIVE ADHESIVES AND MATERIALS SEGMENT

ROLL MATERIALS WORLDWIDE

✦ Fasson-brand pressure-sensitive coated and non-adhesive papers, films and foils in roll form are widely used in brand identity, bar-code labeling systems, product identification and other applications by label converters and consumer products package designers and manufacturers. ✦ Locations: North America, Europe, Latin America, Asia Pacific and South Africa.

WORLDWIDE SPECIALTY TAPE

✦ Technically advanced pressure-sensitive tapes are used by industrial fabricators, original equipment manufacturers, medical device manufacturers and disposable-diaper producers to fasten, bond, laminate, attach, mount or join components. ✦ Locations: North America, Europe, Latin America and Asia Pacific.

WORLDWIDE GRAPHICS

✦ Pressure-sensitive papers and reflective, metallic and specialty films are used in traditional offset printing, wide-format digital printing, screen-printing and sign making to serve the signage, printing, graphics arts, display, vehicle marking, transportation, highway safety and other related industries. ✦ Locations: North America, Europe, Latin America and Asia Pacific.

PERFORMANCE POLYMERS

✦ Extensive line of emulsion-based and solvent-based pressure-sensitive adhesives is supplied to internal divisions and outside customers for use in a wide range of applications including labels, tapes and graphic films. Specialty polymer formulations have been developed for applications in office products, ink-jet media, construction, packaging and personal care. ✦ Locations: North America, Europe and Asia Pacific.

OUR CONSUMER AND CONVERTED PRODUCTS SEGMENT

OFFICE PRODUCTS WORLDWIDE

✦ Avery-brand self-adhesive labels, labeling software and applicators, binders, sheet protectors, dividers, writing instruments, cards, photo-quality printing papers and other products for the home, school and office meet the need for innovative new products and creative applications for personal computers with high-quality printing materials. ✦ Locations: North America, Europe, Latin America, Asia Pacific and South Africa.

RETAIL INFORMATION SERVICES

✦ Woven and printed labels, graphic tags, patches, integrated tags, custom hard and soft goods packaging, bar-code printers, software solutions, molded plastic fastening and application devices, as well as service bureau printing applications for supply chain and security management. These products are used worldwide by retailers, apparel manufacturers, distributors and industrial users. ✦ Locations: North America, Europe, Latin America, Asia Pacific and South Africa.

INDUSTRIAL AND AUTOMOTIVE PRODUCTS

✦ High-quality converted materials, such as decorative automotive interior films, long-life paint replacement films, peel-and-stick postage stamps, battery labels, specialty coatings, other high-performance specialized labels and interior and exterior graphics support a variety of industries, including high-tech, durable goods and consumer products. ✦ Locations: North America.

FIVE-YEAR SUMMARY

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	COMPOUND GROWTH RATE 5 YEAR	2002 ⁽¹⁾		2001 ⁽²⁾		2000		1999 ⁽⁴⁾		1998	
		DOLLARS	%	DOLLARS	%	DOLLARS	%	DOLLARS	%	DOLLARS	%
FOR THE YEAR											
Net sales	4.7%	\$ 4,206.9	100.0	\$ 3,803.3	100.0	\$ 3,893.5	100.0	\$ 3,768.2	100.0	\$ 3,459.9	100.0
Gross profit	4.6	1,353.7	32.2	1,240.2	32.6	1,332.2	34.2	1,281.4	34.0	1,144.5	33.1
Marketing, general and administrative expense	4.3	913.1	21.7	830.5	21.8	851.3	21.9	842.6	22.4	773.2	22.3
Interest expense	6.6	43.7	1.0	50.2	1.3	54.6	1.4	43.4	1.2	34.6	1.0
Income before taxes	3.2	364.8	8.7	359.8	9.5	426.3	10.9	330.4	8.8	336.7	9.7
Taxes on income	.2	107.6	2.6	116.4	3.1	142.8	3.7	115.0	3.1	113.4	3.3
Net income	4.7	257.2	6.1	243.2	6.4	283.5	7.3	215.4	5.7	223.3	6.5

		2002	2001	2000	1999	1998
PER SHARE INFORMATION						
Net income per common share	5.6%	\$ 2.61	\$ 2.49	\$ 2.88	\$ 2.17	\$ 2.20
Net income per common share, assuming dilution	6.1	2.59	2.47	2.84	2.13	2.15
Dividends per common share	13.4	1.35	1.23	1.11	.99	.87
Average common shares outstanding	(.9)	98.5	97.8	98.3	99.2	101.5
Average common shares outstanding, assuming dilution	(1.3)	99.4	98.6	99.8	101.3	104.1
Book value at fiscal year end	5.4	\$ 10.64	\$ 9.49	\$ 8.49	\$ 8.20	\$ 8.33
Market price at fiscal year end	6.2	59.05	56.20	54.88	72.88	45.06
Market price range		52.86 to 69.49	44.39 to 60.24	43.31 to 78.00	39.75 to 72.88	40.88 to 60.75

AT YEAR END

Working capital	\$ (80.6)	\$ 31.2	\$ 181.7	\$ 105.6	\$ 137.7
Property, plant and equipment, net	1,199.2	1,074.6	1,079.0	1,043.5	1,035.6
Total assets ⁽²⁾	3,652.4	2,909.6	2,766.3	2,647.1	2,187.4
Long-term debt	837.2	626.7	772.9	617.5	465.9
Total debt	1,144.2	849.7	827.2	685.7	537.2
Shareholders' equity	1,056.4	929.4	828.1	809.9	833.3
Number of employees	20,500	17,300	17,900	17,400	16,100

OTHER INFORMATION

Depreciation expense	\$ 127.1	\$ 124.1	\$ 126.0	\$ 126.5	\$ 114.6
Research and development expense	74.5	69.9	67.8	64.3	65.0
Effective tax rate	29.5%	32.4%	33.5%	34.8%	33.7%
Long-term debt as a percent of total long-term capital	44.2	40.3	48.3	43.3	35.9
Total debt as a percent of total capital	52.0	47.8	50.0	45.8	39.2
Return on average shareholders' equity (percent)	25.7	27.4	34.6	27.1	26.7
Return on average total capital (percent)	15.8	16.2	19.6	17.0	19.0

⁽¹⁾ Results for 2002 include sales of approximately \$270 million from three acquisitions completed during the year. Results for 2002 also include a pretax charge for asset impairments and lease cancellation costs of \$21.4 million as well as a pretax charge of \$10.7 million related to severance.

⁽²⁾ Certain amounts for prior years were reclassified to conform with the current year presentation.

⁽³⁾ Results for 2001 include a pretax gain of \$20.2 million for the sale of the Company's specialty coatings business and a pretax cost reduction charge of \$19.9 million.

⁽⁴⁾ Results for 1999 include a pretax cost reduction charge of \$65 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

On May 17, 2002, the Company acquired Jackstädt, a manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has an international customer base and had consolidated revenues of approximately \$400 million in 2001. The purchase price, net of cash acquired, was approximately \$311 million, which included approximately \$211 million in cash and assumed debt of approximately \$100 million. The Jackstädt business is included in the Company's Pressure-sensitive Adhesives and Materials segment. Jackstädt complements the Company's operations in Europe, Latin America, Asia and North America. Jackstädt enhances the Company's international presence and enables it to offer a broader selection of products and services. Integration of the Jackstädt business is progressing with the reduction at year end of approximately 315 of the estimated 1,000 positions to be eliminated.

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

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

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

The table below details the lease cancellation cost activity:

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

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

The Company also recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The 2001 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of \$19.9 million, which consisted of employee severance and related costs of \$13.1 million for approximately 400 positions worldwide, and asset impairments of \$6.8 million. The positions eliminated included approximately 170 employees in the Pressure-sensitive Adhesives and Materials segment, 210 employees in the Consumer and Converted Products segment and 20 Corporate employees. Severance and related costs represented cash paid or to be paid to employees terminated under the program. Asset impairments represented non-cash charges required to reduce the carrying value of the assets that were disposed of to net realizable value as of the planned date of disposal. At year end 2002, \$1.9 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits" in the Consolidated Balance Sheet), associated with long-term severance contracts, which will be paid through 2004. All amounts related to asset impairments were utilized.

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

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

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

(IN MILLIONS, EXCEPT SHARE AMOUNTS)	2002	2001	2000
Net income	\$ 257.2	\$ 243.2	\$ 283.5
Net income per common share	2.61	2.49	2.88
Net income per common share, assuming dilution	2.59	2.47	2.84

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

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

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

RESULTS OF OPERATIONS BY OPERATING SEGMENT

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS:

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

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

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

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and a decrease in income for 2001 compared to 2000. Sales increased 2.5 percent to \$2.19 billion in 2001, compared to \$2.14 billion in 2000, driven by market share gain in the U.S. and growth in international markets. Sales increased in the U.S. operations due to the acquisition of Dunsirn Industries, Inc. ("Dunsirn") as discussed below (approximately \$48 million), the benefit of new business obtained from the closure of a competitor's plant (estimated to be \$10 million) and a new supply agreement with a company that outsourced its manufacturing of certain roll label materials (estimated to be \$12 million) and other factors. The domestic sales increase was partially offset by the slowdown in the North American economy, and the resulting negative impact on sales in the Graphics and Specialty Tapes businesses (approximately \$31 million). Sales increased internationally, primarily as a result of the Adespan acquisition in 2000 as discussed below (approximately \$19 million) and unit volume growth in the Roll Materials business in Europe and Asia Pacific. This increase was partially offset by a slowdown in certain European markets served by the Company's Graphics and Specialty Tapes businesses, sales declines in Latin America and the negative impact of foreign currency exchange rates (approximately \$46 million).

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

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

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

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

CONSUMER AND CONVERTED PRODUCTS:

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

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

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

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

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

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

FINANCIAL CONDITION

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. In the opinion of management, the resolution of these matters will not materially affect the Company.

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

In 2002, the Company completed acquisitions resulting in total cash payments of \$397.4 million. The payments were funded through commercial paper borrowings. Total commercial paper borrowings at December 28, 2002, were \$512.2 million with a weighted-average interest rate of 1.87 percent. In January 2003, the Company refinanced \$400 million of these commercial paper borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033. The aggregate \$400 million refinancing was issued under the Company's existing shelf registration statement filed with the Securities

and Exchange Commission in the third quarter of 2001, permitting the Company to issue up to \$600 million in debt and equity securities. After the issuance of the \$400 million, there is a remaining \$200 million available for general corporate purposes including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital. Remaining commercial paper borrowings that the Company does not intend to repay within the next year and had the ability to refinance under its long-term revolving credit agreement, discussed below, are classified as long-term liabilities.

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

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

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

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

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

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

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

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

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debts of the same remaining maturities. At year end 2002 and 2001, the fair value of the Company's total debt, including short-term borrowings, was \$1.18 billion and \$857.6 million, respectively.

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

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

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

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

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

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

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

(IN MILLIONS)

CONTRACTUAL OBLIGATIONS	TOTAL	PAYMENTS DUE BY PERIOD					
		2003	2004	2005	2006	2007	THEREAFTER
Short-term lines of credit	\$ 80.5	\$ 80.5	—	—	—	—	—
Callable commercial notes	150.0	150.0	—	—	—	—	—
Long-term debt ⁽¹⁾	913.7	76.5	\$ 86.5	\$ 76.1	\$ 112.6	\$ 60.4	\$ 501.6
Operating leases	172.2	41.0	32.8	25.1	15.6	12.1	45.6
Other long-term obligation	84.5	—	84.5	—	—	—	—
Total contractual obligations	\$ 1,400.9	\$ 348.0	\$ 203.8	\$ 101.2	\$ 128.2	\$ 72.5	\$ 547.2

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

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

(IN MILLIONS)

	TOTAL AMOUNTS COMMITTED	AMOUNT OF COMMITMENT EXPIRATION				
		2003	2004	2005	2006	2007
Lines of credit – committed, unused	\$ 650.0	\$ 400.0	—	—	\$ 250.0	—
Standby letters of credit outstanding:						
General	15.7	15.7	—	—	—	—
Deferred compensation	82.5	—	—	—	—	\$ 82.5
Zweckform obligation	84.5	—	\$ 84.5	—	—	—
Total	\$ 832.7	\$ 415.7	\$ 84.5	—	\$ 250.0	\$ 82.5

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

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

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

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

RELATED PARTY TRANSACTIONS

From time to time, the Company enters into transactions in the normal course of business with related parties. The Company believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of the Company's directors, Mr. Peter W. Mullin, is the chairman and chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC") and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM. During 2002 and 2001, the Company paid insurance companies premiums for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2002, 2001 and 2000, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.3 million, \$1.7 million and \$1.6 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$0.9 million in 2002 and \$1 million in each of the years 2001 and 2000. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC), and another affiliate, to administer benefit plans and provide benefit statements to participants under various Company employee benefit plans. None of these transactions are significant to the financial position or results of operations of the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those amounts.

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

Sales rebates and discounts are common practice in the industries in which the Company operates. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales. Rebates and discounts are recorded based upon management's best estimate when products are sold. These estimates are based upon historical experience for similar programs and products. Management reviews such rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

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

Inventories are stated at the lower of cost or market value and are categorized as raw materials, work-in-progress or finished goods. Inventory reserves are recorded for damaged, obsolete, excess and slow-moving inventory. Management uses estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product and the length of time the product has been included in inventory.

FUTURE ACCOUNTING REQUIREMENTS

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

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

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition

and requirements for recognition of exit costs in EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement will be effective after December 31, 2002. The adoption of SFAS No. 146 will affect the timing of the recognition of future costs associated with exit or disposal activities and will not affect previous charges related to such activities.

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

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

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

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

SAFE HARBOR STATEMENT

Except for historical information contained herein, the matters discussed in the Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this annual report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events. Words such as "anticipate," "assume," "believe," "estimate," "expect," "plan," "project," "will," and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks 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 the Company's Annual Report on Form 10-K for the year ended December 28, 2002 and include, but are not limited to, risks and uncertainties relating to investment in new production facilities, timely development and successful market acceptance of new products, price and availability of raw materials, impact of competitive products and pricing, business mix shift, credit risks, successful integration of new acquisitions, customer and supplier and manufacturing concentrations, financial condition and inventory strategies of customers, changes in customer order patterns, increased competition, loss of significant contract(s) or customer(s), legal proceedings, fluctuations in foreign exchange rates and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism, natural disasters and other factors.

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

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

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

FOREIGN EXCHANGE VALUE-AT-RISK

The Company uses a "Value-at-Risk" (VAR) model to determine the estimated maximum potential one-day loss in earnings associated with both its foreign exchange positions and contracts. This approach assumes that market rates or prices for foreign exchange positions and contracts are normally distributed. The VAR model estimates were made assuming normal market conditions. Firm commitments, receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were included in the model. Forecasted transactions, which certain of these instruments are intended to hedge, were excluded from the model. The VAR was estimated using a variance-covariance methodology based on historical volatility for each currency. The volatility and correlation used in the calculation were based on two-year historical data obtained from one of the Company's domestic banks. A 95 percent confidence level was used for a one-day time horizon.

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

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

INTEREST RATE SENSITIVITY

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

CONSOLIDATED BALANCE SHEET

(DOLLARS IN MILLIONS)	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22.8	\$ 19.1
Trade accounts receivable, less allowances of \$46.1 and \$37.5 for 2002 and 2001, respectively	733.4	579.2
Inventories, net	343.6	267.4
Deferred taxes	25.7	58.8
Other current assets	90.0	65.8
Total current assets	1,215.5	990.3
Property, plant and equipment, net	1,199.2	1,074.6
Goodwill, net	628.7	293.2
Other intangibles resulting from business acquisitions, net	147.9	120.0
Other assets	461.1	431.5
	\$ 3,652.4	\$ 2,909.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 307.0	\$ 223.0
Accounts payable	441.0	316.4
Accrued payroll and employee benefits	178.7	116.5
Other accrued liabilities	298.5	214.4
Income taxes payable	70.9	88.8
Total current liabilities	1,296.1	959.1
Long-term debt	837.2	626.7
Long-term retirement benefits and other accrued liabilities	304.2	236.2
Non-current deferred taxes	74.0	83.6
Other long-term obligation	84.5	74.6
Shareholders' equity:		
Common stock, \$1 par value, authorized – 400,000,000 shares at year end 2002 and 2001; issued – 124,126,624 shares at year end 2002 and 2001; outstanding – 99,303,840 shares and 97,882,630 shares at year end 2002 and 2001, respectively	124.1	124.1
Capital in excess of par value	740.2	707.2
Retained earnings	1,664.8	1,556.1
Cost of unallocated ESOP shares	(12.2)	(13.7)
Employee stock trusts, 11,163,451 shares and 12,008,123 shares at year end 2002 and 2001, respectively	(658.7)	(674.5)
Treasury stock at cost, 13,659,333 shares and 14,235,871 shares at year end 2002 and 2001, respectively	(596.9)	(633.4)
Accumulated other comprehensive loss	(204.9)	(136.4)
Total shareholders' equity	1,056.4	929.4
	\$ 3,652.4	\$ 2,909.6

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2002	2001	2000
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
Cost of products sold	2,853.2	2,563.1	2,561.3
Gross profit	1,353.7	1,240.2	1,332.2
Marketing, general and administrative expense	913.1	830.5	851.3
Interest expense	43.7	50.2	54.6
Other expense (income), net	32.1	(.3)	—
Income before taxes and accounting change	364.8	359.8	426.3
Taxes on income	107.6	116.4	142.8
Income before accounting change	257.2	243.4	283.5
Cumulative effect of accounting change, net of tax	—	(.2)	—
Net income	\$ 257.2	\$ 243.2	\$ 283.5
Per share amounts:			
Net income per common share:			
Before accounting change	\$ 2.61	\$ 2.49	\$ 2.88
Cumulative effect of accounting change	—	—	—
Net income per common share	\$ 2.61	\$ 2.49	\$ 2.88
Net income per common share, assuming dilution:			
Before accounting change	\$ 2.59	\$ 2.47	\$ 2.84
Cumulative effect of accounting change	—	—	—
Net income per common share, assuming dilution	\$ 2.59	\$ 2.47	\$ 2.84
Dividends	\$ 1.35	\$ 1.23	\$ 1.11
Average shares outstanding:			
Common shares	98.5	97.8	98.3
Common shares, assuming dilution	99.4	98.6	99.8
Common shares outstanding at year end	99.3	97.9	97.5

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(DOLLARS IN MILLIONS)	COMMON STOCK, \$1 PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	COST OF UNALLOCATED ESOP SHARES	EMPLOYEE STOCK TRUSTS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
FISCAL YEAR ENDED 1999	\$ 124.1	\$ 962.3	\$ 1,288.5	\$ (16.8)	\$ (1,014.0)	\$ (481.3)	\$ (52.9)	\$ 809.9
Comprehensive income:								
Net income			283.5					283.5
Foreign currency translation adjustment							(52.5)	(52.5)
Total comprehensive income								231.0
Repurchase of 2.4 million shares for treasury						(134.4)		(134.4)
Stock issued under option plans, net of \$36.3 of tax and dividends paid on stock held in stock trusts		(28.9)			72.7			43.8
Dividends: \$1.11 per share			(123.7)					(123.7)
ESOP transactions, net				1.5				1.5
Employee stock benefit trust market value adjustment		(241.4)			241.4			—
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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN MILLIONS)	2002	2001	2000
OPERATING ACTIVITIES			
Net income	\$ 257.2	\$ 243.2	\$ 283.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	127.1	124.1	126.0
Amortization	25.7	31.9	30.9
Deferred taxes	22.2	3.0	11.8
Asset impairment and net (gain) or loss on sale of assets of \$3.2 in 2002 and \$(20.2) in 2001	20.7	(0.3)	—
Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures:			
Trade accounts receivable	(41.1)	7.8	(37.0)
Inventories	(16.7)	1.9	8.8
Other current assets	1.3	(4.4)	(8.4)
Accounts payable and accrued liabilities	142.9	(58.3)	(4.3)
Taxes on income	6.2	27.4	6.5
Long-term retirement benefits and other accrued liabilities	(22.7)	(.8)	(7.9)
Net cash provided by operating activities	522.8	375.5	409.9
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(151.8)	(135.4)	(198.3)
Purchase of software	(20.1)	(50.3)	(35.0)
Payments for acquisitions	(397.4)	(63.9)	(75.3)
Proceeds from sale of assets	10.7	33.7	10.6
Other	(16.8)	(52.4)	(17.5)
Net cash used in investing activities	(575.4)	(268.3)	(315.5)
FINANCING ACTIVITIES			
Additional borrowings	697.0	364.8	373.8
Payments of debt	(520.2)	(343.5)	(228.3)
Dividends paid	(148.5)	(135.4)	(123.7)
Purchase of treasury stock	(10.4)	(17.9)	(134.4)
Proceeds from exercise of stock options, net	22.1	17.4	19.7
Other	17.0	15.5	3.9
Net cash provided by (used in) financing activities	57.0	(99.1)	(89.0)
Effect of foreign currency translation on cash balances	(0.7)	(.4)	(.9)
Increase in cash and cash equivalents	3.7	7.7	4.5
Cash and cash equivalents, beginning of year	19.1	11.4	6.9
Cash and cash equivalents, end of year	\$ 22.8	\$ 19.1	\$ 11.4

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Avery Dennison Corporation (the "Company") is a worldwide manufacturer of pressure-sensitive adhesives and materials, and consumer and converted products. The Company's major markets are in office products, data processing, health care, retail, transportation, industrial and durable goods, food and apparel. The Pressure-sensitive Adhesives and Materials segment contributes approximately 60 percent of the Company's total sales while the Consumer and Converted Products segment contributes approximately 40 percent of the Company's total sales. Sales are generated primarily in the United States and continental Europe.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all majority-owned subsidiaries. All intercompany accounts, transactions and profits are eliminated. Investments representing less than 20 percent ownership are accounted for by the cost method of accounting.

FISCAL YEAR

The Company's 2002, 2001 and 2000 fiscal years reflected 52-week periods ending December 28, 2002, December 29, 2001, and December 30, 2000, respectively. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits in banks and short-term investments, with maturities of three months or less when purchased. The carrying amounts of these assets approximate fair value due to the short maturity of the instruments. Cash paid for interest and taxes was as follows:

(IN MILLIONS)	2002	2001	2000
Interest, net of capitalized amounts	\$ 44.4	\$ 50.0	\$ 54.8
Income taxes, net of refunds	91.6	95.1	142.8

In 2002, non-cash activities included the issuance of approximately \$47 million in Avery Dennison common shares for the L&E acquisition and the assumption of approximately \$100 million in debt from the Jackstädt acquisition. Refer to Note 2 "Acquisitions" for further detail. In 2001, non-cash activities included the receipt of \$16.7 million in notes and receivables related to the sale of assets and the sale of the Company's specialty coatings business.

INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using methods that approximate both the first-in, first-out (FIFO) and last-in, first-out (LIFO) methods. Inventories valued using the LIFO method comprised 34 percent and 39 percent of inventories before LIFO adjustment at year end 2002 and 2001, respectively. Inventories at year end were as follows:

(IN MILLIONS)	2002	2001
Raw materials	\$ 101.9	\$ 82.9
Work-in-progress	81.5	67.6
Finished goods	176.9	134.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	360.3	285.1
Less LIFO adjustment	(16.7)	(17.7)
	\$ 343.6	\$ 267.4

PROPERTY, PLANT AND EQUIPMENT

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

(IN MILLIONS)	2002	2001
Land	\$ 54.9	\$ 45.7
Buildings and improvements	537.9	469.4
Machinery and equipment	1,574.8	1,457.6
Construction-in-progress	122.8	84.8
	2,290.4	2,057.5
Accumulated depreciation	(1,091.2)	(982.9)
	\$ 1,199.2	\$ 1,074.6

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets ranging from ten to forty-five years for buildings and improvements and three to fifteen years for machinery and equipment. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of properties, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting profit or loss included in net income.

SOFTWARE

The Company capitalizes software costs in accordance with American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and are included in "Other assets" in the Consolidated Balance Sheet. Capitalized software is amortized on a straight-line basis over the estimated useful life of the software, not to exceed ten years. Capitalized software costs were as follows:

(IN MILLIONS)	2002	2001
Cost	\$ 176.4	\$ 158.0
Accumulated amortization	(63.0)	(55.5)
	\$ 113.4	\$ 102.5

GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

The Company adopted all provisions of Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," at the beginning of fiscal 2002. However, because certain provisions of the Statement apply to business combinations initiated after June 30, 2001, the Company adopted those provisions as of the beginning of the third quarter of 2001. For business combinations accounted for using the purchase method before July 1, 2001, the provisions of the Statement were effective at the beginning of fiscal 2002. All business combinations are accounted for by the purchase method, and the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired is considered goodwill. As a result, the Company discloses goodwill separately from other intangible assets and, as of the beginning of fiscal 2002, recorded no amortization on goodwill. Other acquisition intangibles are identified using the criteria included in this Statement, including trademarks and trade-names, patented and other acquired technology, customer relationships and other intangibles.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," at the beginning of fiscal 2002. As required, the Company identified its reporting units and the amounts of goodwill, other intangible assets, and other assets and liabilities allocated to those reporting units. This Statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that (i) goodwill and indefinite-lived intangible assets will no longer be amortized, (ii) impairment will be measured using various valuation techniques based on discounted cash flows, (iii) goodwill will be tested for impairment at least annually at the reporting unit level, (iv) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (v) intangible assets with finite lives will be amortized over their useful lives.

SFAS No. 142 requires that goodwill be tested for impairment upon adoption of the Statement, as well as annually thereafter. The Company completed its transitional goodwill impairment test during the first quarter of 2002 and had no impairment losses. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with indefinite lives. See Note 3 "Goodwill and Other Intangibles Resulting from Business Acquisitions" for more information.

FOREIGN CURRENCY TRANSLATION

All asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenue, costs and expenses are translated at the weighted-average currency rate, which prevailed during the fiscal year. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2002, 2001 and 2000. Gains and losses resulting from foreign currency transactions are included in income currently, except for gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements which are recorded directly to a component of other comprehensive loss.

Transaction and translation losses decreased net income in 2002, 2001 and 2000 by \$3.5 million, \$2.7 million and \$3 million, respectively.

FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in foreign currencies. The Company also enters into interest rate contracts to manage its exposure to interest rate fluctuations.

On the date the Company enters into a derivative contract, it determines whether the derivative will be designated as a hedge. Those derivatives not designated as hedges, are recorded on the balance sheet at fair value, with changes in the fair value recognized currently in earnings. Those derivatives designated as hedges are classified as either (1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (a "fair value" hedge); or (2) a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge). The Company's policy is not to hold or purchase any foreign currency or interest rate contracts for trading purposes.

The Company assesses, both at the inception of the hedge and on an ongoing basis, whether hedges are highly effective. If it is determined that a hedge is not highly effective, the Company prospectively discontinues hedge accounting. For cash flow hedges, the effective portion of the related gains and losses is recorded as a component of other comprehensive loss, and the ineffective portion is reported currently in earnings. Amounts in accumulated other comprehensive loss are reclassified into earnings in the same period during which the hedged forecasted transaction is consummated. In the event the anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the instrument in earnings currently. Changes in fair value hedges are recognized currently in earnings. Changes in the fair values of underlying hedged items (such as unrecognized firm commitments) are also recognized currently in earnings and offset the changes in the fair value of the derivative.

REVENUE RECOGNITION

Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales.

SHIPPING AND HANDLING COSTS

Shipping and handling costs, which consist primarily of transportation charges incurred to move finished goods to customers, are included in "Cost of products sold" for the Pressure-sensitive Adhesives and Materials segment and in "Marketing, general and administrative expense" for the Consumer and Converted Products segment. Shipping and handling costs included in "Marketing, general and administrative expense" were \$47.1 million, \$32.2 million and \$32.9 million for 2002, 2001 and 2000, respectively.

ADVERTISING COSTS

Advertising costs included in "Marketing, general and administrative expense" were \$8.3 million, \$6.1 million and \$8.1 million for 2002, 2001 and 2000, respectively.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Research and development expense for 2002, 2001 and 2000 was \$74.5 million, \$69.9 million and \$67.8 million, respectively.

PRODUCT WARRANTY

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

Product warranty liabilities were as follows:

(IN MILLIONS)	2002	2001
Balance at beginning of year	\$ 1.3	\$ 1.3
Accruals for warranties issued	1.5	.9
Payments	(1.4)	(.9)
Balance at end of year	\$ 1.4	\$ 1.3

STOCK-BASED COMPENSATION

The Company has a policy whereby all stock option grants are priced at fair market value on the date of grant. Under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company uses the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

In accordance with the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosures," the following table reflects pro forma net income and earnings per share had the Company elected to adopt the fair value approach of SFAS No. 123:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2002	2001	2000
Net income, as reported	\$ 257.2	\$ 243.2	\$ 283.5
Compensation expense, net of tax	(16.5)	(12.6)	(12.4)
Pro forma net income	\$ 240.7	\$ 230.6	\$ 271.1
Earnings per share, as reported	\$ 2.61	\$ 2.49	\$ 2.88
Earnings per share, assuming dilution, as reported	2.59	2.47	2.84
Pro forma earnings per share	\$ 2.44	\$ 2.36	\$ 2.75
Pro forma earnings per share, assuming dilution	2.42	2.34	2.72

ENVIRONMENTAL EXPENDITURES

Environmental expenditures that do not contribute to current or future revenue generation are expensed. Expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the remaining asset life. The Company reviews, on a quarterly basis, its estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated the Company as a potentially responsible party. When it is probable that obligations have been incurred and where a minimum cost or a reasonable estimate of the cost of compliance or remediation can be determined,

the applicable amount is accrued. For other potential liabilities, the timing of accruals coincides with the related ongoing site assessments. Potential insurance reimbursements are not recorded or offset against the liabilities until received, and liabilities are not discounted.

INVESTMENT TAX CREDITS

Investment tax credits are accounted for in the period earned in accordance with the flow-through method.

NET INCOME PER SHARE

Net income per common share amounts were computed as follows:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2002	2001	2000
(A) Net income available to common shareholders	\$ 257.2	\$ 243.2	\$ 283.5
(B) Weighted-average number of common shares outstanding	98.5	97.8	98.3
Additional common shares issuable under employee stock options using the treasury stock method	.9	.8	1.5
(C) Weighted-average number of common shares outstanding assuming the exercise of stock options	99.4	98.6	99.8
Net income per common share (A) ÷ (B)	\$ 2.61	\$ 2.49	\$ 2.88
Net income per common share, assuming dilution (A) ÷ (C)	2.59	2.47	2.84

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of antidilutive stock options (which are options that have exercise prices greater than the average market price for the period) excluded from the computation were .2 million, 1.8 million and 1 million for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively.

COMPREHENSIVE INCOME

Comprehensive income for the Company includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability and the effective portion of gains or losses on cash flow hedges which are currently presented as a component of shareholders' equity.

The components of accumulated other comprehensive loss at year end were as follows:

(IN MILLIONS)	2002	2001
Foreign currency translation adjustment	\$ (111.4)	\$ (123.1)
Minimum pension liability	(68.2)	(14.3)
Net (loss) gain on derivative instruments designated as cash flow instruments	(25.3)	1.0
Total accumulated other comprehensive loss	\$ (204.9)	\$ (136.4)

Cash flow hedging instrument activity in other comprehensive income (loss) was as follows:

(IN MILLIONS)	2002	2001
Beginning accumulated derivative gain	\$ 1.0	–
Net gain reclassified to earnings	(.6)	\$ (.6)
Net change in the revaluation of hedging transactions	(25.7)	1.6
Ending accumulated derivative (loss) gain	\$ (25.3)	\$ 1.0

The Company entered into a forward starting interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance. The principal amount hedged was \$250 million. Because of a shift in interest rates, an unrealized loss of approximately \$37.4 million (\$26.2 million, net of tax) was included in other comprehensive loss during 2002.

In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003 (See Note 4 "Debt" for further detail), the Company settled the interest rate swap at a loss of approximately \$32.5 million. The loss will be amortized to interest expense over 10 years, which corresponds to the term of the related debt.

RECENT ACCOUNTING REQUIREMENTS

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

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

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue No. 94-3 and requires that a liability

for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement will be effective after December 31, 2002. The adoption of SFAS No. 146 will affect the timing of the recognition of future costs associated with exit or disposal activities and will not affect previous charges related to such activities.

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

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

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

The Company is currently reviewing the requirements of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating

activities. Specifically, EITF Issue No. 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The provisions of EITF Issue No. 00-21 will be effective in fiscal periods beginning after June 15, 2003. The Company is in the process of determining the impact of EITF Issue No. 00-21 on the Company's financial results when effective.

RELATED PARTY TRANSACTIONS

From time to time, the Company enters into transactions in the normal course of business with related parties. The Company believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of the Company's directors, Mr. Peter W. Mullin, is the chairman and chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC") and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM. During 2002 and 2001, the Company paid insurance companies premiums for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2002, 2001 and 2000, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately \$1.3 million, \$1.7 million, and \$1.6 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately \$.9 million in 2002 and \$1 million in each of the years 2001 and 2000. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC), and another affiliate, to administer benefit plans and provide benefit statements to participants under various Company employee benefit plans. None of these transactions are significant to the financial position or results of operations of the Company.

FINANCIAL PRESENTATION

Certain prior year amounts have been reclassified to conform with the 2002 financial statement presentation.

NOTE 2. ACQUISITIONS

On November 5, 2002, the Company acquired 100 percent of RVL Packaging, Inc. ("RVL"), a provider of brand identification products to apparel manufacturers and retailers. RVL designs, markets and distributes woven and printed labels, graphic tags and specialty packaging products. On the same day, the Company also acquired the assets of L&E Packaging ("L&E"), one of RVL's suppliers. L&E offers a broad range of printing products tailored to the specific needs of the apparel and retail industries. Both transactions included the acquisition of certain related entities. The combination of existing data management and ticketing businesses with the operations of RVL and L&E is expected to provide apparel manufacturers and retailers with a comprehensive range of products and services that offer a total solution for their entire supply chain, including a full array of brand identification and data management tools. On a combined basis, unaudited revenues for RVL, L&E and affiliated companies were approximately \$175 million in 2001. The RVL and L&E operations are included in the Company's Consumer and Converted Products segment. RVL and L&E's results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

The purchase price, net of cash acquired, for these transactions was approximately \$222 million, including cash of approximately \$175 million and approximately \$47 million in Avery Dennison common shares (743,108). The value of these common shares issued was determined based on the average closing market price of the Company's common shares for a three-day period before and after the date the parties agreed to the number

of shares to be issued. Funds to complete the acquisitions were also derived from short-term borrowings. The Company assumed liabilities of approximately \$38 million, including accounts payable and other current and long-term liabilities.

The preliminary allocation of the purchase price as of December 28, 2002 has been made and recorded in these financial statements. Although the Company has obtained third-party valuations of acquired assets, ongoing assessments may impact the allocation of the purchase price.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

(IN MILLIONS)	NOVEMBER 5, 2002
Current assets, net of cash acquired	\$ 41.2
Property, plant, and equipment and other assets	28.8
Intangible assets	19.9
Goodwill	169.8
Total assets acquired	259.7
Current liabilities	(30.2)
Other long-term liabilities	(8.0)
Total liabilities assumed	(38.2)
Net assets acquired	\$ 221.5

The excess of the cost-basis over the fair value of net tangible assets acquired is currently estimated to be approximately \$190 million, including goodwill of approximately \$170 million and identified amortizable intangible assets of approximately \$20 million. Of the total goodwill, approximately \$54 million is expected to be deductible for tax purposes. The acquired intangible assets have a weighted-average useful life of sixteen years. These assets include approximately \$16 million for customer relationships (nineteen-year weighted-average useful life), approximately \$2 million for design intellectual property (three-year weighted-average useful life), and approximately \$2 million of other intangibles (six-year weighted-average useful life). Additionally, approximately \$2 million of computer software (three-year weighted-average useful life) is included in "Other assets" in the Consolidated Balance Sheet.

On May 17, 2002, the Company acquired Jackstädt GmbH ("Jackstädt"), a manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has an international customer base and had consolidated revenues of approximately \$400 million in 2001. The Jackstädt business is included in the Company's Pressure-sensitive Adhesives and Materials segment. Jackstädt complements the Company's operations in Europe, Latin America, Asia and North America. Jackstädt enhances the Company's international presence, including its capability to grow in Eastern Europe, and enables it to offer a broader selection of products and services.

The purchase price, net of cash acquired, was approximately \$311 million, which included approximately \$211 million in cash and assumed debt of approximately \$100 million. The purchase price paid at closing was based on financial statement values at a date prior to closing and adjusted based upon a formula in the purchase agreement. The Company assumed liabilities of approximately \$189 million, including the assumed debt, accrued payroll and benefits, accounts payable, other accrued liabilities, long-term retirement benefits and other current and long-term liabilities. The Company funded the transaction with cash and short-term commercial paper. Jackstädt's results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

The preliminary allocation of the purchase price as of December 28, 2002 has been made and recorded in these financial statements. The Company is

currently reviewing its plans with regard to facilities rationalization that may require adjustments to estimated amounts recorded for closure of certain facilities and carrying values of acquired assets. Although the Company has obtained third-party valuations of acquired assets, ongoing assessments may impact the allocation of the purchase price.

The Company has determined certain costs related to exit activities and integration costs. These costs have been recognized as liabilities assumed, totaling approximately \$18 million, and are included in the liabilities aforementioned, and in "Accrued payroll and employee benefits" and "Other accrued liabilities" in the Consolidated Balance Sheet. The costs were primarily related to severance costs for involuntary terminations of approximately 500 employees of Jackstädt, to be paid through 2004. Also included are lease exit costs, which are expected to be completed through 2003. At year end 2002, approximately \$12 million remained accrued. Of the total positions under these actions, approximately 225 employees had left the Company at the end of 2002.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

(IN MILLIONS)	MAY 17, 2002
Current assets, net of cash acquired	\$ 155.7
Property, plant, and equipment and other assets	92.6
Intangible assets	11.4
Goodwill	140.7
Total assets acquired	400.4
Current liabilities	(166.5)
Long-term debt and other long-term liabilities	(22.6)
Total liabilities assumed	(189.1)
Net assets acquired	\$ 211.3

The excess of the cost-basis over the fair value of net tangible assets acquired is currently estimated to be approximately \$152 million, including goodwill of approximately \$141 million and identified amortizable intangible assets of approximately \$11 million. No portion of the total goodwill is expected to be deductible for tax purposes. The acquired intangible assets consisting of tradenames have a weighted-average useful life of five years.

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

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

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

The aggregate cost of acquired companies was approximately \$546 million, \$66 million and \$76 million in 2002, 2001 and 2000, respectively. Goodwill resulting from these business acquisitions was approximately \$326 million, \$34 million and \$13 million in 2002, 2001 and 2000, respectively. Intangibles resulting from these business acquisitions were approximately \$31 million, \$15 million and \$12 million in 2002, 2001 and 2000, respectively. Other acquisitions during 2002, 2001 and 2000 not described above were not significant to the consolidated position of the Company. In 2002, 2001 and 2000, acquired businesses added approximately seven percent, two percent and three percent, respectively, to the Company's total sales. Pro forma results for significant acquisitions in 2002 are presented below. Pro forma results for acquisitions in 2001 and 2000 are not presented, as the acquired businesses did not have a significant impact on the Company's results of operations for the two years ended December 29, 2001.

The following represents the unaudited pro forma results of operations for the Company as though the acquisitions of Jackstädt, RVL and L&E had occurred at the beginning of the periods presented. The pro forma results include interest expense on additional debt that would have been needed to finance the purchase, amortization of intangibles that would have been acquired, and certain adjustments that would have been required to conform to the Company's accounting policies. The pro forma results of operations have been prepared based on the preliminary allocation of the purchase price and may require adjustment in accordance with the terms of the purchase agreement or as a result of the finalization of the purchase price allocation. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2002	2001
Net sales	\$ 4,590.0	\$ 4,387.3
Net income	\$ 260.4	\$ 232.1
Net income per common share	\$ 2.64	\$ 2.36
Net income per common share, assuming dilution	2.62	2.34

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Changes in the net carrying amount of goodwill for the year ended December 28, 2002, by reportable segment, are as follows:

(IN MILLIONS)	PRESSURE-SENSITIVE		TOTAL
	CONSUMER AND CONVERTED PRODUCTS	ADHESIVES AND MATERIALS	
Balance as of December 29, 2001	\$ 148.9	\$ 144.3	\$ 293.2
Goodwill acquired during the period	176.2	150.3	326.5
Translation adjustments	11.3	(2.3)	9.0
Balance as of December 28, 2002	\$ 336.4	\$ 292.3	\$ 628.7

Amortization expense on goodwill was \$14.8 million and \$13.2 million for the years ended December 29, 2001 and December 30, 2000, respectively.

The following table sets forth the Company's acquired other intangible assets at December 28, 2002 and December 29, 2001, which will continue to be amortized:

(IN MILLIONS)	2002			2001		
	GROSS		NET	GROSS		NET
	CARRYING	ACCUMULATED	CARRYING	CARRYING	ACCUMULATED	CARRYING
	AMOUNT	AMORTIZATION	AMOUNT	AMOUNT	AMORTIZATION	AMOUNT
Amortizable other intangible assets:						
Tradenames and trademarks	\$ 36.6	\$ 11.4	\$ 25.2	\$ 23.4	\$ 6.8	\$ 16.6
Patented and other acquired technology	65.4	9.2	56.2	63.6	5.8	57.8
Customer relationships	70.1	6.1	64.0	47.6	3.6	44.0
Other intangibles	4.0	1.5	2.5	2.3	.7	1.6
Total	\$ 176.1	\$ 28.2	\$ 147.9	\$ 136.9	\$ 16.9	\$ 120.0

Amortization expense on intangible assets resulting from business acquisitions was \$9.7 million for the year ended December 28, 2002, \$7.3 million for the year ended December 29, 2001 and \$6.3 million for the year ended December 30, 2000. The weighted-average amortization periods for intangible assets resulting from business acquisitions are thirteen years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-two years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for such acquired intangible assets for each of the next five succeeding fiscal years is expected to be approximately \$12 million, \$12 million, \$12 million, \$11 million and \$8 million, respectively.

As required by SFAS No. 142, the results for the prior years have not been restated. Had the Company applied the non-amortization provisions related to goodwill under SFAS No. 142 for all periods presented, the Company's net income and earnings per share would have been as follows:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2002	2001	2000
Reported net income	\$ 257.2	\$ 243.2	\$ 283.5
Goodwill amortization, net of tax	—	13.8	12.9
Adjusted net income	\$ 257.2	\$ 257.0	\$ 296.4
Basic earnings per share:			
As reported	\$ 2.61	\$ 2.49	\$ 2.88
Goodwill amortization	—	.14	.13
Adjusted basic earnings per share	\$ 2.61	\$ 2.63	\$ 3.01
Diluted earnings per share:			
As reported	\$ 2.59	\$ 2.47	\$ 2.84
Goodwill amortization	—	.14	.13
Adjusted diluted earnings per share	\$ 2.59	\$ 2.61	\$ 2.97

NOTE 4. DEBT

Long-term debt and its respective weighted-average interest rates at December 28, 2002 consisted of the following:

(IN MILLIONS)	2002	2001
Medium-term notes		
Series 1993 at 6.6% - due 2003 through 2005	\$ 98.0	\$ 98.0
Series 1994 at 7.7% - due 2003 through 2004	80.0	100.0
Series 1995 at 7.3% - due 2005 through 2025	100.0	100.0
Series 1997 at 6.6% - due 2007	60.0	60.0
Series 1998 at 5.9% - due 2008	50.0	50.0
Series 2000 at 2.0% - due 2006	—	40.0
Other long-term borrowings	13.5	4.1
Variable rate short-term borrowings at 1.87% to be refinanced on a long-term basis ⁽¹⁾	512.2	195.0
Less amount classified as current	(76.5)	(20.4)
	\$ 837.2	\$ 626.7

⁽¹⁾ In January 2003, the Company refinanced \$400 million of its variable short-term borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033.

The Company's medium-term notes have maturities from 2003 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2003 through 2007 are \$76.5 million (classified as current), \$86.5 million, \$76.1 million, \$112.6 million and \$60.4 million, respectively, with \$501.6 million maturing thereafter.

The Company's total interest costs in 2002, 2001 and 2000 were \$47.6 million, \$57.1 million and \$59 million, respectively, of which \$3.9 million, \$6.9 million and \$4.4 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

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

Variable rate short-term borrowings at December 28, 2002 were \$512.2 million with a weighted average interest rate of 1.87 percent. In January 2003, the Company refinanced \$400 million of these variable rate short-term borrowings through the offering of \$250 million of 4.875 percent Senior Notes due 2013 and \$150 million of 6 percent Senior Notes due 2033. The aggregate \$400 million refinancing was issued under the Company's existing shelf registration statement filed with the Securities and

Exchange Commission in the third quarter of 2001, permitting the Company to issue up to \$600 million in debt and equity securities. After the issuance of the \$400 million, there is a remaining \$200 million available for general corporate purposes including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital. Remaining variable rate short-term borrowings that the Company does not intend to repay within the next year and had the ability to refinance under its long-term revolving credit agreement, discussed above, are classified as long-term liabilities.

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

At December 28, 2002, the Company had additional available short-term lines of credit totaling \$558.1 million. These available lines of credit included a 364-day revolving credit facility with eight domestic and foreign banks to provide up to \$200 million in borrowings through December 5, 2003. The Company may annually extend the revolving period and due date with the approval of the banks or may convert the loan to a one-year term loan at the Company's option. Financing available under this agreement will be used as a commercial paper back-up facility and to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2002. The Company also has a bridge credit agreement with two domestic financial institutions to provide up to \$200 million in borrowings through January 31, 2003. There was no debt outstanding under this agreement as of year end 2002.

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

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

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

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debts of the same remaining maturities. At year end 2002 and 2001, the fair value of the Company's total debt, including short-term borrowings, was \$1.18 billion and \$857.6 million, respectively.

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

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

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

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

NOTE 5. FINANCIAL INSTRUMENTS

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, in the first quarter of 2001 and recorded a transition adjustment reducing net income by \$.2 million (net of tax). This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value.

For purposes of this footnote, the terms "cash flow hedge," "derivative instrument," "fair value," "fair value hedge," "financial instrument," "firm commitment" and "highly effective" are used as these terms are defined in SFAS No. 133, as amended.

During the year ended December 28, 2002, the ineffectiveness related to cash flow hedges was not significant. The reclassification from other comprehensive loss to earnings was a net gain of approximately \$.6 million during 2002 and 2001. A net loss of approximately \$1.1 million is expected to be reclassified from other comprehensive loss to earnings within the next 12 months. The maximum length of time in which the Company hedges its exposure to the variability in future cash flows for forecasted foreign currency transactions is generally 12 months. The Company entered into a forward starting interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance to finance the acquisition of 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. In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003, the Company settled the interest swap at a loss of approximately \$32.5 million. The loss will be amortized to interest expense over 10 years, which corresponds to the term of the related debt.

A loss of approximately \$2.7 million related to a net investment hedge was included in the foreign currency translation adjustment reported in accumulated other comprehensive loss.

The carrying value of the foreign exchange forward contracts approximated the fair value, which, based on quoted market prices of comparable instruments, was a net asset of approximately \$.5 million and \$1 million at the end of 2002 and 2001, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of approximately \$.1 million and net liability of approximately \$.1 million at the end of 2002 and 2001, respectively. The carrying value of the foreign exchange option contracts approximated the fair market value.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately \$9 million over a five-year period. The carrying value of this contract approximated fair value, which was an asset of approximately \$.5 million and \$.4 million at the end of 2002 and 2001, respectively.

The counterparties to foreign exchange forward, option and swap contracts consist of a large number of major international financial institutions. The Company centrally monitors its positions and the financial strength of its counterparties. Therefore, while the Company may be exposed to losses in the event of nonperformance by these counterparties, it does not anticipate any such losses.

At year end 2002 and 2001, approximately 17 percent and 23 percent, respectively, of trade accounts receivable were from nine retail customers of the Company's Office Products business. The Company does not require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis. The Company may be exposed to losses and maintains reserves in the event of nonpayment.

NOTE 6. COMMITMENTS

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

(IN MILLIONS)	
YEAR	
2003	\$ 41.0
2004	32.8
2005	25.1
2006	15.6
2007	12.1
Thereafter	45.6
Total minimum lease payments	\$ 172.2

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

Rent expense for 2002, 2001 and 2000 was \$60 million, \$50 million and \$49 million, respectively.

NOTE 7. TAXES BASED ON INCOME

Taxes based on income were as follows:

(IN MILLIONS)	2002	2001	2000
Current:			
U.S. federal tax	\$ 43.0	\$ 47.5	\$ 68.6
State taxes	3.3	7.5	12.3
International taxes	39.1	45.5	50.6
	85.4	100.5	131.5
Deferred:			
U.S. taxes	11.0	8.5	8.4
International taxes	11.2	7.4	2.9
	22.2	15.9	11.3
Taxes on income	\$ 107.6	\$ 116.4	\$ 142.8

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

(IN MILLIONS)	2002	2001	2000
Computed tax at 35% of income before taxes	\$ 127.7	\$ 125.9	\$ 149.2
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	3.8	4.9	8.0
Foreign earnings taxed at different rates	(12.1)	(9.1)	(9.7)
Tax credits	(6.9)	(5.6)	(4.2)
Other items, net	(4.9)	.3	(.5)
Taxes on income	\$ 107.6	\$ 116.4	\$ 142.8

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

(IN MILLIONS)	2002	2001	2000
U.S.	\$ 194.4	\$ 182.8	\$ 245.5
International	170.4	177.0	180.8
	\$ 364.8	\$ 359.8	\$ 426.3

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries of approximately \$800 million and \$700 million at year ended 2002 and 2001, respectively, because such earnings are considered to be reinvested indefinitely or because U.S. income taxes on dividends would be substantially offset by foreign tax credits.

Operating loss carryforwards of foreign subsidiaries for 2002 and 2001 are \$58.4 million and \$25 million, respectively, and credit carryforwards are \$6.2 million for federal income tax purposes. Net operating losses of \$9.3 million expire from 2003 through 2012, while net operating losses of \$49.1 million can be carried forward indefinitely. The credit carryforwards will expire from 2003 through 2007. The Company has established a valuation allowance for the net operating loss carryforwards not expected to be utilized.

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences which give rise to the Company's deferred tax assets and liabilities were as follows:

(IN MILLIONS)	2002	2001
Accrued expenses not currently deductible	\$ 33.2	\$ 86.6
Net operating losses and foreign tax credit carryforwards	24.9	13.1
Postretirement and postemployment benefits	46.2	14.1
Pension costs	(13.3)	(18.7)
Depreciation and amortization	(136.7)	(127.6)
Inventory reserves	11.1	14.0
Other	3.9	(2.0)
Valuation allowance	(17.6)	(4.4)
Total net deferred tax liabilities	\$ (48.3)	\$ (24.9)

NOTE 8. CONTINGENCIES

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

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

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

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. In the opinion of management, the resolution of these matters will not materially affect the Company.

NOTE 9. SHAREHOLDERS' EQUITY

COMMON STOCK AND COMMON STOCK REPURCHASE PROGRAM

The Company's Certificate of Incorporation authorizes five million shares of \$1 par value preferred stock (none outstanding), with respect to which the Board of Directors may fix the series and terms of issuance, and 400 million shares of \$1 par value voting common stock.

In December 1997, the Company redeemed the outstanding preferred stock purchase rights and issued new preferred stock purchase rights, declaring a dividend of one such right on each outstanding share of common stock, and since such time, the Company has issued such rights with each share of common stock that has been subsequently issued. When exercisable, each new right will entitle its holder to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of \$150.00 per one one-hundredth of a share until October 31, 2007. The rights will become exercisable if a person acquires 20 percent or more of the Company's common stock or makes an offer, the consummation of which will result in the person's owning 20 percent or more of the Company's common stock. In the event the Company is acquired in a merger, each right entitles the holder to purchase common stock of the acquiring company having a market value of twice the exercise price of the right. If a person or group acquires 20 percent or more of the Company's common stock, each right entitles the holder to purchase the Company's common stock with a market value equal to twice the exercise price of the right. The rights may be redeemed by the Company at a price of one cent per right at any time prior to a person's or group's acquiring 20 percent of the Company's common stock. The 20 percent threshold may be reduced by the Company to as low as 10 percent at any time prior to a person's acquiring a percent of Company stock equal to the lowered threshold.

The Board of Directors has authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At year end 2002, approximately 3.2 million shares were still available for repurchase pursuant to this authorization.

STOCK OPTION AND INCENTIVE PLANS

The Board of Directors previously authorized the issuance of up to 18 million shares to be used for the issuance of stock options and the funding of other Company obligations arising from various employee benefit plans. The remaining shares available are held in the Company's Employee Stock Benefit Trust (ESBT). The ESBT common stock is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

The Company maintains various stock option and incentive plans which are fixed employee stock-based compensation plans. Under the plans, incentive stock options and stock options granted to directors may be granted at not less than 100 percent of the fair market value of the Company's common stock on the date of the grant, whereas nonqualified options granted to employees may be issued at prices no less than par value. The Company has a policy whereby all stock option grants are priced at fair market value on the date of the grant and generally vest ratably over a two-year period for directors, or over a four-year period for employees, except that options may cliff-vest over a 3 to 9.75 year period for certain officers based on the Company's performance. Unexercised options expire ten years from the date of grant.

The following table sets forth stock option information relative to these plans (options in thousands):

	2002		2001		2000	
	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS
Outstanding at beginning of year	\$ 46.07	6,843.1	\$ 40.75	6,071.2	\$ 35.49	7,252.1
Granted	62.80	1,384.4	54.72	1,929.6	54.57	744.0
Exercised	33.50	(1,050.1)	27.69	(902.0)	22.34	(1,611.6)
Forfeited or expired	51.88	(235.0)	49.95	(255.7)	46.43	(313.3)
Outstanding at year end	51.10	6,942.4	46.07	6,843.1	40.75	6,071.2
Options exercisable at year end	\$ 41.91	2,939.3	\$ 36.72	3,079.4	\$ 30.90	3,095.2

The following table summarizes information on fixed stock options outstanding at December 28, 2002 (options in thousands):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$ 12.88 to 50.72	2,520.2	5.0 years	\$ 38.37	2,163.4	\$ 36.60
51.13 to 59.16	2,888.8	8.1 years	56.05	696.0	56.26
59.18 to 68.31	1,533.4	9.7 years	62.73	79.9	60.66
\$ 12.88 to 68.31	6,942.4	7.3 years	\$ 51.10	2,939.3	\$ 41.91

The weighted-average fair value of options granted during 2002, 2001 and 2000 was \$16.94, \$18.31 and \$22.16 per share, respectively. Option grant date fair values were determined using a Black-Scholes option pricing model. The underlying assumptions used were as follows:

	2002	2001	2000
Risk-free interest rate	4.43%	5.14%	6.10%
Expected stock price volatility	29.06	33.37	34.63
Expected dividend yield	2.14	2.30	1.43
Expected option term	7 years	10 years	10 years

NOTE 10. COMPONENTS OF OTHER INCOME AND EXPENSE

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

In the fourth quarter of 2002, the Company recorded a \$6.2 million pretax charge for the disposition of fixed assets (comprised of machinery and equipment) related to a reduction of costs in the Reflective business,

as well as the Jackstädt integration. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, related entirely to assets owned by the Company prior to the acquisition of Jackstädt.

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

The table below details the lease cancellation cost activity:

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

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

The Company also recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The 2001 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of \$19.9 million, which consisted of employee severance and related costs of \$13.1 million for approximately 400 positions worldwide, and asset impairments of \$6.8 million. The positions eliminated included approximately 170 employees in the Pressure-sensitive Adhesives and Materials segment, 210 employees in the Consumer and Converted Products segment and 20 Corporate employees. Severance and related costs represented cash paid or to be paid to employees terminated under the program. Asset impairments represented non-cash charges required to reduce the carrying value of the assets that were disposed of to net realizable value as of the planned date of disposal. At year end 2002, \$1.9 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits" in the Consolidated Balance Sheet), associated with long-term severance contracts, which will be paid through 2004. All amounts related to asset impairments were utilized.

NOTE 11. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

DEFINED BENEFIT PLANS AND POSTRETIREMENT HEALTH BENEFITS

The Company sponsors a number of defined benefit plans covering substantially all U.S. employees, employees in certain other countries and non-employee directors. It is the Company's policy to make contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, as the Company's actuarial consultants advise to be appropriate. Plan assets are invested in a diversified portfolio that consists primarily of equity securities. Benefits payable to employees are based primarily on years of service and employees' pay during their employment with the Company. Certain benefits provided by the Company's U.S. defined benefit plan may be paid, in part, from an employee stock ownership plan.

The Company provides postretirement health benefits to certain of its U.S. retired employees up to the age of 65 under a cost-sharing arrangement, and supplemental Medicare benefits to certain U.S. retirees over the age of 65. The Company's policy is to fund the cost of the postretirement benefits on a cash basis.

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

(IN MILLIONS)	PENSION BENEFITS				POSTRETIREMENT HEALTH BENEFITS	
	2002		2001		2002	2001
	U.S.	INT'L	U.S.	INT'L	U.S.	
CHANGE IN BENEFIT OBLIGATION:						
Benefit obligation at beginning of year	\$ 340.1	\$ 189.5	\$ 309.8	\$ 176.9	\$ 45.7	\$ 26.1
Service cost	9.4	6.4	8.1	5.3	.9	.7
Interest cost	24.0	12.2	23.3	10.7	2.8	2.5
Participant contribution	—	2.3	—	2.0	—	—
Amendments	(.2)	.2	—	.2	—	—
Actuarial loss	12.1	13.7	19.0	4.4	2.3	18.8
Plan transfer	5.6	—	3.5	—	—	—
Benefits paid	(25.4)	(6.5)	(23.6)	(5.9)	(4.1)	(2.4)
Acquisition	—	8.9	—	—	—	—
Foreign currency translation	—	31.2	—	(4.1)	—	—
Benefit obligation at end of year	\$ 365.6	\$ 257.9	\$ 340.1	\$ 189.5	\$ 47.6	\$ 45.7
CHANGE IN PLAN ASSETS:						
Fair value of plan assets at beginning of year	\$ 396.9	\$ 217.5	\$ 415.1	\$ 235.8	—	—
Actual return on plan assets	(26.2)	(23.7)	.8	(7.0)	—	—
Plan transfer	5.6	—	3.5	—	—	—
Employer contribution	16.0	4.4	1.1	1.7	\$ 4.1	\$ 2.4
Participant contribution	—	2.3	—	1.9	—	—
Benefits paid	(25.4)	(6.5)	(23.6)	(5.9)	(4.1)	(2.4)
Foreign currency translation	—	15.6	—	(9.0)	—	—
Fair value of plan assets at end of year	\$ 366.9	\$ 209.6	\$ 396.9	\$ 217.5	\$ —	\$ —
FUNDED STATUS OF THE PLANS:						
Plan assets in excess of (less than) benefit obligation	\$ 1.3	\$ (48.2)	\$ 56.7	\$ 28.1	\$ (47.6)	\$ (45.7)
Unrecognized net actuarial loss (gain)	75.6	91.2	(5.6)	18.7	12.1	9.9
Unrecognized prior service cost	(3.2)	5.2	(3.1)	5.1	1.0	1.1
Unrecognized net asset	(1.2)	(7.2)	(1.9)	(8.4)	—	—
Net amount recognized	\$ 72.5	\$ 41.0	\$ 46.1	\$ 43.5	\$ (34.5)	\$ (34.7)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET CONSIST OF:						
Prepaid benefit cost	\$ 106.9	\$ 36.3	\$ 90.0	\$ 52.3	—	—
Accrued benefit liability	(89.7)	(48.0)	(64.7)	(8.8)	\$ (34.5)	\$ (34.7)
Intangible asset	5.4	5.2	6.5	—	—	—
Other comprehensive income	49.9	47.5	14.3	—	—	—
Net amount recognized	\$ 72.5	\$ 41.0	\$ 46.1	\$ 43.5	\$ (34.5)	\$ (34.7)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for U.S. plans were \$246.4 million, \$244.2 million and \$154.7 million, respectively, at year end 2002, and \$227.6 million, \$224.8 million and \$162.1 million, respectively, at year end 2001.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for international plans were \$125.4 million, \$114.9 million and \$68.8 million, respectively, at year end 2002, and \$12.8 million, \$12.1 million and \$3.9 million, respectively, at year end 2001.

	PENSION BENEFITS						POSTRETIREMENT HEALTH BENEFITS		
	2002		2001		2000		2002	2001	2000
	U.S.	INT'L	U.S.	INT'L	U.S.	INT'L	U.S.		
WEIGHTED-AVERAGE ASSUMPTIONS USED:									
Discount rate	7.0%	5.5%	7.3%	5.9%	7.8%	6.2%	7.00%	7.25%	7.75%
Expected long-term rate of return on plan assets	9.5	7.1	9.8	7.5	10.0	7.8	—	—	—
Rate of increase in future compensation levels	3.6	2.6	4.1	3.7	4.0	4.0	—	—	—

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

(IN MILLIONS)	PENSION BENEFITS						POSTRETIREMENT HEALTH BENEFITS		
	2002		2001		2000		2002	2001	2000
	U.S.	INT'L	U.S.	INT'L	U.S.	INT'L	U.S.		
COMPONENTS OF NET PERIODIC BENEFIT (INCOME) COST:									
Service cost	\$ 9.4	\$ 6.4	\$ 8.1	\$ 5.3	\$ 6.5	\$ 5.5	\$.9	\$.7	\$.6
Interest cost	24.0	12.2	23.3	10.7	22.3	10.0	2.9	2.5	1.9
Expected return on plan assets	(41.0)	(16.8)	(39.2)	(16.4)	(36.8)	\$(16.4)	—	—	—
Recognized net actuarial gain	(2.1)	.5	(3.4)	(.2)	(1.6)	(.3)	—	—	(.4)
Amortization of prior service cost	.2	.4	.5	.3	.5	.3	.1	.1	.1
Amortization of transition obligation or asset	(.7)	(1.1)	(.7)	(1.0)	(.7)	(1.2)	—	—	—
Curtailement	(.2)	(.2)	—	—	—	—	—	—	—
Net periodic benefit (income) cost	\$ (10.4)	\$ 1.4	\$ (11.4)	\$ (1.3)	\$ (9.8)	\$ (2.1)	\$ 3.9	\$ 3.3	\$ 2.2

For measurement purposes, an 11 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate is expected to decrease to 6 percent by 2008.

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

(IN MILLIONS)	ONE-PERCENTAGE-POINT INCREASE	ONE-PERCENTAGE-POINT DECREASE
Effect on total of service and interest cost components	\$.4	\$ (.4)
Effect on postretirement benefit obligation	4.6	(4.0)

As a result of changes in assumptions and the negative return on plan assets during 2002 and 2001, an additional minimum pension liability of \$34.5 million and \$20.2 million, respectively, for U.S. pension plans and an additional minimum pension liability of \$52.7 million in 2002 for international pension plans is reflected in the Company's Consolidated Balance Sheet. There was

no additional minimum pension liability for international pension plans in 2001. These transactions generated an additional intangible pension asset or liability of \$(1.1) million and \$6.2 million, respectively, in 2002 and 2001 for U.S. pension plans and \$5.2 million in 2002 for international pension plans with a charge to equity for the remainder. There was no additional intangible pension asset recognized in 2001 for international pension plans.

DEFINED CONTRIBUTION PLANS

The Company sponsors various defined contribution plans covering its U.S. employees, including a 401(k) savings plan. The Company matches participant contributions to the 401(k) savings plan based on a formula within the plan. The Avery Dennison Corporation Employee Savings Plan (Savings Plan) has a leveraged employee stock ownership plan (ESOP) feature, which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consists primarily of stock contributions from the ESOP feature to participant accounts.

ESOP expense is accounted for under the cost of shares allocated method. Total ESOP (income) expense for 2002, 2001 and 2000 was \$(.1) million, \$.1 million and \$(1.6) million, respectively. Company contributions to pay interest or principal on ESOP borrowings were \$.8 million and \$1.8 million in 2002 and 2001, respectively. There were no Company contributions to pay interest or principal on ESOP borrowings for 2000.

Interest costs incurred by the ESOPs for 2002, 2001 and 2000 were \$5 million, \$1.2 million and \$1.7 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.6 million in 2002, 2001 and 2000.

Consolidated expense (income) for all defined contribution plans (including total ESOP expense) for 2002, 2001 and 2000 was \$1.6 million, \$1.7 million and \$(.5) million, respectively. Of the total shares held by the ESOP, 4.1 million shares were allocated and 1.1 million shares were unallocated at year end 2002, and 4.7 million shares were allocated and 1.3 million shares were unallocated at year end 2001.

OTHER RETIREMENT PLANS

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2002 and 2001, the Company had accrued \$114 million and \$115.9 million, respectively, for its obligations under these plans. These obligations are secured by standby letters of credit of \$82.5 million for 2002 and \$127.6 million for 2001. The Company's expense, which includes Company contributions and interest expense, was \$10 million, \$12.7 million and \$11.5 million for 2002, 2001 and 2000, respectively. A portion of the interest may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

To assist in the funding of these plans, the Company purchases corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of the participant. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet was \$109.8 million and \$101.4 million at year end 2002 and 2001, respectively.

NOTE 12. SEGMENT INFORMATION

The Company manages its business in two operating segments: Pressure-sensitive Adhesives and Materials and Consumer and Converted Products. The segments were determined based upon the types of products produced and markets served by each segment. The Pressure-sensitive Adhesives and Materials segment manufactures pressure-sensitive adhesives and base materials that are sold primarily to converters and label printers for further processing. Products in this segment include Fasson-brand papers, films and foils, graphic and reflective films, specialty tapes and chemicals. The Consumer and Converted Products segment manufactures products for home, school and office uses, and for the retail industry and original-equipment manufacturers. This segment includes Avery-brand labels and other consumer products, custom labels, tickets and tags, high performance specialty films and labels, battery labels, postage stamps, automotive applications and fasteners.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales are recorded at or near market prices and are eliminated in determining consolidated sales. The Company evaluates performance based on income from operations before interest expense and taxes. General corporate expenses are also excluded from the computation of income from operations.

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

Financial information by operating segment is set forth below:

(IN MILLIONS)	2002 ⁽²⁾	2001 ⁽³⁾	2000
NET SALES:			
Pressure-sensitive Adhesives and Materials	\$ 2,568.0	\$ 2,188.8	\$ 2,136.4
Consumer and Converted Products	1,811.7	1,783.8	1,898.3
Intersegment ⁽¹⁾	(172.8)	(169.3)	(141.2)
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
INCOME FROM OPERATIONS BEFORE TAXES:			
Pressure-sensitive Adhesives and Materials	\$ 198.0	\$ 192.1	\$ 212.4
Consumer and Converted Products	245.5	244.4	293.2
Corporate administrative and research and development expenses	(35.0)	(26.5)	(24.7)
Interest expense	(43.7)	(50.2)	(54.6)
Income before taxes	\$ 364.8	\$ 359.8	\$ 426.3
CAPITAL EXPENDITURES:			
Pressure-sensitive Adhesives and Materials	\$ 93.3	\$ 75.7	\$ 110.8
Consumer and Converted Products	49.2	48.9	74.2
Corporate	9.3	10.8	13.3
Capital expenditures	\$ 151.8	\$ 135.4	\$ 198.3
DEPRECIATION EXPENSE:			
Pressure-sensitive Adhesives and Materials	\$ 71.9	\$ 69.4	\$ 69.9
Consumer and Converted Products	49.0	49.2	48.7
Corporate	6.2	5.5	7.4
Depreciation expense	\$ 127.1	\$ 124.1	\$ 126.0

⁽¹⁾ The majority of intersegment sales represent sales from the Pressure-sensitive Adhesives and Materials segment to the Consumer and Converted Products segment.

⁽²⁾ Results for 2002 include a pretax charge of \$21.4 million for asset impairment charges and lease cancellation costs. This charge was recorded as follows: \$17.2 million to the Pressure-sensitive Adhesives and Materials segment and \$4.2 million to the Consumer and Converted Products segment. Results for 2002 also include a pretax cost reduction charge of \$10.7 million. This charge was recorded as follows: \$4.8 million to the Pressure-sensitive Adhesives and Materials segment and \$5.9 million to the Consumer and Converted Products segment. See Note 10 "Components of Other Income and Expense" for further information.

⁽³⁾ Results for 2001 include a pretax gain of \$20.2 million from the sale of the Company's specialty coatings business included in the Pressure-sensitive Adhesives and Materials segment results. Results for 2001 also include a pretax cost reduction charge of \$19.9 million. This charge was recorded as follows: \$7.6 million to the Pressure-sensitive Adhesives and Materials segment, \$9.4 million to the Consumer and Converted Products segment, and \$2.9 million to Corporate. See Note 10 "Components of Other Income and Expense" for additional information regarding the Company's 2001 cost reduction program.

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

(IN MILLIONS)	2002	2001	2000
NET SALES:			
U.S.	\$ 2,433.7	\$ 2,318.8	\$ 2,393.9
International	1,941.5	1,561.7	1,539.9
Intersegment	(168.3)	(77.2)	(40.3)
Net sales	\$ 4,206.9	\$ 3,803.3	\$ 3,893.5
PROPERTY, PLANT AND EQUIPMENT, NET:			
U.S.	\$ 659.1	\$ 673.6	\$ 665.8
International	540.1	401.0	413.2
Property, plant and equipment, net	\$ 1,199.2	\$ 1,074.6	\$ 1,079.0

Revenues are attributed to geographic areas based on the location to which the product is shipped. The Company's international operations, conducted primarily in continental Europe, are on the FIFO basis of inventory cost accounting. U.S. operations use both FIFO and LIFO. Export sales from the United States to unaffiliated customers are not a material factor in the Company's business.

NOTE 13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(IN MILLIONS, EXCEPT PER SHARE DATA)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER ⁽¹⁾	FOURTH QUARTER ⁽²⁾⁽³⁾
2002				
Net sales	\$ 930.8	\$ 1,056.3	\$ 1,114.5	\$ 1,105.3
Gross profit	308.9	346.5	353.2	345.1
Net income	64.8	73.8	63.1	55.5
Net income per common share	.66	.75	.64	.56
Net income per common share, assuming dilution	.66	.74	.64	.56
2001				
Net sales	\$ 963.2	\$ 960.8	\$ 966.7	\$ 912.6
Gross profit	319.0	311.8	312.8	296.6
Net income	63.6	59.8	61.7	58.1
Net income per common share	.65	.61	.63	.60
Net income per common share, assuming dilution	.65	.61	.63	.59
2000				
Net sales	\$ 965.3	\$ 993.4	\$ 1,001.7	\$ 933.1
Gross profit	334.1	343.7	340.3	314.1
Net income	70.2	72.8	73.0	67.5
Net income per common share	.71	.74	.74	.69
Net income per common share, assuming dilution	.70	.73	.73	.69

⁽¹⁾ Results in the third quarter 2002 include a \$15.2 million pretax charge for the disposition of fixed assets and lease cancellation costs associated with the integration of the 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 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.

⁽³⁾ Results in the fourth quarter 2001 include a pretax gain of \$20.2 million from the sale of the Company's specialty coatings business and a pretax cost reduction charge of \$19.9 million.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements and accompanying information were prepared by and are the responsibility of management. The statements were prepared in conformity with generally accepted accounting principles and, as such, include amounts that are based on management's best estimates and judgments.

The internal control systems are designed to provide reliable financial information for the preparation of financial statements, to safeguard assets against loss or unauthorized use and to ensure that transactions are executed consistent with Company policies and procedures. Management believes that existing internal accounting control systems are achieving their objectives and that they provide reasonable assurance concerning the accuracy of the financial statements.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through an audit committee which consists solely of outside directors (see page 58). The Committee meets periodically with financial management, internal auditors and the independent accountants to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent accountants and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.



Philip M. Neal
Chairman and
Chief Executive Officer



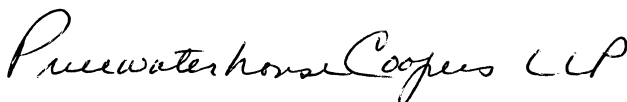
Daniel R. O'Bryant
Senior Vice President,
Finance, and
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

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 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." Accordingly, the company ceased amortizing goodwill as of December 30, 2001.



PricewaterhouseCoopers LLP
Los Angeles, California
January 27, 2003

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Philip M. Neal^{3,6,7}
Chairman and
Chief Executive Officer
Avery Dennison Corporation
Board member since 1990

Dean A. Scarborough^{3,4,7}
President and
Chief Operating Officer
Avery Dennison Corporation
Board member since 2000

Charles D. Miller^{3,6,7}
Retired Chairman and
Chief Executive Officer
Avery Dennison Corporation
Board member since 1975

Sidney R. Petersen^{1,2,3,4,7}
Private investor and retired
Chairman and Chief Executive Officer
Getty Oil Company, an international
petroleum development and production
company
Board member since 1981

Frank V. Cahouet^{1,3,5,6,7}
Retired Chairman and
Chief Executive Officer
Mellon Bank Corporation
Board member since 1983

Richard M. Ferry^{3,5,6,7}
Founder Chairman
Korn/Ferry International,
an international executive search firm
Board member since 1985

Peter W. Mullin^{3,6,7}
Chairman and
Chief Executive Officer
Mullin Consulting, Inc.,
an executive compensation, benefit
planning and corporate insurance
consulting firm
Board member since 1988

Kent Kresa^{2,3,4,7}
Chairman and
Chief Executive Officer
Northrop Grumman Corporation,
an aeronautical and defense
systems manufacturer
Board member since 1999

David E. I. Pyott^{1,2,4,5,7}
Chairman, President and
Chief Executive Officer
Allergan, Inc., a global health
care company
Board member since 1999

Bruce E. Karatz^{2,4,7}
Chairman and
Chief Executive Officer
KB Home, a home construction
and finance company
Board member since 2001

Julia A. Stewart⁷
President, Chief Executive Officer and
Chief Operating Officer
IHOP Corp., a restaurant chain
Board member since 2003

Peter K. Barker^{2,7}
Retired Partner
Goldman, Sachs & Company,
an investment banking firm
Board member since 2003

DIRECTOR EMERITUS

H. Russell Smith

CORPORATE OFFICERS

Philip M. Neal
Chairman and
Chief Executive Officer

Dean A. Scarborough
President and
Chief Operating Officer

Robert G. van Schoonenberg
Executive Vice President
General Counsel and Secretary

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

Christian A. Simcic
Group Vice President
Roll Materials Worldwide

Timothy S. Clyde
Group Vice President
Office Products Worldwide

Robert M. Malchione
Senior Vice President
Corporate Strategy and Technology

J. Terry Schuler
Senior Vice President
Human Resources

Diane B. Dixon
Senior Vice President
Worldwide Communications
and Advertising

Michael A. Skovran
Vice President and Controller

Stephen A. Mynott
Vice President
Manufacturing and Engineering

Karyn E. Rodriguez
Vice President and Treasurer

Kenneth A. Wolinsky
Vice President and
Chief Information Officer

Ahmed Rubaie
Vice President
Taxes

- 1 - Member of Compensation and Executive Personnel Committee
- 2 - Member of Audit Committee
- 3 - Member of Finance Committee
- 4 - Member of Ethics and Conflict of Interest Committee
- 5 - Member of Nominating and Governance Committee
- 6 - Member of Executive Committee
- 7 - Member of Strategic Planning Committee

DIVISION OFFICERS

Timothy G. Bond

Vice President
General Manager
Office Products North America

Teddy P. Chung

Vice President
General Manager
Materials Asia Pacific

Ali H. Clemens

Vice President
General Manager
InfoChain Express

John L. Collins

Vice President
General Manager
Roll Materials Europe
Northern Region

Mark E. Cooper

Vice President
General Manager
Retail Information Services Europe

Simon D. Coulson

Vice President
Retail Information Services

Johan Delvaux

Vice President
General Manager
Specialty Tape Division Europe

Kieran F. Drain

Vice President
General Manager
Performance Polymers

Robert E. Fines

Vice President
General Manager
Fasson Roll North America

William M. Goldsmith

Vice President
General Manager
Performance Films, Automotive Graphics
and Extruded Products

Terry L. Hemmelgarn

Vice President
General Manager
Worldwide Ticketing Services

Linda M. Jacober

Vice President
Business Strategy
Retail Information Services

Michael S. Johansen

Vice President
General Manager
Writing Instruments and Organization,
Filing and Presentation Products
Office Products North America

Josef Kagon

Vice President
General Manager
Graphics Europe

Kamran Kian

Vice President
General Manager
Reflective Products Division

Hans Guenther Klenk

Vice President
General Manager
Office Products Europe

Okke Koo

Vice President
General Manager
Roll Materials Europe

George T. Lai

Vice President
General Manager
Converting Asia

Constant Yip Wai Lam

Vice President
Managing Director
Worldwide Ticketing Services Asia

Dagang Li

Vice President
General Manager
Roll Materials Greater China

Robert V. Lyle, Jr.

President
Brand Identification
Retail Information Services

Philip J. Mangiaracina

Vice President
General Manager
Printable Media
Office Products North America

David R. Martin

Vice President
General Manager
Premium Packaging and
Pharmaceutical Division
Fasson Roll North America

Mathew S. Mellis

Vice President
Industrial and Automotive Products
North America

Richard S. Olszewski

Vice President
Graphics and Reflective Divisions
North America

Francisco C. Peschard

Vice President
General Manager
Variable Information Division
Fasson Roll North America

John C. Quinn

Vice President
General Manager
Solution Enabling Products

Martin Rapp

Vice President
General Manager
Roll Materials Europe
Central Region

James P. Schmitt

Vice President
International Manufacturing

Jef Smets

Vice President
Worldwide Specialty Tape

Malcolm R. Stevenson

Vice President
General Manager
Roll Materials Asia Pacific
Southern Region

Donald W. Stoebe

Vice President
General Manager
Specialty Tape Division U.S.

André P. Surchat

Vice President
General Manager
Roll Materials Europe
Southern Region

John M. Wurzbarger

Vice President
General Manager
Materials South America

SHAREHOLDER INFORMATION

COUNSEL

Latham & Watkins LLP
Los Angeles, California

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Los Angeles, California

TRANSFER AGENT-REGISTRAR

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 756-8200
(201) 222-4955 (hearing impaired number)
www.equiserve.com

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 1:30 pm, Thursday, April 24, 2003, in the Conference Center of Avery Dennison's 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 First Chicago Trust Company (include a reference to Avery Dennison in the correspondence), P.O. Box 2598, Jersey City, NJ 07303-2598, or calling (800) 649-2291, or logging onto their Web site at 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.

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.
Ticker symbol: AVY

	2002		2001	
	HIGH	LOW	HIGH	LOW
MARKET PRICE				
First Quarter	\$ 64.00	\$ 53.63	\$ 56.25	\$ 50.50
Second Quarter	69.49	59.64	60.24	48.88
Third Quarter	65.23	52.86	52.24	44.39
Fourth Quarter	65.69	55.21	56.81	46.30

Prices shown represent closing on the NYSE

	2002	2001
	DIVIDENDS PER COMMON SHARE	
First Quarter	\$.33	\$.30
Second Quarter	.33	.30
Third Quarter	.33	.30
Fourth Quarter	.36	.33
Total	\$ 1.35	\$ 1.23

Number of shareholders of record as of year end 2002 11,765

Avery, Avery Dennison, Avery Dennison Optimum Performance, CD Stomper, Design Edge View Binder, doubleClick, Fasson, Flexi-View Binder, Hi-Liter, SmearSafe and tripleClick are trademarks or service marks of Avery Dennison Corporation. All other brands and product names are trademarks of their respective companies.



FIND OUT MORE ABOUT AVERY DENNISON

FIND US ON THE INTERNET

www.averydennison.com

www.avery.com (Avery-brand office and consumer products)

www.fasson.com (Fasson-brand products)

ONE PHONE CALL FOR UP-TO-DATE INFORMATION

Dial (800) 334-2190 and follow the voice prompts to obtain information on Avery Dennison stock performance, earnings, dividends and other activities.

IF YOU HAVE AN INVESTOR QUESTION

Contact Investor Relations at (626) 304-2000
or by e-mail at investorcom@averydennison.com

OR A QUESTION ABOUT ONE OF OUR PRODUCTS

Call the Consumer Service Center for information about Avery-brand office products, toll-free at (800) 252-8379.

INTERESTED IN SEEKING EMPLOYMENT AT AVERY DENNISON?

Search for opportunities and apply online at www.averydennison.apply2jobs.com

AVERY DENNISON CORPORATION

Miller Corporate Center 150 North Orange Grove Boulevard Pasadena, California 91103 www.averydennison.com

