

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 27, 1997
OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-7685

AVERY DENNISON CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 95-1492269
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NO.)
INCORPORATION OR ORGANIZATION)
150 NORTH ORANGE GROVE BOULEVARD 91103
PASADENA, CALIFORNIA (ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

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

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common stock, \$1 par value	New York Stock Exchange Pacific Exchange
Preferred Share Purchase Rights	New York Stock Exchange Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act:
Not applicable.

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

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

The aggregate market value of voting stock held by non-affiliates as of February 24, 1998, was approximately \$5,081,410,848.

Number of shares of common stock, \$1 par value, outstanding as of February 24, 1998: 118,069,484.

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

DOCUMENT -----	INCORPORATED BY REFERENCE INTO: -----
Annual Report to Shareholders for fiscal year ended December 27, 1997 (the "1997 Annual Report").....	PARTS I, II
Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 23, 1998 (the "1998 Proxy Statement").....	PARTS III, IV

PART I

ITEM 1. BUSINESS

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

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

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

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

International operations, principally in Western Europe, constitute a significant portion of the Company's business. In addition, the Company is currently expanding its operations in Asia Pacific, Latin America and Eastern Europe. The Company manufactures and sells its products from 200 manufacturing facilities and sales offices located in 39 countries, and employs a total of approximately 16,200 persons worldwide. The Company is subject to certain risks referred to in Exhibit 99 hereto, including those normally attending international operations, such as changes in economic conditions, currency fluctuation, exchange control regulations and the effect of international relations and domestic affairs of foreign countries on the conduct of business.

Except as set forth below, no material part of the Company's business is dependent upon a single customer or a few customers and the loss of a particular customer or a few customers would not have a material adverse effect on the Company's business. Sales of the Company's U.S. consumer products are increasingly concentrated in a small number of major customers, principally discount office products superstores and distributors (see Note 4 of Notes to Consolidated Financial Statements on page 41 of the 1997 Annual Report, which is incorporated by reference). United States export sales are an insignificant part of the Company's business. Backlogs are not considered material in the industries in which the Company competes.

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS SECTOR

The Pressure-Sensitive Adhesives and Materials sector manufactures and sells Fassion- and Avery Dennison-brand pressure-sensitive base materials, specialty tapes, marking films and chemicals. Base materials consist primarily of papers, fabrics, plastic films and metal foils which are primed and coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films for protection. They

are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. The business of this sector is not seasonal.

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

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

Marking films products consist of a variety of films and other products sold to the worldwide automotive, architectural, commercial sign, digital, printing, and graphics markets. The Company also sells durable cast and reflective films to the construction, automotive, fleet transportation, sign and industrial equipment markets, and reflective films for government and traffic applications. In addition, the Company sells specialty print-receptive films to the industrial label market, metallic dispersion products to the packaging industry and proprietary woodgrain film laminates for housing exteriors and automotive applications. During 1997, the Company reorganized its marking films businesses on a worldwide basis to serve, in a more focused manner, the expanding commercial graphic arts market, including wide-format digital printing applications.

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

During 1997, the Company established a distribution center in India to market and sell a variety of pressure-sensitive materials. In early 1998, the Company acquired base materials manufacturing capabilities in Colombia.

The Company competes, both domestically and internationally, with a number of medium to large firms. Entry of competitors into the field of pressure-sensitive adhesives and materials is limited by high capital requirements and a need for sophisticated technical know-how.

CONSUMER AND CONVERTED PRODUCTS SECTOR

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

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

Custom label products in North America primarily consist of custom pressure-sensitive and heat-transfer labels for automotive and durable goods industries and custom pressure-sensitive labels and specialty combination products for the electronic data-processing market. These products are sold directly to

manufacturers and packagers and retailers, as well as through international subsidiaries, distributors and licensees. Label products in Europe include custom and stock labels, labeling machinery and data printing systems, which are marketed to a wide range of industrial and retail users.

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

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

During 1997, the Company acquired a company in Australia, and broadened its distribution of Avery-brand products in Asia Pacific and Latin America.

The Company competes, both domestically and internationally, with a number of small to large firms (among the principal competitors are Esselte AB, Fortune Brands, Inc. and Minnesota Mining and Manufacturing Co.). The Company believes that its ability to service its customers with an extensive product line; its distribution strength; its ability to develop internally and to commercialize successfully new products; its diverse technical foundation, including a range of electronic imprinting and automatic labeling systems, are among the more significant factors in developing and maintaining its competitive position.

RESEARCH AND DEVELOPMENT

Many of the Company's current products are the result of its own research and development efforts. The Company expended \$61.1 million, \$54.6 million, and \$52.7 million in 1997, 1996 and 1995, respectively, on research related activities by operating units and the Avery Research Center (the "Research Center"), located in Pasadena, California. A substantial amount of the Company's research and development activities are conducted at the Research Center. Much of the effort of the Research Center applies to both of the Company's industry sectors.

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

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

THREE-YEAR SUMMARY OF SECTOR INFORMATION

The Business Sector Information attributable to the Company's operations for the three years ended December 27, 1997, which appears in Note 10 of Notes to Consolidated Financial Statements on pages 46 through 48 of the 1997 Annual Report, is incorporated herein by reference.

OTHER MATTERS

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

At present, the Company produces a majority of its self-adhesive materials using non-solvent technology. However, a significant portion of the Company's manufacturing process for self-adhesive materials utilizes certain evaporative organic solvents which, unless controlled, would be emitted into the atmosphere. Emissions of these substances are regulated by instrumentalities of federal, state, local and foreign governments. During the past several years, the Company has made a substantial investment in solvent capture and control units and solvent-free systems. Installation of these units and systems has reduced atmospheric emissions and the Company's requirements for solvents.

Major research efforts have been directed toward development of new adhesives and solvent-free adhesive processing systems. Emulsion and hot-melt adhesives and solventless silicone systems have been installed in the Company's facilities in Peachtree City, Georgia; Fort Wayne and Greenfield, Indiana; Rancho Cucamonga, California; Quakertown, Pennsylvania; Rodange, Luxembourg; Turnhout, Belgium; Hazerswoude, The Netherlands; and Cramlington, England, as well as other plants in the United States, Australia, Brazil, France, Germany, Korea, China and India.

The Company does not believe that the costs of complying with applicable laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon the capital expenditures, earnings or competitive position of the Company.

The Company wishes to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and is including Exhibit 99 to this filing to incorporate this safe harbor statement.

For information regarding the Company's potential responsibility for cleanup costs at certain hazardous waste sites, see "Legal Proceedings" (Part I, Item 3) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7). For information regarding the Company's actions to address the Year 2000 Issue, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7).

ITEM 2. PROPERTIES

The Company operates approximately 28 principal manufacturing facilities ranging in size from approximately 100,000 square feet to approximately 370,000 square feet and totaling over 5 million square feet. The following sets forth the locations of such principal facilities and the business sectors for which they are presently used:

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS SECTOR

Domestic--Painesville and Fairport, Ohio; Peachtree City, Georgia; Quakertown, Pennsylvania; Rancho Cucamonga, California; Greenfield, Fort Wayne, Lowell and Schererville, Indiana.

Foreign--Hazerswoude, The Netherlands; Cramlington, England; Champ-sur-Drac, France; Turnhout, Belgium; Ajax, Canada; Rodange, Luxembourg; and Haan, Germany.

CONSUMER AND CONVERTED PRODUCTS SECTOR

Domestic--Gainesville, Georgia; Rochelle, Illinois; Chicopee and Framingham, Massachusetts; Meridian, Mississippi; Philadelphia, Pennsylvania; Clinton, South Carolina; and Crossville, Tennessee.

Foreign--Bowmanville, Canada; La Monnerie and Troyes, France; Hong Kong (S.A.R.), China and Utrecht, The Netherlands.

In addition to the Company's principal manufacturing facilities described above, the Company's principal facilities include its corporate headquarters facility and Research Center in Pasadena, California, and offices located in Maidenhead, England; Leiden, The Netherlands; Concord, Ohio and Framingham, Massachusetts.

All of the Company's principal properties identified above are owned in fee except the facilities in Ajax, Canada; Haan, Germany and small portions of the facilities in Framingham, Massachusetts; and La Monnerie, France, which are leased.

All of the buildings comprising the facilities identified above were constructed after 1954, except parts of the Framingham, Massachusetts plant and office complex. All buildings owned or leased are well maintained and of sound construction, and are considered suitable and generally adequate for the Company's present needs. The Company will expand capacity and provide facilities to meet future increased demand as needed. Owned buildings and plant equipment are insured against major losses from fire and other usual business risks. The Company knows of no material defects in title to, or encumbrances on, any of its properties except for mortgage liens against four other facilities not listed separately above.

ITEM 3. LEGAL PROCEEDINGS

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency ("EPA") and state environmental agencies alleging that the Company is a potentially responsible party ("PRP") for past and future cleanup costs at hazardous waste sites. The Company has been designated by the EPA and/or other responsible state agencies as a PRP at 15 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. Litigation has been initiated by a governmental authority with respect to two of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. 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 amount of the loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes the potential liability over the amounts currently accrued would not materially affect the Company.

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

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT*

NAME -----	SERVED AS EXECUTIVE AGE OFFICER SINCE -----	FORMER POSITIONS AND OFFICES WITH REGISTRANT -----
Charles D. Miller..... Chairman and Chief Executive Officer (also Director of Registrant)	70 May 1965	1964-1983 Various positions of increasing responsibility
Philip M. Neal..... President and Chief Operating Officer (also Director of Registrant)	57 January 1974	1974-1990 Various positions of increasing responsibility
Kim A. Caldwell..... Executive Vice President, Global Technology and New Business Development	50 June 1990	1990-1997 Senior Group V.P., Worldwide Materials--Americas and Asia
Robert M. Calderoni..... Senior Vice President, Finance and Chief Financial Officer	38 October 1997	**1985-1994 Various positions of increasing responsibility at IBM **1994-1996 V.P., Finance, IBM Storage Systems Division **1996-1997 Senior V.P., Finance, Apple Computer, Inc.
Robert G. van Schoonenberg..... Senior Vice President, General Counsel and Secretary	51 December 1981	1981-1996 Vice President, General Counsel and Secretary
Wayne H. Smith..... Vice President and Treasurer	56 June 1979	None
Thomas E. Miller..... Vice President and Controller	50 March 1994	1973-1993 Various positions of increasing responsibility 1993-1994 V.P. and Assistant Controller
Diane B. Dixon..... Vice President, Worldwide Communications and Advertising	46 December 1985	1985-1997 V.P., Corporate Communications
Susan B. Garelli..... Vice President, Human Resources	46 October 1994	**1991-1993 Senior V.P., Human Resources and Corporate Communications, JWP, Inc. **1993-1994 Consultant, JWP, Inc.
Lynne M. Galligan..... Vice President, Technical Strategic Initiatives and Chief Technology Officer	47 September 1997	**1977-1994 Various positions of increasing responsibility at Dow Corning Corp. **1994-1996 General Manager, Dendritech, Inc. **1996-1997 Technical Director, General Electric Co.
Johan J. Goemans..... Vice President, Management Information Systems	54 October 1992	1975-1992 Various positions of increasing responsibility

NAME	SERVED AS EXECUTIVE AGE OFFICER SINCE	FORMER POSITIONS AND OFFICES WITH REGISTRANT
Geoffrey T. Martin..... Senior Group Vice President, Worldwide Converting, Graphic Systems and Specialty Tapes	43 January 1994	1992-1993 V.P., Office Products Group Europe 1993-1994 Group V.P., Converting and Office Products Europe 1994-1997 Senior V.P., Worldwide Tape & Converting and Materials--Europe
Stephanie A. Streeter... Group Vice President, Worldwide Office Products	40 March 1996	1991-1993 V.P. and General Manager, Avery Office Labels 1993-1996 V.P. and General Manager, Avery Dennison Brands
Dean A. Scarborough,... Group Vice President, Fasson Roll--North America and Europe	42 August 1997	1990-1995 V.P. and General Manager, Fasson Roll Division-- Europe 1995-1997 V.P. and General Manager, Fasson Roll Division--U.S.
Flavio T. Lacerda..... Group Vice President, Latin America	51 May 1996	**1991-1994 Latin America Regional Manager, Loctite Corp. **1995-1996 President for Latin America and South Africa, Loctite Corp.
Donald R. McKee..... Vice President, Label Ventures	61 December 1995	1971-1993 Various positions of increasing responsibility 1993-1995 V.P. and General Manager, Soabar Systems Division 1995-1996 V.P., Soabar Products and Fastener Divisions 1996-1997 Group V.P., Converted and Fastener Products N.A.

* All officers are elected to serve a one year term and until their successors are elected and qualify.

** Business experience prior to service with Registrant.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information called for by this item appears on page 52 of Registrant's 1997 Annual Report and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for each of Registrant's last five fiscal years appears on pages 26 and 27 of Registrant's 1997 Annual Report and is incorporated herein by reference.

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

RESULTS OF OPERATIONS

	1997	1996	1995

	(DOLLARS IN MILLIONS)		
Net sales.....	\$3,345.7	\$3,222.5	\$3,113.9
Cost of products sold.....	2,263.0	2,204.2	2,156.6

Gross profit.....	1,082.7	1,018.3	957.3
Marketing, general and administrative expense....	739.8	712.4	689.8
Net gain on divestitures and restructuring charges.....	--	2.1	1.5

Earnings before interest and taxes.....	\$ 342.9	\$ 308.0	\$ 269.0

Sales increased 3.8 percent to \$3.35 billion in 1997, compared to \$3.22 billion in 1996. Excluding changes in foreign currency exchange rates, sales increased 6.6 percent. In 1996, sales increased 3.5 percent over 1995 sales of \$3.11 billion. Excluding the impact of business divestitures and changes in foreign currency exchange rates for 1996, sales increased 6.4 percent. During the fourth quarter of 1995, the Company sold a portion of its North American label converting operations. These businesses accounted for approximately 2 percent of the Company's 1995 total sales.

Gross profit margins for the years ended 1997, 1996 and 1995 were 32.4 percent, 31.6 percent and 30.7 percent, respectively. The improvement in 1997 over 1996 was primarily due to increased productivity, cost control and an improved product mix. The improvement in 1996 over 1995 was primarily attributable to an improved product mix, new products, cost reduction and control programs and increased capacity utilization. Gross profit margins were also impacted by a \$4.2 million and \$3.2 million LIFO benefit reported during 1997 and 1996, respectively.

Marketing, general and administrative expense as a percent of sales was 22.1 percent in 1997 and 1996 and 22.2 percent in 1995. The expense for 1997 benefited from cost control and lower costs for certain employee benefit plans; however, these benefits were offset by increased expenditures for marketing, and research and development activities. The improvement in 1996 over 1995 was primarily attributable to cost control and reduction efforts throughout the Company and was achieved despite major investments in geographic expansion, business realignment and new product programs.

During the third quarter of 1996, restructuring actions were taken, resulting in a net pretax gain of \$2.1 million. The Company sold its equity interest in a label operation in Japan for \$28.4 million, resulting in a pretax gain of \$17.9 million. The Company also recorded \$15.8 million of restructuring charges, which included an asset impairment write-down of \$6.3 million for long-lived assets held in the Company's Consumer and converted products sector. The restructuring program also included the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately

200 positions worldwide (\$7.4 million) and the discontinuance of product lines and related asset write-offs (\$2.1 million). These actions were completed during the third quarter of 1997 and are expected to result in estimated annual savings of approximately \$9 million to \$11 million.

Business restructuring actions taken during the fourth quarter of 1995 resulted in a net pretax gain of \$1.5 million. Certain businesses which no longer met the Company's strategy for converting technology were sold for \$95 million. A \$40.7 million pretax gain on the sale of these businesses was offset by restructuring charges of \$39.2 million, which included the closure of four plants and the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 400 positions worldwide (\$16.2 million), discontinuance of product lines and related asset write-offs (\$13.1 million), and plant closure and other costs (\$9.9 million). This program was completed at year-end 1997 and is expected to result in estimated annual savings of \$14 million to \$17 million.

Interest expense for the years ended 1997, 1996 and 1995 was \$31.7 million, \$37.4 million and \$44.3 million, respectively. The decrease in 1997 was primarily due to lower weighted-average interest rates and lower average borrowings. The decrease in 1996 was primarily due to the expiration of interest rate swap agreements during the fourth quarter of 1995 and an overall lower cost of borrowing.

Income before taxes, as a percent of sales, was 9.3 percent for 1997, 8.4 percent for 1996 and 7.2 percent for 1995. The improvement during 1997 and 1996 was primarily due to higher gross profit margins and lower interest expense as a percent of sales. The effective tax rate was 34.2 percent in 1997, 35 percent in 1996 and 36 percent in 1995. The decrease in 1997 was primarily due to the utilization of foreign tax loss carryforwards and an increase in U.S. tax credits for research and experimentation. The Company estimates that the effective tax rate for 1998 will be 34- to-35 percent.

	1997	1996	1995

	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Net income.....	\$204.8	\$175.9	\$143.7
Net income per common share.....	1.99	1.68	1.35
Net income per common share, assuming dilution.....	1.93	1.63	1.32

Net income increased to \$204.8 million in 1997 compared to \$175.9 million in 1996, reflecting a 16.4 percent increase over 1996. Net income in 1995 was \$143.7 million. Net income, as a percent of sales, was 6.1 percent, 5.5 percent and 4.6 percent in 1997, 1996 and 1995, respectively.

Net income per common share increased to \$1.99 in 1997 compared to \$1.68 in 1996, an 18.5 percent improvement. Net income per common share was \$1.35 in 1995. Net income per common share, assuming dilution, was \$1.93 in 1997 compared to \$1.63 in 1996, an 18.4 percent increase. Net income per common share, assuming dilution was \$1.32 in 1995.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", during the fourth quarter of 1997. All prior year net income per share data, as shown above, has been restated in accordance with the new standard.

RESULTS OF OPERATIONS BY BUSINESS SECTOR

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS:

	1997	1996	1995

	(IN MILLIONS)		
Net sales.....	\$1,741.4	\$1,702.6	\$1,589.7
Income from operations before interest and taxes.	170.1	159.1	145.0

The Pressure-sensitive adhesives and materials sector reported increased sales and profitability for 1997 compared to 1996. The U.S. operations' sales growth was primarily led by increased sales volume for products in its pharmaceutical, variable imprint and graphics businesses; however, sales were partially impacted by paper price deflation and product mix. Income from the U.S. operations benefited from improved capacity utilization and the extent of restructuring charges taken in 1996 compared to 1997. The international businesses reported increased sales and profitability primarily due to higher unit volume and geographic expansion, which were partially offset by changes in foreign currency rates.

The Pressure-sensitive adhesives and materials sector reported increased sales and income for 1996 compared to 1995. The sector's income results include restructuring charges of \$7.1 million in 1996 and \$15.1 million in 1995. The U.S. operations reported sales growth for the year primarily due to increased volume and new products. Profitability improved as a result of cost reduction actions, increased capacity utilization and improved operating efficiencies. The international businesses reported increased sales primarily due to its geographic expansion in emerging markets and increased volume. Profitability for the international businesses increased primarily due to the extent of restructuring charges taken in 1995 compared to 1996. This increase was partially offset by costs related to continued investments in geographic expansion and major equipment start-up costs.

CONSUMER AND CONVERTED PRODUCTS:

	1997	1996	1995

(IN MILLIONS)			
Net sales.....	\$1,752.6	\$1,660.8	\$1,583.5
Income from operations before interest and taxes.	192.6	160.6	147.8

The Consumer and converted products sector reported increased sales and profitability for 1997 compared to 1996. Increased sales in the U.S. operations continued to be led by growth of its Avery-brand products, new products and other consumer products. Profitability in the U.S. businesses improved primarily as a result of its Avery-brand products, new products and an improved product mix. Sales for the international businesses in 1997 were comparable to 1996. Sales for 1997 benefited from geographic expansion; however, this increase was offset by changes in foreign currency rates and sales declines at certain European operations. Profitability for the international businesses was primarily impacted by operations in France, decreased sales at other select European operations due to the softness of certain economies, and investment for the market expansion of new products.

The Consumer and converted products sector reported increased sales and profitability for 1996 compared to 1995. The sector's income results include restructuring charges of \$8.7 million for 1996 compared to a \$16.6 million net gain on divestitures and restructuring charges in 1995. The U.S. operations reported increased sales primarily due to the growth of its battery label business and for its Avery-brand products. Profitability improved primarily due to increased sales volume, new products and operating improvements, including lower distribution expenses. The international businesses reported higher sales due to geographic expansion and growth of its office label businesses; however, this sales increase was partially offset by sales declines in a portion of the French operations. Profitability in 1996 for the international businesses was comparable to 1995. Profit improvements from cost control programs and product pruning were offset by lower sales in one of the French operations and start-up costs related to geographic expansion.

FINANCIAL CONDITION

Average working capital, excluding short-term debt, as a percent of sales was 8 percent in 1997, 9.1 percent in 1996 and 9.6 percent in 1995. The decrease in 1997 was primarily due to increased sales, reduced days sales outstanding in accounts receivable, improved inventory turnover and better payables management programs. The decrease in 1996 was primarily due to higher sales and an increase in current liabilities. Average inventory turnover was 9.5 turns in 1997, 9.3 turns in 1996 and 9 turns in 1995; the average number of days sales outstanding in accounts receivable was 52 days in 1997 and 55 days in 1996 and 1995.

Net cash flow from operating activities was \$368.4 million in 1997, \$304 million in 1996 and \$187.9 million in 1995. The increase in net cash flow in 1997 and 1996 was primarily due to changes in working capital requirements and the Company's improved profitability.

Total debt decreased \$19.2 million to \$447.7 million compared to year end 1996. Total debt to total capital was 34.8 percent at year end 1997 compared to 35.9 percent at year end 1996. Long-term debt as a percent of total long-term capital increased to 32.6 percent from 30.8 percent at year end 1996.

In October 1996, the Company established the Avery Dennison Corporation Employee Stock Benefit Trust (the "ESBT") to fund a portion of the Company's obligations arising from various current and future employee benefit plans. As a result, the Company sold 18 million shares of treasury stock to the ESBT at fair market value. This transaction had no impact on the Company's financial condition. The ESBT has a 15-year life during which it will utilize the stock to satisfy certain Company obligations. The market value of shares held in the ESBT, after the issuance of shares under the Company's stock and incentive plans, increased by \$85.4 million to \$729.7 million from year end 1996.

Shareholders' equity increased to \$837.2 million from \$832 million at year end 1996. During 1997, the Company repurchased 2.5 million shares of common stock at a cost of \$99.3 million. As of year end 1997, a cumulative 27.9 million shares of common stock had been purchased since 1991 and 2.5 million shares remained available for repurchase under the Board of Directors' authorization.

The return on average shareholders' equity was 24.8 percent in 1997, 21.4 percent in 1996 and 18.6 percent in 1995. The return on average total capital for those three years was 18.1 percent, 16.4 percent and 14.4 percent, respectively. The improvements in 1997 and 1996 for these returns were primarily due to an increase in profitability, more effective utilization of the Company's assets and the impact from share repurchases.

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency and state environmental agencies alleging that the Company is a potentially responsible party (PRP) for past and future cleanup costs at hazardous waste sites. The Company has received requests for information, notices and/or claims with respect to 15 waste sites in which the Company has no ownership interest. Litigation has been initiated by a governmental authority with respect to two of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. Environmental investigatory and remediation projects are also being undertaken on property presently owned by the Company. The Company has accrued liabilities for all sites where it is probable that a loss will be incurred and the minimum cost or amount of the loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessments 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. Based on current site assessments, management believes that the potential liability over the amounts currently accrued would not materially affect the Company.

LIQUIDITY AND CAPITAL RESOURCES

In addition to cash flow from operations, the Company has more than adequate financing arrangements, at competitive rates, to conduct its operations.

During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission \$150 million in principal amount of uncollateralized medium-term notes, of which \$60 million in notes had been issued as of year end 1997. Proceeds from the medium-term notes were used to reduce debt and for other general corporate purposes. The Company's currently outstanding medium-term notes have maturities from 2000 through 2025 and have a weighted-average interest rate of 7.1 percent.

The Company's restructuring programs were completed in 1997 and included the 1996 \$28.4 million sale of its equity interest in a label operation in Japan and the 1995 \$95 million sale of certain non-strategic label

converting businesses. The restructuring programs had a cost of \$15.8 million and \$39.2 million for 1996 and 1995, respectively.

Capital expenditures were \$177.3 million in 1997 and \$187.6 million in 1996. Capital expenditures for 1998 are expected to be approximately \$175 million to \$200 million.

The annual dividend rate per share increased to \$.72 in 1997 from \$.62 in 1996 and \$.55 in 1995.

The Company continues to expand its operations in Asia Pacific, Latin America and Europe. The Company's future results are subject to changes in economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. To manage its exposure to these fluctuations, the Company may enter into foreign exchange forward and option contracts, and interest rate contracts, where appropriate. The recent turmoil in certain Asian financial markets had an immaterial effect on the Company's 1997 results.

In 1997, the Company's operations located in Mexico and Brazil, were treated as hyperinflationary economies for accounting purposes due to the cumulative inflation rate over the past three years. As a result, all translation gains and losses were included in net income. These operations were not significant to the Company's consolidated financial position.

Beginning in 1998, Brazil will no longer be treated as a hyperinflationary economy for accounting purposes. As a result, all asset and liability accounts for the Company's Brazilian operations will be translated into U.S. dollars at current rates and recorded directly to a component of shareholders' equity. Gains and losses resulting from foreign currency transactions will be included in net income currently.

FUTURE ACCOUNTING REQUIREMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income". The standard establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes items such as foreign currency translation adjustments and adjustments to the minimum pension liability that are currently presented as components of shareholders' equity. Companies will be required to report total comprehensive income for interim periods beginning first quarter of 1998. Disclosure of comprehensive income and its components will be required beginning fiscal year end 1998.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". The standard establishes guidelines for reporting information on operating segments in interim and annual financial statements. The new rules will be effective for the 1998 fiscal year. Abbreviated quarterly disclosure will be required beginning first quarter of 1999, and will include both 1999 and 1998 information. The Company does not believe that the new standard will have a material impact on the reporting of its segments.

YEAR 2000

The Year 2000 issue is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in system failures or miscalculations.

The Company is currently working to resolve the Year 2000 issue and has established processes for evaluating and managing the risks and costs associated with this issue. The Company will utilize both internal and external resources to reprogram or replace, and test the software for Year 2000 modifications. In addition, the Company is communicating with suppliers and customers with whom the Company does business to coordinate the Year 2000 conversion. The Company plans to complete the Year 2000 project by fiscal year end 1998.

Based on current assessments, costs of addressing the Year 2000 issue are not expected to have a material impact on the Company's future financial results.

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, Market-Sensitive Instruments and Risk Management and other sections of this annual report contain "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events. 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 any future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, risks and uncertainties relating to investment in new production facilities, timely development and successful marketing of new products, impact of competitive products and pricing, customer and supplier and manufacturing concentrations, changes in customer order patterns, increased competition, litigation risks, fluctuations in foreign exchange rates or other risks associated with foreign operations, changes in economic or political conditions, and other factors. Any forward-looking statements should be considered in light of the factors detailed in Exhibit 99 in the Company's Annual Report on Form 10-K for the years ended December 27, 1997 and December 28, 1996.

The Company's forward-looking statements represent its judgment only on the dates such statements are made. By making any forward-looking statements, the Company assumes no duty to update them to reflect new, changed or unanticipated events or circumstances.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

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

The Company does not hold or purchase any 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 to earnings and cash flow associated with foreign exchange rate changes. As a result, the Company enters into foreign exchange forward and option 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 and to lower its overall borrowing costs. To achieve its objectives, the Company will periodically use interest rate contracts to manage net exposure to interest rate changes related to its borrowings. The Company had no interest rate contracts outstanding at year end 1997.

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 risk 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 historical observations, using one year's data with equal weightings. This data was obtained from the publicly available JP Morgan RiskMetrics data set on the InterNet. 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 would have been immaterial to the Company's 1997 earnings.

INTEREST RATE SENSITIVITY

An assumed 60 basis point move in interest rates (10 percent of the Company's weighted-average floating rate interest rates) affecting the Company's variable-rate borrowings would have had an immaterial effect on the Company's 1997 earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in Registrant's Consolidated Financial Statements and the Notes thereto appearing on pages 34 through 48, and in the Report of Independent Certified Public Accountants on page 49 of Registrant's 1997 Annual Report and is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors called for by this item is incorporated by reference from pages 2, 3 and 4 of the 1998 Proxy Statement which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. Information concerning executive officers called for by this item appears in Part I of this report. The information concerning late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from page 14 of the 1998 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by items 11, 12 and 13 is incorporated by reference from pages 5 through 20 of the 1998 Proxy Statement which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements, Financial Statement Schedules and Exhibits

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

(3) Exhibits filed as a part of this report are listed in the Exhibit Index, which follows the financial statements and schedules referred to above. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) is identified in the Exhibit Index.

(b) Reports on Form 8-K: Registrant filed one Report on Form 8-K for the three months ended December 27, 1997:

Form 8-K dated October 24, 1997, in connection the 1997 Rights Plan.

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

(d) Those financial statement schedules required by Regulation S-X which are excluded from Registrant's 1997 Annual Report by Rule 14a-3(b)(1), and which are required to be filed as financial statement schedules to this report, are indicated in the accompanying Index to Financial Statements and Financial Statement Schedules.

SIGNATURES

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

Avery Dennison Corporation

By /s/ Robert M. Calderoni

 Robert M. Calderoni
 Senior Vice President, Finance and
 Chief Financial Officer

Dated: March 26, 1998

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ Charles D. Miller _____ Charles D. Miller	Chairman and Chief Executive Officer; Director	March 26, 1998
/s/ Philip M. Neal _____ Philip M. Neal	President and Chief Operating Officer; Director	March 26, 1998
/s/ Robert M. Calderoni _____ Robert M. Calderoni	Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	March 26, 1998
/s/ Thomas E. Miller _____ Thomas E. Miller	Vice President and Controller (Principal Accounting Officer)	March 26, 1998

SIGNATURE

TITLE

DATE

/s/ Dwight L. Allison, Jr.

Director

March 26, 1998

Dwight L. Allison, Jr.

/s/ John C. Argue

Director

March 26, 1998

John C. Argue

/s/ Joan T. Bok

Director

March 26, 1998

Joan T. Bok

/s/ Frank V. Cahouet

Director

March 26, 1998

Frank V. Cahouet

/s/ Richard M. Ferry

Director

March 26, 1998

Richard M. Ferry
/s/ Peter W. Mullin

Director

March 26, 1998

Peter W. Mullin

/s/ Sidney R. Petersen

Director

March 26, 1998

Sidney R. Petersen

/s/ John B. Slaughter

Director

March 26, 1998

John B. Slaughter

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULES

REFERENCE (PAGE)

FORM
10-K ANNUAL
ANNUAL REPORT TO
REPORT SHAREHOLDERS

Data incorporated by reference from the attached portions of the 1997 Annual Report to Shareholders of Avery Dennison Corporation:

Report of Independent Certified Public Accountants.....	--	49
Consolidated Balance Sheet at December 27, 1997 and December 28, 1996.....	--	34
Consolidated Statement of Income for 1997, 1996 and 1995.....	--	35
Consolidated Statement of Shareholders' Equity for 1997, 1996 and 1995.....	--	36
Consolidated Statement of Cash Flows for 1997, 1996 and 1995.....	--	37
Notes to Consolidated Financial Statements.....	--	38-48

Individual financial statements of 50% or less owned entities accounted for by the equity method have been omitted because, considered in the aggregate or as a single subsidiary, they do not constitute a significant subsidiary.

With the exception of the consolidated financial statements and the accountants' report thereon listed in the above index, and the information referred to in Items 1, 5 and 6, all of which is included in the 1997 Annual Report and incorporated herein by reference, the 1997 Annual Report is not to be deemed "filed" as part of this report.

Data submitted herewith:

Report of Independent Certified Public Accountants.....	S-2	--
Financial Statement Schedules (for 1997, 1996 and 1995):		
II--Valuation and Qualifying Accounts and Reserves....	S-3	--
Consent of Independent Accountants.....	S-4	--

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of Avery Dennison Corporation

Our report on the consolidated financial statements of Avery Dennison Corporation and subsidiaries has been incorporated by reference in this Form 10-K from page 49 of the 1997 Annual Report to Shareholders of Avery Dennison Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page S-1 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Los Angeles, California
January 27, 1998

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(IN MILLIONS)

	ADDITIONS				BALANCE AT END OF YEAR
	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	FROM ACQUISITIONS	DEDUCTIONS-- UNCOLLECTIBLE ACCOUNTS WRITTEN OFF	
1997					
Allowance for doubtful accounts.....	\$17.5	\$4.3	\$--	\$6.2	\$15.6
	=====	=====	====	=====	=====
1996					
Allowance for doubtful accounts.....	\$17.6	\$4.1	\$--	\$4.2	\$17.5
	=====	=====	====	=====	=====
1995					
Allowance for doubtful accounts.....	\$18.5	\$4.7	\$--	\$5.6	\$17.6
	=====	=====	====	=====	=====

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Avery Dennison Corporation on Form S-3 (File Nos. 333-16375 and 333-38905) and Form S-8 (File Nos. 33-1132, 33-3645, 33-27275, 33-35995-01, 33-41238, 33-45376, 33-54411, 33-58921, 33-63979, 333-38707 and 333-38709) of our report, dated January 27, 1998, which appears on page 49 of the 1997 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the financial statement schedule listed in the index on page S-1.

COOPERS & LYBRAND L.L.P.

Los Angeles, California
March 26, 1998

S-4

AVERY DENNISON CORPORATION

EXHIBIT INDEX

FOR THE YEAR ENDED DECEMBER 27, 1997

INCORPORATED BY REFERENCE:

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(3.1)	Restated Articles of Incorporation.....	B	Proxy Statement dated February 28, 1977 for Annual Meeting of Stockholders March 30, 1977; located in File No. 0-225 at Securities and Exchange Commission, 450 5th St., N.W., Washington, D.C.
(3.1.1)	Amendment to Certificate of Incorporation, filed April 10, 1984 with Office of Delaware Secretary of State.....	3.1.1	1983 Annual Report on Form 10-K
(3.1.2)	Amendment to Certificate of Incorporation, filed April 11, 1985 with Office of Delaware Secretary of State.....	3.1.2	1984 Annual Report on Form 10-K
(3.1.3)	Amendment to Certificate of Incorporation filed April 6, 1987 with Office of Delaware Secretary of State.....	3.1.3	1986 Annual Report on Form 10-K
(3.1.4)	Amendment to Certificate of Incorporation filed October 17, 1990 with Office of Delaware Secretary of State.....		Current Report on Form 8-K filed October 31, 1990
(3.1.5)	Amendment to Certificate of Incorporation filed April 28, 1997 with Office of Delaware Secretary of State.....	3	First Quarterly report for 1997 on Form 10-Q
(3.2)	By-laws, as amended.....	3(ii)	1996 Annual Report on Form 10-K
(4.1)	Rights Agreement dated as of October 23, 1997.		Current Report on Form 8-K filed October 24, 1997
(4.2)	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "Indenture").....		Registration Statement on Form S-3 (File No. 33-39491)
(4.3)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture....		Current Report on Form 8-K filed March 25, 1991
(4.4)	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture").....		Registration Statement on Form S-3 (File No. 33-59642)

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(4.5)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture, as amended by the Supplemental Indenture.		Current Report on Form 8-K filed April 7, 1993
(4.6)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series B" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed March 29, 1994
(4.7)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed May 12, 1995
(4.8)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed December 16, 1996
(10.1)	*Amended 1973 Stock Option and Stock Appreciation Rights Plan for Key Employees of Avery International Corporation ("1973 Plan").....	10.1	1987 Annual Report on Form 10-K
(10.1.1)	*Form of Incentive Stock Option Agreement for use under 1973 Plan....	10.1.3	1984 Annual Report on Form 10-K
(10.1.2)	*Form of Non-Qualified Stock Option Agreement for use under 1973 Plan.....	10.1.4	1987 Annual Report on Form 10-K
(10.1.3)	*Form of coupled Stock Appreciation Right Agreement for use under 1973 Plan.....	10.1.5	1985 Annual Report on Form 10-K
(10.1.4)	1985 U.K. Stock Option Scheme.....	10.1.7	1985 Annual Report on Form 10-K
(10.1.5)	Form of Incentive Stock Option Agreement for use under U.K. Stock Option Scheme.....	10.1.8	1985 Annual Report on Form 10-K
(10.1.6)	Form of Stock Option Agreement for use under U.K. Stock Option Scheme.....	10.1.9	1985 Annual Report on Form 10-K
(10.2.2)	*Form of Incentive Stock Option Agreement for use under 1988 Plan....	10.2.2	1991 Annual Report on Form 10-K
(10.3)	*Deferred Compensation Plan for Directors.....	10.3	1981 Annual Report on Form 10-K
(10.5)	*Executive Medical and Dental Plan (description).....	10.5	1981 Annual Report on Form 10-K
(10.6)	*Executive Financial Counseling Service (description).....	10.6	1981 Annual Report on Form 10-K

(10.7.1) *Executive Employment
Security Policy dated
February 1, 1983..... 10.7.1 1982 Annual Report on Form 10-K

(10.7.2) *Executive Employment
Security Policy dated
February 1, 1985..... 10.13 1984 Annual Report on Form 10-K

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(10.7.3)	*Executive Employment Security Policy dated November 19, 1987.....	10.7.3	1993 Annual Report on Form 10-K
(10.8.1)	*Agreement dated October 24, 1990 with Charles D. Miller.....	10.8.1	1990 Annual Report on Form 10-K
(10.8.2)	*Agreement dated October 23, 1990 with Philip M. Neal.....	10.8.2	1990 Annual Report on Form 10-K
(10.8.3)	*Agreement dated March 16, 1996 with R.G. van Schoonenberg.....	10.8.3	1996 Annual Report on Form 10-K
(10.9)	*Executive Group Life Insurance Plan.....	10.9	1982 Annual Report on Form 10-K
(10.10)	*Form of Indemnity Agreements between Registrant and certain directors and officers.	10.10	1986 Annual Report on Form 10-K
(10.10.1)	*Form of Indemnity Agreement between Registrant and certain directors and officers.	10.10.1	1993 Annual Report on Form 10-K
(10.11)	*Supplemental Executive Retirement Plan.....	10.11	1983 Annual Report on Form 10-K
(10.11.1)	*Amended Letter of Grant to C.D. Miller under Supplemental Executive Retirement Plan.....	10.11.2	1992 Annual Report on Form 10-K
(10.12)	*Complete Restatement and Amendment of Avery Dennison Corporation Executive Deferred Compensation Plan.....	10.12	1994 Annual Report on Form 10-K
(10.12.1)	*Form of Enrollment Agreement for use under Executive Deferred Compensation Plan.....	10.13.2	1985 Annual Report on Form 10-K
(10.13)	*Fourth Amended Avery Dennison Retirement Plan for Directors.....	10.13.2	1992 Annual Report on Form 10-K
(10.15)	*1988 Stock Option Plan for Non-Employee Directors ("Director Plan").....	10.15	1987 Annual Report on Form 10-K
(10.15.1)	*Amendment No. 1 to 1988 Stock Option Plan for Non-Employee Directors ("Director Plan").....	10.15.1	1994 Annual Report on Form 10-K
(10.15.2)	*Form of Non-Employee Director Stock Option Agreement for use under Director Plan.....	10.15.2	1994 Annual Report on Form 10-K
(10.16)	*Complete Restatement and Amendment of Avery Dennison Corporation Executive Variable Deferred Compensation Plan.....	10.16	1994 Annual Report on Form 10-K
(10.16.1)	*Form of Enrollment Agreement for use under Executive Variable Deferred Compensation Plan.....	10.16.1	1987 Annual Report on Form 10-K
(10.17)	*Complete Restatement and Amendment of Avery Dennison Corporation Directors Deferred Compensation Plan.....	10.17	1994 Annual Report on Form 10-K
(10.17.1)	*Form of Enrollment Agreement for use under Directors Deferred		

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(10.18)	*Complete Restatement and Amendment of Avery Dennison Corporation Directors Variable Deferred Compensation Plan.....	10.18	1994 Annual Report on Form 10-K
(10.18.1)	*Form of Enrollment Agreement for use under Directors Variable Deferred Compensation Plan.....	10.18.1	1989 Annual Report on Form 10-K
(10.19)	*1990 Stock Option and Incentive Plan for Key Employees of Avery International Corporation ("1990 Plan").....	10.19	1989 Annual Report on Form 10-K
(10.19.1)	*Amendment No. 1 to 1990 Plan.....	10.19.1	1993 Annual Report on Form 10-K
(10.19.2)	*Form of Incentive Stock Option Agreement for use under 1990 Plan....	10.19.2	1991 Annual Report on Form 10-K
(10.19.3)	*Form of Non-Qualified Stock Option Agreement for use under 1990 Plan.....	10.19.3	1994 Annual Report on Form 10-K
(10.19.4)	*Form of Non-Qualified Stock Option Agreement for use under 1990 Plan (for LTIP Participants).....	10.19.4	1994 Annual Report on Form 10-K
(10.19.5)	*Amendment No. 2 to 1990 Plan.....	10.19.5	1996 Annual Report on Form 10-K
(10.20.1)	*1982 Incentive Stock Option Plan of Dennison Manufacturing Company..		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.20.2)	*1985 Incentive Stock Option Plan of Dennison Manufacturing Company..		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.20.3)	*1988 Stock Option Plan of Dennison Manufacturing Company..		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.20.4)	*Amendments effective as of October 16, 1990 to the 1982 Incentive Stock Option Plan, 1985 Incentive Stock Option Plan and 1988 Stock Option Plan of Dennison Manufacturing Company..		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.21)	*1996 Stock Incentive Plan of Avery Dennison Corporation.....	10.21	1996 Annual Report on Form 10-K
(10.27.1)	*Amended and Restated Key Executive Long-Term Incentive Plan ("LTIP").....	10.27.1	1993 Annual Report on Form 10-K
(10.27.2)	*Second Amended and Restated Key Executive LTIP.....		1995 Annual Report on Form 10-K
(10.27.3)	*Third Amended and Restated Key Executive LTIP.....	10.27.3	1996 Annual Report on Form 10-K
(10.28)	*Complete Restatement and Amendment of Avery Dennison Corporation Executive Deferred Retirement Plan.....	10.28	1994 Annual Report on Form 10-K

(10.28.1) *Form of Enrollment
Agreement for use under
Executive Deferred
Retirement Plan..... 10.28.1 1992 Annual Report on Form 10-K

EXHIBIT NO.	ITEM	ORIGINALLY FILED AS EXHIBIT NO.	DOCUMENT
(10.29)	*Executive Incentive Compensation Plan.....	10.29	1993 Annual Report on Form 10-K
(10.30)	*Senior Executive Incentive Compensation Plan.....	10.30	1993 Annual Report on Form 10-K
(10.31)	*Executive Variable Deferred Retirement Plan.....	10.31	Registration Statement on Form S-8 (File No. 33-63979)
(10.31.1)	*Amended and Restated Executive Variable Deferred Retirement Plan.....	10.31.1	1995 Annual Report on Form 10-K
(10.32)	*Benefit Restoration Plan.....	10.32	1995 Annual Report on Form 10-K
(10.33.1)	*Trust Agreement for Employee Stock Benefit Trust.....	10.1	Current Report on Form 8-K filed October 24, 1996
(10.33.2)	*Common Stock Purchase Agreement.....	10.2	Current Report on Form 8-K filed October 24, 1996
(10.33.3)	*Promissory Note.....	10.3	Current Report on Form 8-K filed October 24, 1996
(10.34.1)	*Capital Accumulation Plan ("CAP").....	4.1	Registration Statement on Form S-8 (File No. 333-38707)
(10.34.2)	*Trust under CAP.....	4.2	Registration Statement on Form S-8 (File No. 333-38707)

- -----
* Management contract or compensatory plan or arrangement required to be filed
as an Exhibit to this Form 10-K pursuant to Item 14(c).

SUBMITTED HEREWITH:

EXHIBIT NO. -----	ITEM -----
10.8.1.1	*Amendment dated April 15, 1997 to Agreement with Charles D. Miller
10.8.1.2	*Amendment dated February 26, 1998 to Agreement with Charles D. Miller
10.8.2.1	*Agreement dated April 15, 1997 with Philip M. Neal
10.8.4	*Form of Employment Agreement dated April 15, 1997
10.31.1	*Amended and Restated Executive Variable Deferred Retirement Plan
10.33.1	*Restated Trust Agreement for Employee Stock Benefit Trust
10.33.3	*Restated Promissory Note
11	Statement re Computation of Net Income Per Share Amounts
12	Computation of Ratio of Earnings to Fixed Charges
13	Portions of Annual Report to Shareholders for fiscal year ended December 27, 1997
21	List of Subsidiaries
23	Consent of Independent Accountants (see page S-4)
27	Financial Data Schedule for current period and restated Financial Data Schedules for other periods.
99	Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

- - - - -
* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Form 10-K pursuant to Item 14(c).

STATEMENT AND AGREEMENT REGARDING
LONG-TERM DEBT OF REGISTRANT

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

FIRST AMENDMENT
TO AGREEMENT DATED OCTOBER 24, 1990

This First Agreement to the Agreement dated October 24, 1990 ("Agreement") between Avery Dennison Corporation ("Avery" or "Company" herein) and Charles D. Miller ("Executive" herein) is made this 15th day of April, 1997. In consideration of the mutual covenants contained herein, the parties agree to amend the Agreement as follows:

1. Section 1e of the Agreement is revised in its entirety to read as follows:

"e. "Change of Control" shall mean:

a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 1e; or

b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly

or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company."

2. Section 8b of the Agreement is revised in its entirety to read as follows:

"b. Certain Additional Payments by the Company.

a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 8b) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

b) Subject to the provisions of Section 8b(c), all determinations required to be made under this Section 8b, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 8b, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the

application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 8b(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

i) give the Company any information reasonably requested by the Company relating to such claim,

ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

iii) cooperate with the Company in good faith in order effectively to contest such claim, and

iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 8b(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with

respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 8b(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 8b(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 8b(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid."

3. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, Avery has caused this First Amendment to the Agreement to be executed in its name on its behalf pursuant to the authorization from its Compensation and Executive Personnel Committee of the Board of Directors, and Executive has affixed his signature, as of the day and year first above written.

EXECUTIVE

AVERY DENNISON CORPORATION

/s/ Charles D. Miller

By: /s/ Robert G. van Schoonenberg

Charles D. Miller

Robert G. van Schoonenberg
Senior Vice President,
General Counsel and Secretary

SECOND AMENDMENT

TO AGREEMENT DATED OCTOBER 24, 1990

This Second Amendment to the Agreement dated October 24, 1990 ("Agreement") between Avery Dennison Corporation ("Company") and Charles D. Miller ("Executive") is made this 26th day of February, 1998.

In consideration of the mutual covenants contained herein, the parties agree to amend the Agreement as follows:

1. References in paragraphs 2, 3, 6, 7, 8 and 9 of the Agreement which refer to (i) "age seventy (70)" or "70th birthday," and (ii) "September 1, 1997" are amended to read (i) "age seventy and one half (70.5)," and (ii) "September 1, 1998," respectively.
2. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Second Amendment to the Agreement to be executed in its name on its behalf pursuant to the authorization from its Compensation and Executive Personnel Committee of the Board of Directors, and Executive has affixed his signature, as of the day and year first above written.

EXECUTIVE

AVERY DENNISON CORPORATION

/s/ Charles D. Miller

Charles D. Miller

By: /s/ Robert G. van Schoonenberg

Robert G. van Schoonenberg
Senior Vice President,
General Counsel and Secretary

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Philip M. Neal (the "Executive"), effective as of April 15, 1997.

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to enter into a new Employment Agreement with Executive to assure that the Company will have the continued dedication of the Executive. This Agreement contains the entire agreement between the parties with respect to the matters specified herein and supersedes all prior oral and written employment agreements, understandings and commitments between the Company and Executive and any Executive Employment Security Policy of the Company covering the Executive; except that the Option to Purchase Agreement between the Company and Executive dated February 22, 1993, relating to a painting located in Executive's office, shall remain in effect.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS.

(a) The "Effective Date" shall mean the date hereof, which is set forth in the first paragraph of this Agreement.

(b) The "Employment Period" shall mean the period commencing on the Effective Date and ending on the third anniversary of the Effective Date; provided, however, that commencing on the first day of the month next following the Effective Date and on the first day of each month thereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate on the third anniversary of such Renewal Date (but not later than the date when the Executive attains age 65), unless the Company or Executive shall give notice to the other that the Employment Period shall not be further extended prior to any such Renewal Date.

2. CHANGE OF CONTROL.

For the purpose of this Agreement, a "Change of Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the

directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. EMPLOYMENT PERIOD.

The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the "Effective Date" and continuing during the "Employment Period," as defined in Sections 1(a) and (b) above.

4. TERMS OF EMPLOYMENT.

(a) Position and Duties.

(i) Executive is currently employed as President and Chief Operating Officer of the Company. During the Employment Period, (A) the Executive's position (including titles), authority, duties and responsibilities shall be at least commensurate with the most significant of those held, exercised and assigned to the Executive at any time during the 120-day period immediately preceding the Effective Date, and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 50 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities.

During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation

(i) Base Salary.

During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") which shall be paid at a monthly rate at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase, and the term "Annual Base Salary" as utilized in this Agreement shall refer to Annual Base Salary as so increased; provided, however, that Executive's Annual Base Salary may be reduced prior to a Change of Control as part of any general, across the board salary reduction which applies in a comparable manner to other officers or senior executives of the Company, but not by more than ten percent (10%) (unless Executive agrees to accept a larger reduction) during any calendar year. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus.

In addition to Annual Base Salary, the Executive shall be eligible to receive, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") under the Company's Senior Executive Incentive (Leadership) Compensation Plan, or any comparable bonus under any successor plan (such plans, collectively, the "Annual Bonus Plans"), including any Annual Bonus which has been earned but deferred. After a Change of Control, the Executive shall be awarded for each fiscal year ending during the Employment Period an Annual Bonus in cash at least equal to the Executive's average Annual Bonus for the last three full fiscal years prior to the Change of Control (annualized in the event that the Executive was not employed by the Company for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans.

During the Employment Period, the Executive shall be entitled to participate in all incentive, savings, retirement, deferral (including the plans described in Section 6(a)(v) below), and nonqualified supplemental pension (including the Benefit Restoration Plan) plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such

distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, which are less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans.

During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(v) Expenses.

During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such reimbursement shall be made in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits.

During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, if applicable, tax and financial planning services, payment of club dues, and automobile lease and payment of related expenses, in accordance with the plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such fringe benefits shall be provided in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff.

During the Employment Period, the Executive shall be entitled to an office and support staff in accordance with the practices and policies of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to

the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation.

During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Change or Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. TERMINATION OF EMPLOYMENT.

(a) Death or Disability.

The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for a period of (i) ninety (90) consecutive calendar days or (ii) an aggregate of one hundred fifty (150) calendar days in any fiscal year of the Company as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause.

The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a notice that

the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason.

The Executive's employment may be terminated by the Executive during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) without the express written consent of the Executive, the assignment to the Executive of any duties or any other action by the Company which results in a material diminution in the Executive's position (including titles), authority, duties or responsibilities from those contemplated by Section 4(a)(i) of this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location more than 50 miles from the location where the Executive was employed immediately preceding the Effective Date;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

(d) Notice of Termination.

Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination.

"Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) Good Reason; Other Than for Cause, Death or Disability.

If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination an amount equal to the present value, determined in accordance with Section 280G(d)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), of the aggregate of the following amounts under A, B and C below; provided however, that prior to a Change of Control, the Company, in its discretion, may determine to pay any such amount when it otherwise would have been paid if the Executive's employment had not been terminated until the end of the Employment Period:

(A) the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid and (2) the excess of (A) the product of (x) (i) if a Change of Control does not occur during the fiscal year which includes the Date of Termination, the Annual Bonus which would have been payable to the Executive for such entire fiscal year or (ii) if a Change of Control does occur during the fiscal year which includes the Date of Termination, the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, over (B) any amounts previously paid to the Executive pursuant to the terms of the Annual Bonus Plans as bonuses with respect to the year that includes the Date of Termination (the sum of the amounts described in clauses (1) and (2) shall be hereinafter referred to as the "Accrued Obligations"); and

(B) the amount equal to the product of (1) three (or the number of years, including partial years, until the end of the Employment Period, if less) and (2) the Executive's highest combined Annual Base Salary and Annual Bonus during any of the last three full fiscal years prior to the Date of Termination; and

(C) an amount equal to the difference between (a) the aggregate benefit under the Company's qualified defined benefit retirement plans (collectively, the "Retirement Plan") and any excess or supplemental defined benefit retirement plans (including the Benefit Restoration Plan) in which the Executive participates (collectively, the "SRP") which the Executive would have accrued (whether or not vested) if the Executive's employment had continued for three years after the Date of Termination, but not after the date on which the Executive attains age 65, and (b) the actual vested benefit, if any, of the Executive under the Retirement Plan and the SRP, determined as of the Date of Termination (with the foregoing

amounts to be computed on an actuarial present value basis, based on the assumption that the Executive's compensation in each of the three years following such termination would have been that required by Section 4(b)(i) and Section 4(b)(ii), and using the actuarial assumptions in effect for purposes of computing benefit entitlements under the Retirement Plan and the SRP at the Date of Termination or, following a Change of Control, using actuarial assumptions no less favorable to the Executive than the most favorable assumptions which were in effect for such purposes at any time from the day before the Change of Control through the Date of Termination;

(ii) for three years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility, and for purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, programs, practices and policies, the Executive shall be considered to have remained employed until three years after the Date of Termination and to have retired on the last day of such period;

(iii) if the Date of Termination occurs after a Change of Control, the Company shall, at its sole expense as incurred (but in no event to exceed \$50,000), provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in the Executive's sole discretion;

(iv) the Executive shall be entitled to purchase at depreciated book value the automobile (if any) which the Company was providing for the use of such Executive, and to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, practice or policy or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits");

(v) the Executive shall be treated, for purposes of the Company's Executive Deferred Compensation Plan, Executive Variable Deferred Compensation Plan, Executive Deferred Retirement Plan, Executive Variable Deferred Retirement Plan, and any successor or similar plans, as if he had three more years of service, and attained an age three years older, than his actual years of service and age as of the Date of Termination; provided, however, that Executive shall be credited with the number of years of service and attained age (in addition to his actual years of service and attained age on the Date of Termination) which are required in order to satisfy the eligibility requirements for "early retirement" benefits and to receive the retirement interest rate under such plans, if the Date of Termination occurs after a Change of Control;

(vi) the Executive shall have the option to have assigned to him at no cost and with no apportionment of prepaid premiums (to the extent possible under the terms of the applicable policies) any assignable insurance policy owned by the Company which relates specifically to the Executive; provided that the Company shall have no obligation to pay off any loans against said insurance policy, and the Executive shall reimburse the Company for the cash value of such insurance policy (if any);

(vii) the Executive shall be entitled to receive payments of deferred cash incentive awards under the amended and restated Key Executive Long-Term Incentive Plan ("LTIP") or any successor plan for performance cycles which commence while the Executive is employed with the Company equivalent to the payments which he would have received if he had remained employed with the Company for three years after the Date of Termination (but not later than age 65), or such other payments (if greater) as may be provided under the LTIP upon a Change of Control or otherwise; and

(viii) all stock options granted to Executive under the Company's stock option plans shall become immediately vested on the Date of Termination.

If the Executive should die while receiving payments pursuant to this Section 6(a), the remaining payments which would have been made to the Executive if he had lived shall be paid to the beneficiary designated in writing by the Executive; or if there is no effective written designation, then to his spouse; or if there is neither an effective written designation nor a surviving spouse, then to his estate. Designation of a beneficiary or beneficiaries to receive the balance of any such payments shall be made by written notice to the Company, and the Executive may revoke or change any such designation of beneficiary at any time by a later written notice to the Company.

(b) Death.

If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term "Other Benefits" as utilized in this Section 6(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as were in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability.

If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period in accordance with Section 5(a), this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term "Other Benefits" as utilized in this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as were in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason.

If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) the Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, or retires at age 65 or thereafter, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

7. NON-EXCLUSIVITY OF RIGHTS.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement (other than this Agreement) with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. The Executive shall no longer be covered by any prior employment agreement or any Executive Employment Security Policy of the Company after the Effective Date of this Agreement.

8. FULL SETTLEMENT; OFFSETS.

Except as provided in this Section 8, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. However, the amount of any payments and benefits provided for in this Agreement shall be reduced by one hundred percent (100%) of any benefits and earned income (within the meaning of Section 911(d)(2)(A) of the Code) which is earned by the Executive for services rendered to persons or entities other than the Company or its affiliates during or with respect to the Employment Period or, after a Change of Control, during the 36-month period after the Date of Termination. Medical and welfare benefits shall be offset as provided in Section 6(a)(ii).

Not less frequently than annually (by December 31 of each year), the Executive shall account to the Company with respect to all benefits and earned income earned by the Executive which are required hereunder to be offset against payments or benefits received by the Executive from the Company. If the Company has paid amounts in excess of those to which the Executive is entitled (after giving effect to the offsets provided above), the Executive shall reimburse the Company for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year in which the Employment Period ends or, after a Change of Control, December 31 of the calendar year which includes the third anniversary of the Date of Termination.

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. CONFIDENTIAL INFORMATION.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential business information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted or alleged violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS.

- (a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.
- (b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.
- (c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

12. MISCELLANEOUS.

- (a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.
- (b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

<p>If to the Executive: -----</p> <p>Philip M. Neal 518 Pacific Avenue Manhattan Beach, CA 90266</p>	<p>If to the Company: -----</p> <p>Avery Dennison Corporation 150 North Orange Grove Boulevard Pasadena, California 91103 Attention: General Counsel</p>
--	--

- or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.
- (c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.
- (d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.
- (e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c)(i)-(v) of this

Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

13. ARBITRATION; ATTORNEYS FEES.

(a) The parties agree that any disputes, controversies or claims which arise out of or are related to this Agreement, Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Company (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration in accordance with the then-current Rules of Practice and Procedure for Employment Arbitration ("Rules") of the Judicial Arbitration and Mediation Services, Inc. ("JAMS").

The arbitration shall be before a single arbitrator selected in accordance with the JAMS Rules or otherwise by mutual agreement of the parties. The arbitration shall take place in Los Angeles County, California, unless the parties agree to hold the arbitration at another location. Depositions and other discovery shall be allowed in accordance with the JAMS Rules. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California or federal law, or both, as applicable to the claim(s) asserted.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense of this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitration shall be final and binding upon the parties.

Either party may bring an action in any court of competent jurisdiction to compel arbitration under this Agreement and to enforce an arbitration award. Except as otherwise provided in this Agreement, both the Company and the Executive agree that neither of them shall initiate or prosecute any lawsuit or administrative action in any way related to any claim covered by this Agreement.

(c) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other party within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year of the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(d) The Company shall advance the costs and expenses of the arbitrator. In any arbitration to enforce any of the provisions or rights under this Agreement, the unsuccessful party in such arbitration, as determined by the arbitrator, shall pay to the successful party or parties all costs,

expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party or parties shall recover an award in any such arbitration proceeding, such costs, expenses and attorneys' fees shall be included as part of such award. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party for costs, expenses and attorneys' fees that exceeds the unsuccessful party's costs, expenses and attorneys' fees in connection with the action or proceeding.

(e) Any decision and award or order of the arbitrator shall be final and binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions shall have separate validity, and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of the arbitrator shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute to the full extent permitted by law. In all other cases the parties agree that the decision of the arbitrator shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the employee in connection with the dispute, and that the decision and opinion of the arbitrator may be presented in any other forum on the merits of the dispute.

IN WITNESS WHEREOF, the Executive has executed this Agreement and, pursuant to the authorization from the Compensation and Executive Personnel Committee of the Board of Directors, the Company has caused this Agreement to be executed, all as of the day and year first above written.

AVERY DENNISON CORPORATION

EXECUTIVE

/s/ Robert G. van Schoonenberg

/s/ Philip M. Neal

Robert G. van Schoonenberg
Senior Vice President, General Counsel
and Secretary

Philip M. Neal

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and _____ (the "Executive"), effective as of _____.

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to enter into an Employment Agreement with Executive to assure that the Company will have the continued dedication of the Executive. The Board further believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control (as defined below) and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and has therefore determined to extend the term of the employment period upon a Change of Control to provide the Executive with compensation and benefits arrangements upon a Change of Control which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Employment Agreement.

This Agreement contains the entire agreement between the parties with respect to the matters specified herein and supersedes all prior oral and written employment agreements, understandings and commitments between the Company and Executive and any Executive Employment Security Policy of the Company covering the Executive.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS.

- (a) The "Effective Date" shall mean the date hereof, which is set forth in the first paragraph of this Agreement.
- (b) The "Employment Period" shall mean the period commencing on the Effective Date and ending on the first anniversary of the Effective Date; provided, however, that commencing on the first day of the month next following the Effective Date and on the first day of each month thereafter prior to a Change of Control (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate on the first anniversary of such Renewal Date (but not later than the date when the Executive attains age 65), unless the Company or Executive shall give notice to the other that the Employment Period shall not be further extended prior to any such Renewal Date. Notwithstanding the foregoing or any of the provisions of this Agreement to the contrary, if a Change of Control (as defined in Section 2) occurs, the Employment Period shall be automatically extended so as to terminate three years from the date on which the Change of Control occurs (but not later than the date when the Executive attains age 65).

If the Executive's employment with the Company is terminated prior to the date on which a Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Employment Period" for such Executive shall be three years from the date of such termination of employment (but not later than the date when the Executive attains age 65).

2. CHANGE OF CONTROL.

For the purpose of this Agreement, a "Change of Control" shall mean:

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or
- (b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or
- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. EMPLOYMENT PERIOD.

The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the "Effective Date" and continuing during the "Employment Period," as defined in Sections 1(a) and (b) above.

4. TERMS OF EMPLOYMENT.

(a) Position and Duties.

(i) During the Employment Period, the Executive's position (including titles), authority, duties and responsibilities shall be at least commensurate with the most significant of those held, exercised and assigned to the Executive at any time during the 120-day period immediately preceding the Effective Date.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation

(i) Base Salary.

During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") which shall be paid at a monthly rate at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase, and the term "Annual Base Salary" as utilized in this Agreement shall refer to Annual Base Salary as so increased; provided, however, that Executive's Annual Base Salary may be reduced prior to a Change of Control as part of any general, across the board salary reduction which applies in a comparable manner to other officers or senior executives of the Company, but not by more than ten percent (10%) (unless Executive agrees to accept a larger reduction) during any calendar year. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus.

In addition to Annual Base Salary, the Executive shall be eligible to receive, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") under the Company's Executive Leadership Compensation Plan or Senior Executive Incentive (Leadership) Compensation Plan, or any comparable bonus under any successor plan (such plans, collectively, the "Annual Bonus Plans"), including any Annual Bonus which has been earned but deferred. After a Change of Control, the Executive shall be awarded for each fiscal year ending during the Employment Period an Annual Bonus in cash at least equal to the Executive's average Annual Bonus for the last three full fiscal years prior to the Change of Control (annualized in the event that the Executive was not employed by the Company for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans.

During the Employment Period, the Executive shall be entitled to participate in all incentive, savings, retirement, deferral (including the plans described in Section 6(a)(v) below), and nonqualified supplemental pension (including the Benefit Restoration Plan) plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, which are less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans.

During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(v) Expenses.

During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such reimbursement shall be made in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately

preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits.

During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, if applicable, tax and financial planning services, payment of club dues, and automobile lease and payment of related expenses, in accordance with the plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such fringe benefits shall be provided in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff.

During the Employment Period, the Executive shall be entitled to an office and support staff in accordance with the practices and policies of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation.

During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Change or Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. TERMINATION OF EMPLOYMENT.

(a) Death or Disability.

The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for a period of (i) ninety (90) consecutive calendar days or (ii) an aggregate of one hundred fifty (150) calendar days in any fiscal year of the Company as a result of incapacity due to mental or physical illness

which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause.

The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a notice that the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason.

The Executive's employment may be terminated by the Executive during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) without the express written consent of the Executive, the assignment to the Executive of any duties or any other action by the Company which results in a material diminution in the Executive's position (including titles), authority, duties or responsibilities from those contemplated by Section 4(a)(i) of this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(iv) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

(d) Notice of Termination.

Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto

given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination.

"Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) Good Reason; Other Than for Cause, Death or Disability.

If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination an amount equal to the present value, determined in accordance with Section 280G(d)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), of the aggregate of the following amounts under A, B and C below; provided however, that prior to a Change of Control, the Company, in its discretion, may determine to pay any such amount when it otherwise would have been paid if the Executive's employment had not been terminated until the end of the Employment Period:

A. the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid and (2) the excess of (A) the product of (x) (i) if a Change of Control does not occur during the fiscal year which includes the Date of Termination, the Annual Bonus which would have been payable to the Executive for such entire fiscal year or (ii) if a Change of Control does occur during the fiscal year which includes the Date of Termination, the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, over (B) any amounts previously paid to the Executive pursuant to the terms of the Annual Bonus Plans as bonuses with respect to the year that includes the Date of Termination (the sum of the amounts described in clauses (1) and (2) shall be hereinafter referred to as the "Accrued Obligations"); and

B. (a) if the Date of Termination occurs prior to a Change of Control, the amount equal to the product of (1) one and (2) the Executive's highest combined Annual Base Salary and Annual Bonus during any of the last three full fiscal years prior to the Date of Termination, or (b) if the Date of Termination occurs after a Change of Control (or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)), the amount equal to the product of (1) three (or the number of years, including partial years, until the end of the Employment Period, if less) and (2) the Executive's highest combined Annual Base Salary and Annual Bonus during any of the last three full fiscal years prior to the Date of Termination; and

C. an amount equal to the difference between (a) the aggregate benefit under the Company's qualified defined benefit retirement plans (collectively, the "Retirement Plan") and any excess or supplemental defined benefit retirement plans (including the Benefit Restoration Plan) in which the Executive participates (collectively, the "SRP") which the Executive would have accrued (whether or not vested) if the Executive's employment had continued for one year (or three years if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Date of Termination, but not after the date on which the Executive attains age 65, and (b) the actual vested benefit, if any, of the Executive under the Retirement Plan and the SRP, determined as of the Date of Termination (with the foregoing amounts to be computed on an actuarial present value basis, based on the assumption that the Executive's compensation in the year (or, if applicable, each of the three years) following such termination would have been that required by Section 4(b)(i) and Section 4(b)(ii), and using the actuarial assumptions in effect for purposes of computing benefit entitlements under the Retirement Plan and the SRP at the Date of Termination or, following a Change of Control, using actuarial assumptions no less favorable to the Executive than the most favorable assumptions which were in effect for such purposes at any time from the day before the Change of Control through the Date of Termination;

(ii) for one year (or three years if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility, and for purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, programs, practices and policies, the Executive shall be considered to have remained employed until one year (or three years if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Date of Termination and to have retired on the last day of such period;

(iii) if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b), the Company shall, at its sole expense as incurred (but in no event to exceed \$50,000), provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in the Executive's sole discretion;

(iv) the Executive shall be entitled to purchase at depreciated book value the automobile (if any) which the Company was providing for the use of such Executive, and to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, practice or policy or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); and

(v) the Executive shall be treated, for purposes of the Company's Executive Deferred Compensation Plan, Executive Variable Deferred Compensation Plan, Executive Deferred Retirement Plan, Executive Variable Deferred Retirement Plan, and any successor or similar plans, as if he had one more year of service, and attained an age one year older, than his actual years of service and age as of the Date of Termination; provided, however, that Executive shall be credited with the number of years of service and attained age (in addition to his actual years of service and attained age on the Date of Termination) which are required in order to satisfy the eligibility requirements for "early retirement" benefits and to receive the retirement interest rate under such plans, if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b).

If the Executive should die while receiving payments pursuant to this Section 6(a), the remaining payments which would have been made to the Executive if he had lived shall be paid to the beneficiary designated in writing by the Executive; or if there is no effective written designation, then to his spouse; or if there is neither an effective written designation nor a surviving spouse, then to his estate. Designation of a beneficiary or beneficiaries to receive the balance of any such payments shall be made by written notice to the Company, and the Executive may revoke or change any such designation of beneficiary at any time by a later written notice to the Company.

(b) Death.

If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term "Other Benefits" as utilized in this Section 6(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as were in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability.

If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period in accordance with Section 5(a), this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term "Other Benefits" as utilized in this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective

Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as were in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason.

If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) the Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, or retires at age 65 or thereafter, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

7. NON-EXCLUSIVITY OF RIGHTS.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement (other than this Agreement) with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. The Executive shall no longer be covered by any prior employment agreement or any Executive Employment Security Policy of the Company after the Effective Date of this Agreement.

8. FULL SETTLEMENT; OFFSETS.

Except as provided in this Section 8, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. However, the amount of any payments and benefits provided for in this Agreement shall be reduced by one hundred percent (100%) of any benefits and earned income (within the meaning of Section 911(d)(2)(A) of the Code) which is earned by the Executive for services rendered to persons or entities other than the Company or its affiliates during or with respect to the Employment Period or, after a Change of Control, during the 36-month period after the Date of Termination. Medical and welfare benefits shall be offset as provided in Section 6(a)(ii).

Not less frequently than annually (by December 31 of each year), the Executive shall account to the Company with respect to all benefits and earned income earned by the Executive which are required hereunder to be offset against payments or benefits received by the Executive from the Company. If the Company has paid amounts in excess of those to which the Executive is

entitled (after giving effect to the offsets provided above), the Executive shall reimburse the Company for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year in which the Employment Period ends or, after a Change of Control, December 31 of the calendar year which includes the third anniversary of the Date of Termination.

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

- (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.
- (b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.
- (c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. CONFIDENTIAL INFORMATION.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential business information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written

consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted or alleged violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS.

- (a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.
- (b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.
- (c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

12. MISCELLANEOUS.

- (a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.
- (b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

[to the last address provided
by the Executive]

If to the Company:

Avery Dennison Corporation
150 North Orange Grove Boulevard
Pasadena, California 91103

Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

- (c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c)(i)-(iv) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

13. ARBITRATION; ATTORNEYS FEES.

(a) The parties agree that any disputes, controversies or claims which arise out of or are related to this Agreement, Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Company (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration in accordance with the then-current Rules of Practice and Procedure for Employment Arbitration ("Rules") of the Judicial Arbitration and Mediation Services, Inc. ("JAMS").

The arbitration shall be before a single arbitrator selected in accordance with the JAMS Rules or otherwise by mutual agreement of the parties. The arbitration shall take place in Los Angeles County, California, unless the parties agree to hold the arbitration at another location. Depositions and other discovery shall be allowed in accordance with the JAMS Rules. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California or federal law, or both, as applicable to the claim(s) asserted.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense of this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitration shall be final and binding upon the parties.

Either party may bring an action in any court of competent jurisdiction to compel arbitration under this Agreement and to enforce an arbitration award. Except as otherwise provided in this Agreement, both the Company and the Executive agree that neither of them shall initiate or prosecute any lawsuit or administrative action in any way related to any claim covered by this Agreement.

(c) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other party within one year of the date the claiming party knew or should have known of the

facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year of the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(d) The Company shall advance the costs and expenses of the arbitrator. In any arbitration to enforce any of the provisions or rights under this Agreement, the unsuccessful party in such arbitration, as determined by the arbitrator, shall pay to the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party or parties shall recover an award in any such arbitration proceeding, such costs, expenses and attorneys' fees shall be included as part of such award. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party for costs, expenses and attorneys' fees that exceeds the unsuccessful party's costs, expenses and attorneys' fees in connection with the action or proceeding.

(e) Any decision and award or order of the arbitrator shall be final and binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions shall have separate validity, and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of the arbitrator shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute to the full extent permitted by law. In all other cases the parties agree that the decision of the arbitrator shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the employee in connection with the dispute, and that the decision and opinion of the arbitrator may be presented in any other forum on the merits of the dispute.

IN WITNESS WHEREOF, the Executive has executed this Agreement and, pursuant to the authorization from the Compensation and Executive Personnel Committee of the Board of Directors, the Company has caused this Agreement to be executed, all as of the day and year first above written.

AVERY DENNISON CORPORATION

EXECUTIVE

AVERY DENNISON CORPORATION
AMENDED AND RESTATED EXECUTIVE
VARIABLE DEFERRED RETIREMENT PLAN

ARTICLE I - PURPOSE

This Amended and Restated Executive Variable Deferred Retirement Plan ("Plan") is adopted by Avery Dennison Corporation, a Delaware Corporation (the "Company"), effective as of December 1, 1997, and provides a deferred compensation plan for executive employees of the Company and its subsidiaries, and amends the existing Avery Dennison Corporation Executive Variable Deferred Retirement Plan ("Prior Plan") in its entirety. The Plan applies to all Participants and/or Beneficiaries of the Plan commencing December 1, 1997. The Prior Plan applies to all Participants and/or Beneficiaries who terminated employment and received a distribution equal to 100% of their Deferral Account balance with the Company or its subsidiaries prior to December 1, 1997.

ARTICLE 2 - DEFINITIONS AND CERTAIN PROVISIONS

Administrator. "Administrator" means the administrator appointed by the

Committee to handle the day-to-day administration of the Plan pursuant to Article 9.

Allocation Election Form. "Allocation Election Form" means the form on which a

Participant elects the Declared Rate(s) to be credited as earnings or losses to such Participant's Deferral Account.

Annual Base Salary. "Annual Base Salary" means an Eligible Employee's rate of

salary in effect on August 1 of the prior plan year, or any other subsequent date as determined by the Administrator in his discretion.

Annual Deferral. "Annual Deferral" means the amount of Annual Base Salary and

Bonus which the Participant elects to defer for a Plan Year.

Beneficiary. "Beneficiary" means the person or persons or entity designated as

such by a Participant pursuant to Article 8.

Benefit. "Benefit" means a Retirement Benefit, Survivor Benefit, Termination

Benefit, Disability Benefit, Emergency Benefit or Discounted Cash Out, as appropriate.

Bonus. "Bonus" means the bonus paid to the Participant in such Plan Year under

any bonus plan, including any annual bonus plan or long term incentive plan (LTIP).

Committee. "Committee" means the deferred compensation plan committee appointed

to administer the Plan pursuant to Article 9.

Declared Rate. "Declared Rate" means the notional rates of return (which may be

positive or negative) of the individual investment options selected by a
Participant for such Deferral Account as set forth in Article 6.

Deferral Account. "Deferral Account" means the notional account established for

record keeping purposes for a Participant pursuant to Section 4.4.

Disability. "Disability" means any inability on the part of an Employee,

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

Discounted Cash Out. "Discounted Cash Out" shall mean a distribution made

pursuant to Section 7.9.

Discounted Cash Out Election. "Discounted Cash Out Election" means the written

election by a Participant or First Beneficiary to receive all or part of the
Participant's Deferral Account pursuant to Section 7.9.

Distribution. "Distribution" means any payment to a Participant or Beneficiary

according to the terms of this Plan including, but not limited to a Benefit.

Early Retirement. "Early Retirement" means the termination of a Participant's

employment with the Company for reasons other than death or disability on or
after the Eligible Employee's attaining age 55 with fifteen (15) years of
service with the Company and before Normal Retirement.

Eligible Employee. "Eligible Employee" means an Employee who is a member of a

select group of management, or a highly compensated employee who meets the
annually indexed salary requirement determined by the Committee in its sole
discretion.

Emergency Benefit. "Emergency Benefit" means the Benefit that is payable

pursuant to Section 7.8 of the Plan.

Employee. "Employee" means any person employed by the Company or its

subsidiaries.

Employer. "Employer" means the Company and any of its subsidiaries.

ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as

amended.

Exchange Act. "Exchange Act" means the Securities Exchange Act of 1934, as

amended.

Enrollment Period. "Enrollment Period" means the period(s) designated from year

to year by the Administrator for enrollments. An Eligible Employee must submit
a Participant Election Form during an Enrollment Period.

First Beneficiary. "First Beneficiary" means the Beneficiary (whether the

primary or contingent Beneficiary) who first becomes entitled to Survivor
Benefits under this Plan.

Normal Retirement. "Normal Retirement" means the termination of a Participant's

employment with Employer for reasons other than death on or after the
Participant attains age 65.

Participant. "Participant" means an Eligible Employee who has filed a completed

and executed Participation Election Form with the Administrator, and who is
participating in the Plan in accordance with the provisions of Articles 3 and 4.

Participation Election Form. "Participation Election Form" means the form that

an Eligible Employee files with the Administrator to participate in the Plan for
a given Plan Year.

Plan. "Plan" means this Avery Dennison Corporation Executive Variable Deferred

Retirement Plan, a non-qualified elective deferred compensation plan, as the
same may be amended from time to time.

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

following November 30.

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

Retirement. "Retirement" shall mean a termination of employment upon Early

Retirement or Normal Retirement.

Retirement Benefit. "Retirement Benefit" means Benefits payable to a

Participant when Participant has satisfied the requirements Early Retirement or
Normal Retirement pursuant to Article 7.

Retirement Plan. "Retirement Plan" means the Retirement Plan for the Employees

of Avery Dennison Corporation, as amended from time to time.

Savings Plan. "Savings Plan" means the Avery Dennison Corporation Employee

Savings Plan, as amended from time to time.

Second Beneficiary. "Second Beneficiary" means the First Beneficiary's named

Beneficiary (whether primary or contingent) who becomes the Second Beneficiary
entitled to Survivor Benefits under the Plan.

Settlement Date. "Settlement Date" means a date upon which a Benefit payment is

due and payable to a Participant or Beneficiary. This date will be within 90
days of, or as soon as possible after the Valuation Date.

Survivor Rate. "Survivor Rate" means the interest rate credited to the

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

Survivor Benefit. "Survivor Benefit" means those Plan Benefits that become

payable upon the death of a Participant pursuant to Section 7.7.

Termination Benefit. "Termination Benefit" means the lump sum amount payable to

a Participant who ceases to be an Employee pursuant to the provisions of Section
7.6.

Termination of Employment. "Termination of Employment" means the cessation of

an Eligible Employee's employment with the Employer for any reason, whether
voluntary or involuntary other than Retirement, Disability or death.

Valuation Date. "Valuation Date" means the date on which the Deferral Account

is valued for Distribution purposes. This date shall be the last day of the
month in which an event occurs that triggers a Benefit payment.

ARTICLE 3 - PARTICIPATION

3.1 Participation. The Committee, through the Administrator, shall notify

Participants generally not less than 30 days (or such lesser period as may be
practicable under the circumstances) prior to any deadline for filing a
Participation Election Form.

3.2 Participation Election. An Eligible Employee shall become a Participant in

the Plan on the first day of the Plan Year coincident with or next following the
date the employee becomes an Eligible Employee, provided such Employee has filed
a Participant Election Form with the Administrator. To be effective, the
Eligible Employee must submit the Participant Election Form during an Enrollment
Period or any other such time as determined by the Administrator.

3.3 Continuation of Participation. A Participant who has elected to

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

ARTICLE 4 - PARTICIPANT DEFERRALS

4.1 Annual Deferral. On the Participation Election Form, and subject to the

restrictions set forth herein, the Eligible Employee shall designate the amount
of Annual Base Salary and Bonus to be deferred for the next Plan Year.

4.2 Minimum Deferral. The minimum amount of Annual Deferral that may deferred

shall be \$2,000 (two thousand dollars).

4.3 Maximum Deferral. The standard maximum amount of Annual Deferral that may

be deferred shall be 10% of an Eligible Employee's Annual Base Salary and 10% of
an Eligible Employee's Bonus; provided, however, that officers of the Company
may defer up to 50% of their Annual Base Salary and up to 50% of their Bonus.
The maximum deferral amount is established at the discretion of the
Administrator.

4.4 Deferral Accounts. Solely for record keeping purposes, the Company shall

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

4.5 Interest on Deferral Accounts. The Participant's Deferral Account shall be

credited with a rate of return (positive or negative) based on the Declared
Rate(s) which he elects. The rate of return (positive or negative) will be
credited monthly and compounded monthly.

4.6 Statement of Accounts. The Administrator shall provide to each Participant

periodic statements (no less than semi-annually) setting forth the Participant's
deferrals, declared rate(s) (credits or debits), distributions and Deferral
Account balance.

4.7 Errors in Benefit Statement or Distributions. In the event an error is

made in a benefit statement, such error shall be corrected on the next benefit
statement following the date such error is discovered. In event of an error in
a Distribution, the Participant's Deferral Account shall, immediately upon the
discovery of such error, be adjusted to reflect such under or over payment and,
if possible, the next Distribution shall be adjusted upward or downward to
correct such prior error. If the remaining balance of a Participant's Deferral
Account is insufficient to cover an erroneous overpayment, the Company may, at
its discretion, offset other amounts payable to the Participant from the Company
(including but not limited to salary, bonuses, expense reimbursements, severance
benefits or other nonqualified employee benefit arrangements) to recoup the
amount of such overpayment(s).

4.8 Valuation of Accounts. The value of a Deferral Account as of any date

shall equal the amounts theretofore credited or debited to such account, plus
the interest deemed to be earned on such account in accordance with this Article
4 through the day preceding such date.

4.9 Vesting. Except with respect to any discretionary contributions made by

the Company which may have a separate vesting schedule, the Participant shall be
100% vested at all times in the Participant's Deferral Account.

ARTICLE 5 - MATCHING CONTRIBUTIONS

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

ARTICLE 6 - INVESTMENT OPTIONS

6.1 Participant Election of Declared Rates. A Participant may elect on the

Allocation Election Form any combination of Declared Rates in 25% increments, as
long as the total does not exceed 100% of the deferrals. A Participant may
change the Declared Rate(s) election at least twice a year effective as of the
following June 1 and December 1 of each year by filing a written notice with the
Administrator at least 30 days in advance. Such elections will apply to current
deferrals, as well as the remaining Deferral Account Balance. The Company may
modify these procedures to provide greater flexibility (e.g., smaller percentage
increments or more frequent reallocations) to Participants. The

Company will not necessarily invest Deferral Account balances in the investment funds represented by the Declared Rates, even though the actual performance of the investment fund(s) that is/are chosen to measure specific Declared Rate(s) will determine the rate of return (positive or negative) on the Participant's Deferral Account.

6.2 Declared Rates. A Participant may select from Declared Rates initially

representing five (5) core investment funds, which may from time to time be established under the Plan and the number of which may be expanded by the Committee; it being the intention that at all times Participants will have at least five (5) core investment fund choices comparable in focus, type and quality to those listed on Exhibit A. The Declared Rate(s) provide a rate of return (positive or negative) that is based on the actual performance of the Pacific Life Insurance Custom COLI contract investment funds. At the end of each month of a Plan Year, Pacific Life Insurance Company will report to the Company the actual gross performance of each investment fund. The rate of return determined based on such gross performance for each investment fund, less an administrative charge of 0.000166514%, will be the Declared Rate for that investment fund for the month.

The Declared Rates available under the Plan are set forth in Exhibit A.

ARTICLE 7 - BENEFITS

7.1 Retirement Benefit. A Participant is eligible for a Retirement Benefit

under this Plan upon the satisfaction of the requirements for Normal Retirement or Early Retirement.

7.2 Benefit Election Alternatives. The Retirement Benefit will be paid

beginning on the Settlement Date, and in the manner which the Participant elects no later than thirteen months prior to retirement. A Participant may elect to receive his Retirement Benefit at retirement in either a lump sum or installments during 5, 10, 15 or 20 years, or a combination of a lump sum payment (in 10% increments) and payments during one installment period; provided, however, that the maximum payout period for Retirement Benefits shall be subject to Section 7.3. In the event a payout election period exceeds the maximum period permitted by Section 7.3 the payout period shall be reduced to the maximum period permitted by Section 7.3.

7.3 Maximum Payout Period. Notwithstanding any Eligible Employee's election to

the contrary, the maximum number of years over which retirement Benefits may be paid from the Plan shall be limited as follows:

- (i) Retirement ages 55-59 - lump sum or over five or ten years
- (ii) Retirement ages 60-61 - lump sum or over five, ten or fifteen years

(iii) Retirement ages 62 and above - lump sum or over five, ten, fifteen or twenty years.

7.4 Installment Payments. All installment payments will be calculated on an

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

7.5 Disability. If a Participant suffers a Disability, Participant deferrals

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

7.6 Termination Benefit. If a Participant ceases to be an Employee for any

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

7.7 Survivor Benefits.

(a) Pre-Retirement. If a Participant dies and has not yet commenced

receiving Retirement Benefit payments, a Survivor Benefit will be paid to his First Beneficiary in annual installments over ten years except as set forth below. The aggregate Survivor Benefit will be equal to the Deferral Account balance plus interest. The annual Survivor Benefit payments shall be re-determined each year based upon the value of the Deferral Account at that time plus interest based on the Survivor Rate.

(b) Post-Retirement. If a Participant dies after payment of Benefits has

commenced, his First Beneficiary will be entitled to receive the remainder of the payments not yet paid to the Participant in accordance with the election of the Participant then in effect. After the Participant's death, interest will be credited at the Survivor Rate.

(c) Second Beneficiary. If the First Beneficiary dies before all Survivor

Benefits under the Plan have been distributed to the First Beneficiary, any remaining account balances shall be paid in a lump sum to the Second Beneficiary or to the First Beneficiary's estate if no second Beneficiary designation is on file with the Administrator.

7.8 Emergency Benefit. In the event that the Committee, upon written petition

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

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

7.9 Discounted Cash Out Election

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

(b) Minimum Amount. Except as otherwise determined by the Committee, the

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

(c) Deferral Account Value. The amount available for the Discounted Cash

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

(d) Adjustment of Accounts; Penalty. If a Participant or First

Beneficiary elects to receive a Discounted Cash Out, the amount actually distributed to the Participant shall be the amount of the requested Discounted Cash Out Election less a 6% penalty. [The Committee, or by law or regulations, reserves the right to change the amount of the penalty if required.]

(e) Number of Distributions. During the course of any calendar year and

prior to Early or Normal Retirement or Death, a Participant or a First Beneficiary may make one Discounted Cash Out Election per year; following Early or Normal

Retirement, a Participant or a First Beneficiary in a payout status, may make two Discounted Cash Out Elections per year.

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

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

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

ARTICLE 8 - BENEFICIARY DESIGNATION

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

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

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

ARTICLE 9 - ADMINISTRATION OF THE PLAN

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

ARTICLE 10 - AMENDMENT OR TERMINATION OF PLAN

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

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

ARTICLE 11 - MAINTENANCE OF ACCOUNTS

11.1 The Company shall keep, or cause to be kept, all such books of account, records and other data as may be necessary or advisable in its judgment for the administration

of this Plan, and to reflect properly the affairs thereof, and to determine the nature and amount of the interests of the respective Participants in each Deferral Account.

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

ARTICLE 12 - MISCELLANEOUS

12.1 Applicable Law. Except to the extent preempted by ERISA, this Plan shall

be governed and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely therein, and applicable substantive provisions of federal law.

12.2 Captions. The captions of the articles, sections, and paragraphs of this

Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

12.3 Employment Not Guaranteed. Nothing contained in this Plan nor any action

taken hereunder shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Company.

12.4 Exempt ERISA Plan. The Plan is intended to be an unfunded plan

maintained primarily to provide deferred compensation Benefits for a select group of management or highly compensated employees within the meaning of Section 401 of ERISA, and therefor to be exempt from parts 2,3, and 4 of Title 1 of ERISA.

12.5 Section 162(m). Notwithstanding anything to the contrary, no Benefit or

Distribution shall be made hereunder in any year, if payment of such Benefit or Distribution during such year would create nondeductible compensation for the Company under Section 162(m) of the Internal Revenue Code.

12.6 Limitation. A Participant and the Participant's Beneficiary shall assume

all risks in connection with the performance of any Declared Rate and any decrease in value of the Deferral Accounts, and the Company, Committee and the Administrator shall not be liable or responsible therefor.

12.7 Notice. Any notice or filing required or permitted to be given to the

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

12.8 Obligations To Employer. If a Participant becomes entitled to a

Distribution of Benefits under the Plan, and if at such time the Participant has outstanding any debt, obligation, or other liability representing an amount owing to the Employer, then the Employer may offset such amount owed to it against the amount of Benefits otherwise distributable. Such determination shall be made by the Committee.

12.9 Limits on Transfer. Other than by will or the laws of descent and

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

12.10 Satisfaction of Claims. Payments to any Participant or Beneficiary in

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

12.11 Unfunded Status of Plan; Creation of Trusts. The Plan is intended to

constitute an "unfunded" plan for deferred compensation and Participants shall rely solely on the unsecured promise of the Company for payment hereunder. With respect to any payment not yet made to a Participant under the Plan, nothing contained in the Plan shall give a Participant any rights that are greater than those of a general unsecured creditor of the Company; provided, however, that the Administrator may authorize the creation of trusts, including but not limited to the Trust referred to in this Section 12.5, or make other arrangements to meet the Company's obligations under the Plan, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

12.12 Compliance. A Participant in the Plan shall have no right to receive

payment with respect to the Participant's Deferral Account until legal and contractual obligations of the Company relating to establishment of the Plan and the making of such payments shall have been complied with in full.

12.13 Tax Withholding. The Participant or Beneficiary shall make appropriate

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

12.14 Protective Provisions. Each Participant shall cooperate with the Employer

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

12.15 Unsecured General Creditor. The Company intends to establish and fund the

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

12.16 Waiver of Stay, Extension and Usury Laws. The Company covenants (to the

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

12.17 Status. The establishment and maintenance of, or allocations and credits

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

12.18 Validity. In the event any provision of this Plan is held invalid, void,

or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

12.19 Waiver of Breach. The waiver by any party of any breach of any provision

of the Plan by any other party shall not operate or be construed as a waiver of any subsequent breach.

12.20 Gender, Singular & Plural. All pronouns and any variations thereof shall

be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

ARTICLE 13 - EFFECTIVE DATE

The effective date of this amended and restated Plan is December 1, 1997

EXHIBIT A

DECLARED RATES

Declared Rate 1. This rate is based on the performance of the Money Market

Fund managed by Pacific Life in the Pacific Select Fund.

Declared Rate 2. This rate is based on the performance of the Managed Bond

Fund managed by PIMCO in the Pacific Select Fund.

Declared Rate 3. This rate is based on the performance of the Equity Index

Fund managed by Bankers Trust in the Pacific Select Fund.

Declared Rate 4. This rate is based on the performance of the International

Fund managed by Morgan Stanley Asset Management in the Pacific Select Fund.

Declared Rate 5. This rate is based on the performance of the Growth LT

Fund managed by Janus Capital Corporation in the Pacific Select Fund.

AVERY DENNISON CORPORATION
EMPLOYEE STOCK BENEFIT TRUST

Effective as of October 24, 1996

TABLE OF CONTENTS

	PAGE

ARTICLE 1.	

Trust, Trustee and Trust Fund.....	2

1.1. Trust.....	2

1.2. Trustee.....	2

1.3. Trust Fund.....	2

1.4. Trust Fund Subject to Claims.....	2

1.5. Definitions.....	3

ARTICLE 2.	

Contributions and Dividends.....	6

2.1. Contributions.....	6

2.2. Dividends.....	6

ARTICLE 3.	

Release and Allocation of Company Stock.....	7

3.1. Release of Shares.....	7

3.2. Allocations.....	7

3.3. Excess Shares.....	7

ARTICLE 4.	

Compensation, Expenses and Tax Withholding.....	8

4.1. Compensation and Expenses.....	8

4.2. Withholding of Taxes.....	8

ARTICLE 5.	

Administration of Trust Fund.....	9

5.1. Management and Control of Trust Fund.....	9

5.2. Investment of Funds.....	9

5.3. Trustee's Administrative Powers.....	9

5.4. Voting and Tendering of Company Stock.....	11

5.5. Indemnification.....	13

5.6. General Duty to Communicate to Committee.....	14

ARTICLE 6.	

Accounts and Reports of Trustee.....	14

6.1. Records and Accounts of Trustee.....	14

6.2. Fiscal Year.....	14

6.3. Reports of Trustee.....	14

6.4. Final Report.....	14

ARTICLE 7.	

Succession of Trustee.....	15

7.1. Resignation of Trustee.....	15

7.2. Removal of Trustee.....	15

7.3. Appointment of Successor Trustee.....	15

7.4. Succession to Trust Fund Assets.....	15

7.5. Continuation of Trust.....	16

7.6. Changes in Organization of Trustee.....	16

7.7. Continuance of Trustee's Powers in Event of	

Termination of the Trust.....	16

ARTICLE 8.

Amendment or Termination..... 16

 8.1. Amendments..... 16
 8.2. Termination..... 17
 8.3. Form of Amendment or Termination..... 17

ARTICLE 9.

Miscellaneous..... 18

 9.1. Controlling Law..... 18
 9.2. Committee Action..... 18
 9.3. Notices..... 18
 9.4. Severability..... 18
 9.5. Protection of Persons Dealing with
 the Trust..... 19
 9.6. Tax Status of Trust..... 19
 9.7. Participants to Have No Interest in the
 Company by Reason of the Trust..... 19
 9.8. Nonassignability..... 19
 9.9. Gender and Plurals..... 19
 9.10. Counterparts..... 19

AVERY DENNISON CORPORATION
EMPLOYEE STOCK BENEFIT TRUST

THIS RESTATED TRUST AGREEMENT (the "Agreement") made effective as of April 1, 1997, between Avery Dennison Corporation, a Delaware corporation, and Wachovia Bank of North Carolina N.A., a national banking association, as trustee.

W I T N E S S E T H :

WHEREAS, the Company (as defined below) desires to establish a trust (the "Trust") in accordance with the laws of the State of Delaware and for the purposes stated in this Agreement;

WHEREAS, the Trustee (as defined below) desires to act as trustee of the Trust, and to hold legal title to the assets of the Trust, in trust, for the purposes hereinafter stated and in accordance with the terms hereof;

WHEREAS, the Company or its subsidiaries have previously adopted the Plans (as defined below);

WHEREAS, the Company desires to provide assurance of the availability of the shares of its common stock necessary to satisfy certain of its obligations or those of its subsidiaries under the Plans (as defined below);

WHEREAS, the Company desires that the assets to be held in the Trust Fund (as defined below) should be principally or exclusively securities of the Company and, therefore, expressly waives any diversification of investments that might otherwise be necessary, appropriate, or required pursuant to applicable provisions of law; and

WHEREAS, Wachovia Bank of North Carolina N.A. has been appointed as trustee and has accepted such appointment as of the date set forth first above;

NOW, THEREFORE, the parties hereto hereby establish the Trust and agree that the Trust will be comprised, held and disposed of as follows:

ARTICLE 1.

Trust, Trustee and Trust Fund

1.1. Trust. This Agreement and the Trust shall be known as the Avery

Dennison Corporation Employee Stock Benefit Trust. The parties intend that the Trust will be an independent legal entity with title to and power to convey all of its assets. The parties hereto further intend that the Trust not be subject to the Employee Retirement Income Security Act of 1974, as amended. The assets of the Trust will be held, invested and disposed of by the Trustee, in accordance with the terms of the Trust.

1.2. Trustee. The trustee named above, and its successor or successors,

is hereby designated as the trustee hereunder, to receive, hold, invest, administer and distribute the Trust Fund in accordance with this Agreement, the provisions of which shall govern the power, duties and responsibilities of the Trustee.

1.3. Trust Fund. The assets held at any time and from time to time under

the Trust collectively are herein referred to as the "Trust Fund" and shall consist of contributions received by the Trustee, proceeds of any loans, investments and reinvestment thereof, the earnings and income thereon, less disbursements therefrom. Except as herein otherwise provided, title to the assets of the Trust Fund shall at all times be vested in the Trustee and securities that are part of the Trust Fund shall be held in such manner that the Trustee's name and the fiduciary capacity in which the securities are held are fully disclosed, subject to the right of the Trustee to hold title in bearer form or in the name of a nominee, and the interests of others in the Trust Fund shall be only the right to have such assets received, held, invested, administered and distributed in accordance with the provisions of the Trust.

1.4. Trust Fund Subject to Claims. Notwithstanding any provision of this

Agreement to the contrary, the Trust Fund shall at all times remain subject to the claims of the Company's general creditors under federal and state law.

In addition, the Board of Directors and Chief Executive Officer of the Company shall have the duty to inform the Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue allocations pursuant to Article 3.

Unless the Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company

or a person claiming to be a creditor alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether the Company is Insolvent. The Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's Insolvency.

If at any time the Trustee has determined that the Company is Insolvent, the Trustee shall discontinue allocations pursuant to Article 3 and shall hold the Trust Fund for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of employees as general creditors of the Company with respect to benefits due under the Plan(s) or otherwise.

The Trustee shall resume allocations pursuant to Article 3 only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

1.5. Definitions. In addition to the terms defined in the preceding portions of the Trust, certain capitalized terms have the meanings set forth below:

Board of Directors. "Board of Directors" means the board of directors of the Company.

Calculation Period. "Calculation Period" means a period consisting of calendar years (or portions thereof) 1996-2001, 2002-2006, or 2007-2012.

Change of Control. "Change of Control" means any of the following events:

(a) an acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the combined voting power of the then outstanding voting securities of the Company; provided, however, that the following acquisitions shall not constitute a Change of

Control: (i) an acquisition by or directly from the Company, (ii) an acquisition by any employee benefit plan or trust sponsored or maintained by the Company; and (iii) any acquisition described in subclauses (A) or (B) of subsection (b) below; or

(b) approval by the stockholders of the Company of (i) a complete dissolution or liquidation of the Company, (ii) a sale or other disposition of all or substantially all of the Company's assets or (iii) a reorganization, merger, or consolidation ("Business Combination") unless either (A) all or substantially all of the stockholders of the Company immediately prior to the Business Combination own more than 50% of the voting securities of the entity surviving the Business Combination, or the entity which directly or indirectly controls such surviving entity, in substantially the same proportion as they owned the voting securities of the Company immediately prior thereto, or (B) the consideration (other than cash paid in lieu of fractional shares or payment upon perfection of appraisal rights) issued to stockholders of the Company in the Business Combination is solely common stock which is publicly traded on an established securities exchange in the United States.

Code. "Code" means the Internal Revenue Code of 1986, as amended.

Committee. "Committee" means a committee of the Company which is charged

by the Board of Directors with administration of the Trust.

Company. "Company" means Avery Dennison Corporation, a Delaware

corporation, or any successor thereto. References to the Company shall include its subsidiaries where appropriate.

Company Stock. "Company Stock" means shares of common stock, par value

\$1.00 per share, issued by the Company or any successor securities.

Extraordinary Dividend. "Extraordinary Dividend" means any dividend or

other distribution of cash or other property (other than Company Stock) made with respect to Company Stock, which the Board of Directors declares generally to be other than an ordinary dividend.

Fair Market Value. "Fair Market Value" means as of any date the average of

the highest and lowest reported sales price regular way on such date (or if such date is not a trading day, then on the most recent prior date which is a trading day) of a share of Company Stock as reported on the composite tape, or similar reporting system, for issues listed on the New York Stock Exchange (or, if the Company Stock is no longer traded on the New York Stock Exchange, on such other national securities exchange on which the Company

Stock is listed or national securities or central market system upon which transactions in Company Stock are reported, as either shall be designated by the Committee for the purposes hereof) or if sales of Common Stock are not reported in any manner specified above, the average of the high bid and low asked quotations on such date (or if such date is not a trading day, then on the most recent prior date which is a trading day) in the over-the-counter market as reported by the National Association of Securities Dealers' Automated Quotation System or, if not so reported, by National Quotation Bureau, Incorporated or similar organization selected by the Committee.

Insolvent. "Insolvent" means as to the Company, (i) the inability of the

Company to pay its debts as they come due, or (ii) the Company being subject to a pending proceeding as debtor under the provisions of Title 11 of the United States Code.

Loan. "Loan" means the loan and extension of credit to the Trust evidenced

by the promissory note made by the Trustee dated October 24, 1996, with which the Trustee purchased Company Stock.

Option Plans. "Option Plans" means the Company's 1973, 1988 and 1990 Stock

Incentive Plans and any successor plans or other stock-based incentive plans of the Company.

Plans. "Plans" means the Option Plans and the employee benefit plans

listed on Schedule A hereto and any other employee benefit plan of the Company or its subsidiaries designated as such by the Committee.

Plan Participant. "Plan Participant" means a participant in any of the

Plans.

Suspense Account. "Suspense Account" means a separate account to be

maintained by the Trustee to hold Excess Shares pursuant to the terms of Article 3 hereof.

Target Value. "Target Value" means with respect to each Trust Year the

amount set forth on Schedule B hereto.

Trustee. "Trustee" means Wachovia Bank of North Carolina N.A. (not in its

corporate capacity but as trustee of the Trust) or any successor trustee.

Trust Year. "Trust Year" means the period beginning on the date hereof and

ending on December 31, 1996 and each 12-month period beginning on January 1 and
ending on December 31 thereafter.

ARTICLE 2.

Contributions and Dividends

2.1. Contributions. For each Trust Year, the Company shall contribute to

the Trust in cash such amount, which together with dividends, as provided in
Section 2.2, and any other earnings of the Trust, shall enable the Trustee to
make all payments of principal and interest due under the Loan on a timely
basis. Unless otherwise expressly provided herein, the Trustee shall apply all
such contributions, dividends and earnings to the payment of principal and
interest due under the Loan. If, at the end of any Trust Year, no such
contribution has been made in cash, such contribution shall be deemed to have
been made in the form of forgiveness of principal and interest on the Loan to
the extent of the Company's failure to make contributions as required by this
Section 2.1. All contributions made under the Trust shall be delivered to the
Trustee. The Trustee shall be accountable for all contributions received by it,
but shall have no duty to require any contributions to be made to it.

2.2. Dividends. Except as otherwise provided herein, dividends paid in

cash on Company Stock held by the Trust, including Company Stock held in the
Suspense Account, shall be applied to pay interest and repay scheduled principal
due under the Loan. Extraordinary Dividends shall not be used to pay interest
on or principal of the Loan, but shall be invested in additional Company Stock
as soon as practicable. Dividends which are not in cash or in Company Stock
(including Extraordinary Dividends, or portions thereof) shall be reduced to
cash by the Trustee and reinvested in Company Stock as soon as practicable,
provided that an Extraordinary Dividend constituting a spin-off, split-off or
similar transaction may be transferred to a trust sponsored by the spun-off
company or dealt with in another equitable manner as determined in good faith by
the Committee. For purposes of this Agreement, Company Stock purchased with the
proceeds of an Extraordinary Dividend or with the proceeds of a non-cash
dividend shall be deemed to have been acquired with the proceeds of the Loan.
In the Trustee's discretion, investments in Company Stock may be made through
open-market purchases, private transactions or (with the Company's consent)
purchases from the Company.

ARTICLE 3.

Release and Allocation of Company Stock

3.1. Release of Shares. Subject to the other provisions of this Article 3,

upon the payment or forgiveness in any Trust Year of any principal on the Loan (a "Principal Payment"), the following number of shares of Company Stock acquired with the proceeds of the Loan shall be available for allocation ("Available Shares") as provided in this Article 3: the number of shares so acquired and held in the Trust immediately before such payment or forgiveness, multiplied by a fraction the numerator of which is the amount of the Principal Payment and the denominator of which is the sum of such Principal Payment and the remaining principal of the Loan outstanding after such Principal Payment.

3.2. Allocations. Subject to the provisions of Section 3.3, Available

Shares shall be allocated as directed by the Committee to the Plans no less frequently than annually. The Committee's discretion shall be limited to the amounts allocated among Plans, with the allocation itself being mandatory. Subject to Section 3.3, in the event that any Available Shares remain after satisfaction of all benefit obligations under each of the Plans for a given Trust Year, all remaining Available Shares shall be contributed by the Trustee to such other plans of the Company or its subsidiaries covering a broad cross-section of individuals employed by the Company as the Committee shall direct.

3.3. Excess Shares. (a) Notwithstanding the provisions of Section 3.2,

Available Shares shall not be released from the Trust and allocated pursuant to Section 3.2 to the extent that the Fair Market Value of the Available Shares in a Trust Year exceeds the Target Value. Available Shares which are not allocated pursuant to the preceding sentence ("Excess Shares") shall be held by the Trustee in the Suspense Account and allocated in accordance with the provisions of this Section 3.3.

(b) In the event that there are any Excess Shares created in any Trust Year within a Calculation Period, such Excess Shares shall be released from the Suspense Account pursuant to Section 3.2 to the extent that but for such release the Fair Market Value of the Available Shares in a subsequent Trust Year within the same Calculation Period would be less than the Target Value. In the event that in any Trust Year the value of the Available Shares was less than the Target Value for such Trust Year (such amount being referred to as the "Shortfall") and Excess Shares are created in a subsequent Trust Year within the same Calculation Period, Excess Shares with a value equal to the Shortfall shall be transferred by the Trustee to such Plans as directed by the Committee;

provided, however, that such shares may not be transferred to the Company.

(c) In the event that at the end of any Calculation Period there are Excess Shares that have not been allocated pursuant to Section 3.3(b), such Excess Shares shall, subject to the provisions of this subsection (c), be distributed in equal amounts of shares in each Trust Year in the next Calculation Period to individuals employed by the Company or plans in which they participate, as directed by the Committee taking into account the best interest of a broad cross-section of the individuals employed by the Company and its subsidiaries. However, Excess Shares which would have been allocated in a Trust Year pursuant to the preceding sentence shall instead be allocated pursuant to Section 3.2 to the extent that there is a Shortfall with respect to such Trust Year. Any Excess Shares remaining in the Trust at the beginning of the final Calculation Period of the Trust shall be contributed in equal amounts of shares in each Trust Year during such Calculation Period to individuals employed by the Company or plans in which they participate, as directed by the Committee taking into account the best interest of a broad cross-section of the individuals employed by the Company and its subsidiaries, and the Trust shall not terminate until such Excess Shares have been so contributed.

ARTICLE 4.

Compensation, Expenses and Tax Withholding

4.1. Compensation and Expenses. The Trustee shall be entitled to such

reasonable compensation for its services as may be agreed upon from time to time by the Company and the Trustee and to be reimbursed for its reasonable legal, accounting and appraisal fees, expenses and other charges reasonably incurred in connection with the administration, management, investment and distribution of the Trust Fund. Such compensation shall be paid, and such reimbursement shall be made out of the Trust Fund. The Company agrees to make sufficient contributions to the Trust to pay such amounts owing the Trustee in addition to those contributions required by Section 2.1.

4.2. Withholding of Taxes. The Trustee may withhold, require withholding,

or otherwise satisfy its withholding obligation, on any distribution which it is

directed to make, such amount as it may reasonably estimate to be necessary to comply with applicable federal, state and local withholding requirements. Upon settlement of such tax liability, the Trustee shall distribute the balance of such amount. Prior to making any distribution hereunder, the Trustee may require such release or documents from any taxing authority, or may require such indemnity, as the Trustee shall reasonably deem necessary for its protection.

ARTICLE 5.

Administration of Trust Fund

5.1. Management and Control of Trust Fund. Subject to the terms of this

Agreement, the Trustee shall have exclusive authority, discretion and responsibility to manage and control the assets of the Trust Fund.

5.2. Investment of Funds.

Except as otherwise provided in Section 2.2 and in this Section 5.2, the Trustee shall invest and reinvest the Trust Fund exclusively in Company Stock, including any accretions thereto resulting from the proceeds of a tender offer, recapitalization or similar transaction which, if not in Company Stock, shall be reduced to cash as soon as practicable. The Trustee may invest any portion of the Trust Fund temporarily pending investment in Company Stock, distribution or payment of expenses in (i) investments in United States Government obligations with maturities of less than one year, (ii) interest-bearing accounts including but not limited to certificates of deposit, time deposits, saving accounts and money market accounts with maturities of less than one year in any bank, including the Trustee's, with aggregate capital in excess of \$1,000,000,000 and a Moody's Investor Services rating of at least P1, or an equivalent rating from a nationally recognized ratings agency, which accounts are insured by the Federal Deposit Insurance Corporation or other similar federal agency, (iii) obligations issued or guaranteed by any agency or instrumentality of the United States of America with maturities of less than one year or (iv) short-term discount obligations of the Federal National Mortgage Association.

5.3. Trustee's Administrative Powers.

Except as otherwise provided herein, and subject to the Trustee's duties hereunder, the Trustee shall have the

following powers and rights, in addition to those provided elsewhere in this Agreement or by law:

(a) to retain any asset of the Trust Fund;

(b) subject to Section 5.4(b), Section 8.2 and Articles 2 and 3, to sell, transfer, mortgage, pledge, lease or otherwise dispose of, or grant options with respect to any Trust Fund assets at public or private sale;

(c) upon direction from the Company, to borrow from any lender (including the Company pursuant to the Loan), to acquire Company Stock as authorized by this Agreement, to enter into lending agreements upon such terms (including reasonable interest and security for the loan and rights to renegotiate and prepay such loan) as may be determined by the Committee; provided, however, that any collateral given by the Trustee for the Loan shall be limited to cash and property contributed by the Company to the Trust and dividends paid on Company Stock held in the Trust Fund and shall not include Company Stock acquired with the proceeds of Loan;

(d) with the consent of the Committee, to settle, submit to arbitration, compromise, contest, prosecute or abandon claims and demands in favor of or against the Trust Fund;

(e) to vote or to give any consent with respect to any securities, including any Company Stock, held by the Trust either in person or by proxy for any purpose, provided that the Trustee shall vote, tender or exchange all shares of Company Stock as provided in Section 5.4;

(f) to exercise any of the powers and rights of an individual owner with respect to any asset of the Trust Fund and to perform any and all other acts that in its judgment are necessary or appropriate for the proper administration of the Trust Fund, even though such powers, rights and acts are not specifically enumerated in this Agreement;

(g) to employ such accountants, actuaries, investment bankers, appraisers, other advisors and agents as may be reasonably necessary in collecting, managing, administering, investing, valuing,

distributing and protecting the Trust Fund or the assets thereof or any borrowings of the Trustee made in accordance with Section 5.3(c); and to pay their reasonable fees and expenses, which shall be deemed to be expenses of the Trust and for which the Trustee shall be reimbursed in accordance with Section 4.1;

(h) to cause any asset of the Trust Fund to be issued, held or registered in the Trustee's name or in the name of its nominee, or in such form that title will pass by delivery, provided that the records of the Trustee shall indicate the true ownership of such asset;

(i) to utilize another entity as custodian to hold, but not invest or otherwise manage or control, some or all of the assets of the Trust Fund; and

(j) to consult with legal counsel (who may also be counsel for the Trustee generally) with respect to any of its duties or obligations hereunder; and to pay the reasonable fees and expenses of such counsel, which shall be deemed to be expenses of the Trust and for which the Trustee shall be reimbursed in accordance with Section 4.1.

Notwithstanding the foregoing, neither the Trust nor the Trustee shall have any power to, and shall not, engage in any trade or business.

5.4. Voting and Tendering of Company Stock.

(a) Voting of Company Stock. The Trustee shall follow the directions of

participants in the Option Plans as to the manner in which shares of Company Stock held by the Trust are to be voted on each matter brought before an annual or special stockholders' meeting of the Company or the manner in which any consent is to be executed, in each case as provided below. Before each such meeting of stockholders, the Trustee shall cause to be furnished to each active employee of the Company who holds a vested award under any of the Option Plans ("Active Option Plan Participant") a copy of the proxy solicitation material received by the Trustee, together with a form requesting confidential instructions ("Instruction Form") as to how to vote the shares of Company Stock held by the Trustee. Each Active Option Plan Participant shall have 30 days to return the Instruction Form to the Trustee. Upon the expiration of the period for the return of Instruction Forms, the Trustee shall on each such matter vote the number of shares (including fractional shares) of Company Stock held by the Trust as follows:

The Trustee shall assign to each Active Option Plan Participant, a number of shares (the "Participant Directed

Amount") equal to the product of (x) the total number of shares of Common Stock held in the Trust Fund, and (y) a fraction, the numerator of which is one (1) and the denominator of which is the total number of Active Option Plan Participants in such year. Each share assigned to each Active Option Plan Participant in accordance with the previous sentence shall be voted in accordance with such participant's Instruction Form. Any shares of Company Stock which remain undirected pursuant to the foregoing provisions shall be voted for, against or to abstain in the same proportions as the shares of Company Stock for which the Trustee is directed as provided above.

(b) Tender or Exchange of Company Stock. The Trustee shall use its best

efforts timely to distribute or cause to be distributed to Active Option Plan Participants any written materials distributed to stockholders of the Company generally in connection with any tender offer or exchange offer for Company Stock, together with a form requesting confidential instructions on whether or not to tender or exchange shares of Company Stock held in the Trust (the "Tender Form"). Each Active Option Plan Participant shall have until 4 days prior to the expiration of the relevant tender or exchange offer to return the Tender Form. Upon expiration of the period for return of Tender Forms, the Trustee shall tender or not tender the Participant Directed Amount for each Active Option Plan Participant in accordance with such participant's Tender Form. Each Active Option Plan Participant shall not be limited in the number of instructions to tender or withdraw from tender which he/she may give but shall not have the right to give instructions to tender or withdraw from tender after expiration of the period for return of Tender Forms. If the Trustee shall not receive timely instruction by means of a Tender Form as to the manner in which to respond to such a tender or exchange offer, the Trustee shall tender or exchange or not tender or exchange any shares of Company Stock with respect to which an Active Option Plan Participant has the right of direction, in the same proportion as the shares of Company Stock for which the Trustee is directed as provided above.

(c) The Company shall maintain appropriate procedures to ensure that all instructions by Active Option Plan Participants are collected, tabulated, and transmitted to the Trustee without being divulged or released to any person affiliated with the Company or its affiliates. All actions taken by Active Option Plan Participants and the contents of the Instruction Forms and Tender Forms shall be held confidential by the Trustee and shall not be divulged or released to any person, other than (i) agents of the Trustee who are not affiliated with the Company or its affiliates or (ii) by virtue of the execution by the Trustee of any proxy, consent or letter of transmittal for the shares of Company Stock held in the Trust, or (iii) or as required by court order.

5.5. Indemnification.

(a) To the extent lawfully allowable, the Company shall and hereby does indemnify and hold harmless the Trustee from and against any claims, demands, actions, administrative or other proceedings, causes of action, liability, loss, cost, damage or expense (including reasonable attorneys' fees), which may be asserted against it, in any way arising out of or incurred as a result of its action or failure to act in connection with the operation and administration of the Trust; provided that such indemnification shall not apply to the extent that the Trustee has acted in willful or negligent violation of applicable law or its duties under this Trust or in bad faith. The Trustee shall be under no liability to any person for any loss of any kind which may result (i) by reason of any action taken by it in accordance with any direction of the Committee or any Active Option Plan Participant acting pursuant to Section 5.4(b) (hereinafter collectively referred to as the "directing participants"), (ii) by reason of its failure to exercise any power or authority or to take any action hereunder because of the failure of any such directing participant to give directions to the Trustee, as provided for in this Agreement, or (iii) by reason of any act or omission of any of the directing participants with respect to its duties under this Trust. The Trustee shall be fully protected in acting upon any instrument, certificate, or paper delivered by the Committee or any Active Option Plan Participant or beneficiary and believed in good faith by the Trustee to be genuine and to be signed or presented by the proper person or persons, and the Trustee shall be under no duty to make any investigation or inquiry as to any statement contained in any such writing, but may accept the same as conclusive evidence of the truth and accuracy of the statements therein contained.

(b) The Company may, but shall not be required to, maintain liability insurance to insure its obligations hereunder. If any payments made by the Company or the Trust pursuant to this indemnity are covered by insurance, the Company or the Trust (as applicable) shall be subrogated to the rights of the indemnified party against the insurance company.

(c) Without limiting the generality of the foregoing, the Company may, at the request of the Trustee, advance to the Trustee reasonable amounts of expenses, including reasonable attorneys' fees and expenses, which the Trustee advised have been incurred in connection with its investigation or defense of any claim, demand, action, cause of action, administrative or other proceeding arising out of or in connection with the Trustee's performance of its duties under this Agreement.

5.6. General Duty to Communicate to Committee. The Trustee shall promptly

notify the Committee of all communications with or from any government agency or
with respect to any legal proceeding with regard to the Trust and with or from
any Plan Participants concerning their entitlements under the Plans or the
Trust.

ARTICLE 6.

Accounts and Reports of Trustee

6.1. Records and Accounts of Trustee. The Trustee shall maintain accurate

and detailed records and accounts of all transactions of the Trust, which shall
be available at all reasonable times for inspection or audit by any person
designated by the Company and which shall be retained as required by applicable
law.

6.2. Fiscal Year. The fiscal year of the Trust shall be the twelve month

period beginning on January 1 and ending on December 31.

6.3. Reports of Trustee. The Trustee shall prepare and present to the

Committee a report for the period ending on the last day of each fiscal year,
and for such shorter periods as the Committee may reasonably request, listing
all securities and other property acquired and disposed of and all receipts,
disbursements and other transactions effected by the Trust after the date of the
Trustee's last account, and further listing all cash, securities, and other
property held by the Trust, together with the fair market value thereof, as of
the end of such period. In addition to the foregoing, the report shall contain
such information regarding the Trust Fund's assets and transactions as the
Committee in its discretion may reasonably request.

6.4. Final Report. In the event of the resignation or removal of a

Trustee hereunder, the Committee may request and the Trustee shall then with
reasonable promptness

submit, for the period ending on the effective date of such resignation or removal, a report similar in form and purpose to that described in Section 6.3.

ARTICLE 7.

Succession of Trustee

7.1. Resignation of Trustee. The Trustee or any successor thereto may

resign as Trustee hereunder at any time upon delivering a written notice of such resignation, to take effect ninety (90) days after the delivery thereof to the Committee, unless the Committee accepts shorter notice; provided, however, that no such resignation shall be effective until a successor Trustee has assumed the office of Trustee hereunder.

7.2. Removal of Trustee. The Trustee or any successor thereto may be

removed by the Company by delivering to the Trustee so removed an instrument executed by the Committee. Such removal shall take effect at the date specified in such instrument, which shall not be less than sixty (60) days after delivery of the instrument, unless the Trustee accepts shorter notice; provided, however, that no such removal shall be effective until a successor Trustee has assumed the office of Trustee hereunder.

7.3. Appointment of Successor Trustee. Whenever the Trustee or any

successor thereto shall resign or be removed or a vacancy in the position shall otherwise occur, the Committee shall use its best efforts to appoint a successor Trustee as soon as practicable after receipt by the Committee of a notice described in Section 7.1, or the delivery to the Trustee of a notice described in Section 7.2, as the case may be, but in no event more than one hundred eighty (180) days after receipt or delivery, as the case may be, of such notice. A successor Trustee's appointment shall not become effective until such successor shall accept such appointment by delivering its acceptance in writing to the Company. If a successor is not appointed within such 180-day period, the Trustee, at the Company's expense, may petition a court of competent jurisdiction for appointment of a successor. Any successor Trustee shall be an institutional trustee not affiliated with the Company.

7.4. Succession to Trust Fund Assets. The title to all property held

hereunder shall vest in any successor Trustee acting pursuant to the provisions hereof without the execution or filing of any further instrument, but a resigning or removed Trustee shall execute all instruments and do all acts necessary to vest title in the successor Trustee. Each successor Trustee shall have, exercise and enjoy all of the powers, both discretionary and ministerial, herein conferred upon its predecessors. A successor Trustee shall not be obliged to examine or review the accounts, records, or

acts of, or property delivered by, any previous Trustee and shall not be responsible for any action or any failure to act on the part of any previous Trustee.

7.5. Continuation of Trust. In no event shall the legal disability,

resignation or removal of a Trustee terminate the Trust, but the Board of Directors shall forthwith appoint a successor Trustee in accordance with Section 7.3 to carry out the terms of the Trust.

7.6. Changes in Organization of Trustee. In the event that any corporate

Trustee hereunder shall be converted into, shall merge or consolidate with, or shall sell or transfer substantially all of its assets and business to, another corporation, state or federal, the corporation resulting from such conversion, merger or consolidation, or the corporation to which such sale or transfer shall be made, shall thereunder become and be the Trustee under the Trust with the same effect as though originally so named.

7.7. Continuance of Trustee's Powers in Event of Termination of the Trust.

In the event of the termination of the Trust, as provided herein, the Trustee shall dispose of the Trust Fund in accordance with the provisions hereof. Until the final distribution of the Trust Fund, the Trustee shall continue to have all powers provided hereunder as necessary or expedient for the orderly liquidation and distribution of the Trust Fund.

ARTICLE 8.

Amendment or Termination

8.1. Amendments. Except as otherwise provided herein, the Company may

amend the Trust at any time and from time to time in any manner which it deems desirable, provided that no amendment which would adversely effect the contingent rights of Plan Participants may change (i) the allocation formula contained in Section 3.1 or Section 3.2 so as to change the Fair Market Value in any Trust Year of the Available Shares or the Excess Shares, (ii) the terms of Section 3.3, (iii) the Target Value reflected on Schedule B

with respect to any Trust Year, (iv) the provisions of Section 5.4, other than an amendment to reflect a change in the Plans funded by this Trust, (v) the provisions of Section 8.2, (vi) the provisions of this Section 8.1, or (vii) change the duties of the Trustee without the Trustee's consent, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, the Company shall retain the power under all circumstances to amend the Trust to correct any errors or clarify any ambiguities or similar issues of interpretation in this Agreement.

8.2. Termination. Subject to the terms of Section 3.3(c) and this Section

8.2, the Trust shall terminate on January 1, 2012 or any earlier date on which the Loan is paid in full (the "Termination Date"). The Board of Directors may terminate the Trust at any time prior to the Termination Date. The Trust shall also terminate automatically upon the Company giving the Trustee notice of a Change of Control. Immediately upon a termination of the Trust, the Company shall be deemed to have forgiven all amounts then outstanding under the Loan. As soon as practicable after receiving notice from the Company of a Change of Control or upon any other termination of the Trust, the Trustee shall sell all of the Company Stock and other non-cash assets (if any) then held in the Trust Fund as directed by the Committee in good faith taking into account the interests of a broad cross-section of individuals employed by the Company. The proceeds of such sale shall first be returned to the Company up to an amount equal to the principal amount, plus any accrued interest of the Loan that was forgiven upon such termination. Subject to the provisions of Section 3.3(c), any funds remaining in the Trust after such payment to the Company shall be distributed with reasonable promptness to a broad cross-section of Plan Participants or to individuals employed by the Company generally or to any benefit plan or trust in which a broad cross-section of individuals employed by the Company participate, as the Committee may in good faith determine taking into account the best interests of a broad cross-section of the individuals employed by the Company.

8.3. Form of Amendment or Termination. Any amendment or termination of

the Trust shall be evidenced by an instrument in writing signed by an authorized officer of the Company, certifying that said amendment or termination has been authorized and directed by the Company or the Board of Directors, as applicable, and, in the case of any amendment, shall be consented to by signature of an authorized officer of the Trustee, if required by Section 8.1.

ARTICLE 9.

Miscellaneous

9.1. Controlling Law. The laws of the State of Delaware shall be the controlling law in all matters relating to the Trust, without regard to conflicts of law.

9.2. Committee Action. Any action required or permitted to be taken by the Committee may be taken on behalf of the Committee by any individual so authorized. The Company shall furnish to the Trustee the name and specimen signature of each member of the Committee upon whose statement of a decision or direction the Trustee is authorized to rely. Until notified of a change in the identity of such person or persons, the Trustee shall act upon the assumption that there has been no change.

9.3. Notices. All notices, requests, or other communications required or permitted to be delivered hereunder shall be in writing, delivered by registered or certified mail, return receipt requested as follows:

To the Company:

150 North Orange Boulevard
Pasadena, California 91103

Attention: General Counsel

To the Trustee:

Post Office Box 3099
Winston Salem, North Carolina 27150

Attention: John Smith

Any party hereto may from time to time, by written notice given as aforesaid, designate any other address to which notices, requests or other communications addressed to it shall be sent.

9.4. Severability. If any provision of the Trust shall be held illegal, invalid or unenforceable for any reason, such provision shall not affect the remaining parts hereof, but the Trust shall be construed and enforced as if said provision had never been inserted herein.

9.5. Protection of Persons Dealing with the Trust. No person dealing with the Trustee shall be required or entitled to monitor the application of any money paid or property delivered to the Trustee, or determine whether or not

the Trustee is acting pursuant to authorities granted to it hereunder or to authorizations or directions herein required.

9.6. Tax Status of Trust. It is intended that the Company, as grantor

hereunder, be treated for Federal income tax purposes as the owner of the entire Trust and the trust assets under Section 671, et seq. of the Code. Until advised otherwise, the Trustee may presume that the Trust is so characterized for federal income tax purposes and shall make all filings of tax returns on that presumption.

9.7. Participants to Have No Interest in the Company by Reason of the

Trust. Neither the creation of the Trust nor anything contained in the Trust

shall be construed as giving any person, including any individual employed by the Company or any subsidiary of the Company, any equity or interest in the assets, business, or affairs of the Company except to the extent that any such individuals are entitled to exercise stockholder rights with respect to Company Stock pursuant to Section 5.4.

9.8. Nonassignability. No right or interest of any person to receive

distributions from the Trust shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, or bankruptcy, but excluding death or mental incompetency, and no right or interest of any person to receive distributions from the Trust shall be subject to any obligation or liability of any such person, including claims for alimony or the support of any spouse or child.

9.9. Gender and Plurals. Whenever the context requires or permits, the

masculine gender shall include the feminine gender and the singular form shall include the plural form and shall be interchangeable.

9.10. Counterparts. This Agreement may be executed in any number of

counterparts, each of which shall be considered an original.

IN WITNESS WHEREOF, the Company and the Trustee have caused this Agreement to be signed, and their seals affixed hereto, by their authorized officers all as of the day, month and year first above written.

AVERY DENNISON CORPORATION

By /s/ R.G. Jenkins
Senior Vice President and
Chief Financial Officer

WACHOVIA BANK OF NORTH CAROLINA N.A.

By /s/ John N. Smith, III
Vice President

SCHEDULE A

1. The 1973 Employee Stock Option and Stock Appreciation Rights Plan
2. The 1988 Stock Option and Stock Appreciation Rights Plan
3. The 1990 Employee Stock Option and Incentive Plan
4. The 1985 Incentive Stock Option Plan of Dennison Manufacturing Company
5. The 1988 Stock Option Plan of Dennison Manufacturing Company
6. The Employee Saving Plan

SCHEDULE B

Trust Year	Target Value (\$)
-----	-----
1997	33,616,071
1998	42,020,089
1999	52,525,112
2000	65,656,390
2001	82,070,487
2002	102,588,109
2003	128,535,136
2004	169,293,920
2005	200,367,400
2006	250,459,250
2007	313,074,062
2008	391,342,577
2009	489,178,222
2010	611,472,777
2011	764,340,971
2012	5,350,356,800

PROMISSORY NOTE

\$564,750,000 October 24, 1996
Pasadena, California

FOR VALUE RECEIVED, the undersigned, Wachovia Bank of North Carolina N.A., not in its individual or corporate capacity but solely in its capacity as Trustee of The Avery Dennison Corporation Employee Stock Benefit Trust (the "Trust") hereby promises on behalf of the Trust to pay to the order of Avery Dennison Corporation, a Delaware corporation (the "Company"), at the principal offices of the Company in Pasadena, California, or at such other place as the Company shall designate in writing, the aggregate principal amount of FIVE HUNDRED AND SIXTY-FOUR MILLION SEVEN HUNDRED THOUSAND DOLLARS (\$564,750,000), as shown on Schedule A attached hereto as such may be amended from time to time, with interest in arrears thereon, as hereinafter provided.

Principal shall be paid in installments in the amounts and on the dates set forth on the Maturity Schedule attached hereto as Schedule A, the last such installment due on January 1, 2012; provided, however, that this Note may be prepaid in whole or in part at any time without penalty; and provided further that the principal amount of this Note (1) shall be forgiven in the event that the Trust shall have been terminated in accordance with Section 8.2 thereof and the Trustee shall have complied with the requirements of such Section or (2) shall be deemed forgiven, if applicable, in accordance with Section 2.1 of the Trust. Interest on the unpaid principal balance, at an annual interest rate (the "Interest Rate") equal to 8.0%, shall be paid quarterly, in arrears, on each January 1, April 1, July 1 and October 1, commencing January 1, 1997, and shall be calculated on the basis of a 360-day year of 30-day months. Whenever any payment falls due on a Saturday, Sunday or public holiday, such payment shall be made on the next succeeding business day.

This Note shall be construed under the laws of the State of Delaware.

The undersigned represents and warrants that the indebtedness represented by this Note was incurred for the purpose of purchasing shares of Common Stock, \$1.00 par value, of the Company.

This Note may not be assigned by the Company, other than by operation of law, without the prior express written consent of the undersigned.

The Company shall have no recourse whatsoever to any assets of the Trustee in its individual or corporate capacity for repayment. The Trustee is entering into this Agreement not in its individual or corporate capacity but solely as Trustee, and no personal or corporate liability or personal or corporate responsibilities are assumed by, or shall at any time be asserted or enforceable against, the Trustee in its individual or corporate capacity under, or with respect to, this Agreement.

WACHOVIA BANK OF NORTH CAROLINA N.A.,
on behalf of THE AVERY DENNISON
CORPORATION EMPLOYEE STOCK BENEFIT TRUST

By: /s/ John N. Smith, III
Name: John N. Smith, III
Title: Vice-President

Schedule A

PRINCIPAL PAYMENT DATES

Date	Amount
January 1, 1997	\$ 25,100,003
January 1, 1998	\$ 25,100,003
January 1, 1999	\$ 25,100,003
January 1, 2000	\$ 25,100,003
January 1, 2001	\$ 25,100,003
January 1, 2002	\$ 25,100,003
January 1, 2003	\$ 25,100,003
January 1, 2004	\$ 25,100,003
January 1, 2005	\$ 25,100,003
January 1, 2006	\$ 25,100,003
January 1, 2007	\$ 25,100,003
January 1, 2008	\$ 25,100,003
January 1, 2009	\$ 25,100,003
January 1, 2010	\$ 25,100,003
January 1, 2011	\$ 25,100,003
January 1, 2012	\$188,249,960

EXHIBIT 11

AVERY DENNISON CORPORATION AND SUBSIDIARIES

COMPUTATION OF NET INCOME PER SHARE AMOUNTS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	1997	1996	1995
(A) Weighted average number of common shares outstanding.....	103.1	105.0	106.5
Additional common shares issuable under employee stock options using the treasury stock method.....	3.0	2.6	2.0
	-----	-----	-----
(B) Weighted average number of common shares outstanding assuming the exercise of stock options.....	106.1	107.6	108.5
	=====	=====	=====
(C) Net income available to common stockholders.....	\$204.8	\$175.9	\$143.7
	=====	=====	=====
Net income per share (C)/(A).....	\$1.99	\$1.68	\$1.35
	=====	=====	=====
Net income per share, assuming dilution (C)/(B).....	\$1.93	\$1.63	\$1.32
	=====	=====	=====

Note: The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" in the fourth quarter of 1997. All prior year net income per share data has been restated in accordance with the new standard.

AVERY DENNISON CORPORATION
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (DOLLARS IN MILLIONS)

	1997	1996
	-----	-----
Earnings:		
Income before taxes	\$311.2	\$270.6
Add: Fixed charges*	49.2	55.2
Amortization of capitalized interest	1.4	1.3
Less: Capitalized interest	(3.2)	(3.5)
	-----	-----
	\$358.6	\$323.6
	=====	=====
*Fixed charges:		
Interest expense	\$ 31.7	\$ 37.4
Capitalized interest	3.2	3.5
Amortization of debt issuance costs	.5	.6
Interest portion of leases	13.8	13.7
	-----	-----
	\$ 49.2	\$ 55.2
	=====	=====
Ratio of Earnings to Fixed Charges	7.3	5.9
	=====	=====

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, "earnings" consist of income before taxes plus fixed charges (excluding capitalized interest), and "fixed charges" consist of interest expense, capitalized interest, amortization of debt issuance costs and the portion of rent expense (estimated to be 35%) on operating leases deemed representative of interest.

(In millions, except per share amounts)	Compound Growth Rate		1997		1996	
	5 Year	10 Year	Dollars	%	Dollars	%
FOR THE YEAR						
Net sales	5.0%	4.4%	\$3,345.7	100.0	\$3,222.5	100.0
Gross profit	5.3	4.0	1,082.7	32.4	1,018.3	31.6
Marketing, general and administrative expense (1), (2)	2.1	2.6	739.8	22.1	712.4	22.1
Interest expense	(5.6)	(.2)	31.7	.9	37.4	1.2
Income before taxes	19.0	9.0	311.2	9.3	270.6	8.4
Taxes on income	16.3	5.8	106.4	3.2	94.7	2.9
Net income	20.7	11.3	204.8	6.1	175.9	5.5
				1997		1996
PER SHARE INFORMATION (3)						
Net income per common share	24.7	13.1		\$ 1.99		\$ 1.68
Net income per common share, assuming dilution	23.9	n/a		1.93		1.63
Dividends per common share	11.9	13.1		.72		.62
Average common shares outstanding	(3.1)	(1.6)		103.1		105.0
Average common shares outstanding, assuming dilution	(2.7)	n/a		106.1		107.6
Book value at fiscal year end	3.7	3.6		\$ 8.18		\$ 8.03
Market price at fiscal year end	24.9	16.7		43.75		35.88
Market price range				33.38 to 44.13		23.88 to 35.88
AT YEAR END						
Working capital				\$ 163.6		\$ 110.6
Property, plant and equipment, net				985.3		962.7
Total assets				2,046.5		2,036.7
Long-term debt				404.1		370.7
Total debt				447.7		466.9
Shareholders' equity				837.2		832.0
Number of employees				16,200		15,800
OTHER INFORMATION						
Depreciation expense				\$ 105.5		\$ 100.2
Research and development expense				61.1		54.6
Effective tax rate				34.2%		35.0%
Long-term debt as a percent of total long-term capital				32.6		30.8
Total debt as a percent of total capital				34.8		35.9
Return on average shareholders' equity (percent)				24.8		21.4
Return on average total capital (percent)				18.1		16.4

(In millions, except per share amounts)	Dollars	%	Dollars	%
FOR THE YEAR				
Net sales	\$3,113.9	100.0	\$2,856.7	100.0
Gross profit	957.3	30.7	907.8	31.8
Marketing, general and administrative expense (1), (2)	689.8	22.2	691.9	24.2
Interest expense	44.3	1.4	43.0	1.5
Income before taxes	224.7	7.2	172.9	6.1
Taxes on income	81.0	2.6	63.5	2.2
Net income	143.7	4.6	109.4	3.8
		1995		1994
PER SHARE INFORMATION (3)				
Net income per common share		\$ 1.35		\$.98
Net income per common share, assuming dilution		1.32		.97
Dividends per common share		.55		.50
Average common shares outstanding		106.5		111.1
Average common shares outstanding, assuming dilution		108.5		112.3
Book value at fiscal year end		\$ 7.69		\$ 6.81
Market price at fiscal year end		25.07		17.75
Market price range		16.63 to 25.07		13.32 to 17.88
AT YEAR END				
Working capital		\$ 127.6		\$ 122.8
Property, plant and equipment, net		907.4		831.6
Total assets		1,963.6		1,763.1
Long-term debt		334.0		347.3
Total debt		449.4		420.7
Shareholders' equity		815.8		729.0
Number of employees		15,500		15,400
OTHER INFORMATION				
Depreciation expense		\$ 95.3		\$ 87.9
Research and development expense		52.7		49.1
Effective tax rate		36.0%		36.7%
Long-term debt as a percent of total long-term capital		29.0		32.3
Total debt as a percent of total capital		35.5		36.6
Return on average shareholders' equity (percent)		18.6		14.8
Return on average total capital (percent)		14.4		12.1

(1) In 1990, the Company incurred \$85.2 million in pretax charges related to the merger of Avery International Corporation and Dennison Manufacturing Company and \$13.8 million of merger-related costs. After adjusting for these charges, 1990 net income was \$71.7 million, or \$.58 per common share.

(2) In 1987, a restructuring resulted in pretax charges of \$25.2 million, which decreased net income by \$25 million, or \$.21 per common share.

(3) The Company adopted the new net income per share standard during 1997. Prior year amounts have been restated in accordance with the new standard. Diluted net income per common share information was not available prior to 1992.

ELEVEN-YEAR SUMMARY

Avery Dennison Corporation

(In millions, except per share amounts)	1993		1992		1991		1990/(1)/	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
FOR THE YEAR								
Net sales	\$ 2,608.7	100.0	\$2,622.9	100.0	\$2,545.1	100.0	\$2,590.2	100.0
Gross profit	818.1	31.4	838.2	32.0	796.2	31.3	808.3	31.2
Marketing, general and administrative expense (1), (2)	642.7	24.6	665.7	25.4	653.9	25.7	752.7	29.1
Interest expense	43.2	1.7	42.3	1.6	37.5	1.5	40.0	1.5
Income before taxes	132.2	5.1	130.2	5.0	104.8	4.1	15.6	.6
Taxes on income	48.9	1.9	50.1	1.9	41.8	1.6	9.7	.4
Net income	84.4	3.2	80.1	3.1	63.0	2.5	5.9	.2
PER SHARE INFORMATION (3)								
Net income per common share	\$.73		\$.66		\$.51		\$.05	
Net income per common share, assuming dilution	.72		.66		n/a		n/a	
Dividends per common share	.45		.41		.38		.32	
Average common shares outstanding	115.9		120.8		123.9		123.9	
Average common shares outstanding, assuming dilution	116.9		121.8		n/a		n/a	
Book value at fiscal year end	\$ 6.40		\$ 6.82		\$ 6.73		\$ 6.83	
Market price at fiscal year end	14.69		14.38		12.69		10.75	
Market price range	12.75 to 15.57		11.63 to 14.44		9.69 to 12.75		7.82 to 16.50	
AT YEAR END								
Working capital	\$ 141.6		\$ 222.6		\$ 226.0		\$ 298.8	
Property, plant and equipment, net	758.5		779.9		814.2		821.7	
Total assets	1,639.0		1,684.0		1,740.4		1,890.3	
Long-term debt	311.0		334.8		329.5		376.0	
Total debt	397.5		427.5		424.0		510.4	
Shareholders' equity	719.1		802.6		825.0		846.3	
Number of employees	15,750		16,550		17,095		18,816	
OTHER INFORMATION								
Depreciation expense	\$ 84.1		\$ 83.8		\$ 83.1		\$ 80.8	
Research and development expense	45.5		46.7		48.7		53.7	
Effective tax rate	37.0%		38.5%		39.9%		62.2%	
Long-term debt as a percent of total long-term capital	30.2		29.4		28.5		30.8	
Total debt as a percent of total capital	35.6		34.8		33.9		37.6	
Return on average shareholders' equity (percent)	11.0		9.7		7.7		.7	
Return on average total capital (percent)	9.3		8.3		6.7		1.5	
FOR THE YEAR								
(In millions, except per share amounts)	1989		1988		1987/(2)/			
	Dollars	%	Dollars	%	Dollars	%		

Net sales	\$2,490.9	100.0	\$2,291.4	100.0	\$2,165.1	100.0
Gross profit	806.7	32.4	780.2	34.0	734.6	33.9
Marketing, general and administrative expense (1), (2)	591.0	23.7	554.7	24.2	571.2	26.4
Interest expense	35.1	1.4	35.5	1.5	32.4	1.5
Income before taxes	180.6	7.3	190.0	8.3	131.0	6.1
Taxes on income	66.4	2.7	73.0	3.2	60.8	2.8
Net income	114.2	4.6	117.0	5.1	70.2	3.2

		1989		1988		1987

PER SHARE INFORMATION (3)						
Net income per common share	\$.92	\$.95	\$.58
Net income per common share, assuming dilution		n/a		n/a		n/a
Dividends per common share		.27		.23		.21
Average common shares outstanding		124.2		123.4		120.6
Average common shares outstanding, assuming dilution		n/a		n/a		n/a
Book value at fiscal year end	\$	6.55	\$	6.25	\$	5.75
Market price at fiscal year end		15.94		11.00		9.32
Market price range		10.50 to 15.94		8.57 to 13.00		8.00 to 14.57

AT YEAR END						
Working capital	\$	323.9	\$	314.3	\$	325.8
Property, plant and equipment, net		714.1		667.3		574.2
Total assets		1,715.9		1,652.2		1,558.5
Long-term debt		317.8		298.8		301.0
Total debt		418.9		411.3		393.2
Shareholders' equity		811.3		769.6		705.9
Number of employees		19,215		19,114		19,360

OTHER INFORMATION						
Depreciation expense	\$	71.5	\$	63.8	\$	58.8
Research and development expense		51.0		47.4		41.5
Effective tax rate		36.8%		38.4%		46.4%
Long-term debt as a percent of total long-term capital		28.1		28.0		29.9
Total debt as a percent of total capital		34.1		34.8		35.8
Return on average shareholders' equity (percent)		14.7		16.0		10.5
Return on average total capital (percent)		12.0		12.7		8.3

(Dollars in millions)	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3.3	\$ 3.8
Trade accounts receivable, less allowance for doubtful accounts of \$15.6 and \$17.5 for 1997 and 1996, respectively	457.7	448.5
Inventories, net	230.1	244.4
Other receivables	28.3	25.7
Prepaid expenses	19.6	17.8
Deferred taxes	54.5	64.3
Total current assets	793.5	804.5
Property, plant and equipment, at cost:		
Land	35.4	37.7
Buildings	389.3	405.3
Machinery and equipment	1,230.1	1,180.3
Construction-in-progress	135.7	144.6
Total property, plant and equipment, at cost	1,790.5	1,767.9
Accumulated depreciation	805.2	805.2
Property, plant and equipment, net	985.3	962.7
Intangibles resulting from business acquisitions, net	133.7	135.9
Non-current deferred taxes	6.8	7.1
Other assets	127.2	126.5
Total Assets	\$2,046.5	\$2,036.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 43.6	\$ 96.2
Accounts payable	245.3	230.7
Accrued payroll and employee benefits	115.8	134.3
Other accrued liabilities	202.1	208.2
Income taxes payable	20.9	23.0
Deferred taxes	2.2	1.5
Total current liabilities	629.9	693.9
Long-term debt	404.1	370.7
Long-term retirement benefits and other accrued liabilities	125.1	96.6
Non-current deferred taxes	50.2	43.5
Shareholders' equity		
Common stock, \$1 par value, authorized - 400,000,000 shares and 200,000,000 shares at year end 1997 and 1996, respectively; issued - 124,126,624 shares at year end 1997 and 1996	124.1	124.1
Capital in excess of par value	592.5	475.4
Retained earnings	1,063.6	945.6
Cumulative foreign currency translation adjustment	(21.4)	28.3
Cost of unallocated ESOP shares	(23.4)	(29.4)
Minimum pension liability	(1.1)	(.2)
Employee stock trusts, 16,693,347 shares and 17,959,358 shares at year end 1997 and 1996, respectively	(730.3)	(644.3)
Treasury stock at cost, 5,053,046 shares and 2,551,808 shares at year end 1997 and 1996, respectively	(166.8)	(67.5)
Total shareholders' equity	837.2	832.0
Total Liabilities and Shareholders' Equity	\$2,046.5	\$2,036.7

See Notes to Consolidated Financial Statements

(In millions, except per share amounts)	1997	1996	1995
Net sales	\$3,345.7	\$3,222.5	\$3,113.9
Cost of products sold	2,263.0	2,204.2	2,156.6
Gross profit	1,082.7	1,018.3	957.3
Marketing, general and administrative expense	739.8	712.4	689.8
Net gain on divestitures and restructuring charges	-	2.1	1.5
Interest expense	31.7	37.4	44.3
Income before taxes	311.2	270.6	224.7
Taxes on income	106.4	94.7	81.0
Net income	\$ 204.8	\$ 175.9	\$ 143.7
Per share amounts:			
Net income per common share	\$ 1.99	\$ 1.68	\$ 1.35
Net income per common share, assuming dilution	1.93	1.63	1.32
Dividends	.72	.62	.55
Average shares outstanding:			
Common shares	103.1	105.0	106.5
Common shares, assuming dilution	106.1	107.6	108.5
Common shares outstanding at year end	102.4	103.6	106.1

See Notes to Consolidated Financial Statements

(Dollars in millions)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cumulative foreign currency translation adjustment	Cost of unallocated ESOP shares
Fiscal year ended 1994	\$124.1	\$131.0	\$ 753.2	\$ 16.7	\$(37.6)
Repurchase of 1.7 million shares for treasury					
Stock issued under option plans, net of tax and dividends paid on stock held in stock trusts		(1.4)			
Net income			143.7		
Dividends: \$.55 per share			(59.1)		
Translation adjustments, net of tax				17.1	
ESOP transactions, net					10.6
Minimum pension liability					
Fiscal year ended 1995	124.1	129.6	837.8	33.8	(27.0)
Repurchase of 3.8 million shares for treasury					
Stock issued under option plans, net of tax and dividends paid on stock held in stock trusts		9.0			
Net income			175.9		
Dividends: \$.62 per share			(68.1)		
Translation adjustments, net of tax				(5.5)	
Employee stock benefit trust transactions, net		336.8			
ESOP transactions, net					(2.4)
Minimum pension liability					
Fiscal year ended 1996	124.1	475.4	945.6	28.3	(29.4)
Repurchase of 2.5 million shares for treasury					
Stock issued under option plans, net of tax and dividends paid on stock held in stock trusts		(17.3)			
Net income			204.8		
Dividends: \$.72 per share			(86.8)		
Translation adjustments, net of tax				(49.7)	
Employee stock benefit trust market value adjustment		134.4			
ESOP transactions, net					6.0
Minimum pension liability					
Fiscal year ended 1997	\$124.1	\$592.5	\$1,063.6	\$(21.4)	\$(23.4)

Consolidated Statement of
Shareholders' Equity (Continued)

Avery Dennison Corporation

(Dollars in millions)	Minimum pension liability	Employee stock trusts	Treasury stock

Fiscal year ended 1994	\$(5.0)	--	\$(253.4)
Repurchase of 1.7 million shares for treasury			(35.1)
Stock issued under option plans, net of tax and dividends paid on stock held in stock trusts			8.6
Net income			
Dividends: \$.55 per share			
Translation adjustments, net of tax			
ESOP transactions, net			
Minimum pension liability	2.4		

Fiscal year ended 1995	(2.6)	--	(279.9)
Repurchase of 3.8 million shares for treasury			(109.3)
Stock issued under option plans, net of tax and dividends paid on stock held in stock trusts			11.2
Net income			
Dividends: \$.62 per share			
Translation adjustments, net of tax			
Employee stock benefit trust transactions, net		(644.3)	310.5
ESOP transactions, net			
Minimum pension liability	2.4		

Fiscal year ended 1996	(0.2)	(644.3)	(67.5)
Repurchase of 2.5 million shares for treasury			(99.3)
Stock issued under option plans, net of tax and dividends paid on stock held in stock trusts		48.4	
Net income			
Dividends: \$.72 per share			
Translation adjustments, net of tax			
Employee stock benefit trust market value adjustment		(134.4)	
ESOP transactions, net			
Minimum pension liability	(.9)		

Fiscal year ended 1997	\$(1.1)	\$(730.3)	\$(166.8)
=====			

See Notes to Consolidated Financial Statements

(In millions)	1997	1996	1995
OPERATING ACTIVITIES			
Net income	\$ 204.8	\$ 175.9	\$ 143.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	105.5	100.2	95.3
Amortization	11.3	13.2	12.6
Net gain on divestitures and restructuring charges	-	(2.1)	(1.5)
Deferred taxes	9.4	.8	(17.6)
Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures, and restructuring charges:			
Trade accounts receivable, net	(26.6)	(.9)	(52.5)
Inventories, net	5.7	(18.1)	(18.5)
Other receivables	(4.8)	1.2	1.8
Prepaid expenses	(1.6)	3.7	(5.3)
Accounts payable and accrued liabilities	44.6	45.7	18.6
Taxes on income	25.5	(12.4)	11.4
Long-term retirement benefits and other accrued liabilities	(5.4)	(3.2)	(.1)
Net cash provided by operating activities	368.4	304.0	187.9
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(177.3)	(187.6)	(190.3)
Net proceeds from sale of assets, business divestitures and acquisitions	4.6	12.1	96.7
Other	(16.3)	(2.1)	(19.1)
Net cash used in investing activities	(189.0)	(177.6)	(112.7)
FINANCING ACTIVITIES			
Increase in long-term debt	60.0	-	100.0
Decrease in long-term debt	(52.7)	(14.3)	(107.9)
Net (decrease) increase in short-term debt	(22.0)	32.2	40.5
Dividends paid	(86.8)	(68.1)	(59.1)
Purchase of treasury stock	(99.3)	(109.3)	(35.1)
Proceeds from exercise of stock options	13.3	13.5	7.2
Other	7.9	(3.6)	3.0
Net cash used in financing activities	(179.6)	(149.6)	(51.4)
Effect of foreign currency translation on cash balances	(.3)	-	.1
(Decrease) increase in cash and cash equivalents	(.5)	(23.2)	23.9
Cash and cash equivalents, beginning of year	3.8	27.0	3.1
Cash and cash equivalents, end of year	\$ 3.3	\$ 3.8	\$ 27.0

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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 sector and the Consumer and converted products sector each contribute approximately 50 percent of the Company's total sales. Sales are generated primarily in the United States, continental Europe and the United Kingdom.

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. Certain prior year amounts have been reclassified to conform with current year presentation.

FISCAL YEAR

The Company's 1997, 1996 and 1995 fiscal years reflected 52-week periods ending December 27, 1997, December 28, 1996 and December 30, 1995, respectively. The Company's fiscal years consist of 52 or 53 weeks and generally end on the Saturday closest to the calendar year end.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

(In millions)	1997	1996	1995
Interest, net of capitalized amounts	\$31.5	\$ 40.0	\$46.7
Income taxes, net of refunds	88.1	115.9	87.2

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using both the first-in, first-out (FIFO) and last-in, first-out (LIFO) methods. Inventories valued using the LIFO method comprised 35 percent, 37 percent and 40 percent of inventories before LIFO adjustment at year end 1997, 1996 and 1995, respectively.

During 1997 and 1996, certain inventories were reduced resulting in the liquidation of LIFO inventory carried at lower costs prevailing in prior years as compared with current costs. The effect was to reduce 1997 and 1996 cost of products sold by \$4.2 million and \$3.2 million, respectively. Inventories at year end were as follows:

(In millions)	1997	1996
Raw materials	\$ 74.4	\$ 82.7
Work-in-progress	70.9	72.4
Finished goods	114.7	123.4
LIFO adjustment	(29.9)	(34.1)
	\$230.1	\$244.4

PROPERTY, PLANT AND EQUIPMENT

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. 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 income.

INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Intangibles resulting from business acquisitions consist primarily of the excess of the acquisition cost over the fair value of net assets acquired and are amortized over a 25-to-40 year period using the straight-line method. The Company evaluates the carrying value of its goodwill on an ongoing basis and recognizes an impairment when the estimated future undiscounted cash flows from operations are less than the carrying value of the goodwill. Accumulated amortization at year end 1997 and 1996 was \$49.4 million and \$46.6 million, respectively.

FOREIGN CURRENCY TRANSLATION

All assets and liability accounts of international operations are translated into U.S. dollars at current rates. Revenue, costs and expenses are translated at the average currency rate which prevailed during the fiscal year. Gains and losses resulting from foreign currency transactions, other than those transactions described below, are included in income currently. Gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements are excluded from the statement of income and are recorded directly to a separate component of shareholders' equity. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently.

Transaction and translation losses decreased net income in 1997, 1996 and 1995, by \$1.5 million, \$1.6 million, and \$1.8 million, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward and option contracts and interest rate contracts to manage exposure to fluctuations in foreign currency exchange and interest rates. The Company does not hold or purchase any foreign currency or interest rate contracts for trading purposes.

Foreign exchange forward and option contracts that hedge existing assets, liabilities or firm commitments are measured at fair value and the related gains and losses on these contracts are recognized in net income currently. Foreign exchange forward and option contracts that hedge forecasted transactions are measured at fair value and the related gains and losses on these contracts are deferred and subsequently recognized in net income in the period in which the underlying transaction is consummated. In the event that an anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the instrument in net income currently.

Gains and losses resulting from foreign exchange forward and option contracts are recorded in the same category as the related item being hedged. Cash flows from the use of financial instruments are reported in the same category as the hedged item in the Consolidated Statement of Cash Flows. Gains and losses on contracts used to hedge the value of investments in certain foreign subsidiaries are included in the cumulative foreign currency translation adjustment component of shareholders' equity.

The net amounts paid or received on interest rate agreements are recognized as adjustments to interest expense over the terms of the agreements. Contract premiums paid, if any, are amortized to interest expense over the terms of the underlying instruments.

REVENUE RECOGNITION

Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time of shipment.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Research and development expense for 1997, 1996 and 1995 was \$61.1 million, \$54.6 million and \$52.7 million, respectively.

STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to employees using the intrinsic value method. As such, no compensation expense is recognized since the Company's stock option grants are generally priced at fair market value on the date of grant.

ENVIRONMENTAL EXPENDITURES

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET INCOME PER SHARE

Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", was adopted in the fourth quarter of 1997 and supersedes the Company's previous standards for computing net income per share under Accounting Principles Board No. 15. The new standard requires dual presentation of net income per common share and net income per common share, assuming dilution, on the face of the income statement. All prior year net income per share data has been restated in accordance with the new standard.

In accordance with SFAS No. 128, net income per common share amounts were computed as follows:

(In millions, except per share amounts)	1997	1996	1995
(A) Net income available to common stockholders	\$204.8	\$175.9	\$143.7
(B) Weighted average number of common shares outstanding	103.1	105.0	106.5
Additional common shares issuable under employee stock options using the treasury stock method	3.0	2.6	2.0
(C) Weighted average number of common shares outstanding assuming the exercise of stock options	106.1	107.6	108.5
Net income per common share (A) / (B)	\$ 1.99	\$ 1.68	\$ 1.35
Net income per common share, assuming dilution (A) / (C)	1.93	1.63	1.32

FUTURE ACCOUNTING REQUIREMENTS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income". The standard establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes items such as foreign currency translation adjustments and adjustments to the minimum pension liability that are currently presented as components of shareholders' equity. Companies will be required to report total comprehensive income for interim periods beginning the first quarter of 1998. Disclosure of comprehensive income and its components will be required beginning fiscal year end 1998.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". The standard establishes standards for reporting information on operating segments in interim and annual financial statements. The new rules will be effective for the 1998 fiscal year. Abbreviated quarterly disclosure will be required beginning first quarter of 1999, and will include both 1999 and 1998 information. The Company does not believe that the new standard will have a material impact on its segment reporting.

NOTE 2. DIVESTITURES AND RESTRUCTURING

During the third quarter of 1996, business restructuring actions resulted in a net pretax gain of \$2.1 million. The Company sold its equity interest in a label operation in Japan for \$28.4 million, resulting in a net gain of \$17.9 million. The Company also recorded charges for certain restructuring actions which had an estimated cost of \$15.8 million.

The 1996 restructuring actions included the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 200 positions worldwide (\$7.4 million) and the discontinuance of product lines and related asset disposals (\$2.1 million). In addition, an asset impairment write-down of \$6.3 million was recognized for long-lived assets held in the Company's Consumer and converted products sector.

The Company's 1996 restructuring program was completed as of the third quarter of 1997 and is likely to result in estimated annual savings of \$9 million to \$11 million.

During 1995, the Company took specific actions to restructure certain businesses to improve future profitability. These actions, which included the sale of non-strategic businesses and restructuring programs, resulted in a net pretax gain of \$1.5 million.

During the fourth quarter of 1995, a portion of the North American label converting operations was sold for \$95 million. These businesses accounted for approximately 2 percent of the Company's 1995 total sales. The \$40.7 million pretax gain on the sale of these businesses was offset by a one-time pretax charge of \$39.2 million. This charge included the closure of four plants and the reorganization of certain manufacturing distribution and administrative sites. The costs consisted primarily of employee severance and related costs (\$16.2 million) for approximately 400 positions worldwide, discontinuance of product lines and related asset write-offs (\$13.1 million) and plant closure and other costs (\$9.9 million). At year end 1997, the Company's 1995 restructuring program was completed and is expected to result in annual savings of \$14 million to \$17 million.

NOTE 3. DEBT

Long-term debt at year end was as follows:

(In millions)	1997	1996

Medium-term notes (6.1% to 8.0% at year end)	\$360.0	\$300.0
Domestic variable-rate short-term borrowings to be refinanced on a long-term basis	26.4	51.0
Industrial Revenue Bonds (4% to 9.9% at year end)	15.6	22.0
Other long-term debt (5.6% to 9.5% at year end)	3.6	20.2

	405.6	393.2
Less: Amount classified as current	(1.5)	(22.5)

	\$404.1	\$370.7
=====		

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2002, with all amounts borrowed under this agreement due on the same date. The Company may annually extend the revolving period and due date under certain conditions with approval of the banks. The financing available under this revolving credit agreement will be used, as needed, to repay uncollateralized short-term and currently maturing long-term debt, and to finance other corporate requirements.

In addition to the above revolving credit agreement, the Company had short-term lines of credit available aggregating \$289.2 million at the end of 1997, of which \$42.1 million was utilized at variable interest rates ranging from 3-to-9 percent.

During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission \$150 million in principal amount of uncollateralized medium-term notes, of which \$60 million in notes had been issued as of year end 1997. Proceeds from the medium-term notes were used to reduce debt and for other general corporate purposes. The Company's currently outstanding medium-term notes have maturities from 2000 through 2025 and have a weighted-average interest rate of 7.1 percent.

The amount of long-term debt outstanding at the end of 1997, which matures during 1998 through 2002 is \$1.5 million, \$7 million, \$3.5 million, \$1.4 million and \$46.4 million, respectively.

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debt of the same remaining maturities. At year end 1997 and 1996, the fair value of the Company's total debt, including domestic variable-rate short-term borrowings to be refinanced on a long-term basis, was \$447.9 million and \$459.3 million, respectively.

The terms of the various loan agreements in effect at year end require maintenance of specified amounts of consolidated tangible net worth and consolidated net income before interest and taxes to consolidated interest. Under the most restrictive provisions, \$76.9 million of retained earnings was not restricted at year end 1997.

The Company's total interest expense in 1997, 1996 and 1995 was \$34.9 million, \$40.9 million and \$47.5 million, respectively, of which \$3.2 million, \$3.5 million and \$3.2 million, respectively, was capitalized as part of the cost of assets constructed for the Company's use.

NOTE 4. FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward and option contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and commitments denominated in foreign currencies that arise primarily as a result of its operations outside the United States. At the end of 1997 and 1996, the Company had foreign exchange forward contracts with a notional value of \$205.1 million and \$166.7 million, respectively, substantially all of which were denominated in European currencies. The Company's foreign exchange option contracts, which were also primarily denominated in European currencies, had notional amounts of \$25.8 million and \$12 million at the end of 1997 and 1996, respectively. In general, the maturities of the contracts coincide with the underlying exposure positions they are intended to hedge. All foreign exchange forward and option contracts outstanding have maturities within 12 months. 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 \$1.3 million and a net liability of approximately \$4.5 million at the end of 1997 and 1996, respectively. The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was \$.9 million and \$.2 million at the end of the 1997 and 1996, respectively.

The counterparties to foreign exchange forward and option 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 the end of 1997, the Company had letters of credit outstanding totaling \$20.2 million which guaranteed various trade activities. The aggregate contract amount of all outstanding letters of credit approximates fair value.

As of year end 1997 and 1996, approximately 26 percent of trade accounts receivables were from nine and seven domestic customers, respectively. While the Company does not require its customers to provide collateral, the financial position and operations of these customers are monitored on an ongoing basis. Although the Company may be exposed to losses in the event of nonpayment, it does not anticipate any such losses.

NOTE 5. COMMITMENTS

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

(In millions)

Year	
1998	\$ 31.6
1999	28.1
2000	26.0
2001	23.9
2002	22.4
Thereafter	18.0
Total minimum lease payments	\$150.0

Operating leases relate primarily to office and warehouse space, EDP and transportation equipment.

Rent expense for 1997, 1996 and 1995 was \$39.4 million, \$39 million and \$39.4 million, respectively.

The Company has an agreement to purchase certain information technology services through June 30, 2002; however, the agreement may be terminated at the Company's option on June 30, 2000. Total commitments remaining under the agreement through year 2002 approximated \$14 million as of December 27, 1997.

NOTE 6. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	1997	1996	1995

Current:			
U.S. Federal tax	\$ 58.3	\$55.9	\$ 51.8
State taxes	15.6	12.3	10.2
International taxes	13.6	28.1	34.6
	87.5	96.3	96.6

Deferred:			
U.S. taxes	10.8	(4.7)	(4.4)
International taxes	8.1	3.1	(11.2)
	18.9	(1.6)	(15.6)

Taxes on income	\$106.4	\$94.7	\$ 81.0
=====			

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)	1997	1996	1995

Computed tax at 35% of income before taxes	\$108.9	\$94.7	\$78.7
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefits	10.1	8.0	6.6
Other items, net	(12.6)	(8.0)	(4.3)

Taxes on income	\$106.4	\$94.7	\$81.0
=====			

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

(In millions)	1997	1996	1995

U.S.	\$222.7	\$176.4	\$145.3
International	88.5	94.2	79.4

	\$311.2	\$270.6	\$224.7
=====			

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries (\$368.5 million at year end 1997) 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 for international subsidiaries aggregating \$27.1 million are available to reduce income taxes payable, of which \$11.6 million will expire from 1998 through 2003, while \$15.5 million can be carried forward indefinitely.

NOTE 6. TAXES BASED ON INCOME (CONTINUED)

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

(In millions)	1997	1996
Accrued expenses not currently deductible	\$ 67.6	\$ 76.7
Net operating losses and foreign tax credit carryforwards	20.9	23.2
Postretirement and postemployment benefits	11.7	11.1
Pension costs	(5.0)	(3.9)
Valuation allowance	(5.0)	(6.5)
Depreciation	(82.9)	(74.2)
Other items, net	1.6	-
Total net deferred tax assets	\$ 8.9	\$ 26.4

NOTE 7. 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, 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. The number of authorized \$1 par value common shares increased from 200 million to 400 million in April 1997 upon shareholder approval to amend the Company's Certificate of Incorporation.

On October 24, 1996, the Company's Board of Directors authorized a two-for-one stock split of the Company's common stock effected in the form of a 100 percent stock dividend to shareholders of record as of December 6, 1996. Par value of \$1 per share remained unchanged. An amount equal to the \$1 par value of the additional common shares was transferred from capital in excess of par value to common stock.

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

NOTE 7. SHAREHOLDERS' EQUITY (CONTINUED)

The Board of Directors has authorized the repurchase of an aggregate 30.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans. At year end 1997, approximately 2.5 million shares were still available for repurchase pursuant to this authorization.

STOCK OPTION AND INCENTIVE PLANS

In October 1996, the Company established the Avery Dennison Corporation Employee Stock Benefit Trust (the "ESBT") to fund a portion of the Company's obligations arising from various employee benefit plans. The Company sold 18 million shares of treasury stock to the ESBT in exchange for a promissory note of \$564.8 million that bears an interest rate of 8 percent per annum. The ESBT has a 15-year life during which it will utilize the common stock to satisfy certain Company obligations. The common stock in the ESBT 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 executives may be issued at prices no less than par value. Options granted are generally priced at fair market value on the date of the grant and generally vest ratably over a four year period. Unexercised options expire ten years from the date of grant. The following table sets forth stock option information relative to all plans:

(Options in thousands)	1997		1996		1995	
	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	\$18.76	9,775.7	\$15.03	10,224.6	\$13.03	9,650.2
Granted	42.29	1,339.0	34.67	1,623.0	23.52	1,792.1
Exercised	12.93	(1,706.9)	11.96	(1,778.9)	11.23	(955.3)
Forfeited or expired	22.39	(260.1)	18.23	(293.0)	12.93	(262.4)
Outstanding at year end	\$23.19	9,147.7	\$18.76	9,775.7	\$15.03	10,224.6
Options exercisable at year end		4,518.7		4,670.4		5,309.7

NOTE 7. SHAREHOLDERS' EQUITY (CONTINUED)

The following table summarizes information on fixed stock options outstanding at December 27, 1997 (options in thousands):

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$ 9.59 - 14.00	2,625.3	3.7 years	\$12.33	2,625.4	\$12.33
15.28 - 23.63	3,604.8	7.1 years	18.97	1,654.5	17.49
34.94 - 43.38	2,917.6	9.4 years	38.16	238.8	34.48
\$ 9.59 - 43.38	9,147.7	6.8 years	\$23.19	4,518.7	\$15.39

As permitted under current accounting standards, no compensation cost was recognized in the Consolidated Statement of Income for the Company's stock option and incentive plans. Had compensation cost for the Company's stock-based compensation plans been recognized ratably over the options' vesting periods, the Company's pro forma net income and net income per common share would have been \$197.8 million and \$1.92, respectively for 1997, \$172.1 million and \$1.64, respectively for 1996 and \$142.2 million and \$1.34, respectively for 1995. Net income per share, assuming dilution, would have been \$1.86, \$1.59 and \$1.31 for 1997, 1996 and 1995, respectively.

The weighted-average fair value of options granted during 1997, 1996 and 1995 were \$12.70, \$9.51 and \$5.87, respectively. Option grant date fair values were determined using a Black-Scholes option pricing value. The underlying assumptions used were as follows:

	1997	1996	1995
Risk-free interest rate	6.39%	6.40%	6.75%
Expected stock price volatility	17.74	18.57	17.99
Expected dividend yield	1.74	2.09	2.67
Expected option term	10 years	10 years	10 years

NOTE 8. CONTINGENCIES

The Company has been designated by the U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies as a potentially responsible party (PRP) at 15 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. Litigation has been initiated by a governmental authority with respect to two of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes the potential liability over the amounts currently accrued would not materially affect the Company.

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

NOTE 9. EMPLOYEE RETIREMENT PLANS

DEFINED BENEFIT PLANS

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 were paid, in part, from an employee stock ownership plan. The net pension cost and the funded status of the defined benefit plans are summarized as follows:

NET PENSION COST

(In millions)	1997	1996	1995
Service cost	\$ 8.4	\$ 9.1	\$ 8.7
Interest cost	29.1	27.0	26.4
Return on plan assets	(67.9)	(67.3)	(69.9)
Net amortization and deferral	28.9	28.8	34.6
Net pension income	\$ (1.5)	\$ (2.4)	\$ (.2)
Assumptions used:			
Weighted-average discount rate	7.0%	7.4%	7.4%
Weighted-average rate of increase in future compensation levels	4.4	5.0	5.3
Weighted-average expected long-term rate of return on assets	9.3	9.7	9.7

FUNDED STATUS OF PENSION PLANS

(In millions)	Fully-funded plans		Underfunded plans	
	1997	1996	1997	1996
Actuarial present value of:				
Vested benefits	\$237.1	\$207.2	\$167.8	\$150.5
Non-vested benefits	3.7	.4	1.5	.2
Accumulated benefit obligation	240.8	207.6	169.3	150.7
Effect of projected future salary increases	16.2	27.8	13.4	15.0
Projected benefit obligation	257.0	235.4	182.7	165.7
Plan assets at fair value	372.1	339.2	149.7	132.3
Plan assets in excess of (less than) projected benefit obligation	115.1	103.8	(33.0)	(33.4)
Unrecognized net (gain) loss	(18.1)	(16.4)	7.7	16.5
Unrecognized prior service cost	(9.4)	(13.6)	6.6	7.7
Unrecognized net asset at year end	(18.9)	(22.6)	(.7)	(1.4)
Adjustment to recognize minimum liability	-	-	(2.5)	(7.8)
Prepaid (accrued) pension cost	\$ 68.7	\$ 51.2	\$(21.9)	\$(18.4)

NOTE 9. EMPLOYEE RETIREMENT PLANS (CONTINUED)

As a result of changes in assumptions used during 1997 and 1996, an additional liability of \$2.5 million and \$7.8 million, respectively, is reflected in the Company's Consolidated Balance Sheet. These amounts are offset in 1997 and 1996 by a charge to equity of \$1.1 million and \$.2 million, respectively, and the recording of an intangible pension asset of \$1.4 million and \$7.6 million, respectively. Consolidated pension expense for 1997, 1996 and 1995 was \$.4 million, \$1.5 million and \$2 million, respectively.

DEFINED CONTRIBUTION PLANS

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

The Company also maintained another leveraged ESOP for employees not covered by a collective bargaining agreement. This ESOP also borrowed funds to purchase shares of the Company's common stock at market prices. On December 1, 1997, the Savings Plan ESOP merged with this ESOP. The combined ESOP will continue to fund the Company's stock contributions to the Savings Plan.

ESOP expense is accounted for under three different methodologies: the cost of shares allocated method, the cash flow method and the fair value method. The following table sets forth certain information relating to the Company's ESOPs on a combined basis:

(In millions)	1997	1996	1995
Interest expense	\$ 2.6	\$ 2.7	\$ 3.4
Dividends on unallocated ESOP shares used for debt service	1.6	1.7	1.9
Total ESOP expense	3.5	8.9	7.5
Contributions to pay interest and principal on ESOP borrowings	3.2	8.8	7.4

Consolidated expense for all defined contribution plans, including total ESOP expense, for 1997, 1996 and 1995 was \$4 million, \$9.3 million and \$8.2 million, respectively. The total ESOP shares held at the end of 1997 and 1996 were as follows:

(In millions)	1997	1996
Allocated shares	6.8	6.7
Unallocated shares	1.9	2.5
Total ESOP shares held	8.7	9.2

Of the total ESOP shares held, shares accounted for under the fair value method comprised of 200,100 allocated shares and 137,300 unallocated shares at year end 1997, and 167,800 allocated shares and 169,600 unallocated shares at year end 1996. Under the fair value method, unallocated shares were valued at \$6 million and \$6.1 million at year end 1997 and 1996, respectively.

NOTE 9. EMPLOYEE RETIREMENT PLANS (CONTINUED)

OTHER POSTRETIREMENT BENEFITS

The Company provides postretirement health benefits to its retired employees up to the age of 65 under a cost-sharing arrangement, and supplemental Medicare benefits to certain U.S. retirees over the age of 65. The Company's policy is to fund the cost of the postretirement benefits on a cash basis. The following table sets forth the Company's unfunded obligation and amount recognized in the Consolidated Balance Sheet:

(In millions)	1997	1996
Actuarial present value of benefit obligation:		
Retirees	\$10.5	\$10.0
Fully-eligible participants	5.2	4.9
Other active participants	14.3	13.5
Accumulated postretirement benefit obligation	30.0	28.4
Plan assets	-	-
Accumulated postretirement benefit obligation in excess of plan assets	30.0	28.4
Unrecognized net gain	3.0	3.0
Unrecognized prior service cost	(1.1)	(1.2)
Accrued postretirement benefit obligation	\$31.9	\$30.2

Net periodic postretirement benefit costs included the following components:

(In millions)	1997	1996	1995
Service cost	\$ 1.1	\$.9	\$ 1.1
Interest cost	2.0	1.8	2.2
Net amortization and deferral	.1	-	.1
Net periodic postretirement expense	\$ 3.2	\$ 2.7	\$ 3.4

A health care cost trend rate of 10 percent was assumed for 1997 and will decline 1 percent annually to 6 percent by 2001 and remain at that level. The discount rate assumed for 1997 and 1996 was 7.25 percent. A one percent increase in the health care cost trend rate would cause the accumulated postretirement benefit obligation to increase by \$4 million and service and interest cost to increase by \$.5 million for 1997.

OTHER RETIREMENT PLANS

The Company has deferred compensation plans which permit eligible employees and directors to defer a specific portion of their compensation. The deferred compensation, together with certain Company contributions, earn specified and variable rates of return. As of year end 1997 and 1996, the Company had accrued \$72.3 million and \$57.9 million, respectively, for its obligations under these plans. The Company's expense, which includes Company contributions and interest expense, was \$8.1 million, \$6 million and \$5.6 million for 1997, 1996 and 1995, respectively. A portion of the interest may be forfeited by participants in the event employment is terminated before age 55 other than by reason of death, disability or retirement.

NOTE 9. EMPLOYEE RETIREMENT PLANS (CONTINUED)

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" was \$30.7 million and \$21.6 million at year end 1997 and 1996, respectively.

NOTE 10. SECTORS OF BUSINESS OPERATIONS

The Company reports its operations as the production of pressure-sensitive adhesives and materials and the production of consumer and converted products. Operations in the Pressure-sensitive adhesives and materials sector sell primarily to converters and label printers, and include the Fasson-brand papers, films and foils, specialty tape and specialty chemical businesses. Operations in the Consumer and converted products sector sell primarily to the retail industry and original equipment manufacturers, and include the Avery-brand labels and other consumer products, custom label converters, high-performance specialty films and labels, merchant distributors, automotive and fastener businesses.

During the third quarter of 1996, the Company sold its equity interest in a label operation in Japan. A \$17.9 million gain was recorded in Corporate administrative and research and development expenses during 1996. In addition, the Company recorded an impairment for long-lived assets and restructuring actions, which combined, had an estimated pretax cost of \$15.8 million.

During the fourth quarter of 1995, the Company sold a portion of its North American label converting operations. These businesses accounted for approximately \$63 million in sales and \$2.6 million in income from operations before interest and taxes. In addition, \$40.7 million gain from restructuring activities was recorded in the Consumer and converted products sector's income from operations before interest and taxes during 1995.

Intersector sales are recorded at or near market prices and are eliminated in determining consolidated sales. Income from operations represents total revenue less operating expenses. General corporate expenses, interest expense and taxes on income are excluded from the computation of income from operations.

NOTE 10. SECTORS OF BUSINESS OPERATIONS (CONTINUED)

Financial information by industry and geographic sectors is set forth below:

(In millions)	1997	1996/(1)/	1995/(2)/

SALES BY INDUSTRY SECTOR:			
Pressure-sensitive adhesives and materials	\$1,741.4	\$1,702.6	\$1,589.7
Consumer and converted products	1,752.6	1,660.8	1,583.5
Intersector	(148.3)	(145.0)	(128.1)
Divested operations	-	4.1	68.8

Net sales	\$3,345.7	\$3,222.5	\$3,113.9
=====			
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST AND TAXES:			
Pressure-sensitive adhesives and materials	\$ 170.1	\$ 159.1	\$ 145.0
Consumer and converted products	192.6	160.6	147.8
Divested operations	-	(3.6)	.2

	362.7	316.1	293.0
Corporate administrative and research and development expenses	(19.8)	(8.1)	(24.0)
Interest expense	(31.7)	(37.4)	(44.3)

Income before taxes	\$ 311.2	\$ 270.6	\$ 224.7
=====			
IDENTIFIABLE ASSETS BY INDUSTRY SECTOR:			
Pressure-sensitive adhesives and materials	\$ 991.9	\$ 972.2	\$ 888.5
Consumer and converted products	886.5	873.9	848.4
Intersector	(29.8)	(30.0)	(26.6)
Corporate and divested operations	197.9	220.6	253.3

Total assets	\$2,046.5	\$2,036.7	\$1,963.6
=====			

/(1)/ Fiscal 1996 results include a pretax gain of \$17.9 million from the sale of its equity interest in a label operation in Japan which was included in Corporate's administrative expense. Fiscal 1996 results also include pretax restructuring charges of \$15.8 million. The restructuring charges were allocated as follows: \$7.1 million to the Pressure-sensitive adhesives and materials sector and \$8.7 million to the Consumer and converted products sector.

/(2)/ Fiscal 1995 results include a pretax gain of \$40.7 million from the sale of a portion of its North American label converting operations and was included in the Consumer and converted products 1995 operating results. Fiscal 1995 results also include pretax restructuring charges of \$39.2 million. The restructuring charges were allocated as follows: \$15.1 million to the Pressure-sensitive adhesives and materials sector and \$24.1 million to the Consumer and converted products sector.

The 1996 and 1995 restructuring charges, along with the gains on divestiture, were reported in the "Net gain on divestitures and restructuring charges" line of the Consolidated Statement of Income.

NOTE 10. SECTORS OF BUSINESS OPERATIONS (CONTINUED)

(In millions)	1997	1996/(1)/	1995/(2)/
SALES BY GEOGRAPHIC SECTOR:			
U.S.	\$2,151.1	\$2,047.7	\$1,941.5
International	1,230.8	1,213.2	1,142.8
Intersector	(36.2)	(42.5)	(39.2)
Divested operations	-	4.1	68.8
Net sales	\$3,345.7	\$3,222.5	\$3,113.9
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST AND TAXES:			
U.S.	\$ 273.8	\$ 234.6	\$ 213.7
International	88.9	85.1	79.1
Divested operations	-	(3.6)	.2
Corporate administrative and research and development expenses	362.7	316.1	293.0
Interest expense	(19.8)	(8.1)	(24.0)
	(31.7)	(37.4)	(44.3)
Income before taxes	\$ 311.2	\$ 270.6	\$ 224.7
IDENTIFIABLE ASSETS BY GEOGRAPHIC SECTOR:			
U.S.	\$1,056.8	\$1,035.7	\$ 996.2
International	821.7	801.5	729.5
Intersector	(29.9)	(21.1)	(15.4)
Corporate and divested operations	197.9	220.6	253.3
Total assets	\$2,046.5	\$2,036.7	\$1,963.6

/(1)/ The 1996 restructuring charges were allocated as follows: \$13.8 million to the U.S. sector and \$2 million to the International sector. In addition, the 1996 pretax gain of \$17.9 million from the sale of its equity interest in a label operation in Japan was included in Corporate's administrative expense.

/(2)/ The 1995 restructuring charges were allocated as follows: \$18.8 million to the U.S. sector and \$20.4 million to the International sector. In addition, the 1995 pretax gain from the sale of its North American label converting operations was allocated as follows: \$38.4 million to the U.S. sector and \$2.3 million to the International sector.

The Company's international operations, conducted primarily in continental Europe and the United Kingdom, 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.

Identifiable assets are those assets of the Company which are identifiable with the operations in each industry or geographic sector. Corporate assets consist principally of Corporate property, plant and equipment, tax related asset accounts and other non-operating assets. Intersector receivables are eliminated in determining consolidated identifiable assets.

Avery Dennison Corporation

NOTE 10. SECTORS OF BUSINESS OPERATIONS (CONTINUED)

Capital expenditures and depreciation expense by industry sector are set forth below:

(In millions)	1997	1996	1995
CAPITAL EXPENDITURES:			
Pressure-sensitive adhesives and materials	\$105.6	\$100.8	\$100.5
Consumer and converted products	66.9	76.9	73.8
Corporate and divested operations	4.8	9.9	16.0
	\$177.3	\$187.6	\$190.3
DEPRECIATION EXPENSE:			
Pressure-sensitive adhesives and materials	\$ 53.5	\$ 49.5	\$ 41.9
Consumer and converted products	45.3	40.8	41.5
Corporate and divested operations	6.7	9.9	11.9
	\$105.5	\$100.2	\$ 95.3

NOTE 11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED) /(1)/

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter /(3)/	Fourth Quarter/(2)/,(4)/,(5)/
1997 /(2)/				
Net sales	\$828.9	\$844.8	\$835.6	\$836.4
Gross profit	262.9	273.8	270.1	275.9
Net income	48.2	49.6	52.6	54.4
Net income per common share	.47	.48	.51	.53
Net income per common share, assuming dilution	.45	.47	.50	.52
1996 /(3)/, /(4)/				
Net sales	\$796.6	\$797.7	\$819.3	\$808.9
Gross profit	246.7	248.4	260.5	262.7
Net income	40.0	41.6	46.6	47.7
Net income per common share	.38	.39	.45	.46
Net income per common share, assuming dilution	.37	.39	.44	.45
1995 /(5)/				
Net sales	\$773.2	\$780.5	\$783.5	\$776.7
Gross profit	244.8	239.0	235.0	238.5
Net income	34.5	35.7	35.8	37.7
Net income per common share	.32	.34	.34	.35
Net income per common share, assuming dilution	.32	.33	.33	.35

/(1)/ The new net income per share accounting standard was adopted during the fourth quarter of 1997. Prior year amounts have been restated in accordance with the new standard.

/(2)/ During the fourth quarter of 1997, certain inventories were reduced, resulting in the liquidation of LIFO inventory. The effect was to reduce cost of products sold by \$3 million.

/(3)/ Net income for the third quarter of 1996 includes income of \$1.4 million, or \$.01 per common share, related to the net gain on divestiture and restructuring charges.

/(4)/ During the fourth quarter of 1996, certain inventories were reduced, resulting in the liquidation of LIFO inventory. The effect was to reduce cost of products sold by \$1.7 million.

/(5)/ Net income for the fourth quarter of 1995 includes income of \$1 million, or \$.01 per common share, related to the net gain on divestitures and restructuring charges.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Avery Dennison:

We have audited the accompanying consolidated balance sheet of Avery Dennison Corporation and subsidiaries as of December 27, 1997 and December 28, 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 27, 1997. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above, which appear on pages 34 through 48 of this Annual Report, present fairly, in all material respects, the consolidated financial position of Avery Dennison Corporation and subsidiaries as of December 27, 1997 and December 28, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 1997, in conformity with generally accepted accounting principles.

s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
Los Angeles, California
January 27, 1998

CORPORATE INFORMATION

COUNSEL

Latham & Watkins
Los Angeles, California

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P.
Los Angeles, California

TRANSFER AGENT-REGISTRAR

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 756-8200

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 1:30 pm, Thursday, April 23, 1998, in the Conference Center of the Avery Dennison Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

FAX-ON-DEMAND

To obtain news releases on Avery Dennison earnings, dividends or other activities, dial our 24-hour fax-on-demand service at (800) 947-1093, and follow the voice prompts.

DIVIDEND REINVESTMENT PLAN

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price.

Shareholders can also invest optional cash payments of up to \$3,000 per month in Avery Dennison common stock at market price.

Avery Dennison investors not yet participating in the plan, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the plan by writing to First Chicago Trust Company of New York, Attn. Avery Dennison Corporation Dividend Reinvestment Plan, P.O. Box 2598, Jersey City, NJ 07303-2598, (800) 756-8200.

DIRECT DEPOSIT OF DIVIDENDS

Avery Dennison shareholders can now deposit quarterly dividend checks directly into their checking or savings accounts. For more information, call Avery Dennison's transfer agent and registrar, First Chicago Trust Company of New York, at (800) 870-2340.

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished to shareholders and interested investors free of charge upon written request to the Secretary of the Corporation.

CORPORATE HEADQUARTERS

150 North Orange Grove Boulevard
Pasadena, California 91103
(626) 304-2000

MAILING ADDRESS:

P.O. Box 7090
Pasadena, California 91109-7090
Fax: (626) 792-7312

INVESTOR RELATIONS CONTACT

Wayne H. Smith, Vice President and Treasurer
(626) 304-2000
investorcom@averydennison.com

WORLDWIDE WEB SITES

<http://www.averydennison.com>
<http://www.avery.com> (direct address for Avery-brand office and consumer products)

PRODUCT INFORMATION

For information about Avery Dennison products and services, call the Consumer Service Center toll-free at (800) 252-8379.

Avery Dennison Corporation

STOCK AND DIVIDEND DATA

Common shares of Avery Dennison are listed on the New York and Pacific stock exchanges. Ticker symbol: AVY

	1997		1996	
	High	Low	High	Low
Market Price				
First Quarter	43 1/2	33 3/8	28 1/2	23 7/8
Second Quarter	39 5/8	35 1/8	29 1/16	27
Third Quarter	44 1/8	38 5/16	27 3/4	25
Fourth Quarter	43 3/4	38 1/4	35 7/8	27 11/16

Prices shown represent closing prices on the NYSE.

	1997	1996
Dividends Per Common Share		
First Quarter	.17	.15
Second Quarter	.17	.15
Third Quarter	.17	.15
Fourth Quarter	.21	.17

Number of shareholders of record as of year end 1997: 12,432

SUBSIDIARIES OF REGISTRANT

SUBSIDIARY -----	JURISDICTION IN WHICH ORGANIZED -----
1. A.V. Chemie A.G.....	Switzerland
2. A-D Holdings Argentina S.A.....	Argentina
3. ADC Philippines, Inc.....	Philippines
4. AEAC, Inc.....	Delaware
5. Avery Automotive Limited.....	United Kingdom
6. Avery China Company Limited.....	China
7. Avery Coordination Center N.V.....	Belgium
8. Avery Corp.....	Delaware
9. Avery de Mexico S.A. de C.V.....	Mexico
10. Avery Dennison (Fiji) Limited.....	Fiji
11. Avery Dennison (Hong Kong) Limited.....	Hong Kong
12. Avery Dennison (India) Private Limited.....	India
13. Avery Dennison (Ireland) Limited.....	Ireland
14. Avery Dennison (Malaysia) Sdn. Bhd.....	Malaysia
15. Avery Dennison (Retail) Limited.....	Australia
16. Avery Dennison (Thailand) Ltd.....	Thailand
17. Avery Dennison Argentina S.A.....	Argentina
18. Avery Dennison Australia Group Holdings Pty. Limited.....	Australia
19. Avery Dennison Australia Limited.....	Australia
20. Avery Dennison C.A.....	Venezuela
21. Avery Dennison Canada Inc.....	Canada
22. Avery Dennison Chile S.A.....	Chile
23. Avery Dennison Colombia S.A.....	Columbia
24. Avery Dennison Danmark A/S.....	Denmark
25. Avery Dennison Deutschland GmbH.....	Germany
26. Avery Dennison do Brasil Ltda.....	Brazil
27. Avery Dennison Dover S.A.....	Argentina
28. Avery Dennison Foreign Sales Corporation.....	Barbados
29. Avery Dennison France S.A.....	France
30. Avery Dennison Holding AG.....	Switzerland
31. Avery Dennison Holding GmbH.....	Germany
32. Avery Dennison Holdings Limited.....	Australia
33. Avery Dennison Hong Kong B.V.....	Netherlands

SUBSIDIARY -----	JURISDICTION IN WHICH ORGANIZED -----
34. Avery Dennison Hungary Limited.....	Hungary
35. Avery Dennison Iberica, S.A.....	Spain
36. Avery Dennison Italia S.p.A.....	Italy
37. Avery Dennison Korea Limited.....	Korea
38. Avery Dennison Luxembourg S.A.....	Luxembourg
39. Avery Dennison Materials GmbH.....	Germany
40. Avery Dennison Materials France S.a.r.l.....	France
41. Avery Dennison Materials Ireland Limited.....	Ireland
42. Avery Dennison Materials Nederland B.V.....	Netherlands
43. Avery Dennison Materials U.K. Limited.....	United Kingdom
44. Avery Dennison Mexico S.A. de C.V.....	Mexico
45. Avery Dennison Norge A/S.....	Norway
46. Avery Dennison Office Products (Pty.) Ltd.....	South Africa
47. Avery Dennison Office Products Company.....	Nevada
48. Avery Dennison Office Products U.K. Ltd.....	United Kingdom
49. Avery Dennison Osterreich GmbH.....	Austria
50. Avery Dennison Overseas Corporation.....	Massachusetts
51. Avery Dennison Pension Trustee Limited.....	United Kingdom
52. Avery Dennison Polska Sp. Zo.o.....	Poland
53. Avery Dennison Printer Labels A/S.....	Denmark
54. Avery Dennison Scandinavia A/S.....	Denmark
55. Avery Dennison Security Printing Europe A/S.....	Denmark
56. Avery Dennison Singapore (Pte) Ltd.....	Singapore
57. Avery Dennison South Africa (Proprietary) Limited.....	South Africa
58. Avery Dennison Suomi OY.....	Finland
59. Avery Dennison Sverige AB.....	Sweden
60. Avery Dennison U.K. Limited.....	United Kingdom
61. Avery Dennison, S.A. de C.V.....	Mexico
62. Avery Etiketsystemer A/S.....	Denmark
63. Avery Etiketten B.V.....	Netherlands
64. Avery Etiketten N.V.....	Belgium
65. Avery Etikettsystem Svenska AB.....	Sweden
66. Avery Foreign Sales Corporation B.V.....	Netherlands
67. Avery Graphic Systems, Inc.....	Delaware
68. Avery Guidex Limited.....	United Kingdom
69. Avery Holding B.V.....	Netherlands
70. Avery Holding Limited.....	United Kingdom

SUBSIDIARY -----	JURISDICTION IN WHICH ORGANIZED -----
71. Avery Holding S.A.....	France
72. Avery International France S.A.....	France
73. Avery Label (Northern Ireland) Limited.....	United Kingdom
74. Avery Maschinen GmbH.....	Germany
75. Avery Pacific Corporation.....	California
76. Avery Properties Pty. Limited.....	Australia
77. Avery Research Center, Inc.....	California
78. Avery Specialty Tape Division N.V.....	Belgium
79. Avery, Inc.....	California
80. Cardinal Insurance Limited.....	Bermuda
81. Dennison do Brasil Industria e Comercio Ltda.....	Brazil
82. Dennison International Company.....	Massachusetts
83. Dennison International Holding B.V.....	Netherlands
84. Dennison Ireland Limited.....	Ireland
85. Dennison Manufacturing (Trading) Ltd.....	United Kingdom
86. Dennison Manufacturing Company.....	Nevada
87. Dennison Monarch Systems, Inc.....	Delaware
88. Dennison Office Products Limited.....	Ireland
89. DMC Development Corporation.....	Nevada
90. Etiketrykkeriet A/S.....	Denmark
91. Fasson (Schweiz) A.G.....	Switzerland
92. Fasson Belgie N.V.....	Belgium
93. Fasson Canada Inc.....	Canada
94. Fasson Portugal Produtos Auto-Adesivos Lda.....	Portugal
95. Fasson Pty. Limited.....	Australia
96. LAC Retail Systems Limited.....	United Kingdom
97. LDNA Corporation.....	California
98. Metallised Films & Papers Ltd.....	United Kingdom
99. Monarch Industries, Inc.....	New Jersey
100. Plastimpres S.A.....	Argentina
101. PT Avery Dennison Indonesia.....	Indonesia
102. Retail Products Limited.....	Ireland
103. Security Printing Division, Inc.....	Delaware
104. Soabar Systems (Hong Kong) Limited.....	Hong Kong
105. Societe Civile Immobiliere Sarrail.....	France
106. TIADECO Participacoes, Ltda.....	Brazil
107. Unistat Pty. Limited.....	Australia

All of the preceding subsidiaries have been consolidated in the Registrant's financial statements and no separate financial statements have been filed.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000008818
 AVERY DENNISON

12-MOS	
	DEC-27-1997
	DEC-28-1996
	DEC-27-1997
	3,300
	0
	473,300
	15,600
	230,100
	793,500
	1,790,500
	805,200
	2,046,500
629,900	
	404,100
0	
	0
	124,100
	713,100
2,046,500	
	3,345,700
	3,345,700
	2,263,000
	2,263,000
	739,800
	0
	31,700
	311,200
	106,400
204,800	
	0
	0
	0
	204,800
	1.99
	1.93

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	
DEC-28-1996	
DEC-31-1995	
DEC-28-1996	3,800
	0
	466,000
	(17,500)
	244,400
	804,500
	1,767,900
	(805,200)
	2,036,700
693,900	370,700
0	0
	124,100
	707,900
2,036,700	3,222,500
	3,222,500
	2,204,200
	2,204,200
	710,300
	0
	37,400
	270,600
	94,700
175,900	0
	0
	0
	175,900
	1.68
	1.63

EARNINGS PER SHARE AMOUNTS WERE RECALCULATED IN ACCORDANCE WITH STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE." BASIC AND DILUTED AMOUNTS ARE SHOWN IN PLACE OF PRIMARY AND FULLY DILUTED, RESPECTIVELY, AND REFLECT THE DECEMBER 1996 TWO-FOR-ONE STOCK SPLIT EFFECTED IN THE FORM OF A STOCK DIVIDEND.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	
	DEC-30-1995
	JAN-01-1995
	DEC-30-1995
	27,000
	0
	461,700
	(17,600)
	223,200
	800,100
	1,652,100
	(744,700)
	1,963,600
672,500	
	334,000
0	
	0
	62,100
1,963,600	753,700
	3,113,900
3,113,900	
	2,156,600
	2,156,600
	688,300
	0
	44,300
	224,700
	81,000
143,700	
	0
	0
	0
	143,700
	1.35
	1.32

EARNINGS PER SHARE AMOUNTS WERE RECALCULATED IN ACCORDANCE WITH STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE." BASIC AND DILUTED AMOUNTS ARE SHOWN IN PLACE OF PRIMARY AND FULLY DILUTED, RESPECTIVELY, AND REFLECT THE DECEMBER 1996 TWO-FOR-ONE STOCK SPLIT EFFECTED IN THE FORM OF A STOCK DIVIDEND.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS		
	DEC-27-1997	
	DEC-29-1997	
	MAR-29-1997	
		5,500
		0
	463,300	
		0
	236,800	
	812,400	
		1,738,800
	797,800	
	2,019,400	
631,800		
		394,600
	0	
		0
		124,100
		691,300
2,019,400		
		828,900
	828,900	
		566,000
	566,000	
	180,300	
		0
	8,500	
	74,100	
		25,900
48,200		
		0
	0	
		0
	48,200	
		.47
		.45

Accounts receivable are shown net of any allowances. Earnings per share amounts were recalculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic and diluted amounts are shown in place of primary and fully diluted, respectively, and reflect the December 1996 two-for-one stock split effected in the form of a stock dividend.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS	DEC-27-1997	
	DEC-29-1996	
	JUN-28-1997	9,500
		0
	496,800	0
	254,600	872,000
	872,000	1,751,800
	808,200	2,092,100
644,800	2,092,100	644,800
	0	444,100
	0	0
	124,100	701,500
2,092,100	701,500	2,092,100
	1,673,700	1,673,700
1,673,700	1,673,700	1,137,000
	1,137,000	1,137,000
	369,000	0
	0	17,300
	17,300	150,400
	150,400	52,600
	52,600	97,800
	97,800	0
	0	0
	0	97,800
	97,800	.95
	.95	.92
	.92	

Accounts receivable are shown net of any allowances. Earnings per share amounts were recalculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic and diluted amounts are shown in place of primary and fully diluted, respectively, and reflect the December 1996 two-for-one stock split effected in the form of a stock dividend.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS		
	DEC-27-1997	
	DEC-28-1996	
	SEP-27-1997	6,300
		0
	499,400	
		0
	227,100	
	843,500	
		1,756,500
	809,600	
	2,060,700	
631,100		
		430,500
	0	
		0
		124,100
2,060,700		702,000
		2,509,300
	2,509,300	
		1,702,500
	1,702,500	
	552,900	
		0
	25,300	
	228,600	
		78,200
150,400		
		0
	0	
		0
	150,400	
		1.46
		1.41

Accounts receivable are shown net of any allowances. Earnings per share amounts were recalculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic and diluted amounts are shown in place of primary and fully diluted, respectively, and reflect the December 1996 two-for-one stock split effected in the form of a stock dividend.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS		
	DEC-28-1996	
	DEC-31-1996	
	MAR-30-1996	
		5,300
		0
	460,000	
		0
	229,000	
	796,900	
		1,665,000
	755,200	
	1,963,200	
623,800		
		374,900
	0	
		0
		62,100
		756,300
1,963,200		
		796,600
	796,600	
		549,900
	549,900	
	175,300	
		0
	8,900	
	62,500	
		22,500
40,000		
		0
	0	
		0
	40,000	
		.38
		.37

Accounts receivable are shown net of any allowances. Earnings per share amounts were recalculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic and diluted amounts are shown in place of primary and fully diluted, respectively, and reflect the December 1996 two-for-one stock split effected in the form of a stock dividend.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS		
	DEC-28-1996	
	DEC-31-1995	
	JUN-29-1996	5,100
		0
	451,700	
		0
	230,400	
	784,400	
		1,686,100
	770,000	
	1,960,200	
588,600		404,600
	0	
		0
		62,100
		753,300
1,960,200		
		1,594,300
	1,594,300	
		1,099,200
	1,099,200	
	350,200	
		0
	18,300	
	126,600	
		45,000
81,600		
		0
		0
		0
	81,600	
		.77
		.76

Accounts receivable are shown net of any allowances. Earnings per share amounts were recalculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic and diluted amounts are shown in place of primary and fully diluted, respectively, and reflect the December 1996 two-for-one stock split effected in the form of a stock dividend.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS		
	DEC-28-1996	
	DEC-31-1995	
	SEP-28-1996	5,300
		0
	470,700	
		0
	242,700	
	826,800	1,713,200
		789,500
	2,016,300	
652,600		394,500
	0	
		0
		62,100
		765,200
2,016,300		
		2,413,600
	2,413,600	
		1,658,000
	1,658,000	
	529,200	
		0
	28,400	
	198,000	
		69,800
128,200		
		0
		0
		0
	128,200	
		1.22
		1.19

Accounts receivable are shown net of any allowances. Earnings per share amounts were recalculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic and diluted amounts are shown in place of primary and fully diluted, respectively, and reflect the December 1996 two-for-one stock split effected in the form of a stock dividend.

Exhibit 99

CAUTIONARY STATEMENT FOR PURPOSES OF THE
"SAFE HARBOR" PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information provided by the Company may contain certain forward-looking information, as defined by the Private Securities Litigation Reform Act of 1995 (the "Act"). This may relate to such matters as sales, unit volume, income, margins, earnings per share, return on equity, return on total capital, economic value added, capital expenditures, dividends, cash flow, debt to capital ratios, growth rates, future economic performance and trends, short- and long-term plans (including financing, operating and strategic plans) and objectives for future operations as well as assumptions relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called "safe harbor" provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in predicting the outcome of future events. Therefore, actual results may differ materially from those expressed or implied.

The ability of the Company to attain management's goals and objectives are materially dependent on numerous factors, including those set forth herein.

Operating results are importantly influenced by general economic conditions and growth (or contraction) of the principal economies in which the Company operates, including the United States, Canada, Europe, Latin America and the Asia-Pacific region. All economies in which the Company operates are cyclical and the rates of growth (or contraction) can vary substantially. More than one-third of the Company's sales and one-quarter of the income from operations (before interest and taxes) are in foreign currencies, which fluctuate in relation to one another and to the United States dollar. Fluctuations in currencies can cause transaction, translation and other losses to the Company. The Company's international operations are strongly influenced by the political and regulatory environment (including tariffs) in the countries in which the Company conducts its operations.

As a manufacturer, the Company's sales and profitability are also dependent upon availability of raw materials and the ability to control or pass on costs of raw materials and labor. Inflationary and other increases in the costs of raw materials and labor have occurred in the past and are expected to recur, and the Company's ability to reflect these costs in increased selling prices for its products, increasing its productivity, and focusing on higher profit businesses, has allowed the Company generally to maintain its margins. Past performance may or may not be replicable in the future.

The Company's customers are widely diversified, but in certain portions of its business, industry concentration has increased the importance and decreased the number of significant customers. In particular, sales of the Company's consumer products in the United States are increasingly concentrated in a few major customers, principally discount office product superstores and distributors. These developments, including increased credit risks, may increase pressures on the Company's margins.

A significant portion of the revenues in each of its recent fiscal years has been represented by sales of products introduced by the Company within five years prior to the period in question. The Company's ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights is therefore essential to maintaining the Company's growth, which ability cannot be assured.

Other factors include costs and other effects of interest rate increases, legal and administrative cases and proceedings (whether civil, such as environment and product related, or criminal), settlements and investigations, claims, and changes in those items; developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses; adoption of new, or change in, accounting policies and practices and the application of such policies and practices; changes in business mix, rates of growth and profitability may be influenced by business reorganizations or combinations; general or specific economic conditions and the ability and willingness of purchasers to substitute other products for the products that the Company distributes; and pricing, purchasing, financing and promotional decisions by intermediaries in the distribution channel, which could affect orders, or end-user demand, for the Company's products.

The factors identified in this statement are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to be materially different from those that may be expressed or implied in any forward-looking statement made by, or on behalf, of the Company. Other factors not discussed in this statement could also have material adverse effects concerning forward-looking objectives or estimates. The Company assumes no obligation to update the information included in this statement.