AVERY DENNISON

Annual Report 2003

CAN DO

Financial Overview

(in millions, except per share amounts)	2003	2002	2001
Net sales from continuing operations	$4,762.6	$4,155.9	$3,755.5
Net income	267.9	257.2	243.2
Net income as a percent of sales	5.6	6.2	6.5
Net income per common share, assuming dilution	$ 2.68	$ 2.59	$ 2.47
Dividends per common share	1.45	1.35	1.23
Capital expenditures	201.4	150.4	133.0
Return on average shareholders' equity (percent)	22.3	25.7	27.4

In 2003, Avery Dennison reported:

Earnings per share, on a diluted basis, of $2.68 compared with $2.59 in 2002. Annual earnings include the impact of discontinued operations and the net effect of current-year and prior-year restructuring charges.

Net income of $267.9 million, compared with $257.2 million in 2002, including the impact of discontinued operations and the effect of current-year and prior-year restructuring charges.

Sales of $4.8 billion, an increase of 14.6 percent from $4.2 billion in 2002.

Return on shareholders' equity was 22.3 percent.

Return on total capital was 14.3 percent.

The **annual dividend** increased 7 percent, providing shareholders with a 2003 annual dividend of $1.45 per share. This was the 28th consecutive year that the Company raised dividends per share, reflecting an annual compound growth rate of 13.9 percent.

The front cover, back cover and several pages of this annual report feature photographs of employees who are members of a cross-divisional Horizon 1 growth team. The team, composed of employees from both the Performance Films and Automotive Products divisions, represents the more than 550 Horizon 1 teams that have been formed throughout Avery Dennison's global operations during the past year. Thank you to the following Avery Dennison employees who appear in the photographs: Brian Dooms, Val Golub, Brian Kady, Kenn Kaudo, Lisa Koval, Vicki LeVan and Mark Price.

MORE THAN ASSETS...
MORE THAN TECHNOLOGY...
MORE THAN HIGH-QUALITY PRODUCTS...
THE LIFEBLOOD OF
A SUCCESSFUL COMPANY IS ITS
PEOPLE AND THEIR WILL TO MAKE A DIFFERENCE.

AVERY DENNISON'S 2003 ANNUAL REPORT
SHOWCASES THE CREATIVITY
OF OUR EMPLOYEES AND
THEIR ABILITY TO LEVERAGE EXISTING TECHNOLOGIES
TO DEVELOP INNOVATIVE SOLUTIONS
THAT MEET THE NEEDS OF OUR CUSTOMERS.

THIS "CAN DO" SPIRIT AT AVERY DENNISON
IS MORE THAN JUST AN ATTITUDE.

IT'S HOW
WE ARE GROWING.

Dear fellow shareholders:

Last year was one of the most challenging years for Avery Dennison in the past decade. Although the Company clearly felt the impact of the past year's sluggish business conditions in North America and Europe, we are pleased that we finished the year with a solid fourth quarter in which we reported better-than-expected top-line growth and earnings.

Our annual sales grew almost 15 percent in 2003, driven primarily by acquisitions and the positive impact of currency translation, to reach a record high of $4.8 billion. Our reported net income for the year grew more than 4 percent, and diluted earnings per share increased more than 3 percent, which included the net effect of current-year and prior-year restructuring charges and the impact of discontinued operations.

Our improved performance in the fourth quarter demonstrates not only the strength of our underlying growth drivers, but also the talent and determination of our 20,300 employees around the world. In the face of lackluster industrial and consumer demand, increased pricing pressures in many of our markets and the integration of operations from acquisitions, Avery Dennison employees met numerous challenges head-on with an intense focus on cost reduction, productivity improvement and creative business solutions.

Integrating operations from acquisitions

We have nearly completed the integration of our 2002 acquisitions of Jackstädt and RVL into Avery Dennison's global operations and, as planned, we expect the final stages of the integration process to be successfully completed during the first half of 2004. We are pleased to have surpassed our customer retention goals throughout the integration process, which has been a complicated and lengthy effort, exacerbated by difficult economic conditions. By substantially expanding our scale of operations in the pressure-sensitive adhesive materials industry, the addition of Jackstädt is driving significant cost synergies, as well as increasing our presence in key international markets and enhancing our product lines. With the addition of RVL operations to our Retail Information Services business, we can now offer the full line of brand identification products and data management services that our customers in the retail and apparel industries require.

> > > PEOPLE

AVERY DENNISON EMPLOYEES RESPONDED TO CHALLENGES HEAD-ON WITH AN INTENSE FOCUS ON COST REDUCTION, PRODUCTIVITY IMPROVEMENT AND CREATIVE BUSINESS SOLUTIONS.

Investing for growth

Our strategies for growth are consistent: to accelerate top-line growth by extending the geographic reach of our business, by developing products that fulfill the unmet needs of our customers, and by adding manufacturing capabilities, product lines and technology enhancements through acquisition, as needed.

Amid difficult business conditions and intensified expense reduction efforts, we continued to make strategic investments to grow our businesses for the long term. We are strengthening our global footprint with investments of capital and human resources in key geographic regions, especially in the high-growth potential markets of Eastern Europe, Latin America and Asia. In fact, by the fourth quarter of 2003, sales at our businesses in these emerging markets were approaching 20 percent of our total revenues, and they continue to grow briskly at double-digit rates.

In particular, our business in China has been a source of robust growth for Avery Dennison since we opened our first pressure-sensitive adhesive materials manufacturing plant there 10 years ago. Sales growth and profitability in the country have consistently exceeded our expectations. In 2003, sales of pressure-sensitive materials in China grew more than 30 percent over the previous year, and we expect continued excellent growth as we expand our manufacturing, finishing, distribution and sales capabilities. By 2006, we expect to have invested a total of approximately $175 million in our operations in China, with every key Avery Dennison business having a manufacturing presence in the country.

New Horizons

We have started to transform our approach for generating top-line growth – changing the way we do business by changing the way we *think* about business. Avery Dennison employees throughout the Company have enthusiastically embraced our global growth initiative, known internally as the Horizons growth process. This initiative excites and motivates every employee in our Company as creativity, innovation, cross-divisional exchange and risk-taking come together in the “Can Do” spirit that is the theme of this annual report.

> > > PRODUCTIVITY

CONTINUOUS PRODUCTIVITY IMPROVEMENT NOW EXTENDS TO VIRTUALLY EVERY FACET OF OUR BUSINESS AND THROUGHOUT OUR ENTIRE SUPPLY CHAIN, MAKING IT A WAY OF LIFE IN THE COMPANY.

This Company-wide program consists of three distinct platforms that we call Horizons 1, 2 and 3. The process brings together teams of people – some that cross divisions and disciplines in the Company, and some that include customers – to develop solutions that fulfill the unmet needs of our customers. In 2003, we commercialized the first products created by our Horizon 1 program – a fast-track process in which a team is given a 100-day deadline to solve a specific problem in order to meet a customer need. The revenue generated in 2003 by these Horizon 1 projects reached approximately $50 million in annualized incremental sales, achieving our ambitious initial goals.

We have found that there is a certain psychological magic associated with a short 100-day timeframe, which sparks a sense of urgency and high energy among team members. There are currently about 550 Horizon 1 teams hard at work creating and seizing new business opportunities across the Company, with more than 2,300 employees serving on them.

The longer-duration Horizon 2 and Horizon 3 projects explore new technologies and markets within a rigorous strategic framework. Horizon 2 projects are ventures – many of them entrepreneurial in nature – that target a defined market or group of customers and operate with a focused business plan. As these projects require time to take root and often involve the development of new skills, investments and resources, they take approximately 18 months to two years to generate revenue. Horizon 3 activities take the form of research projects, alliances and investments in emerging technologies or companies, all of which pursue long-term business ideas that have growth potential. Although the exploratory nature of Horizon 3 projects means that some will be eliminated along the way, we will continue to invest in those ideas that have high potential to thrive in the future.

RFID: A highly promising opportunity

Radio frequency identification (RFID) is swiftly becoming a vital technology of the future, and we see excellent opportunities for Avery Dennison's role in bringing RFID applications to markets around the world. We have core competencies in materials science, precision printing and high-speed roll-to-roll manufacturing – capabilities that are instrumental in developing RFID solutions. Our expertise in applying coatings onto substrate surfaces to produce pressure-sensitive adhesive materials and in manufacturing specialized labels in quantities of hundreds of millions, even billions, is ideal for developing the media in which RFID microprocessor chips can be embedded – and attached to – a variety of products.

As more companies announce their goals to incorporate RFID technology into their supply-chain management systems, we are exceptionally well-positioned to provide customized applications to meet their needs. We are currently working with leading technology and merchandising companies, such as Microsoft and Metro AG, to provide RFID tags and labels for several pilot initiatives. We plan to double our investment in developing our RFID business in 2004, with the expectation that the operation will begin to generate revenue by the end of the year, and sales will grow in 2005 and beyond.

Productivity improvement never ends

Six Sigma continues to be the foundation of productivity improvement at Avery Dennison. With thousands of Six Sigma-trained employees throughout the Company, we have extended the program into virtually every facet of our business, making continuous productivity improvement a way of life. By aligning our Six Sigma activities with lean manufacturing concepts, we are able to more accurately assess where our greatest opportunities for savings, productivity improvement and enhanced customer satisfaction lie, as well as more effectively manage our total supply chain. In addition, we are increasingly reaping the benefits of applying this methodology to our internal business process improvement initiatives.

Board transition

This past year marked the retirement of Sidney R. Petersen from our board of directors after 21 years of dedicated service. We are grateful to Sid for his excellent advice and counsel over the years. His expertise in financial management and international operations was invaluable during a period when the Company experienced significant growth and change.

> > > GROWTH

OUR APPROACH TO GROWTH DURING THE PAST YEAR HAS BEEN TO CHANGE THE WAY WE DO BUSINESS BY CHANGING THE WAY WE THINK ABOUT BUSINESS.

Looking ahead

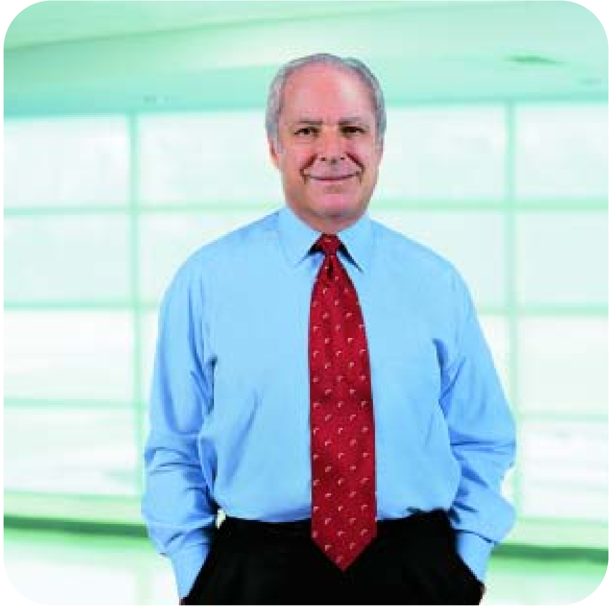
In 2004, we will continue to look to our strong business fundamentals to guide our growth. We have the right people in place, the right assets with which to work, the right portfolio of market-leading brands, products and businesses, as well as the right tools designed to accomplish our aggressive goals.

We expect continued pressure on operating margins and profitability during the first half of 2004 – due primarily to expenses associated with the completion of the Jackstädt integration – while we sustain our focus on major cost-reduction efforts throughout the Company. At the same time, we look forward to the expected significant improvement in our financial performance during the second half of the year, once we finish our integration efforts and business conditions continue to improve in key markets around the world.

The Horizons growth-acceleration process gives us a powerful structure for driving top-line growth and, most importantly, for steadily replenishing an active pipeline of new products in development. Our persistent focus on nonprice advantages for customers continues to differentiate Avery Dennison in the marketplace, including our reputation for high-quality products, innovative product features, superior speed and reliability of delivery and market-leading customer service.

At the same time, our Six Sigma efforts are providing outstanding returns for us in terms of productivity improvement. We will continue to expand our Horizons and Six Sigma activities, which have now become pervasive throughout our culture.

Our commitment to maintaining and increasing shareholder value is rock solid, and serves as the foundation of our long-term strategies for growth. We are encouraged by the numerous opportunities we are identifying to introduce new products in our many markets. We are optimistic about our future, with our expectation that 2004 will mark the turning point in our profitability trend, putting us on course to achieve solid growth over the long term.



PHILIP M. NEAL
Chairman and Chief Executive Officer

DEAN A. SCARBOROUGH
President and Chief Operating Officer

March 8, 2004

GOOD MORNING, MR. GREENE
What if it were possible for a badge to identify not just a visitor's name, but also what he looks like, when he had visited and whom he had seen? We can do it.

IF WE CAN MAKE THIS...

Some Avery Dennison products are seen just about everywhere – like the "Hello, my name is…" self-adhesive badge. For years, this product has provided the ideal means to identify people at meetings, conventions, reunions and even parties. And for many events, that's still the case.

Today, though, in an era of heightened concern about personal safety and property protection, businesses and organizations of all sizes are requiring more identification and an accurate and thorough tracking of visitors to their premises, with an eye toward tighter security. To respond to this need, Avery Dennison recently launched its new Avery Photo ID System, a complete visitor management solution, offering software, ID badge supplies, a digital camera and a barcode scanner – all of which work with an ordinary PC and printer to dramatically improve the identification, registration and monitoring of visitors to any organization, even those with multiple facilities. The easy-to-use, yet sophisticated, Avery Photo ID System is receiving an enthusiastic response from facility management and security professionals, an entirely new market for the Avery brand.

...WE
CAN
MAKE
THIS

HEALING POWERS
What if it were possible for a bandage to not merely protect a wound, but to actually assist in its healing? We can do it.

IF WE CAN DO THIS...

When it comes to creating adhesives that are applied to bandages for wound care, Avery Dennison draws upon its expertise in serving the medical field to help create products that breathe, absorb and stretch, and do not irritate the skin. Our proprietary technologies for creating customized adhesives and coating processes have been used in products that go beyond simple bandages to transdermal patches, electromedical devices and a variety of other applications for the health care market.

We have long been involved in finding ways to extend our proprietary adhesive and coating technologies to develop applications for medical product manufacturers that help to take care of the wound itself. This has led to the development of specialty medical products called hydrocolloid bandages – a wound dressing that contains gel-forming agents that are combined with elastomers and adhesives to form an absorbent, self-adhesive and water-resistant surface. Hydrocolloid bandages not only help to protect wounds from infection, they also promote healing, help reduce scarring and may diminish the pain associated with surface wounds.


...WE
CAN
DO
THIS

ON ALERT

What if it were possible for a label to provide information not only about a product's attributes, directions for use and ingredients, but also about whether it has been exposed to inappropriate time or temperature conditions that could affect its shelf life? We can do it.

IF WE CAN PROVIDE THIS INFORMATION...

The technology of putting product information on labels has evolved considerably over the years, thanks in no small part to Avery Dennison's market-leading innovations in developing new generations of pressure-sensitive adhesive label materials. Information on where a product was manufactured, how to properly use it, what it contains, how much is in the package and other pertinent data have appeared on labels in the past. The growing use of barcodes has also added to the amount of information a label is able to communicate.

Today, that evolution continues with Avery Dennison TT Sensor, a label applied directly to a shipment of perishable products, such as seafood, by a wholesaler at the start of the distribution process to track conditions through to its delivery in the retail sales channel. The TT Sensor label reacts to time and temperature thresholds – indicating when a product has been exposed to inappropriate temperatures or when a period of time has elapsed that could lead to product deterioration.

Avery Dennison's ability to develop a new generation of "smart" labels is helping manufacturers enhance the quality of their products by improving the handling of perishable goods throughout the supply chain.

...WE CAN PROVIDE THIS INFORMATION

THAT'S A WRAP

What if it were possible for a label to not just convey a product's brand identity in an appealing way on the store shelf, but to extend excitement for the brand on a much larger scale by making it an eye-catching part of a community's landscape? We can do it.

IF WE CAN BRAND THIS...

As brand managers for companies worldwide struggle to make their products stand out among the proliferation of competing goods on crowded retail shelves, attractive package design continues to be a key source of product differentiation and brand identity. Avery Dennison has worked with customers at companies large and small to create innovative package label materials that are a key component in driving brand recognition for their products. We help our customers strengthen their brand identities with inventive solutions, such as reclosure seals, flexible labels for squeezable containers and clear films. But what if a product is… larger? Avery Dennison's Graphics business has the solution – a high-quality, commercial graphics material that can be wrapped around structures as large as a building.

To celebrate the seventh anniversary of the opening of its first retail store in China, the Carrefour Group completely wrapped its Shanghai Wu-Ning store with an island scene printed on Avery-brand, wide-format digital inkjet graphics material. Designed by the Carrefour Group, the image was printed on 5,000 square meters of Avery-brand graphics material and applied to the building by Shanghai Dian Ji Culture Products Company, an Avery Dennison customer.

...WE
CAN
BRAND
THIS

FROM FACTORY TO RETAIL SALES FLOOR
What if it were possible for a retail clothing tag to not only indicate the price and size of a garment, but to be an essential part of a comprehensive factory-to-store delivery system? What if the tag could provide both accurate supply chain data management and the right look to complement the apparel manufacturer's product and brand image? We can do it.

IF WE CAN IDENTIFY THIS...

Labels say a lot about a product, especially clothing. From brand name, to specific fabric components, to care instructions – a label is an important vehicle for providing information about a garment or an accessory. At the same time, it plays a fundamental role in the visual and tactile response we get by looking at and feeling the product. Labels, in short, are one of the most critical aspects of a garment's brand identity.

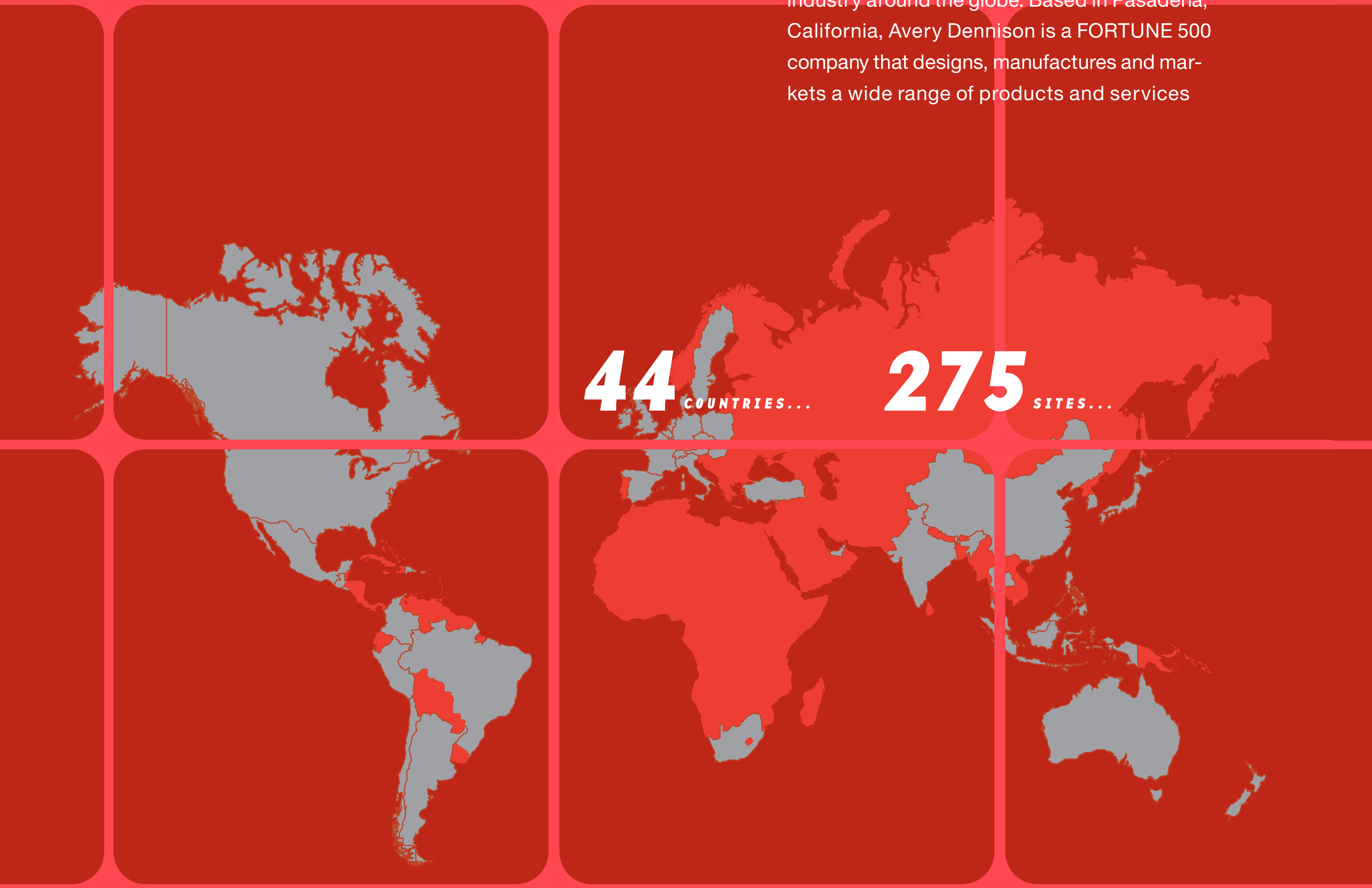
Avery Dennison is a key global supplier to the retail and apparel manufacturing industries, providing not only tickets and tags that convey the price and size of a product, but also woven labels, graphic hangtags, security products and data management services for total supply chain management.

Avery Dennison's Retail Information Services business offers "one-stop shopping" for all the needs of its retail and manufacturing customers. Our customers look to us for information and brand management solutions, from start to finish, from supplying tickets, tags and labels that are applied to products at manufacturing sites, to providing extensive supply chain management services that direct and track carton shipments from factories to retail store shelves.

...WE
CAN
IDENTIFY
THIS

> AVERY DENNISON AT A GLANCE

Avery Dennison is a global leader in pressure-sensitive technology and materials science, creating innovative self-adhesive solutions for consumer products and label materials.
A diversified manufacturing and consumer products company, Avery Dennison develops pioneering technologies that are an integral part of products found in virtually every major industry around the globe. Based in Pasadena, California, Avery Dennison is a FORTUNE 500 company that designs, manufactures and markets a wide range of products and services



for consumer and industrial markets, including Avery-brand office products and graphics imaging media, Fasson-brand self-adhesive materials, reflective highway safety products, peel-and-stick postage stamps, automated retail tag, labeling and branding systems, specialty tapes and polymers.

The Company employs approximately 20,300 people at 275 manufacturing and sales facilities, located in 44 countries. The Company sells its products under three major brands, which are among the most visible and recognizable names in their industries.

Avery

Avery is a premier office products and graphics media brand that stands for high quality, ease of use and breadth of offering. Avery is about smart products, designed to be user-friendly in the office, home, classroom and more.

Fasson

The Fasson brand is synonymous with innovation in pressure-sensitive adhesive roll materials technology. It represents product innovation, cutting-edge technology solutions and market-leading customer service. Fasson is not just about superior products, but also about superior service.

Avery Dennison

The Avery Dennison corporate brand is a recognized symbol of performance excellence, reliability and innovation worldwide. These qualities are reflected in the products, services and technologies that carry the Avery Dennison brand in industrial, automotive, reflective materials, commercial graphics and signage markets.

20,300 EMPLOYEES...

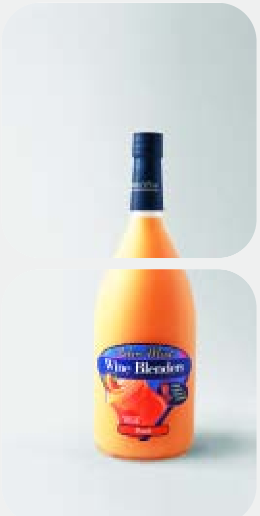
OUR BRAND STRUCTURE

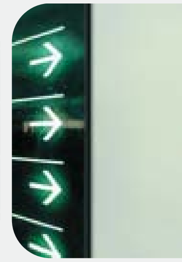
LABELS THAT STAND OUT

Pressure-sensitive adhesive labels are an essential component in the design of consumer products packaging. From eye-catching, colorful labels for beverage bottles to labels designed specifically for flexible, squeezable containers, to sophisticated wine labels, Fasson-brand products are known for their quality and reliability.

POINT THE WAY

Graphics materials made by Avery Dennison can be found around the world, from airports to football stadiums, providing the ideal medium for signs that direct visitors to their destinations.





PRESSURE-SENSITIVE ADHESIVES AND MATERIALS: NEW CUSTOMERS, NEW APPLICATIONS, EXPANDED FACILITIES

In 2003, we...

> Expanded manufacturing capacity at two pressure-sensitive materials plants in Europe to meet market demand for a wider variety of products.

> Opened two new pressure-sensitive materials distribution centers bringing the total number of distribution centers around the world to 69, serving customers in every geographic region.

> Continued to strengthen market-leading service programs. The North American

SIGNS OF LIFE
Avery Dennison's reflective materials provide bright, easy-to-read signs, enhancing highway safety and assisting motorists in navigating their routes.

TECHNOLOGY IS OUR BUSINESS
Avery Dennison's R&D efforts in nanocoating technology have resulted in transparent films with an ultrathin, oxygen-impermeable coating, suitable for potential food packaging applications.

pressure-sensitive materials business now offers more than 300 product options in its Fasson EXACT program, enabling customers to standardize orders to meet specific printing requirements.

> Opened a new graphics materials manufacturing plant in China to serve the expanding commercial graphics and signage industries.

> Extended the North American Graphics business product line to include a full range of laminated, flexible vinyl banner materials for both indoor and outdoor applications.

> Announced plans to build a new manufacturing plant in China to produce reflective materials for road signs, license plates and vehicle markings to meet the country's projected growth in highway construction and automobile ownership.

> Added heat-shrinkable films, one of the fastest growing labeling technologies, to the product line of innovative labeling materials offered by the North American roll materials business.

> Introduced TT Sensor, an innovative label that monitors and indicates unsuitable time and temperature exposure for perishable products.

CONSUMER AND CONVERTED PRODUCTS: LAUNCHING NEW PRODUCTS, EXPANDING OPPORTUNITIES

In 2003, we...

> Launched the new Avery Photo ID System in the U.S. and Europe. The innovative visitor management system makes it easy for organizations to capture, track and retrieve information on visitors, and introduces the Avery brand to facility management and security systems markets.

> Introduced Avery-brand QuickPeel Laser Labels in European markets, a new product innovation that enables consumers to easily and quickly remove mailing labels from the backing material.

> Provided to consumers visiting the Avery.com web site more than 1.6 million downloads of

HI-LITER TURNS 40

The popular HI-LITER brand celebrated its 40th anniversary in 2003, while new Avery-brand Retractable HI-LITERS and Marks-A-Lot markers were the first writing instruments in the market to offer an innovative solution for preventing ink from drying out prematurely.

A BINDER FOR EVERY NEED

We revitalized the office products category for Avery-brand binders, dividers and sheet protectors, organizing these products on retail shelves under a unique “PRS” system that resembles the way consumers use them for presentation, reference and storage.

MATERIALS SCIENCE EXPERTISE

Avery Dennison’s research and development facilities include state-of-the-art clean rooms that meet stringent requirements for developing specialized applications such as medical and health care products.

pre-designed templates for Avery-brand printable media products. The web site received more than 7 million visitors in 2003.

> Continued to grow customer base for award-winning InfoChain Express, our proprietary global supply chain data management system with enhanced capabilities to address new U.S. customs reporting and security requirements for international shipments.

> Opened six new ticketing centers to serve retail and apparel manufacturing customers in Peru, Colombia, El Salvador, Honduras, Dominican Republic and China, bringing the total number of ticketing centers to 37 worldwide.

> Obtained the first certification for a laboratory in the pressure-sensitive materials industry to perform quality and performance testing for Underwriter's Laboratories, Inc. (UL), positioning the Company as a full-service supplier to its industrial customers.

> Created and launched a new fastening product for the apparel industry, MicroPin, to replace metal straight pins used in packaging men's dress shirts.

RFID: A TECHNOLOGY FOR THE FUTURE
Avery Dennison is leveraging its manufacturing capabilities and materials expertise to develop applications for a wide variety of tags and labels that will feature radio frequency identification (RFID) technology.

TAG IT!
Avery Dennison's Retail Information Services business offers the retail and apparel industries "one-stop shopping" for every label, tag and ticketing need.

STICKING TO STAMPS
Avery Dennison continues to serve as a key postage stamp supplier to the U.S. Postal Service. The Company printed 8.3 billion self-adhesive stamps in 2003, including the "Reptiles & Amphibians" commemorative stamp issue, which received a Judges' Choice award for "Best in Show" from the Gravure Association of America.

WARNING: OUR LABELS ARE EVERYWHERE
Avery Dennison produced more than 30 million sun visor warning labels for North American automotive manufacturers. The labels feature Heat Seal, one of our proprietary films used to permanently affix to the sun visor the U.S. federal government's required warning for air bags.

WHERE DOES OUR "CAN DO"
SPIRIT GO FROM HERE?
THE BOUNDARIES ARE VIRTUALLY LIMITLESS,
AND THAT IS THE STRENGTH OF
THE NEW CULTURE THAT IS TAKING HOLD
AT AVERY DENNISON.

AS YOU HAVE READ IN THE PAGES OF THIS REPORT,
AT AVERY DENNISON WE ARE EMBRACING
A NEW KIND OF THINKING ABOUT HOW WE WORK AND
HOW THE COMPANY CAN GROW.

IT IS A PERSPECTIVE THAT ENCOURAGES
ALL OF US TO LOOK AT DOING
BUSINESS IN A WAY THAT IS ENERGIZING,
EXCITING, INNOVATIVE AND,
ULTIMATELY, GROWTH-PRODUCING.

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, barcode 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 products to fasten, bond, laminate, attach, mount or join components. Locations: North America, Europe, Latin America and Asia Pacific.

Worldwide Graphics
Pressure-sensitive papers and high-performance, reflective and digital-imaging films, along with specialty media and banners are used in traditional screen printing, offset printing, short-run and wide-format digital printing and sign making to serve the graphics arts, vehicle marking, transportation, highway safety, signage 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 supplied to internal divisions and outside customers for use in a wide range of applications including labels, tapes and graphic films. Specialty polymer formulations offered for applications in office products, ink-jet media, construction, packaging and personal care. Locations: North America, Europe and Asia Pacific.

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, heat transfers, graphic tags, patches, integrated tags, price tickets, custom hard and soft goods packaging, barcode 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)	5 Year Compound Growth Rate	2003(1) Dollars	%	2002(2) Dollars	%	2001(3) Dollars	%	2000 Dollars	%	1999(4) Dollars	%
For the Year											
Net sales	6.6%	$ 4,762.6	100.0	$ 4,155.9	100.0	$ 3,755.5	100.0	$ 3,845.0	100.0	$ 3,726.1	100.0
Gross profit	5.0	1,458.0	30.6	1,335.6	32.1	1,223.0	32.6	1,315.3	34.2	1,266.8	34.0
Marketing, general and administrative expense	6.0	1,034.9	21.7	905.2	21.8	823.3	21.9	843.7	21.9	836.7	22.5
Interest expense	10.8	57.7	1.2	44.0	1.1	50.7	1.4	56.4	1.5	44.7	1.2
Income from continuing operations (before taxes)	(.1)	334.9	7.0	354.3	8.5	349.3	9.3	415.2	10.8	320.4	8.6
Taxes on income	(4.1)	92.1	1.9	104.5	2.5	113.0	3.0	139.1	3.6	111.5	3.0
Income from continuing operations	1.7	242.8	5.1	249.8	6.0	236.1	6.3	276.1	7.2	208.9	5.6
Income from discontinued operations, net of tax	N/A	25.1	N/A	7.4	N/A	7.1	N/A	7.4	N/A	6.5	N/A
Net income	3.7	267.9	5.6	257.2	6.2	243.2	6.5	283.5	7.4	215.4	5.8

	5 Year Compound Growth Rate	2003	2002	2001	2000	1999
Per Share Information						
Income per common share from continuing operations	2.2%	$ 2.45	$ 2.54	$ 2.42	$ 2.81	$ 2.11
Income per common share from continuing operations, assuming dilution	2.5	2.43	2.51	2.40	2.77	2.06
Net income per common share	4.2	2.70	2.61	2.49	2.88	2.17
Net income per common share, assuming dilution	4.5	2.68	2.59	2.47	2.84	2.13
Dividends per common share	10.8	1.45	1.35	1.23	1.11	.99
Average common shares outstanding	(.4)	99.4	98.5	97.8	98.3	99.2
Average common shares outstanding, assuming dilution	(.8)	100.0	99.4	98.6	99.8	101.3
Book value at fiscal year end	9.7	$ 13.24	$ 10.64	$ 9.49	$ 8.49	$ 8.20
Market price at fiscal year end	4.0	54.71	59.05	56.20	54.88	72.88
Market price range		47.75 to 63.51	52.86 to 69.49	44.39 to 60.24	43.31 to 78.00	39.75 to 72.88
At Year End						
Working capital(5)		$ (55.1)	$ (85.3)	$ 27.4	$ 178.0	$ 101.8
Property, plant and equipment, net(5)		1,289.8	1,184.4	1,060.0	1,064.5	1,032.8
Total assets		4,105.3	3,652.4	2,909.6	2,766.3	2,647.1
Long-term debt(5)		887.7	837.2	626.7	772.3	617.4
Total debt(5)		1,180.3	1,144.2	849.7	826.6	685.6
Shareholders' equity		1,318.7	1,056.4	929.4	828.1	809.9
Number of employees		20,300	20,500	17,300	17,900	17,400
Other Information						
Depreciation expense(5)		$ 143.9	$ 125.1	$ 122.1	$ 124.0	$ 125.1
Research and development expense		74.8	74.5	69.9	67.8	64.3
Effective tax rate		27.5%	29.5%	32.4%	33.5%	34.8%
Long-term debt as a percent of total long-term capital		40.2	44.2	40.3	48.3	43.3
Total debt as a percent of total capital		47.2	52.0	47.8	50.0	45.8
Return on average shareholders' equity (percent)		22.3	25.7	27.4	34.6	27.1
Return on average total capital (percent)		14.3	15.8	16.2	19.6	17.0

(1) Results for 2003 include a pretax charge of $30.5 million for asset impairments, restructuring costs, lease cancellation charges and net losses associated with several product line divestitures, partially offset by a gain from settlement of a lawsuit. Additionally, results for 2003 included a pretax gain on sale of discontinued operations of $25.5 million.
(2) Results for 2002 include a pretax charge for asset impairments and lease cancellation costs of $21.4 million as well as a pretax charge of $10.7 million related to severance.
(3) Results for 2001 include a pretax gain of $20.2 million for the sale of the Company's specialty coatings business and a pretax cost reduction charge of $19.9 million.
(4) Results for 1999 include a pretax cost reduction charge of $65 million.
(5) Certain amounts for prior years were reclassified to conform with the current year presentation.

OVERVIEW AND OUTLOOK

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

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

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

Acquisitions and Divestitures

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

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

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

Summary Results by Operating Segment

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

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

Sales Growth by Region

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

Impact of Currency Exchange Rates

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

Growth Initiatives

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

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

Productivity Improvement Programs

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

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

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

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

Operating Expenses, Interest and Taxes

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

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

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

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

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

Free Cash Flow

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

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

U.S. Department of Justice Investigation

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

Outlook

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

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

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

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

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

ANALYSIS OF RESULTS OF OPERATIONS

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

2003 vs. 2002

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

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

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

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

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

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

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

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

2002 vs. 2001

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

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

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

The Company recorded a charge in the fourth quarter of 2002 relating to cost reduction actions. The 2002 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of $10.7 million, which consisted of employee severance and related costs for approximately 300 positions worldwide. Also in the fourth quarter of 2002, the Company recorded a $6.2 million pretax charge for the disposition of fixed assets (comprised of machinery and equipment) related to a reduction of costs in the reflective business, as well as the Jackstädt integration.

In the third quarter of 2002, the Company recorded a $15.2 million pretax charge for the disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of the Jackstädt operations, as well as the planned closure of a plant facility, costs to exit leases and other asset impairments related to other businesses. Approximately 60 percent of the charge related to the integration of Jackstädt.

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

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

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

Interest expense for the years ended 2002 and 2001 was $44 million and $50.7 million, respectively. The decrease in 2002 was due to lower interest rates on short-term floating rate debt, partially offset by the additional interest on the debt used to fund the Jackstädt acquisition in the second quarter of 2002, as well as the RVL and L&E acquisitions in the fourth quarter of 2002.

Income before taxes, as a percent of sales, was 8.5 percent in 2002 and 9.3 percent in 2001. The percentage decrease in 2002 reflected the total third and fourth quarter pretax charges of $32.1 million related to cost reduction actions and lower gross profit margin as a percent of sales. The decrease was partially offset by lower interest expense, the elimination of goodwill amortization and lower marketing, general and administrative expenses as a percent of sales.

The effective tax rate was 29.5 percent in 2002 and 32.4 percent in 2001. The decrease in the effective tax rate in 2002 was principally due to structural and other operational changes, the impact of acquisitions, the geographic mix of income and the change in accounting for goodwill.

Net Income and Earnings Per Share

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

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

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

RESULTS OF OPERATIONS BY OPERATING SEGMENT

Pressure-sensitive Adhesives and Materials:

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

2003 vs. 2002

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

Results from Domestic Operations

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

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

Results from International Operations

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

Income from international operations increased approximately $4 million. The increase reflected a charge of approximately $12 million in 2003 compared to approximately $13 million in 2002 related to restructuring, asset impairments, lease cancellation costs and net losses associated with several product line divestitures. Excluding the impact of these charges, income from international operations increased approximately $4 million due to higher sales in the roll materials business, graphics and reflective business and specialty tapes business, as well as the favorable impact of foreign currency translation. These increases were partially offset by the impact of a more competitive pricing environment, including the impact of the GBP weakening relative to the Euro and the start-up costs for new manufacturing equipment in Europe.

2002 vs. 2001

The Pressure-sensitive Adhesives and Materials segment reported increased sales and income for 2002 compared to 2001. Sales increased approximately $379 million or 17 percent to $2.57 billion in 2002 compared to $2.19 billion in 2001 driven by strong sales in both the domestic and international operations. The segment's 2002 operating income increased 1 percent to $195 million compared to 2001.

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately $61 million or 5 percent due to strong sales in the roll materials business (approximately $92 million). The increase resulted, in part, from market share gain from business obtained from the closure of a competitor's plant (estimated to be $11 million) and a supply agreement with a company that outsourced its manufacturing of certain roll label materials (estimated to be $23 million), as well as other factors including industry consolidation, new products and service programs and new applications. Additionally, domestic sales increased due to an increase in the specialty tapes business (approximately $8 million) driven by the introduction of new applications and products for the medical and industrial markets. Increases in 2002 sales were partially offset by a reduction in sales from the sale of the specialty coatings business in the fourth quarter of 2001 (2001 sales of approximately $27 million), as well as sales declines in the graphics and reflective business of approximately $10 million.

Income from domestic operations decreased approximately $3 million compared to 2001. The decrease in income from domestic operations in 2002 reflected a charge of approximately $9 million related to the 2002 restructuring, asset impairments and lease cancellation costs, compared to a charge of $3.9 million for cost reduction actions offset by a $20.2 million pretax gain on the sale of a business in 2001. Additionally, domestic income reflected the benefit from the change in accounting for goodwill (approximately $4 million). Excluding the impact of these items, income from domestic operations increased approximately $18 million. This was primarily due to higher income in the roll materials business driven by volume growth and profitability achieved through cost reduction and productivity improvement programs.

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

Results from International Operations

International sales, including intrasegment sales, increased approximately $351 million or 34 percent, principally due to the acquisition of Jackstädt in the second quarter of 2002 (total 2002 impact on sales estimated to be $262 million). Excluding sales from the Jackstädt business, international sales reflected strong sales growth in roll materials in Asia (approximately $34 million). In addition, higher sales in the roll materials and graphics businesses in Europe (approximately $33 million) were due to the favorable impact of foreign currency translation.

Income from international operations increased approximately $6 million. This included a charge of approximately $13 million in 2002 compared to approximately $4 million in 2001 related to restructuring, asset impairments and lease cancellation costs, as well as the positive impact from the change in accounting for goodwill (approximately $2 million). Excluding the impact of these items, income from international operations increased approximately $15 million due to sales growth, improved profitability achieved through cost reductions and productivity gains.

Consumer and Converted Products:

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

2003 vs. 2002

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

Results from Domestic Operations

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

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

Results from International Operations

International sales, including intrasegment sales, increased approximately $167 million or 29 percent to $746 million in 2003 compared to $579 million in 2002 reflecting higher sales in the retail information services business (approximately $152 million) and office products business (approximately $45 million), partially offset by a reduction in sales from a divested line of business in late 2002 (approximately $23 million). Included in these increases was the favorable impact of foreign currency translation (approximately $61 million). Higher sales in the retail information services business were due to the incremental sales from the RVL and L&E acquisitions in November 2002 (estimated to be $160 million), as well as sales growth in the Asian markets. Increased sales in the office products business were due to the favorable impact of foreign currency translation (approximately $42 million), partially offset by weak economic conditions impacting end-user demand and continued erosion in market share of the Company's Avery-brand products, in favor of private label brands.

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

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

2002 vs. 2001

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

Results from Domestic Operations

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

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

Results from International Operations

International sales, including intrasegment sales, increased approximately $21 million or 4 percent, principally due to the acquisitions of RVL and L&E in the fourth quarter, which contributed incremental sales of approximately $26 million. Additionally, the international businesses benefited from strong sales growth in the ticketing business in Asia (approximately $15 million). These increases were partially offset by a reduction in sales in 2002 from divested lines of business (approximately $30 million).

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

FINANCIAL CONDITION

Liquidity

Cash Flow Provided by Operating Activities

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

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

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

2003

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

2002

The decrease in cash flow from accounts receivable was due to higher sales levels and an increase in the average number of days sales outstanding, from 58 in 2001 to 61 in 2002 reflecting longer payment terms associated with international sales. The decrease in cash flow from inventory was due to higher inventory levels associated with higher sales in 2002 and a slight reduction in inventory turnover due to acquisition integration. The increase in cash flow from accounts payable and accrued liabilities was primarily associated with increases in accounts payable (approximately $81 million) as a result of negotiating longer payment terms with vendors, increases in payroll and benefits (approximately $34 million) as a result of higher bonus accruals and the timing of payroll payments, and increases in other accrued liabilities including accrued trade rebates (approximately $27 million) as a result of increased sales. The decrease in cash flow from long-term retirement benefits and other liabilities reflected a contribution of approximately $20 million to the Company's retirement plans during 2002.

Cash Flow Used in Investing Activities

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

Capital Spending

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

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

Acquisitions and Divestitures

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

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

Cash Flow (Used in) Provided by Financing Activities

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

Borrowings and Repayment of Debt

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

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

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

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

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

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

Shareholders' Equity

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

Effect of Foreign Currency Translation

The Company continues to expand its operations in Europe, Latin America and Asia Pacific. The Company's future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. In 2003, sales were favorably impacted by currency fluctuations by approximately $235 million. In 2002, sales were favorably impacted by currency fluctuations by approximately $20 million. The impact of foreign currency fluctuations on net income is smaller than the impact on net sales, because the Company's products are generally sourced in the currencies in which they are sold. As a result, the impact of foreign exchange rates on sales is matched with a partially offsetting impact on reported expenses, thereby reducing the impact of foreign currency fluctuations on net income. To reduce its exposure to currency fluctuations, the Company may enter into foreign exchange forward, option and swap contracts, and interest rate contracts, where appropriate and available.

All translation gains and losses for operations in hyperinflationary economies were included in net income. Operations are treated as being in a hyperinflationary economy for accounting purposes, based on the cumulative inflation rate over the past three years. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2003, 2002 and 2001. These operations were not significant to the Company's consolidated financial position or results of operations.

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

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

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

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

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

Other Accrued Liabilities

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

Other Shareholders' Equity Accounts

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

As of year end 2003, a cumulative 37.2 million shares of the Company's common stock had been repurchased since 1991 and 3.2 million shares remained available for repurchase under the Board of Directors' authorization.

Analysis of Selected Financial Ratios

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

Working Capital Ratio

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

Working capital from continuing operations consists of:

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

The increase in working capital from continuing operations in 2003, as a percent of sales, was due to higher balances in accounts receivable (approximately $110 million) and inventory (approximately $64 million) and a lower balance in hedge liabilities (a decrease of $37 million), partially offset by increased balances in accounts payable (approximately $110 million). Included in the changes in working capital balances from the prior year was the impact of changes in foreign currency translation. Higher accounts receivable balances at the end of 2003 reflected an increase in sales late in the fourth quarter. Given the timing of these sales, management believes that accounts receivable will be reduced in the first quarter of 2004. Increased inventory balances were a result of continued growth in Asia, as well as intentional inventory build up in Europe to mitigate potential supply chain disruptions associated with the Jackstädt integration actions. The Company expects to reduce inventory levels in Europe during 2004 as it completes its integration actions. Decreased hedge liabilities were due to the settlement of a forward starting interest swap in connection with the issuance of the $250 million 10-year Senior Notes in January 2003. Higher balances in accounts payable were due to increased inventory purchases, as well as extended payment terms with suppliers in 2003.

Accounts Receivable Ratios

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

Several of the Company’s largest domestic customers operate in a competitive retail business environment, which has been impacted by the economic conditions in North America. As of year end 2003 and 2002, approximately 15 percent and 17 percent, respectively, of trade accounts receivable were from eight customers of the Company’s office products business. The Company does not require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis.

Inventory Ratio

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

Debt Ratios

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

The fair value of the Company’s debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debts of the same remaining maturities. At year end 2003 and 2002, the fair value of the Company’s total debt, including short-term borrowings, was $1.21 billion and $1.18 billion, respectively.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on consolidated debt and consolidated interest expense in relation to certain measures of income. In 2003, the Company’s ratios were within required ranges. Specifically, under the loan agreements, the ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company’s ratio at year end 2003 was 2.0 to 1.0. Consolidated earnings before interest and taxes, as a ratio to consolidated interest, may not be less than 3.5 to 1.0. The Company’s ratio at year end 2003 was 7.3 to 1.0.

Shareholders' Equity Ratios

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

Capital Resources

Historically, the Company's primary source of capital resources has been cash flows from operations and debt financing, augmented in 2002 by a limited stock issuance in conjunction with the L&E acquisition. The Company continues to maintain adequate financing arrangements at competitive rates. These financing arrangements consist of commercial paper programs in the U.S. and Europe, committed and uncommitted bank lines of credit throughout the world, callable commercial notes and long-term debt, including medium-term notes.

Capital from Debt

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

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

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

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

Available lines of credit also included a 364-day revolving credit facility with eight domestic and foreign banks to provide up to $200 million in borrowings through December 3, 2004. The Company may annually extend the revolving period and due date with the approval of the banks or may convert the loan to a one-year term loan at the Company's option. It is the intention of management to renegotiate this agreement during 2004. Financing available under this agreement is used as a commercial paper back-up facility and is available to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2003.

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

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

Uncommitted lines of credit were approximately $314 million at year end 2003. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

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

The aggregate $400 million refinancing in January 2003 (discussed in "Cash Flow (Used in) Provided by Financing Activities" above), was issued under the Company's existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001, permitting the Company to issue up to $600 million in debt and equity securities. After the issuance of the $400 million, there is $200 million remaining that is available for issuance for general corporate purposes, including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital.

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

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

	Short-term	Long-term	Outlook
Standard & Poor's Rating Service	A-1	A	Negative
Moody's Investor Service	P2	A3	Stable

Capital from Equity

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

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

Commitments and Contingencies

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

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

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

The Company enters into operating leases primarily for office and warehouse space, electronic data processing and transportation equipment. The terms of these leases do not impose significant restrictions or unusual obligations. Minimum annual rental commitments on operating leases, having initial or remaining noncancellable lease terms in excess of one year during the years 2004 through 2008 and thereafter, are included in the above table.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. The obligation of $84.5 million was reclassified from the "Other long-term obligation" to the "Other accrued liabilities" line in the Consolidated Balance Sheet during the first quarter of 2003. The amount of this obligation increased to $101.5 million at the end of 2003 reflecting the impact of changes in foreign currency exchange rates. The Company paid the entire obligation in February 2004.

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

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

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

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

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

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

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

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

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

2004 Capital Spending Plan

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

RELATED PARTY TRANSACTIONS

From time to time, the Company enters into transactions in the normal course of business with related parties. The Company believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of the Company's directors, Mr. Peter W. Mullin, is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC") and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM. During 2003, 2002 and 2001, the Company paid premiums to insurance companies for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2003, 2002 and 2001, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately $1.1 million, $1.3 million and $1.7 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately $.7 million, $.9 million and $1 million in 2003, 2002 and 2001, respectively. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC) and another affiliate, to administer benefit plans and provide benefit statements to participants under various Company employee benefit plans. None of these transactions are significant to the financial position or results of operations of the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Critical accounting policies are those that are important to the portrayal of the Company's financial condition and results, and which require management to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. The Company believes that critical accounting policies include accounting for revenue recognition, accounts receivable allowances and customer complaint reserves, inventory reserves, long-lived asset impairments and pensions and postretirement benefits.

Revenue Recognition

Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time title transfers to customers. Actual product returns are charged against estimated sales return allowances.

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

Accounts Receivable Allowances and Customer Complaint Reserves

Management is required to make judgments, based on established aging policy, historical experience and future expectations, as to the collectibility of accounts receivable. The allowances for doubtful accounts and sales returns represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. The Company records these allowances based on estimates related to the following factors: (i) customer specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on the Company's historical experience, for issues not yet identified. Approximately 15 percent and 17 percent of trade receivables were from eight customers of the Company's office products business in 2003 and 2002, respectively. The financial position and operations of these customers are monitored on an ongoing basis.

Inventory Reserves

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

Long-lived Asset Impairments

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

Pensions and Postretirement Benefits

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

RECENT ACCOUNTING REQUIREMENTS

During 2003, the Company adopted several accounting and financial disclosure requirements by the Financial Accounting Standards Board (FASB), Emerging Issues Task Force (EITF) and Financial Interpretations by the FASB, none of which has had a significant impact on the Company's financial results of operations and financial position, nor is expected to have a significant impact on the Company's financial results of operations and financial position when effective. (Refer to Note 1 "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information).

SAFE HARBOR STATEMENT

Except for historical information contained herein, the matters discussed in the Management's Discussion and Analysis of

Results of Operations and Financial Condition and other sections of this annual report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "may," "plan," "project," "will," and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause actual results to differ materially from future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Certain of such risks and uncertainties are described in more detail in the Company's Annual Report on Form 10-K for the year ended December 27, 2003 and include, but are not limited to, risks and uncertainties relating to worldwide and local economic conditions, investment in new production facilities, timely development and successful market acceptance of new products, price and availability of raw materials, impact of competitive products and pricing, business mix shift, credit risks, fluctuations in pension, insurance and benefit costs, successful integration of new acquisitions, projections related to estimated cost savings from integration and productivity improvement actions, customer and supplier and manufacturing concentrations, financial condition and inventory strategies of customers, changes in customer order patterns, increased competition, loss of significant contract(s) or customer(s), legal proceedings including the U.S. Department of Justice criminal investigation into competitive practices in the label stock industry and any related proceedings pertaining to the subject matter including purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the investigation, changes in governmental regulations, fluctuations in interest rates, fluctuations in foreign exchange rates, ability to estimate the impact of foreign currency on financial results and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism, natural disasters, impact of Severe Acute Respiratory Syndrome (SARS) on the economy, the Company's customers and business, and other factors.

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

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

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management

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

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

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

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

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

Foreign Exchange Value-At-Risk

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

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

The estimated maximum potential one-day loss in earnings for the Company's foreign exchange positions and contracts was $3.2 million at year end 2003.

Interest Rate Sensitivity

An assumed 20 basis point move in interest rates (10 percent of the Company's weighted-average floating rate interest rate) affecting the Company's variable-rate borrowings would have had an immaterial effect on the Company's 2003 earnings.

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 29.5	$ 22.8
Trade accounts receivable, less allowances of $54.2 and $45.9 for 2003 and 2002, respectively	833.2	723.4
Inventories, net	406.1	342.1
Deferred taxes	29.5	25.7
Other current assets	142.6	101.5
Total current assets	1,440.9	1,215.5
Property, plant and equipment, net	1,289.8	1,184.4
Goodwill	716.6	618.2
Other intangibles resulting from business acquisitions, net	151.3	147.9
Other assets	506.7	486.4
	$ 4,105.3	$ 3,652.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 292.6	$ 307.0
Accounts payable	548.5	438.6
Accrued payroll and employee benefits	156.9	178.7
Accrued trade rebates	134.4	119.7
Other accrued liabilities	272.5	181.2
Income taxes payable	91.1	70.9
Total current liabilities	1,496.0	1,296.1
Long-term debt	887.7	837.2
Long-term retirement benefits and other liabilities	335.5	304.2
Non-current deferred taxes	67.4	74.0
Other long-term obligation	–	84.5
Commitments and contingencies (see Notes 7 and 9)		
Shareholders' equity:		
Common stock, $1 par value, authorized – 400,000,000 shares at year end 2003 and 2002; issued – 124,126,624 shares at year end 2003 and 2002; outstanding – 99,569,383 shares and 99,303,840 shares at year end 2003 and 2002, respectively	124.1	124.1
Capital in excess of par value	703.7	740.2
Retained earnings	1,772.5	1,664.8
Cost of unallocated ESOP shares	(11.6)	(12.2)
Employee stock trusts, 10,897,033 shares and 11,163,451 shares at year end 2003 and 2002, respectively	(595.4)	(658.7)
Treasury stock at cost, 13,660,208 shares and 13,659,333 shares at year end 2003 and 2002, respectively	(597.0)	(596.9)
Accumulated other comprehensive loss	(77.6)	(204.9)
Total shareholders' equity	1,318.7	1,056.4
	$ 4,105.3	$ 3,652.4

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	2003	2002	2001
Net sales	$ 4,762.6	$ 4,155.9	$ 3,755.5
Cost of products sold	3,304.6	2,820.3	2,532.5
Gross profit	1,458.0	1,335.6	1,223.0
Marketing, general and administrative expense	1,034.9	905.2	823.3
Interest expense	57.7	44.0	50.7
Other expense (income), net	30.5	32.1	(.3)
Income from continuing operations before taxes and accounting change	334.9	354.3	349.3
Taxes on income	92.1	104.5	113.0
Income from continuing operations before accounting change	242.8	249.8	236.3
Income from discontinued operations, net of tax (including gain on disposal of $19.7, net of tax of $5.8 in 2003)	25.1	7.4	7.1
Income before accounting change	267.9	257.2	243.4
Cumulative effect of accounting change, net of tax	–	–	(.2)
Net income	$ 267.9	$ 257.2	$ 243.2
Per share amounts:			
Net income per common share:			
Continuing operations before accounting change	$ 2.45	$ 2.54	$ 2.42
Discontinued operations	.25	.07	.07
Cumulative effect of accounting change	–	–	–
Net income per common share	$ 2.70	$ 2.61	$ 2.49
Net income per common share, assuming dilution:			
Continuing operations before accounting change	$ 2.43	$ 2.51	$ 2.40
Discontinued operations	.25	.08	.07
Cumulative effect of accounting change	–	–	–
Net income per common share, assuming dilution	$ 2.68	$ 2.59	$ 2.47
Dividends	$ 1.45	$ 1.35	$ 1.23
Average shares outstanding:			
Common shares	99.4	98.5	97.8
Common shares, assuming dilution	100.0	99.4	98.6
Common shares outstanding at year end	99.6	99.3	97.9

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(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 2000	$ 124.1	$ 692.0	$ 1,448.3	$ (15.3)	$ (699.9)	$ (615.7)	$ (105.4)	$ 828.1
Comprehensive income:								
Net income			243.2					243.2
Other comprehensive loss:								
Foreign currency translation adjustment							(17.7)	(17.7)
Minimum pension liability adjustment							(14.3)	(14.3)
Effective portion of gains or losses on cash flow hedges							1.0	1.0
Other comprehensive loss							(31.0)	(31.0)
Total comprehensive income								212.2
Repurchase of .4 million shares for treasury, net of shares issued						(17.7)		(17.7)
Stock issued under option plans, net of $22.3 of tax and dividends paid on stock held in stock trusts		.2			40.4			40.6
Dividends: $1.23 per share			(135.4)					(135.4)
ESOP transactions, net				1.6				1.6
Employee stock benefit trust market value adjustment		15.0			(15.0)			–
Fiscal year ended 2001	124.1	707.2	1,556.1	(13.7)	(674.5)	(633.4)	(136.4)	929.4
Comprehensive income:								
Net income			257.2					257.2
Other comprehensive loss:								
Foreign currency translation adjustment							11.7	11.7
Minimum pension liability adjustment							(53.9)	(53.9)
Effective portion of gains or losses on cash flow hedges							(26.3)	(26.3)
Other comprehensive loss							(68.5)	(68.5)
Total comprehensive income								188.7
Treasury stock issued of .7 million shares for L&E acquisition						46.9		46.9
Repurchase of .2 million shares for treasury, net of shares issued						(10.4)		(10.4)
Stock issued under option plans, net of $26.5 of tax and dividends paid on stock held in stock trusts		(3.5)			52.3			48.8
Dividends: $1.35 per share			(148.5)					(148.5)
ESOP transactions, net				1.5				1.5
Employee stock benefit trust market value adjustment		36.5			(36.5)			–
Fiscal year ended 2002	124.1	740.2	1,664.8	(12.2)	(658.7)	(596.9)	(204.9)	1,056.4
Comprehensive income:								
Net income			267.9					267.9
Other comprehensive income:								
Foreign currency translation adjustment							150.7	150.7
Minimum pension liability adjustment							(27.8)	(27.8)
Effective portion of gains or losses on cash flow hedges							4.4	4.4
Other comprehensive income							127.3	127.3
Total comprehensive income								395.2
Repurchase of 875 shares for treasury, net of shares issued						(.1)		(.1)
Stock issued under option plans, net of $19.5 of tax and dividends paid on stock held in stock trusts		11.9			13.5			25.4
Dividends: $1.45 per share			(160.2)					(160.2)
ESOP transactions, net				.6	1.4			2.0
Employee stock benefit trust market value adjustment		(48.4)			48.4			–
Fiscal year ended 2003	$ 124.1	$ 703.7	$ 1,772.5	$ (11.6)	$ (595.4)	$ (597.0)	$ (77.6)	$ 1,318.7

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2003	2002	2001
Operating Activities			
Net income	$ 267.9	$ 257.2	$ 243.2
Less: income from discontinued operations	25.1	7.4	7.1
Income from continuing operations	242.8	249.8	236.1
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation	143.9	125.1	122.1
Amortization	35.4	25.7	31.4
Deferred taxes	(5.2)	22.2	3.0
Asset impairment and net loss (gain) on sale of assets of $.1, $3.2 and $(20.2) in 2003, 2002 and 2001, respectively	7.7	20.7	(.3)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures:			
Trade accounts receivable	(40.8)	(41.5)	7.9
Inventories	(37.4)	(16.5)	1.7
Other current assets	(3.9)	.3	(4.6)
Accounts payable and accrued liabilities	46.3	141.7	(58.1)
Taxes on income	(17.6)	6.2	27.4
Long-term retirement benefits and other liabilities	(36.3)	(22.7)	(.8)
Net cash provided by operating activities from continuing operations	334.9	511.0	365.8
Investing Activities			
Purchase of property, plant and equipment	(201.4)	(150.4)	(133.0)
Purchase of software	(22.8)	(20.1)	(50.3)
Payments for acquisitions	(6.9)	(397.4)	(64.2)
Proceeds from sale of assets	15.4	9.4	33.6
Proceeds from sale of business	58.8	–	–
Other	(8.7)	(16.8)	(52.4)
Net cash used in investing activities from continuing operations	(165.6)	(575.3)	(266.3)
Financing Activities			
Additional borrowings	417.9	697.0	364.8
Payments of debt	(447.7)	(508.5)	(335.8)
Dividends paid	(160.2)	(148.5)	(135.4)
Purchase of treasury stock	(.3)	(10.8)	(17.9)
Proceeds from exercise of stock options, net	5.5	22.1	17.4
Other	18.1	17.4	15.5
Net cash (used in) provided by financing activities from continuing operations	(166.7)	68.7	(91.4)
Effect of foreign currency translation on cash balances	4.1	(.7)	(.4)
Increase in cash and cash equivalents	6.7	3.7	7.7
Cash and cash equivalents, beginning of year	22.8	19.1	11.4
Cash and cash equivalents, end of year	$ 29.5	$ 22.8	$ 19.1

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Principles of Consolidation

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

Financial Presentation

The Company sold its package label converting business in Europe in 2003. As a result, the Company's previously reported consolidated financial statements for 2002 and 2001 have been restated to present the discontinued operations separate from continuing operations. See Note 2 "Discontinued Operations," for further detail. Certain other prior year amounts have been reclassified to conform with the 2003 financial statement presentation.

Fiscal Year

The Company's 2003, 2002 and 2001 fiscal years reflected 52-week periods ending December 27, 2003, December 28, 2002 and December 29, 2001, respectively. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

Use of Estimates

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

Cash and Cash Equivalents

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

(In millions)	2003	2002	2001
Interest, net of capitalized amounts	$ 49.5	$ 44.4	$ 50.0
Income taxes, net of refunds	122.2	91.6	95.1

In 2002, non-cash activities included the issuance of approximately $47 million in Avery Dennison common shares for the L&E acquisition and the assumption of approximately $100 million in debt from the Jackstädt acquisition. Refer to Note 3 "Acquisitions," for further detail.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using methods that approximate both the first-in, first-out (FIFO) and last-in, first-out (LIFO) methods. Inventories valued using the LIFO method comprised 30 percent and 34 percent of inventories before LIFO adjustment at year end 2003 and 2002, respectively. Inventories at year end were as follows:

(In millions)	2003	2002
Raw materials	$ 124.8	$ 100.9
Work-in-progress	92.7	81.1
Finished goods	204.6	176.8
Inventories at lower of FIFO cost or market (approximates replacement cost)	422.1	358.8
Less LIFO adjustment	(16.0)	(16.7)
	$ 406.1	$ 342.1

Property, Plant and Equipment

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

(In millions)	2003	2002
Land	$ 57.1	$ 54.3
Buildings and improvements	579.3	530.1
Machinery and equipment	1,714.3	1,548.3
Construction-in-progress	149.6	122.7
	2,500.3	2,255.4
Accumulated depreciation	(1,210.5)	(1,071.0)
	$ 1,289.8	$ 1,184.4

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

Software

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

(In millions)	2003	2002
Cost	$ 206.2	$ 176.4
Accumulated amortization	(83.6)	(63.0)
	$ 122.6	$ 113.4

Goodwill and Other Intangibles Resulting from Business Acquisitions

The Company accounts for all business combinations in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." All business combinations are accounted for by the purchase method, and the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired is considered goodwill. As a result, the Company discloses goodwill separately from other intangible assets and, as of the beginning of fiscal 2002, recorded no amortization on goodwill. Other acquisition intangibles are identified using the criteria included in this Statement, including trademarks and tradenames, patented and other acquired technology, customer relationships and other intangibles.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," at the beginning of fiscal 2002. As required, the Company identified the following five reporting units for the purposes of performing the impairment tests for goodwill and other intangible assets. Materials, performance polymers and ventures and specialty tapes are reported in the Pressure-sensitive Adhesives and Materials segment. Office products and converting are reported in the Consumer and Converted Products segment. For the purposes of performing the required impairment tests, a present value (discounted cash flow) method was used to determine fair value of the materials, office products and converting reporting units. No goodwill and other intangible assets are associated with the performance polymers and ventures or specialty tapes reporting units. The Company performed its annual impairment test in the fourth quarter of 2003, with an assessment that no impairment had occurred. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with an indefinite life. See Note 4 "Goodwill and Other Intangibles Resulting from Business Acquisitions," for more information.

Foreign Currency Translation

All asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenue, costs and expenses are translated at the weighted-average currency rate, which prevailed during the fiscal year. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2003, 2002 and 2001. Gains and losses resulting from foreign currency transactions are included in income currently, except for gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements which are recorded directly to a component of other comprehensive income.

Transaction and translation losses decreased net income in 2003, 2002 and 2001 by $.9 million, $3.5 million and $2.7 million, respectively.

Financial Instruments

The Company enters into certain foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of its operations outside the United States of America. The Company also enters into certain interest rate contracts to help manage its exposure to interest rate fluctuations.

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

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

Revenue Recognition

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

Shipping and Handling Costs

Shipping and handling costs, which consist primarily of transportation charges incurred to move finished goods to customers, are included in "Cost of products sold" for the Pressure-sensitive Adhesives and Materials segment and in "Marketing, general and administrative expense" for the Consumer and Converted Products segment. Shipping and handling costs included in "Marketing, general and administrative expense" were $50.4 million, $46.4 million and $31.7 million for 2003, 2002 and 2001, respectively.

Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were $8.2 million, $8.3 million and $6.1 million for 2003, 2002 and 2001, respectively. The Company's policy is to expense advertising costs as incurred.

Research and Development

Research and development costs are expensed as incurred. Research and development expense for 2003, 2002 and 2001 was $74.8 million, $74.5 million and $69.9 million, respectively.

Product Warranty

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

Product warranty liabilities were as follows:

(In millions)	2003	2002
Balance at beginning of year	$ 1.4	$ 1.3
Accruals for warranties issued	3.2	1.5
Payments	(2.1)	(1.4)
Balance at end of year	$ 2.5	$ 1.4

Stock-Based Compensation

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

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

(In millions, except per share amounts)	2003	2002	2001
Net income, as reported	$ 267.9	$ 257.2	$ 243.2
Compensation expense, net of tax	(19.4)	(16.5)	(12.6)
Pro forma net income	$ 248.5	$ 240.7	$ 230.6
Earnings per share, as reported	$ 2.70	$ 2.61	$ 2.49
Earnings per share, assuming dilution, as reported	2.68	2.59	2.47
Pro forma earnings per share	$ 2.50	$ 2.44	$ 2.36
Pro forma earnings per share, assuming dilution	2.49	2.42	2.34

Environmental Expenditures

Environmental expenditures are generally expensed, unless it is appropriate to capitalize. Environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the remaining asset life. The Company reviews, on a quarterly basis, its estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated the Company as a potentially responsible party. When it is probable that obligations have been incurred and where a minimum cost or a reasonable estimate of the cost of compliance or remediation can be determined, the applicable amount is accrued. For other potential liabilities, the timing of accruals coincides with the related ongoing site assessments. Potential insurance reimbursements are not recorded or offset against the liabilities and liabilities are not discounted.

Investment Tax Credits

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

Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2003	2002	2001
(A) Income from continuing operations	$ 242.8	$ 249.8	$ 236.1
(B) Income from discontinued operations	25.1	7.4	7.1
(C) Net income available to common shareholders	267.9	257.2	243.2
(D) Weighted average number of common shares outstanding	99.4	98.5	97.8
Additional common shares issuable under employee stock options using the treasury stock method and contingently issuable shares under an acquisition agreement	.6	.9	.8
(E) Weighted average number of common shares outstanding assuming the exercise of stock options and contingently issuable shares under an acquisition agreement	100.0	99.4	98.6
Income from continuing operations per common share (A) ÷ (D)	$ 2.45	$ 2.54	$ 2.42
Income from discontinued operations per common share (B) ÷ (D)	.25	.07	.07
Net income per common share (C) ÷ (D)	$ 2.70	$ 2.61	$ 2.49
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	$ 2.43	$ 2.51	$ 2.40
Income from discontinued operations per common share, assuming dilution (B) ÷ (E)	.25	.08	.07
Net income per common share, assuming dilution (C) ÷ (E)	$ 2.68	$ 2.59	$ 2.47

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of stock options excluded from the computation were 3.8 million, .2 million and 1.8 million for 2003, 2002 and 2001, respectively.

Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability and the gains or losses on the effective portion of cash flow and firm commitment hedges that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was $395.2 million and $188.7 million for 2003 and 2002, respectively.

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

(In millions)	2003	2002
Foreign currency translation adjustment	$ 39.3	$ (111.4)
Minimum pension liability	(96.0)	(68.2)
Net loss on derivative instruments designated as cash flow and firm commitment instruments	(20.9)	(25.3)
Total accumulated other comprehensive loss	$ (77.6)	$ (204.9)

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

(In millions)	2003	2002
Beginning accumulated derivative (loss) gain	$ (25.3)	$ 1.0
Net gain reclassified to earnings	(1.4)	(.6)
Net change in the revaluation of hedging transactions	5.8	(25.7)
Ending accumulated derivative loss	$ (20.9)	$ (25.3)

In connection with the issuance of the $250 million 10-year Senior Notes in January 2003 (see Note 5 "Debt," for further detail), the Company settled a forward starting interest rate swap at a loss of approximately $32.5 million. This unrecognized loss is being amortized to interest expense over 10 years, which corresponds to the term of the related debt. The pretax loss recognized during 2003 was approximately $2.4 million. The Company entered into the interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance. The principal amount hedged was $250 million. Because of a shift in interest rates, an unrealized loss of approximately $37.4 million ($26.2 million, net of tax) was included in other comprehensive loss during 2002.

Recent Accounting Requirements

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

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

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

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

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) used for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this Statement were effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this Statement has not had a significant impact on the Company's financial results of operations and financial position.

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

In March 2003, the consensus of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," was published. EITF Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF Issue No. 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The provisions of EITF Issue No. 00-21 were effective in fiscal periods beginning after June 15, 2003. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. This Statement also amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The provisions of this Statement were effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has continued to use the intrinsic value method of accounting for stock-based compensation in 2003 in accordance with APB Opinion No. 25. The Company, however, has adopted the disclosure provisions of SFAS No. 148 as presented in "Stock-Based Compensation" in this Note.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation clarifies the requirements for a guarantor's accounting for and disclosures of certain guarantees issued and outstanding. This Interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The disclosure provisions of the Interpretation were effective for financial statements of interim or annual periods ending after December 15, 2002, and applicable disclosures are presented in Notes 1, 3, 5 and 9 of these consolidated financial statements. The initial recognition and initial measurement provisions of this Interpretation were effective during the beginning of fiscal 2003. The adoption of this Interpretation has not had a significant impact on the Company's financial results of operations and financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement were effective for new restructuring activities subsequent to December 31, 2002. The adoption of SFAS No. 146 affects the timing of the recognition of future costs associated with exit or disposal activities and did not affect previous charges related to such activities. The adoption of this Statement impacted the timing of recognition of liabilities associated with the fourth quarter of 2003 integration and productivity improvement initiatives detailed in Note 11 "Components of Other Income and Expense."

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB

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

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

Related Party Transactions

From time to time, the Company enters into transactions in the normal course of business with related parties. The Company believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. One of the Company's directors, Mr. Peter W. Mullin, is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC") and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM. During 2003, 2002 and 2001, the Company paid premiums to insurance companies for life insurance placed by MC, MINC and PWM in connection with various Company employee benefit plans. In 2003, 2002 and 2001, MC, MINC and PWM earned commissions from such insurance companies in aggregate amounts of approximately $1.1 million, $1.3 million and $1.7 million, respectively, for the placement and renewal of this insurance. Mr. Mullin had direct and indirect interests related to these commissions of approximately $.7 million, $.9 million and $1 million in 2003, 2002 and 2001, respectively. The majority of these commissions were allocated to and used by MCP Insurance Services, LLC (an affiliate of MC) and another affiliate, to administer benefit plans and provide benefit statements to participants under various Company employee benefit plans. None of these transactions are significant to the financial position or results of operations of the Company.

NOTE 2. DISCONTINUED OPERATIONS

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark, as well as a package label converting facility in France, to CCL Industries, Inc. Accordingly, the results for this business were accounted for as discontinued operations for all periods presented in these consolidated financial statements. This business was previously reported in the Company's Consumer and Converted Products segment.

The cash proceeds from the sale were $58.8 million, from which the Company recognized a gain of $19.7 million in the fourth quarter of 2003, net of taxes of $5.8 million.

Summarized financial information for discontinued operations is as follows:

Combined Statement of Income

(In millions)	2003	2002	2001
Net sales	$ 44.1	$ 51.0	$ 47.8
Income before taxes	$ 7.9	$ 10.5	$ 10.5
Taxes on income	2.5	3.1	3.4
Income from operations, net of tax	5.4	7.4	7.1
Gain on sale of discontinued operations	25.5	–	–
Tax on gain from sale	5.8	–	–
Income from discontinued operations, net of tax	$ 25.1	$ 7.4	$ 7.1

Combined Balance Sheet

(In millions)	2002
Current assets	$ 11.6
Property, plant and equipment, net	14.8
Goodwill	10.5
Other assets	.5
Current liabilities	(6.9)
Net assets held for sale	$ 30.5

NOTE 3. ACQUISITIONS

In August 2003, the Company made a $1.9 million payment in final settlement of all future performance-related obligations pursuant to the amended stock purchase agreement with the former shareholders of Dunsirn Industries, Inc. (“Dunsirn”), a company acquired in 2001. In February 2003, the Company paid an additional $4.4 million related to meeting certain performance targets included in the 2001 stock purchase agreement with the shareholders of Dunsirn. These payments increased the excess of the cost-basis over the fair value of net tangible assets acquired related to Dunsirn to approximately $37 million, with the change entirely attributable to goodwill. The operations of Dunsirn are included within the Company’s Pressure-sensitive Adhesives and Materials segment.

On November 5, 2002, the Company acquired RVL Packaging, Inc. (“RVL”), a provider of brand identification products to apparel manufacturers and retailers. On the same day, the Company also acquired the assets of L&E Packaging (“L&E”), one of RVL’s suppliers. Both transactions included the acquisition of certain related entities. The RVL and L&E operations have been included in the Company’s Consumer and Converted Products segment as of the acquisition date.

The purchase price, net of cash acquired, for RVL and L&E was approximately $218 million, including cash of approximately $171 million and approximately $47 million in Avery Dennison common shares (743,108). The value of these common shares issued was determined based on the average closing market price of the Company’s common shares for a three-day period before and after the date the parties agreed to the number of shares to be issued (“Closing Price”).

The final allocation of the purchase price for RVL and L&E has been made and is included in these financial statements. In the event certain performance targets are met in 2004, the Company will be obligated to make an additional payment in early 2005. The total amount of this contingent payment is estimated to be approximately $.5 million. Because performance targets were not met in 2003, based on the same agreement, no additional payment is expected to be made in 2004. In addition, in the event the value of the Company’s common shares falls below the Closing Price, adjusted for dividends received, during the period from January 1, 2005 through December 31, 2007, the Company may be obligated to pay the difference in value, in the form of cash or common shares.

The excess of the cost-basis over the fair value of net tangible assets acquired from RVL and L&E was approximately $204 million, including goodwill of approximately $182 million and identified amortizable intangible assets of approximately $22 million. The allocation and useful lives of these identified intangible assets have not changed significantly from 2002. This goodwill is not expected to be deductible for U.S. tax purposes.

On May 17, 2002, the Company acquired Jackstädt GmbH (“Jackstädt”), a manufacturer of pressure-sensitive adhesive materials headquartered in Germany, with an international customer base. The purchase price, net of cash acquired, was approximately $312 million, which included approximately $212 million in cash and assumed debt of approximately $100 million. The final allocation of the purchase price has been made and is included in these financial statements. Jackstädt’s results of operations have been included in the Company’s Pressure-sensitive Adhesives and Materials segment as of the acquisition date.

The excess of the cost-basis over the fair value of net tangible assets acquired from Jackstädt was approximately $175 million, including goodwill of approximately $161 million and identified amortizable intangible assets of approximately $14 million. This goodwill is not expected to be deductible for tax purposes. The acquired intangible assets have a weighted-average useful life of seven years. These assets include approximately $11 million for tradenames (five-year weighted-average useful life) and approximately $3 million for customer relationships and other intangibles (twenty-year weighted-average useful life).

The Company has recognized certain costs related to exit activities and integration costs attributable to the Jackstädt acquisition. These costs have been recognized as part of the assumed liabilities totaling approximately $25 million included in "Other accrued liabilities" in the Consolidated Balance Sheet. At year end 2003, approximately $5 million of the $25 million remained accrued. The costs were primarily related to severance costs for involuntary terminations of approximately 560 employees of Jackstädt, to be paid through the end of 2004. Of the total positions eliminated under these actions, all of the employees had left the Company at the end of 2003. Also included were lease exit costs and costs to terminate contracts with sales agents.

The aggregate cost of acquired companies and contingent payments was approximately $9 million and $546 million in 2003 and 2002, respectively. Goodwill resulting from these business acquisitions was approximately $7 million and $326 million in 2003 and 2002, respectively. Intangibles resulting from these business acquisitions were approximately $1 million and $31 million in 2003 and 2002, respectively. These amounts do not include acquisition adjustments in subsequent years. Other acquisitions during 2003 and 2002 not described above were not significant to the consolidated position of the Company. Pro forma results for acquisitions in 2003 and 2001 are not presented, as the acquired businesses did not have a significant impact on the Company's results of operations for those years.

The following represents the unaudited pro forma results of operations for the Company as though the acquisitions of Jackstädt, RVL and L&E had occurred at the beginning of the periods presented. The pro forma results included interest expense on additional debt that would have been needed to finance the purchases, amortization of intangibles that would have been acquired, and certain adjustments that would have been required to conform to the Company's accounting policies. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisitions been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

(Unaudited)

(In millions, except per share amounts)	2002	2001
Net sales from continuing operations	$4,539.0	$4,339.5
Net income	$ 260.4	$ 232.1
Net income per common share	$ 2.64	$ 2.36
Net income per common share, assumuing dilution	2.62	2.34

NOTE 4. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Changes in the net carrying amount of goodwill from continuing operations for 2002 and 2003, by reportable segment, are as follows:

(In millions)	Consumer and Converted Products	Pressure-sensitive Adhesives and Materials	Total
Balance as of December 29, 2001	$139.6	$144.3	$283.9
Goodwill acquired during the period	176.2	150.3	326.5
Translation adjustments	10.1	(2.3)	7.8
Balance as of December 28, 2002	325.9	292.3	618.2
Goodwill acquired during the period	.7	6.3	7.0
Acquisition adjustments (see Note 3 "Acquisitions")	12.1	20.4	32.5
Divestiture	(.9)	–	(.9)
Translation adjustments	17.9	41.9	59.8
Balance as of December 27, 2003	$ 355.7	$ 360.9	$ 716.6

Amortization expense on goodwill from continuing operations was $14.4 million for the year ended December 29, 2001.

The following table sets forth the Company's other intangible assets at December 27, 2003 and December 28, 2002, which continue to be amortized:

	2003		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:			
Tradenames and trademarks	$ 42.7	$ 18.5	$ 24.2
Patented and other acquired technology	65.4	13.0	52.4
Customer relationships	84.1	11.3	72.8
Other intangibles	4.4	2.5	1.9
Total	$ 196.6	$ 45.3	$ 151.3

	2002		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:			
Tradenames and trademarks	$ 36.6	$ 11.4	$ 25.2
Patented and other acquired technology	65.4	9.2	56.2
Customer relationships	70.1	6.1	64.0
Other intangibles	4.0	1.5	2.5
Total	$ 176.1	$ 28.2	$ 147.9

Amortization expense on other intangible assets resulting from business acquisitions was $13.3 million for 2003, $9.7 million for 2002 and $7.3 million for 2001. The weighted-average amortization periods for intangible assets resulting from business acquisitions are twelve years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-three years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for acquired intangible assets for each of the next five succeeding fiscal years is expected to be approximately $14 million, $13 million, $12 million, $9 million and $8 million, respectively.

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

(In millions, except per share amounts)	2003	2002	2001
Reported net income	$ 267.9	$ 257.2	$ 243.2
Goodwill amortization, net of tax	–	–	13.8
Adjusted net income	$ 267.9	$ 257.2	$ 257.0
Basic earnings per share:			
As reported	$ 2.70	$ 2.61	$ 2.49
Goodwill amortization	–	–	.14
Adjusted basic earnings per share	$ 2.70	$ 2.61	$ 2.63
Diluted earnings per share:			
As reported	$ 2.68	$ 2.59	$ 2.47
Goodwill amortization	–	–	.14
Adjusted diluted earnings per share	$ 2.68	$ 2.59	$ 2.61

NOTE 5. DEBT

Long-term debt and its respective weighted-average interest rates at December 27, 2003 consisted of the following:

(In millions)	2003	2002
Medium-term notes		
Series 1993 at 6.7% – due 2004 through 2005	$ 28.0	$ 98.0
Series 1994 at 7.7% – due 2004	80.0	80.0
Series 1995 at 7.3% – due 2005 through 2025	100.0	100.0
Series 1997 at 6.6% – due 2007	60.0	60.0
Series 1998 at 5.9% – due 2008	50.0	50.0
Senior notes due 2013 at 4.9%	250.0	–
Senior notes due 2033 at 6.0%	150.0	–
Other long-term borrowings	7.7	13.5
Variable rate commercial paper borrowings at 2.24% classified as long-term	250.0	512.2
Less amount classified as current	(88.0)	(76.5)
	$ 887.7	$ 837.2

The Company's medium-term notes have maturities from 2004 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2004 through 2008 are $88 million (classified as current), $74.8 million, $250.5 million, $60.4 million and $50.4 million, respectively, with $451.6 million maturing thereafter.

In January 2003, the Company refinanced $400 million of its variable rate commercial paper borrowings through the offering of $250 million of 4.9 percent Senior Notes due 2013 and $150 million of 6 percent Senior Notes due 2033. The aggregate $400 million refinancing was issued under the Company's existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001, permitting the Company to issue up to $600 million in debt and equity securities. After the issuance of the $400 million, there is $200 million remaining that is available for issuance for general corporate purposes, including acquisitions and capital expenditures, repaying, redeeming or repurchasing existing debt and for working capital.

Variable rate commercial paper borrowings at December 27, 2003 were $281.7 million with a weighted-average interest rate of 2.16 percent. Of these variable rate commercial paper borrowings, $31.7 million was classified as short-term debt and $250 million was classified as long-term debt, because the Company has the ability and intent to refinance this debt under its $250 million revolving credit agreement, discussed below.

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

At December 27, 2003, the Company had $82.9 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 8.9 percent.

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

Available lines of credit included a 364-day revolving credit facility with eight domestic and foreign banks to provide up to $200 million in borrowings through December 3, 2004. The Company may annually extend the revolving period and due date with the approval of the banks or may convert the loan to a one-year term loan at the Company's option. Financing available under this agreement is used as a commercial paper back-up facility and is available to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2003.

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

Uncommitted lines of credit were $313.6 million at year end 2003. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

At December 27, 2003, the Company had available short-term financing arrangements totaling $435.9 million.

Commitment fees relating to the financing arrangements are not significant.

The Company's total interest costs in 2003, 2002 and 2001 were $63.8 million, $47.6 million and $57.1 million, respectively, of which $6.1 million, $3.9 million and $6.9 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on consolidated debt and consolidated interest expense in relation to certain measures of income. Under the loan agreements, the ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2003 was 2.0 to 1.0. Consolidated earnings before interest and taxes, as a ratio to consolidated interest, may not be less than 3.5 to 1.0. The Company's ratio at year end 2003 was 7.3 to 1.0.

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debts of the same remaining maturities. At year end 2003 and 2002, the fair value of the Company's total debt, including short-term borrowings, was $1.21 billion and $1.18 billion, respectively.

The Company had standby letters of credit outstanding of $195.5 million and $182.7 million at the end of 2003 and 2002, respectively. The aggregate contract amount of all outstanding standby letters of credit approximated fair value.

The Company guaranteed approximately $18.3 million of certain foreign subsidiaries' obligations to their suppliers as of December 27, 2003.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. This obligation of $84.5 million was reclassified from "Other long-term obligation" to the "Other accrued liabilities" line in the Consolidated Balance Sheet during the first quarter of 2003. This amount increased to $101.5 million at the end of 2003 reflecting the impact of changes in foreign currency exchange rates. The entire obligation was paid by the Company in February 2004.

NOTE 6. FINANCIAL INSTRUMENTS

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

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

During 2003, the ineffectiveness related to cash flow hedges was not significant. The reclassification from other comprehensive loss to earnings was a net gain of approximately $1.4 million and $.6 million during 2003 and 2002, respectively. A net loss of approximately $2.3 million is expected to be reclassified from other comprehensive loss to earnings within the next 12 months. The maximum length of time in which the Company hedges its exposure to the variability in future cash flows for forecasted foreign currency transactions is generally 12 months.

In connection with the issuance of the $250 million 10-year Senior Notes in January 2003, the Company settled a forward starting interest rate swap at a loss of approximately $32.5 million. The loss is being amortized to interest expense over a 10-year period, which corresponds to the term of the related debt. The Company entered into the interest rate swap in May 2002 to secure the interest rate on the Company's anticipated long-term debt issuance to finance the acquisition of Jackstädt. The principal amount hedged was $250 million. Because of a shift in interest rates, an unrealized loss of approximately $37.4 million was included in other comprehensive loss at the end of 2002.

A loss of approximately $2.7 million related to a net investment hedge was included in the foreign currency translation adjustment in 2002 reported in accumulated other comprehensive loss.

The carrying value of the foreign exchange forward contracts approximated the fair value, which, based on quoted market prices of comparable instruments, was a net asset of approximately $2.3 million and $.5 million at the end of 2003 and 2002, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of approximately $.1 million at the end of 2003 and 2002. The carrying value of the foreign exchange option contracts approximated the fair market value.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately $9 million over a five-year period. In June 2003, this swap contract expired resulting in a loss of approximately $.6 million. The carrying value of this contract approximated fair value, which was an asset of approximately $.5 million at the end of 2002.

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

At year end 2003 and 2002, approximately 15 percent and 17 percent, respectively, of trade accounts receivable were from eight customers of the Company's office products business. The Company does not require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis. The Company may be exposed to losses and maintains reserves in the event of nonpayment.

NOTE 7. COMMITMENTS

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

Year	(In millions)
2004	$ 50.9
2005	40.8
2006	29.4
2007	21.4
2008	17.4
Thereafter	48.0
Total minimum lease payments	$ 207.9

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

Rent expense for 2003, 2002 and 2001 was $65 million, $60 million and $50 million, respectively.

The Company's total purchase obligations at December 27, 2003 were approximately $34 million, which included commitments to purchase inventory and services under long-term supply agreements.

NOTE 8. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2003	2002	2001
Current:			
U.S. federal tax	$ 48.4	$ 43.0	$ 47.5
State taxes	8.3	3.3	7.5
International taxes	35.8	39.1	45.5
	92.5	85.4	100.5
Deferred:			
U.S. federal tax	5.0	8.3	7.7
State taxes	–	2.7	.8
International taxes	2.9	11.2	7.4
	7.9	22.2	15.9
Taxes on income	$ 100.4	$ 107.6	$ 116.4

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

(In millions)	2003	2002	2001
Computed tax at 35% of income from continuing operations before taxes	$ 117.2	$ 124.0	$ 122.3
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	5.4	3.8	4.9
Foreign earnings taxed at different rates	(22.0)	(12.1)	(9.1)
Tax credits	(4.5)	(6.9)	(5.6)
Other items, net	(4.0)	(4.3)	.5
Taxes on income from continuing operations	92.1	104.5	113.0
Taxes on income and gain on sale of discontinued operations	8.3	3.1	3.4
Taxes on income	$ 100.4	$ 107.6	$ 116.4

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

(In millions)	2003	2002	2001
U.S.	$ 152.0	$ 194.4	$ 182.8
International	182.9	159.9	166.5
Income from continuing operations before taxes	334.9	354.3	349.3
Income from discontinued operations before taxes	33.4	10.5	10.5
Income before taxes	$ 368.3	$ 364.8	$ 359.8

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries of approximately $918.6 million and $800 million at year ended 2003 and 2002, respectively, because such earnings are considered to be reinvested indefinitely or because U.S. income taxes on dividends would be substantially offset by foreign tax credits.

Operating loss carryforwards of foreign subsidiaries for 2003 and 2002 are $125.6 million and $58.4 million, respectively, and there are no credit carryforwards for federal income tax purposes. Net operating losses of $37.3 million expire from 2004 through 2013, while net operating losses of $88.3 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss carryforwards not expected to be utilized.

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

(In millions)	2003	2002
Accrued expenses not currently deductible	$ 27.1	$ 33.2
Net operating losses and foreign tax credit carryforwards	34.1	24.9
Postretirement and postemployment benefits	43.2	46.2
Pension costs	9.0	(13.3)
Depreciation and amortization	(138.2)	(136.7)
Inventory reserves	11.0	11.1
Other	3.3	3.9
Valuation allowance	(27.4)	(17.6)
Total net deferred tax liabilities	$ (37.9)	$ (48.3)

NOTE 9. CONTINGENCIES

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

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

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

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

In connection with the U.S. Department of Justice's investigation into the proposed merger, the Company produced documents and provided testimony by Messrs. Neal, Scarborough and Simcic (CEO, President and Group Vice President – Roll Materials Worldwide, respectively). On July 25, 2003, the United States District Court for the Northern District of Illinois entered an order enjoining the proposed merger. UPM and Bemis thereafter agreed to terminate the merger agreement. The Court's decision incorporated a stipulation by the U.S. Department of Justice that the paper label industry is competitive.

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

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

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

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

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

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

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

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

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

NOTE 10. SHAREHOLDERS' EQUITY

Common Stock and Common Stock Repurchase Program

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

In December 1997, the Company redeemed the outstanding preferred stock purchase rights and issued new preferred stock purchase rights, declaring a dividend of one such right on each outstanding share of common stock, and since such time, the Company has issued such rights with each share of common stock that has been subsequently issued. When exercisable, each new right will entitle its holder to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of $150 per one one-hundredth of a share until October 31, 2007. The rights will become exercisable if a person acquires 20 percent or more of the Company's common stock or makes an offer, the consummation of which will result in the person's owning 20 percent or more of the Company's common stock. In the event the Company is acquired in a merger, each right entitles the holder to purchase common stock of the acquiring company having a market value of twice the exercise price of the right. If a person or group acquires 20 percent or more of the Company's common stock, each right entitles the holder to purchase the Company's common stock with a market value equal to twice the exercise price of the right. The rights may be redeemed by the Company at a price of one cent per right at any time prior to a person's or group's acquiring 20 percent of the Company's common stock. The 20 percent threshold may be reduced by the Company to as low as 10 percent at any time prior to a person's acquiring a percent of Company stock equal to the lowered threshold.

The Board of Directors has authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At year end 2003, approximately 3.2 million shares were still available for repurchase pursuant to this authorization.

Stock Option and Incentive Plans

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

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

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

	2003		2002		2001	
	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price	Number of options
Outstanding at beginning of year	$ 51.10	6,942.4	$ 46.07	6,843.1	$ 40.75	6,071.2
Granted	55.66	1,490.8	62.80	1,384.4	54.72	1,929.6
Exercised	26.09	(267.1)	33.50	(1,050.1)	27.69	(902.0)
Forfeited or expired	56.41	(214.2)	51.88	(235.0)	49.95	(255.7)
Outstanding at year end	52.66	7,951.9	51.10	6,942.4	46.07	6,843.1
Options exercisable at year end	$ 46.64	3,428.1	$ 41.91	2,939.3	$ 36.72	3,079.4

The following table summarizes information on fixed stock options outstanding at December 27, 2003 (options in thousands):

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$15.28 to 50.72	2,240.3	4.1	$ 39.84	1,961.4	$ 38.36
51.13 to 59.16	4,213.2	8.1	55.89	1,224.6	56.85
59.18 to 68.31	1,498.4	8.6	62.71	242.1	62.08
$15.28 to 68.31	7,951.9	7.1	$ 52.66	3,428.1	$ 46.64

The weighted-average fair value of options granted during 2003, 2002 and 2001 was $11.71, $16.94 and $18.31, respectively. Option grant date fair values were determined using a Black-Scholes option pricing model. The underlying assumptions used were as follows:

	2003	2002	2001
Risk-free interest rate	3.86%	4.43%	5.14%
Expected stock price volatility	$ 21.41	$ 29.06	$ 33.37
Expected dividend yield	$ 2.59	$ 2.14	$ 2.30
Expected option term	7 years	7 years	10 years

NOTE 11. COMPONENTS OF OTHER INCOME AND EXPENSE

The Company recorded a charge of $34.3 million pretax in the fourth quarter of 2003 relating to integration actions and productivity improvement initiatives, as well as net losses associated with several product line divestitures. The 2003 charge involved both of the Company's operating segments. Approximately 530 positions worldwide have been eliminated resulting in a pretax charge of $22 million in employee severance and related costs. The positions eliminated included approximately 180 employees in the Pressure-sensitive Adhesives and Materials segment, approximately 335 employees in the Consumer and Converted Products segment, and approximately 15 Corporate employees. Severance and related costs represent cash paid or to be paid to employees terminated under the program. At the end of 2003, $17.2 million remained accrued for severance and related costs (included in "Other accrued liabilities" in the Consolidated Balance Sheet). At the end of 2003, of the approximately 530 positions affected under these actions, approximately 230 employees (approximately 175 employees from the Consumer and Converted Products segment, approximately 45 employees from the Pressure-sensitive Adhesives and Materials segment, and approximately 10 Corporate employees) had left the Company. The Company expects to complete this cost reduction program in 2004.

Included in the fourth quarter of 2003 was a pretax charge of $8.2 million for asset impairments, planned disposition of fixed assets (land, buildings, machinery and equipment), lease cancellation charges and other associated costs. Of this charge, $4.2 million related to impairment of production software assets, $3.4 million related to planned disposition for property, plant and equipment ($2.5 million for buildings and land and $.9 million for machinery and equipment), $.3 million related to lease cancellation costs and $.3 million for other associated costs. The Company expects to pay the lease cancellation costs in 2004.

Other expense for 2003 also included a $9 million pretax gain from settlement of a lawsuit during the second quarter of 2003, which was partially offset by net losses from disposition of fixed assets during the year.

The Company recorded a charge in the fourth quarter of 2002 relating to cost reduction actions. The 2002 charge involved cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of $10.7 million, which consisted of employee severance and related costs for approximately 300 positions worldwide. The positions eliminated included approximately 80 employees in the Pressure-sensitive Adhesives and Materials segment and approximately 220 employees in the Consumer and Converted Products segment. Severance and related costs represent cash paid or to be paid to employees terminated under the program. At the end of 2003, $2.7 million remained accrued for severance and related costs (included in "Other accrued liabilities" in the Consolidated Balance Sheet). At the end of 2003, of the approximately 300 positions affected under these actions, approximately 295 employees (approximately 225 employees from the Consumer and Converted Products segment and approximately 70 employees from the Pressure-sensitive Adhesives and Materials segment) had left the Company. The Company expects to complete this cost reduction program in early 2004.

In the fourth quarter of 2002, the Company recorded a $6.2 million pretax charge for the disposition of fixed assets (comprised of machinery and equipment) related to a reduction of costs in the reflective business, as well as the Jackstädt integration. The charge related entirely to assets owned by the Company prior to the acquisition of Jackstädt.

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

The table below details lease cancellation cost activities:

(In millions)	2003	2002
Beginning of the year	$ 3.7	–
Additional accrual	.3	$ 3.9
Cancellation costs paid	(.9)	(.2)
Accrued lease cancellation costs, end of the year	$ 3.1	$ 3.7

The Company recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The cost reduction efforts resulted in a pretax charge of $19.9 million, which consisted of employee severance and related costs of $13.1 million and asset impairments of $6.8 million. The final severance payments related to this action were completed in the fourth quarter of 2003.

In the fourth quarter of 2001, the Company sold its specialty coatings business, resulting in a pretax gain of $20.2 million.

NOTE 12. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Defined Benefit Plans and Postretirement Health Benefits

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

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

In January 2004, the FASB issued Staff Position (FSP) No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," in response to a new law regarding prescription drug benefits under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans. The Company is evaluating the impact of the new law and will defer recognition, as permitted by FSP 106-1, until authoritative guidance is issued.

The Company's U.S. plan assets are invested in a diversified portfolio that consists primarily of equity and debt securities. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, including growth, value and small and large capitalization stocks. The Company's target plan asset investment allocations are 75 percent in equity securities and 25 percent in debt securities, subject to periodic fluctuations in the respective asset classes above.

The Company determines the long-term rate of return for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, and taking into consideration that assets with higher volatility typically generate a greater return over the long run. Additionally, current market conditions, such as interest rates, are evaluated and peer data is reviewed to check for reasonability and appropriateness.

The Company uses a November 30 measurement date for the majority of its U.S. plans and a fiscal year end measurement date for its international plans.

The Company has adopted the applicable disclosure requirements of the reissued SFAS No. 132.

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

	Pension Benefits				Postretirement Health Benefits	
	2003		2002		2003	2002
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 365.6	$ 257.9	$ 340.1	$ 189.5	$ 47.6	$ 45.7
Service cost	12.3	8.5	9.4	6.4	1.4	.9
Interest cost	25.0	15.2	24.0	12.2	2.9	2.9
Participant contribution	–	2.7	–	2.3	–	–
Amendments	–	(4.1)	(.2)	.2	(15.2)	–
Actuarial loss	31.8	14.7	12.1	13.7	9.9	2.2
Plan transfer(1)	4.2	–	5.6	–	–	–
Benefits paid	(26.1)	(8.2)	(25.4)	(6.5)	(3.5)	(4.1)
Acquisition	–	–	–	8.9	–	–
Net transfer in(2)	–	4.8	–	–	–	–
Foreign currency translation	–	43.9	–	31.2	–	–
Benefit obligation at end of year	$ 412.8	$ 335.4	$ 365.6	$ 257.9	$ 43.1	$ 47.6
Accumulated benefit obligation at end of year	$ 406.9	$ 314.3	$ 363.2	$ 229.8		
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 366.9	$ 209.6	$ 396.9	$ 217.5	$ –	$ –
Actual return on plan assets	46.9	17.1	(26.2)	(23.7)	–	–
Plan transfer(1)	4.2	–	5.6	–	–	–
Employer contribution	25.5	5.5	16.0	4.4	3.5	4.1
Participant contribution	–	2.7	–	2.3	–	–
Benefits paid	(26.1)	(7.2)	(25.4)	(6.5)	(3.5)	(4.1)
Foreign currency translation	–	36.8	–	15.6	–	–
Fair value of plan assets at end of year	$ 417.4	$ 264.5	$ 366.9	$ 209.6	$ –	$ –
Funded status of the plans:						
Plan assets in excess of (less than) benefit obligation	$ 4.6	$ (71.0)	$ 1.3	$ (48.2)	$ (43.1)	$ (47.6)
Unrecognized net actuarial loss	101.1	120.3	75.6	91.2	21.4	12.1
Unrecognized prior service cost	(3.3)	.9	(3.2)	5.2	(13.8)	1.0
Unrecognized net asset	(.7)	(7.1)	(1.2)	(7.2)	–	–
Net amount recognized	$ 101.7	$ 43.1	$ 72.5	$ 41.0	$ (35.5)	$ (34.5)
Amounts recognized in the Consolidated Balance Sheet consist of:						
Prepaid benefit cost	$ 116.9	$ 45.8	$ 106.9	$ 36.3	$ –	$ –
Accrued benefit liability	(91.4)	(69.5)	(89.7)	(48.0)	(35.5)	(34.5)
Intangible asset	4.4	.9	5.4	5.2	–	–
Other comprehensive income	71.8	65.9	49.9	47.5	–	–
Net amount recognized	$ 101.7	$ 43.1	$ 72.5	$ 41.0	$ (35.5)	$ (34.5)

(1) Plan transfer represents impact of transfer from Company's Savings plan.
(2) Net transfer in represents the valuation of an additional pension plan.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for U.S. plans were $281.7 million, $277.5 million and $186.3 million, respectively, at year end 2003, and $246.4 million, $244.2 million and $154.7 million, respectively, at year end 2002.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for international plans were $162.9 million, $156.6 million and $92 million, respectively, at year end 2003, and $125.4 million, $114.9 million and $68.8 million, respectively, at year end 2002.

	Pension Benefits						Postretirement Health Benefits		
	2003		2002		2001		2003	2002	2001
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
Weighted-average assumptions used for determining year end obligations:									
Discount rate	6.3%	5.3%	7.0%	5.5%	7.3%	5.9%	6.3%	7.0%	7.3%
Rate of increase in future compensation levels	3.6	2.6	3.6	2.6	4.1	3.7	–	–	–

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

	Pension Benefits						Postretirement Health Benefits		
	2003		2002		2001		2003	2002	2001
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
Components of net periodic benefit (income) cost:									
Service cost	$ 12.3	$ 8.5	$ 9.4	$ 6.4	$ 8.1	$ 5.3	$ 1.4	$ .9	$ .7
Interest cost	25.0	15.2	24.0	12.2	23.3	10.7	2.9	2.9	2.5
Expected return on plan assets	(40.3)	(19.1)	(41.0)	(16.8)	(39.2)	(16.4)	–	–	–
Recognized net actuarial (gain) loss	(.3)	1.3	(2.1)	.5	(3.4)	(.2)	.6	–	–
Amortization of prior service cost	.1	.4	.2	.4	.5	.3	(.3)	.1	.1
Amortization of transition obligation or asset	(.5)	(1.1)	(.7)	(1.1)	(.7)	(1.0)	–	–	–
Curtailment	–	–	(.2)	(.2)	–	–	–	–	–
Net periodic benefit (income) cost	$ (3.7)	$ 5.2	$ (10.4)	$ 1.4	$ (11.4)	$ (1.3)	$ 4.6	$ 3.9	$ 3.3

	Pension Benefits						Postretirement Health Benefits		
	2003		2002		2001		2003	2002	2001
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.		
Weighted-average assumptions used for determining net periodic cost:									
Discount rate	7.0%	5.5%	7.3%	5.9%	7.8%	6.2%	7.0%	7.3%	7.8%
Expected long-term rate of return on plan assets	9.0	6.8	9.5	7.1	9.8	7.5	–	–	–
Rate of increase in future compensation levels	3.6	2.6	4.1	3.7	4.0	4.0	–	–	–

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004. The rate is expected to decrease to 6 percent by 2008.

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

(In millions)	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	$ .4	$ (.4)
Effect on postretirement benefit obligation	4.2	(3.6)

As a result of changes in assumptions during 2003 and 2002 and the negative return on plan assets in 2002, an additional minimum pension liability of $20.9 million and $34.5 million in 2003 and 2002, respectively, for U.S. pension plans and an additional minimum pension liability of $14.1 million and $52.7 million in 2003 and 2002, respectively, for international pension plans are reflected in the Company's Consolidated Balance Sheet. These transactions generated an additional intangible pension asset or liability of $(1.0) million and $(1.1) million, respectively, in 2003 and 2002 for U.S. pension plans and $(4.3) million and $5.2 million in 2003 and 2002, respectively, for international pension plans with a charge to equity for the remainder.

The weighted-average asset allocations for the Company's U.S. pension plans at December 31, 2003 and 2002, by asset category are as follows:

	2003	2002
Equity securities	78%	77%
Debt securities	22	23
Total	100%	100%

The Company expects to contribute a minimum of $7.4 million to its U.S. pension plan and approximately $3.9 million to its postretirement benefit plan in 2004.

Defined Contribution Plans

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

ESOP expense is accounted for under the cost of shares allocated method. Total ESOP expense (income) for 2003, 2002 and 2001 was $.7 million, $(.1) million and $.1 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were $1.1 million, $.8 million and $1.8 million in 2003, 2002 and 2001, respectively.

Interest costs incurred by the ESOPs for 2003, 2002 and 2001 were $.3 million, $.5 million and $1.2 million, respectively. Dividends on unallocated ESOP shares used for debt service were $1.5 million in 2003 and $1.6 million in 2002 and 2001.

The cost of shares allocated for the ESOP for 2003, 2002 and 2001 was $2.2 million, $1.6 million and $1.7 million, respectively. Of the total shares held by the ESOP, 3.7 million shares were allocated and 1.0 million shares were unallocated at year end 2003, and 4.1 million shares were allocated and 1.1 million shares were unallocated at year end 2002.

Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2003 and 2002, the Company had accrued $129.4 million and $114 million, respectively, for its obligations under these plans. These obligations are secured by standby letters of credit of $75 million for 2003 and $82.5 million for 2002. The Company's expense, which includes Company contributions and interest expense, was $11 million, $10 million and $12.7 million for 2003, 2002 and 2001, respectively. A portion of the interest may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

To assist in the funding of these plans, the Company purchases corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of the participant. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet was $124.1 million and $109.8 million at year end 2003 and 2002, respectively.

NOTE 13. SEGMENT INFORMATION

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

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

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

Financial information by operating segment from continuing operations is set forth below:

(In millions)	2003(2)	2002(3)	2001(4)
Net sales:			
Pressure-sensitive Adhesives and Materials	$ 3,008.9	$ 2,568.0	$ 2,188.8
Consumer and Converted Products	1,936.5	1,760.7	1,735.9
Intersegment(1)	(182.8)	(172.8)	(169.2)
Net sales	$ 4,762.6	$ 4,155.9	$ 3,755.5

(In millions)	2003(2)	2002(3)	2001(4)
Income from operations before taxes:			
Pressure-sensitive Adhesives and Materials	$ 206.9	$ 194.8	$ 192.1
Consumer and Converted Products	225.6	235.1	233.9
Corporate administrative and research and development expenses	(39.9)	(31.6)	(26.0)
Interest expense	(57.7)	(44.0)	(50.7)
Income before taxes	$ 334.9	$ 354.3	$ 349.3
Capital expenditures:			
Pressure-sensitive Adhesives and Materials	$ 145.2	$ 93.3	$ 75.7
Consumer and Converted Products	51.7	47.8	46.5
Corporate	4.5	9.3	10.8
Capital expenditures	$ 201.4	$ 150.4	$ 133.0
Depreciation expense:			
Pressure-sensitive Adhesives and Materials	$ 88.6	$ 71.9	$ 69.4
Consumer and Converted Products	48.5	47.0	47.2
Corporate	6.8	6.2	5.5
Depreciation expense	$ 143.9	$ 125.1	$ 122.1

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

(2) Results for 2003 include a pretax charge of $30.5 million for asset impairments, restructuring costs, lease cancellation costs and net losses associated with several product line divestitures, partially offset by gain from settlement of a lawsuit during the second quarter of 2003, of which the Pressure-sensitive Adhesives and Materials segment recorded $13.6 million, the Consumer and Converted Products segment recorded $21.8 million and Corporate recorded ($4.9 million). See Note 11 "Components of Other Income and Expense" for further information.

(3) Results for 2002 include a pretax charge of $21.4 million for asset impairment charges and lease cancellation costs. This charge was recorded as follows: $17.2 million to the Pressure-sensitive Adhesives and Materials segment and $4.2 million to the Consumer and Converted Products segment. Results for 2002 also include a pretax cost reduction charge of $10.7 million. This charge was recorded as follows: $4.8 million to the Pressure-sensitive Adhesives and Materials segment and $5.9 million to the Consumer and Converted Products segment. See Note 11 "Components of Other Income and Expense" for further information.

(4) Results for 2001 include a pretax gain of $20.2 million from the sale of the Company's specialty coatings business included in the Pressure-sensitive Adhesives and Materials segment results. Results for 2001 also include a pretax cost reduction charge of $19.9 million. This charge was recorded as follows: $7.6 million to the Pressure-sensitive Adhesives and Materials segment, $9.4 million to the Consumer and Converted Products segment and $2.9 million to Corporate. See Note 11 "Components of Other Income and Expense" for additional information.

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

(In millions)	2003	2002	2001
Net sales:			
U.S.	$ 2,497.9	$ 2,438.5	$ 2,374.6
International	2,479.9	1,895.8	1,537.0
Intersegment	(215.2)	(178.4)	(156.1)
Net sales	$ 4,762.6	$ 4,155.9	$ 3,755.5
Property, plant and equipment, net:			
U.S.	$ 614.2	$ 659.4	$ 673.6
International	675.6	525.0	386.4
Property, plant and equipment, net	$ 1,289.8	$ 1,184.4	$ 1,060.0

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 14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per share data) (4)	First Quarter	Second Quarter	Third Quarter(1)	Fourth Quarter(2)(3)
2003				
Net sales from continuing operations	$ 1,135.2	$ 1,192.2	$ 1,204.1	$ 1,231.1
Gross profit from continuing operations	358.4	371.4	355.5	372.7
Net income	70.8	71.3	66.5	59.3
Net income per common share	.71	.72	.67	.60
Net income per common share, assuming dilution	.71	.71	.67	.59
2002				
Net sales from continuing operations	$ 918.2	$ 1,044.0	$ 1,101.7	$ 1,092.0
Gross profit from continuing operations	304.4	342.3	348.6	340.3
Net income	64.8	73.8	63.1	55.5
Net income per common share	.66	.75	.64	.56
Net income per common share, assuming dilution	.66	.74	.64	.56

(1) Results in the third quarter 2002 include a $15.2 million pretax charge for the disposition of fixed assets and lease cancellation costs associated with the integration of the Jackstädt operations, as well as the planned closure of a plant facility, costs to exit leases and other fixed asset impairments related to other businesses.

(2) Results in the fourth quarter 2003 include a $34.3 million pretax charge for asset impairments, restructuring costs, lease cancellation costs and net losses associated with several product line divestitures.

(3) Results in the fourth quarter 2002 include a $10.7 million pretax charge for severance and related costs for cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments as well as a $6.2 million pretax charge for the disposition of fixed assets related to a reduction of costs in the reflective business, as well as the Jackstädt integration.

(4) Net income and net income per share included discontinued operations.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through an audit committee, which consists solely of outside directors (see page 76). The Committee meets periodically with financial management, internal auditors and the independent accountants to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent accountants and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.

Philip M. Neal
Chairman and
Chief Executive Officer

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

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 27, 2003 and December 28, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company changed its method of accounting for goodwill and other intangible assets in connection with its adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of December 30, 2001.

PricewaterhouseCoopers LLP

Los Angeles, California
January 27, 2004

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

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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

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Retired Chairman and
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Korn/Ferry International,
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search firm
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benefit planning and
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consulting firm
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Northrop Grumman
Corporation,
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systems manufacturer
Board member since 1999

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Chief Executive Officer
Allergan, Inc., a global
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Board member since 1999

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Chairman and
Chief Executive Officer
KB Home,
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finance company
Board member since 2001

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

Peter K. Barker 2, 3, 7
Retired Partner
Goldman, Sachs & Company,
an investment banking firm
Board member since 2003

Director Emeritus
H. Russell Smith

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

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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
Worldwide Office Products

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
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Manufacturing and
Engineering

Karyn E. Rodriguez
Vice President and
Treasurer

Kenneth A. Wolinsky
Vice President and
Chief Information Officer

Ahmed Rubaie
Vice President
Taxes

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Office Products
North America

Teddy P. Chung
Vice President
General Manager
Materials Asia Pacific

Ali H. Clemens
Vice President
General Manager
InfoChain Express
Retail Information Services

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 Europe

Angelo Depietri
Vice President
General Manager
Roll Materials Europe
Eastern Europe and
International South

Kieran F. Drain
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Performance Polymers

William M. Goldsmith
Vice President
General Manager
Performance Films,
Automotive Graphics and
Extruded Products

Terrence L. Hemmelgarn
Vice President
General Manager
Worldwide Ticketing Services
Retail Information Services

Linda M. Jacober
Vice President
Business Strategy
Retail Information Services

Michael S. Johansen
Vice President
General Manager
Specialty Tape U.S.

Josef Kagon
Vice President
Worldwide Graphics and
Reflective

Kamran Kian
Vice President
General Manager
Materials Australia and
New Zealand

Hans Guenther Klenk
Vice President
General Manager
Office Products Europe

George T. Lai
Vice President
General Manager
Converting Asia

Constant Yip Wai Lam
Vice President
Managing Director
Worldwide Ticketing
Services Asia
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Kim P. Macaulay
Vice President
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Brand Identification
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Retail Information Services

David R. Martin
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Premium Packaging and
Pharmaceutical
Fasson Roll North America

Mathew S. Mellis
Vice President
Industrial and
Automotive Products
North America

Richard S. Olszewski
Vice President
General Manager
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Francisco C. Peschard
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General Manager
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and Systems
Fasson Roll North America

Ferdinand Pranckh
Vice President
General Manager
Reflective Products

John C. Quinn
Vice President
General Manager
Solution Enabling Products
Retail Information Services

Martin Rapp
Vice President
General Manager
Roll Materials Europe
Central Region

James P. Schmitt
Vice President
International Manufacturing

Jef Smets
Vice President
Specialty Tape Worldwide

C. Bradley Steven
Vice President
General Manager
Product Identification
Fasson Roll North America

Donald W. Stoebe
Vice President
General Manager
Roll Materials Europe

André P. Surchat
Vice President
General Manager
Roll Materials Europe
Southern Region

John M. Wurzburger
Vice President
General Manager
Materials South America

CORPORATE INFORMATION

Counsel
Latham & Watkins LLP
Los Angeles, California

Independent Accountants
PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent-Registrar
EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
(800) 756-8200
(800) 952-9245 (hearing impaired number)
www.equiserve.com (Web site)

Annual Meeting
The Annual Meeting of Shareholders will be held at 1:30 pm, April 22, 2004, in the Conference Center of Avery Dennison's Charles D. Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

The DirectSERVICE™ Investment Program
Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to $12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by writing to The DirectSERVICE™ Investment Program, c/o EquiServe (include a reference to Avery Dennison in the correspondence), P.O. Box 43081, Providence, RI 02940-3081, or calling (800) 756-8200, or logging onto their web site at http://www.equiserve.com.

Direct Deposit of Dividends
Avery Dennison shareholders may deposit quarterly dividend checks directly into their checking or savings accounts. For more information, call Avery Dennison's transfer agent and registrar, EquiServe Trust Company, N.A., at (800) 870-2340.

Form 10-K
A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished to shareholders and interested investors free of charge upon written request to the Secretary of the Corporation.
Copies may also be obtained from the Company's web site, www.averydennison.com, in the "Investors" section.

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Miller Corporate Center
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Phone: (626) 304-2000
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Mailing Address:
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Pasadena, California 91109-7090

Stock and Dividend Data
Common shares of Avery Dennison are listed on the New York Stock Exchange ("NYSE").

Ticker symbol: AVY

Market Price	2003		2002	
	High	Low	High	Low
First Quarter	$ 63.51	$ 51.95	$ 64.00	$ 53.63
Second Quarter	61.07	47.75	69.49	59.64
Third Quarter	55.81	48.85	65.23	52.86
Fourth Quarter	56.25	50.28	65.69	55.21

Prices shown represent closing prices on the NYSE.

Dividends Per Common Share	2003	2002
First Quarter	$ .36	$ .33
Second Quarter	.36	.33
Third Quarter	.36	.33
Fourth Quarter	.37	.36
Total	$ 1.45	$ 1.35
Number of shareholders of record as of year end 2003		11,287

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