

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 January 1, 2000
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 28, 2000 was approximately \$5,896,263,000.

Number of shares of common stock, \$1 par value, outstanding as of February 28, 2000: 112,421,211.

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 January 1, 2000 (the "1999 Annual Report")	Parts I, II-
Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 27, 2000 (the "2000 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") includes the production of pressure-sensitive adhesives and materials and the production of consumer and converted products. Some pressure-sensitive adhesives and materials are "converted" into labels and other products through embossing, printing, stamping and die-cutting, and some are sold in unconverted form as base materials, tapes and reflective sheeting. The Company also manufactures and sells a variety of consumer and converted products and other items not involving pressure-sensitive components, such as notebooks, three-ring binders, organizing systems, markers, fasteners, business forms, tickets, tags, and imprinting equipment.

A pressure-sensitive, or self-adhesive, material is one that adheres to a surface by mere press-on contact. It 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 face material is pressed or rolled into place.

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

International operations, 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. In February 2000, the Company announced plans to invest over \$40 million dollars in the People's Republic of China during the next several years. This investment will include three new facilities and an expansion of the existing Kunshan manufacturing plant. As of January 1, 2000, the Company manufactured and sold its products from approximately 200 manufacturing facilities and sales offices located in 39 countries, and employed a total of approximately 17,400 persons worldwide.

During the first quarter of 1999, the Company announced a major realignment of its cost structure to increase operating efficiencies and improve profitability. In connection with this realignment, the Company has announced that it will close a number of facilities, five of which have been completed: Nykobing, Denmark; Roye, France; Rochelle, Illinois; Rancho Cucamonga, California; and Haan, Germany. As a result of these closures, at January 1, 2000, approximately 950 employees have left the Company out of a total of approximately 1,500 positions that will be eliminated.

The Company wishes to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and is subject to certain risks referred to in Exhibit 99 hereto, including those normally attending international and domestic operations, such as changes in economic or political conditions, currency fluctuation, exchange control regulations and the effect of international relations and domestic affairs of foreign countries on the conduct of business, legal proceedings, and the availability and pricing of raw materials.

Except as set forth below, no material part of the Company's business is dependent upon a single customer or a few customers and the loss of a particular customer or a few customers generally would not have a material adverse effect on the Company's business. However, sales and related accounts receivable 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 5 of Notes to Consolidated Financial Statements on page 41 of the 1999 Annual Report, which is incorporated by reference). United States export sales are not a significant part of the Company's business. Backlogs are not considered material in the industries in which the Company competes.

Pressure-sensitive Adhesives and Materials Segment

The Pressure-sensitive Adhesives and Materials segment manufactures and sells Fasson- and Avery Dennison-brand pressure-sensitive base materials, specialty tapes, graphic films, reflective highway safety products, and chemicals. Base materials consist primarily of papers, plastic films, metal foils and fabrics which are primed and coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films 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 segment 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, 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.

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

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

During the third quarter of 1999, the Company acquired Stimsonite Corporation, based in Niles, Illinois, a leading manufacturer of reflective safety products for the transportation and highway safety markets. In late 1999, the Company acquired the remaining minority ownership position in its base materials operation in Argentina.

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

Consumer and Converted Products Segment

The Consumer and Converted Products segment manufactures and sells a wide range of Avery-brand consumer products, custom label products, high performance specialty films and labels, automotive applications and fasteners. The business of this segment is 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 markers, adhesives and specialty products under brand names such as Avery, Marks-A-Lot and HI-LITER, and accounting products, note pads and presentation products under the National brand name. The extent of product offerings varies by geographic market. Operations in Latin America and Asia Pacific have been established to market and distribute the Avery-brand line of stock self-adhesive products, including copier, 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 for identification, tracking and control applications principally in North America, Europe and Asia Pacific. Fastener products include plastic tying and attaching products for retail and industrial users.

The Company also manufactures and sells on-battery 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 distributors.

During the first quarter of 1999, the Company completed a transaction with Steinbeis Holding GmbH to combine substantially all of the Company's office products businesses in Europe with Zweckform Buro-Produkte GmbH ("Zweckform"), a German office products supplier.

In this segment, the Company competes, both domestically and internationally, with a number of small to large firms (among the principal competitors are Esselte AB, Fortune Brands, Inc., and Minnesota Mining and Manufacturing Co.). The Company believes that its ability to serve its customers with an extensive product line, its distribution strength, its ability to develop and to commercialize new products, and 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 \$64.3 million, \$65 million, and \$61.1 million, in 1999, 1998 and 1997, 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 operating segments.

The operating units' research efforts are directed primarily toward developing new products and processing operating techniques and improving product performance, often in close association with customers. The Research Center supports the operating units' patent and product development work, and focuses on research and development in new adhesives, materials and coating processes, as well as new product applications. Research and development generally focuses on projects affecting more than one operating segment 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 operating segments. The Company's principal trademarks are Avery, Fasson and Avery Dennison. These trademarks are significant in the markets in which the Company's products compete.

Three-Year Summary of Segment Information

The Business Segment Information and financial information by geographical areas of the Company's operations for the three years ended January 1, 2000, which appears in Note 11 of Notes to Consolidated Financial Statements on pages 45 and 46 of the 1999 Annual Report, are incorporated herein by reference.

Other Matters

The raw materials used by the Company are primarily paper, plastic and chemicals which are purchased from a variety of commercial and industrial sources. 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 agencies 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.

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

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

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

Item 2. PROPERTIES

At January 1, 2000, the Company operated approximately 30 principal manufacturing facilities in excess of 100,000 square feet and totaling approximately 5 million square feet. The following sets forth the locations of such principal facilities and the operating segments for which they are presently used:

Pressure-sensitive Adhesives and Materials Segment

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

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

Consumer and Converted Products Segment

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

Foreign--Bowmanville, Canada; La Monnerie, France; Hong Kong, China; Juarez and Tijuana, Mexico; Utrecht, The Netherlands; Maidenhead, U.K.; and Oberlaidern, Germany.

In addition to the Company's principal manufacturing facilities described above, the Company's other principal facilities include its corporate headquarters facility and research center in Pasadena, California, and offices located in 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 and Juarez, Mexico; and 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 significant encumbrances on its properties except for certain mortgage liens.

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 13 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(1)

Name	Age	Served as Executive Officer since	Former Positions and Offices with Registrant
Charles D. Miller(2)..... Chairman (also Director of Registrant)	72	May 1965	1964-1983 Various positions of increasing responsibility 1983-1998 Chairman and Chief Executive Officer
Philip M. Neal(2)..... President and Chief Executive Officer (also Director of Registrant)	59	January 1974	1974-1990 Various positions of increasing responsibility 1990-1998 President and Chief Operating Officer
Kim A. Caldwell..... Executive Vice President, Global Technology and New Business Development	52	June 1990	1990-1997 Senior Group V.P., Worldwide Materials - Americas and Asia
Robert M. Calderoni..... Senior Vice President, Finance and Chief Financial Officer	40	October 1997	1994-1996(3) V.P., Finance IBM Storage Systems Division 1996-1997(3) Senior V.P., Finance Apple Computer, Inc.
Robert G. van Schoonenberg..... Senior Vice President, General Counsel and Secretary	53	December 1981	1981-1996 V.P., General Counsel and Secretary
Wayne H. Smith..... Vice President, Financial Services and Treasurer	58	June 1979	1979-1999 V.P. and Treasurer
Thomas E. Miller Vice President and Controller	52	March 1994	1993-1994 V.P. and Assistant Controller
Diane B. Dixon..... Vice President, Worldwide Communications and Advertising	48	December 1985	1985-1997 V.P., Corporate Communications
Geoffrey T. Martin..... Senior Group Vice President, Worldwide Converting, Graphic Systems and Specialty Tapes	45	January 1994	1994-1997 Senior V.P., Worldwide Tape & Converting and Materials - Europe
Dean A. Scarborough(4)..... Group Vice President, Fasson Roll Worldwide	44	August 1997	1993-1995 V.P. and General Manager, Fasson Roll Division - U.S. 1995-1997 V.P. and General Manager, Fasson Roll Division - Europe 1997-1999 Group V.P., Fasson North America and Europe

- (1) All officers are elected to serve a one year term and until their successors are elected and qualify.
- (2) As previously planned, Mr. Miller, Chairman, will retire from that role on May 1, 2000, and he will remain a Director of the Company; Mr. Neal will become Chairman and Chief Executive Officer when Mr. Scarborough assumes his new position on May 1, 2000.
- (3) Business experience prior to service with Registrant.
- (4) Mr. Scarborough has been elected President and Chief Operating Officer, effective May 1, 2000.

PART II

Item 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information called for by this item appears on page 50 of Registrant's 1999 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 1999 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

(In millions)	1999	1998	1997
	----	----	----
Net sales.....	\$3,768.2	\$3,459.9	\$3,345.7
Cost of products sold.....	2,486.8	2,315.4	2,263.0
	-----	-----	-----
Gross profit.....	1,281.4	1,144.5	1,082.7
Marketing, general and administrative expense.....	842.6	773.2	739.8
Restructuring charge.....	65.0	-	-
	-----	-----	-----
Earnings before interest and taxes.....	\$ 373.8	\$ 371.3	\$ 342.9

Sales increased 8.9 percent to \$3.77 billion in 1999, compared to \$3.46 billion in 1998. Excluding changes in foreign currency exchange rates, sales increased 10.3 percent. The Company's 1999 and 1997 fiscal years reflected 52-week periods compared to a 53-week period in 1998. In 1998, sales increased 3.4 percent over 1997 sales of \$3.35 billion. Excluding the impact of currency, sales increased 4.8 percent in 1998.

Gross profit margins for the years ended 1999, 1998 and 1997 were 34 percent, 33.1 percent and 32.4 percent, respectively. The improvement in 1999 was due to sales growth, cost reduction initiatives and productivity improvements. The increase in 1998 was primarily due to increased productivity, cost control and an improved product mix.

Marketing, general and administrative expense as a percent of sales was 22.4 percent in 1999, 22.3 percent in 1998 and 22.1 percent in 1997.

In the first quarter of 1999, the Company announced a major realignment of its cost structure designed to increase operating efficiencies and improve profitability. The realignment resulted in a pretax restructuring charge of \$65 million, or \$.42 per diluted share on an after-tax basis. The restructuring involves the consolidation of manufacturing and distribution capacity in both of the Company's operating segments. The \$65 million charge reflects the costs to close eight manufacturing and distribution facilities, the elimination of approximately 1,500 positions (principally in manufacturing), and other initiatives to exit activities. The restructuring charge includes severance and related costs for approximately 1,500 positions (\$35.1 million), and asset write-downs (\$29.9 million). Severance and related costs represent cash paid or to be paid to employees being terminated under the program. Asset write-downs identified as part of the restructuring program, principally related to equipment, represent non-cash charges required to reduce the carrying value of the assets to be disposed of to net realizable value as of the planned date of disposal. At the end of 1999, five plant closures were completed and approximately 950 employees had left the Company. In addition, \$22.8 million had been paid for severance and related costs and \$23.2 million had been utilized in asset write-downs. The Company realized approximately \$20 million net pretax savings from this program in 1999. The Company expects 2000 pretax savings in the range of \$38 million to \$40 million. When fully implemented, the Company estimates cumulative annual pretax savings of approximately \$58 million to \$62 million.

Results from operations and certain other key financial measures for 1999 are shown with and without the impact of the restructuring charge. The additional proforma financial information, which excludes the restructuring charge, is not in accordance with generally accepted accounting principles.

Interest expense for the years ended 1999, 1998 and 1997 was \$43.4 million, \$34.6 million and \$31.7 million, respectively. The increase in 1999 compared to 1998 was primarily due to increased debt to fund acquisitions and share repurchases. The increase in 1998 compared to 1997 was primarily due to higher average borrowings to support a more aggressive share repurchase program.

Income before taxes, as a percent of sales, was 8.8 percent in 1999. Excluding the restructuring charge, income before taxes, as a percent of sales, increased to 10.5 percent in 1999. In 1998 and 1997, income before taxes, as a percent of sales, was 9.7 percent and 9.3 percent, respectively. The improvements in 1999, excluding the restructuring charge, and 1998 were mainly attributable to higher gross profit margins. The effective tax rate was 34.8 percent in 1999, 33.7 percent in 1998 and 34.2 percent in 1997. The increase in 1999 was primarily due to a change in the geographic mix of income. The decrease in 1998 was primarily due to an increase in U.S. tax credits for research and experimentation. The Company estimates that the effective tax rate for 2000 will be comparable to 1999.

(In millions, except per share amounts)	1999	1998	1997
	----	----	----
Net income.....	\$215.4	\$223.3	\$204.8
Net income per common share.....	2.17	2.20	1.99
Net income per common share, assuming dilution.....	2.13	2.15	1.93

Net income totaled \$215.4 million in 1999, \$223.3 million in 1998 and \$204.8 million in 1997. Excluding the restructuring charge, 1999 net income was \$257.8 million, a 15.5 percent increase over 1998. Net income, as a percent of sales, was 5.7 percent, 6.5 percent and 6.1 percent in 1999, 1998 and 1997, respectively. Excluding the restructuring charge, net income, as a percent of sales, increased to 6.8 percent in 1999.

Net income per common share was \$2.17 in 1999 compared to \$2.20 in the prior year. Excluding the restructuring charge, net income per common share increased 18.2 percent to \$2.60 in 1999. Net income per common share was \$1.99 in 1997.

Net income per common share, assuming dilution, was \$2.13 in 1999. Excluding the restructuring charge, net income per common share, assuming dilution, was \$2.54, an increase of 18.1 percent, from \$2.15 in 1998. Net income per common share, assuming dilution, was \$1.93 in 1997.

Results of Operations by Operating Segment

Pressure-sensitive Adhesives and Materials:

(In millions)	1999	1998	1997
	----	----	----
Net sales.....	\$2,015.7	\$1,874.5	\$1,824.5
Income from operations before interest and taxes.....	182.4	167.4	171.9

The Pressure-sensitive Adhesives and Materials segment reported increased sales and income for 1999 compared to 1998. Sales increased 7.5 percent to \$2.02 billion in 1999, compared to \$1.87 billion in 1998. Excluding changes in foreign currency exchange rates, sales increased 9.6 percent. Sales increased in the U.S. operations primarily due to unit volume growth in the U.S. roll materials business, particularly in sales of film and specialty products, and the recent acquisition of Stimsonite Corporation (Stimsonite). Sales for the international operations increased as a result of worldwide unit volume growth. This increase in international sales was significantly offset by changes in foreign currency rates.

The segment's 1999 income results include a pretax restructuring charge recorded in the first quarter of \$25.1 million (\$15.4 million in the U.S. operations and \$9.7 million in the international operations). Excluding this charge, 1999 segment income was \$207.5 million, a 23.9 percent increase over 1998. Income from U.S. operations improved primarily due to sales growth and margin improvement in the U.S. roll materials business, attributed to cost reduction actions from Six Sigma (a program designed to improve productivity and quality, while reducing costs) and restructuring programs, as well as the recent acquisition of Stimsonite. Income from the international operations increased primarily due to increased sales and profitability in the Asian and Latin American businesses.

In the third quarter of 1999, the Company acquired Stimsonite, based in Niles, Illinois, a leading manufacturer of reflective safety products for the transportation and highway safety markets. The Company paid approximately \$150 million (including the assumption of approximately \$20 million in debt) for Stimsonite, which was primarily funded with the issuance of debt. Stimsonite had sales of \$87 million in 1998. The excess of the cost-basis over the fair value of net tangible assets acquired was \$124.7 million.

In the fourth quarter of 1999, the Company acquired the remaining minority stake in its Argentine business, the largest pressure-sensitive materials operation in that country.

The Pressure-sensitive Adhesives and Materials segment reported increased sales for 1998 compared to 1997. Sales increased in the U.S. operations primarily due to strong unit volume growth in the core U.S. roll materials business. Income for total U.S. operations in the segment decreased slightly, primarily due to changes in product mix and start-up costs for new products. However, operating margins for the core roll materials business in 1998 remained constant relative to the prior year. Total international operations in the segment reported increased sales, reflecting strong unit volume growth in Europe and geographic expansion efforts. This increase in sales was partially offset by changes in foreign currency rates. Income for the international operations was down slightly from the prior year mainly due to pricing pressures in Europe and costs associated with new plant start-ups.

Consumer and Converted Products:

(In millions)	1999	1998	1997
Net sales.....	\$1,932.5	\$1,741.4	\$1,671.9
Income from operations before interest and taxes.....	222.1	226.7	187.9

The Consumer and Converted Products segment reported increased sales for 1999 compared to 1998. Sales increased 11 percent to \$1.93 billion in 1999 over 1998 sales of \$1.74 billion. Excluding the impact of changes in foreign currency rates, sales increased 11.7 percent. The U.S. operations reported increased sales as a result of recent acquisitions, and solid sales growth for most Avery-brand product lines and high performance films. The international operations also reported increased sales due to the recent Zweckform venture, sales growth in the worldwide ticketing business and acquisitions. The international operations' sales increase was partially offset by changes in foreign currency rates.

The segment's 1999 income results include a pretax restructuring charge recorded in the first quarter of \$37.6 million (\$24.3 million in the U.S. operations and \$13.3 million in the international operations). Excluding this charge, 1999 segment income increased to \$259.7 million, a 14.6 percent increase over 1998. Income for the U.S. operations, excluding the restructuring charge, improved primarily due to unit volume growth in Avery-brand products and high performance films. Income for the international operations, excluding the restructuring charge, increased primarily due to the Zweckform venture and growth at other office products businesses in Europe, and operations in Asia.

The segment was impacted in 1999 by decreased sales and income in the battery label business. A key customer in this business made a product mix change in its battery lines, resulting in a partial shift from higher-priced tester labels to standard battery labels. The Company expects this negative year-to-year comparison to continue for the next quarter in its battery label business. However, it is not expected to have a material impact on the segment's profitability.

In the first quarter of 1999, the Company completed a transaction with Steinbeis Holding GmbH to combine substantially all of the Company's office products businesses in Europe with Zweckform Buro-Produkte GmbH (Zweckform), a German office products supplier. The Company's aggregate cost basis in this venture was financed through available cash resources of approximately \$23 million and the assumption of an obligation as reported in the "Long-term obligation" line on the Consolidated Balance Sheet. It is the intention of the Company to pay the entire obligation in 2004. The excess of the cost-basis over the fair value of net tangible assets acquired was \$104.6 million.

In the fourth quarter of 1998, the Company acquired Spartan International, Inc. (Spartan), a privately held specialty converting company based in Holt, Michigan. Spartan supplies pressure-sensitive products to the commercial graphics, sign making, vehicle marking and automotive markets.

The Consumer and Converted Products segment reported increased sales and profits for 1998 compared to 1997. Increased sales in the U.S. operations were led by growth of the Avery-brand products, despite several major retailers implementing inventory reduction programs. The Company experienced some negative impact from these programs during the last half of 1998. Increased sales in the U.S. operations were also attributed to growth from the high performance films businesses, including Avloy-brand products. Income from the U.S. operations increased primarily as a result of the consumer packaging, high performance films and office products businesses. The international operations reported increased sales, primarily due to strong unit volume growth in the European office products operations, ticketing business and Asian and Latin American businesses. This increase in sales was partially offset by changes in foreign currency rates. Income increased in the international operations primarily due to improved performance in the European converting and office products operations and the ticketing businesses.

Financial Condition

Average working capital, excluding short-term debt, as a percent of sales was 5 percent in 1999, 7.1 percent in 1998 and 8 percent in 1997. The decrease in 1999 was primarily attributable to higher sales and an increase in current liabilities. The decrease in 1998 was primarily due to improved payables management. Average inventory turnover was 9.5 turns in 1999, 9.9 turns in 1998 and 9.5 turns in 1997. The average number of days sales outstanding in accounts receivable was 52 days in 1999, 1998 and 1997.

Total debt increased \$148.5 million to \$685.7 million compared to year end 1998 primarily due to the debt issuance to fund acquisitions and share repurchases. Total debt to total capital increased to 45.8 percent at year end 1999 compared to 39.2 percent at year end 1998. Long-term debt as a percent of total long-term capital increased to 43.3 percent from 35.9 percent at year end 1998.

Shareholders' equity decreased to \$809.9 million from \$833.3 million at year end 1998. During 1999, the Company repurchased 2.4 million shares of common stock at a cost of \$121.9 million. As of year end 1999, a cumulative 34.3 million shares of common stock had been repurchased since 1991 and 6.1 million shares remained available for repurchase under the Board of Directors' authorization. The market value of shares held in the employee stock benefit trust, after the issuance of shares under the Company's stock and incentive plans, increased by \$336.4 million to \$1,014 million from year end 1998.

Return on average shareholders' equity was 27.1 percent in 1999, 26.7 percent in 1998 and 24.8 percent in 1997. Return on average total capital for those three years was 17 percent, 19 percent and 18.1 percent, respectively. Excluding the impact of the 1999 restructuring charge, return on average shareholders' equity and return on average total capital were 31.1 percent and 19.5 percent, respectively. The improvement in 1999 for these returns was primarily due to an increase in profitability. The 1998 improvement was 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 13 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

Net cash flow from operating activities was \$435.2 million in 1999, \$422.8 million in 1998 and \$368.4 million in 1997. The improvements were primarily due to changes in working capital requirements and the Company's improved profitability.

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

The Company previously registered with the Securities and Exchange Commission \$150 million in principal amount of uncollateralized medium-term notes, of which \$110 million in notes had been issued as of year end 1998. No notes were issued in 1999. Proceeds from the medium-term notes were used to refinance short-term debt and for other general corporate purposes. The Company's outstanding medium-term notes have maturities from 2000 through 2025 and have a weighted-average interest rate of 6.95 percent.

Capital expenditures were \$177.7 million in 1999 and \$159.7 million in 1998. Capital expenditures for 2000 are expected to be comparable to 1999.

The annual dividend per share increased to \$.99 in 1999 from \$.87 in 1998 and \$.72 in 1997. This was the 24th consecutive year the Company increased dividends per share.

The Company continues to expand its operations in Europe, Latin America and Asia Pacific. The Company's future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. To reduce its exposure to these fluctuations, the Company may enter into foreign exchange forward, option and swap contracts, and interest rate contracts, where appropriate and available.

All translation gains and losses for operations in hyperinflationary economies were included in net income. Operations are treated as being in a hyperinflationary economy for accounting purposes, due to the cumulative inflation rate over the past three years. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 1999, Mexico for 1998 and 1997, and Brazil for 1997. These operations were not significant to the Company's consolidated financial position.

Future Accounting Requirements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income. The new rules will be effective the first quarter of 2001. The Company is in the process of determining the impact of this new standard and, based on current market conditions, anticipates that it will not have a material impact on the Company's financial results when effective.

Year 2000

The Company used internal and external resources to remediate and test its systems. Costs incurred in addressing the Year 2000 (Y2K) issue were expensed as incurred and were not material to the Company's financial results.

The Company did not experience any significant malfunctions or errors in its operating or business systems when the date changed from 1999 to 2000. Based on operations since January 1, 2000, the Company does not expect any significant impact to its ongoing business as a result of the Y2K issue. However, it is possible that the full impact of the date change has not been fully recognized. The Company currently is not aware of any significant Y2K or similar problems that have arisen for its customers and suppliers.

Euro Conversion

On January 1, 1999, a single currency called the euro was introduced in Europe. Eleven of the fifteen member countries of the European Union adopted the euro as their common legal currency on that date. Fixed conversion rates between these countries' existing currencies (legacy currencies) and the euro were established on that date. The legacy currencies are scheduled to remain legal tender in these participating countries through July 1, 2002. During the transition period, parties may settle transactions using either the euro or a participating country's legacy currency.

Certain of the Company's European facilities adopted the euro as their functional currency in 1999. The cost of system modifications to accommodate the euro was not material to the Company's financial results. Based on currently available information, the euro conversion has not had a material adverse impact on the Company's business or financial condition.

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 future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Certain of such risks and uncertainties including, but not limited to, those related 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 and inventory levels, increased competition, loss of significant customers, impact of Year 2000 issues and the euro conversion, legal proceedings, 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 also be considered in light of the factors detailed in Exhibit 99 in the Company's Annual Report on Form 10-K for the years ended January 1, 2000 and January 2, 1999.

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

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

The Company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows 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 significant interest rate contracts outstanding at year end 1999.

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

Foreign Exchange Value-at-Risk

The Company uses a "Value-at-Risk" (VAR) model to determine the estimated maximum potential one-day loss in earnings associated with both its foreign exchange positions and contracts. This approach assumes that market rates or prices for foreign exchange positions and contracts are normally distributed. The VAR model estimates were made assuming normal market conditions. Firm commitments, receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were included in the model. Forecasted transactions, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR was estimated using a variance-covariance methodology based on historical volatility for each currency. The volatility and correlation used in the calculation were based on multi-year historical data obtained from publicly available sources. 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 1999 earnings.

Interest Rate Sensitivity

An assumed 50 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 1999 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 46, and in the Report of Independent Accountants on page 47 of Registrant's 1999 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 2000 Proxy Statement which has been 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 13 of the 2000 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 2000 Proxy Statement which has been 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 did not file any Reports on Form 8-K for the three months ended January 1, 2000.

(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 1999 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 30, 2000

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; Director	March 30, 2000
/s/ Philip M. Neal ----- Philip M. Neal	President and Chief Executive Officer; Director	March 30, 2000
/s/ Robert M. Calderoni ----- Robert M. Calderoni	Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	March 30, 2000
/s/ Thomas E. Miller ----- Thomas E. Miller	Vice President and Controller (Principal Accounting Officer)	March 30, 2000

Signature	Title	Date
/s/ Dwight L. Allison, Jr. ----- Dwight L. Allison, Jr.	Director	March 30, 2000
/s/ John C. Argue ----- John C. Argue	Director	March 30, 2000
/s/ Joan T. Bok ----- Joan T. Bok	Director	March 30, 2000
/s/ Frank V. Cahouet ----- Frank V. Cahouet	Director	March 30, 2000
/s/ Richard M. Ferry ----- Richard M. Ferry	Director	March 30, 2000
/s/ Kent Kresa ----- Kent Kresa	Director	March 30, 2000
/s/ Peter W. Mullin ----- Peter W. Mullin	Director	March 30, 2000
/s/ Sidney R. Petersen ----- Sidney R. Petersen	Director	March 30, 2000
/s/ David E. I. Pyott ----- David E. I. Pyott	Director	March 30, 2000
/s/ John B. Slaughter ----- John B. Slaughter	Director	March 30, 2000

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 1999 Annual Report to Shareholders of Avery Dennison Corporation:

Report of Independent Accountants.....	--	47
Consolidated Balance Sheet at January 1, 2000 and January 2, 1999.....	--	34
Consolidated Statement of Income for 1999, 1998 and 1997.....	--	35
Consolidated Statement of Shareholders' Equity for 1999, 1998 and 1997.....	--	36
Consolidated Statement of Cash Flows for 1999, 1998 and 1997.....	--	37
Notes to Consolidated Financial Statements.....	--	38-46

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 certain information referred to in Items 1, 5 and 6, which information is included in the 1999 Annual Report and is incorporated herein by reference, the 1999 Annual Report is not to be deemed "filed" as part of this report.

Data submitted herewith:

Report of Independent Accountants.....	S-2	--
Financial Statement Schedules (for 1999, 1998 and 1997):		
II--Valuation and Qualifying Accounts and Reserves.....	S-3	--
Consent of Independent Accountants.....	S-4	--

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

Our audits of the consolidated financial statements referred to in our report dated January 25, 2000 appearing in the 1999 Annual Report to Shareholders of Avery Dennison Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Los Angeles, California
January 25, 2000

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)

	Balance at Beginning of Year	Additions/(Deductions)			Balance at End of Year
		Charged to Costs and Expenses	From Acquisitions	Other Net*	
1999					
Allowance for doubtful accounts	\$16.5	\$8.7	\$2.4	\$(8.1)	\$19.5
1998					
Allowance for doubtful accounts	\$15.6	\$2.7	\$.2	\$(2.0)	\$16.5
1997					
Allowance for doubtful accounts	\$17.5	\$4.3	\$ -	\$(6.2)	\$15.6

* Consists of write-offs of uncollectible accounts and foreign currency translation.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-16375 and 333-38905) and Form S-8 (File Nos. 33-1132, 33-3645, 33-27275, 33-41238, 33-45376, 33-54411, 33-58921, 33-63979, 333-38707 and 333-38709) of Avery Dennison Corporation of our report dated January 25, 2000 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 25, 2000 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Los Angeles, California
March 27, 2000

EVERY DENNISON CORPORATION

EXHIBIT INDEX

For the Year Ended January 2, 1999

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)	Third Quarterly report for 1999 on Form 10-Q
(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)
(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

Exhibit No. -----	Item -----	Originally Filed as Exhibit No. -----	Document -----
(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
(10.3)	*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
(10.8.1)	*Agreement with Charles D. Miller	10.8.1	1990 Annual Report on Form 10-K
(10.8.1.1)	*Amendment to Agreement with Charles D. Miller	10.8.1	1997 Annual Report on Form 10-K
(10.8.1.2)	*Amendment to Agreement with Charles D. Miller	10.8.2	1997 Annual Report on Form 10-K
(10.8.2)	*Agreement with Philip M. Neal	10.8.2.1	1998 Annual Report on Form 10-K
(10.8.3)	*Agreement with R.G. van Schoonenberg	10.8.3	1996 Annual Report on Form 10-K
(10.8.4)	*Form of Employment Agreement	10.8.4	1997 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 Agreement 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)	*Amended and Restated Supplemental Executive Retirement Plan ("SERP")	10.11.1	1998 Annual Report on Form 10-K
(10.11.1)	*Amended Letter of Grant to C.D. Miller under SERP	10.11.2	1992 Annual Report on Form 10-K
(10.11.2)	*Letter of Grant to Philip M. Neal under SERP	10.11.2	1998 Annual Report on Form 10-K
(10.12)	*Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 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 under Director Plan	10.15.2	1994 Annual Report on Form 10-K
(10.16)	*Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan ("EVDCP")	10.16	1994 Annual Report on Form 10-K

Exhibit No. -----	Item -----	Originally Filed as Exhibit No. -----	Document -----
(10.17)	*Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K
(10.18)	*Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan ("DVDCP")	10.18	1994 Annual Report on Form 10-K
(10.19)	*1990 Stock Option and Incentive Plan ("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 under 1990 Plan	10.19.3	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
(10.28)	*Complete Restatement and Amendment of Executive Deferred Retirement Plan ("EDRP")	10.28	1994 Annual Report on Form 10-K
(10.31)	*Executive Variable Deferred Retirement Plan ("EVDRP")	10.31	Registration Statement on Form S-8 (File No. 33-63979)
(10.31.1)	*Amended and Restated EVDRP	10.31.1	1997 Annual Report on Form 10-K
(10.32)	*Benefit Restoration Plan	10.32	1995 Annual Report on Form 10-K
(10.33)	*Restated Trust Agreement for Employee Stock Benefit Trust	10.33.1	1997 Annual Report on Form 10-K
(10.33.1)	*Common Stock Purchase Agreement	10.2	Current Report on Form 8-K filed October 24, 1996
(10.33.2)	*Restated Promissory Note	10.33.3	1997 Annual Report on Form 10-K
(10.34.1)	*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:

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Exhibit No. -----	Item ----
10.16.1	*Amendment No. 1 to EVDCP
10.18.1	*Amendment No. 1 to DVDCP
10.19.4	*Form of Non-Qualified Stock Option Agreement under 1990 Plan
10.21	*Amended and Restated 1996 Stock Incentive Plan
10.21.1	*Form of Non-Qualified Stock Option Agreement under 1996 Plan
10.27	*Executive Long-Term Incentive Plan
10.28.1	*Amendment No. 1 to EDRP
10.29	*Executive Leadership Compensation Plan
10.30	*Senior Executive Leadership Compensation Plan
10.31.2	*Amendment No. 1 to EVDRP
10.34	*Amended and Restated Capital Accumulation Plan ("CAP")
10.34.2	*Amendment No. 1 to CAP
12	Computation of Ratio of Earnings to Fixed Charges
13	Portions of Annual Report to Shareholders for fiscal year ended January 1, 2000
21	List of Subsidiaries
23	Consent of Independent Accountants (see page S-4)
27	Financial Data Schedule
99	Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

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* 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.

AMENDMENT No. 1 to

EXECUTIVE VARIABLE DEFERRED COMPENSATION PLAN

The Executive Variable Deferred Compensation Plan, amended and restated as of December 23, 1994, (the "Plan") is hereby amended effective December 1, 1999, as follows.

1. Article 2 "Definitions and Certain Provisions"

- a. The definition of "Normal Retirement" is amended to read as follows:

Normal Retirement. "Normal Retirement" means with respect to any

Benefit Unit the termination of a Participant's employment with Employer for reasons other than death on or after the Participant attains age 62 and after completing deferrals of one hundred percent (100%) of the Cumulative Deferral Amount for such Benefit Unit, excluding deferrals under Option B which are elected as a percentage of Bonus.

2. Section 5.1 "Retirement Benefit"

- a. The last sentence of the second paragraph is amended to read as follows:

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; interest will be credited monthly and compounded annually.

3. Section 5.5 "Survivor Benefits"

- a. The first sentence of Section 5.5(a) is amended to read as follows:

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

receiving Retirement Benefit payments with respect to a Benefit Unit, a Survivor Benefit will be paid to his Beneficiary in annual installments over ten years.

- b. The first sentence of Section 5.5(b)(ii) is amended to read as follows:

Option B. The Beneficiary will be entitled to receive a Survivor

Benefit equal to the Deferred Account balance for the Benefit Unit, which will be paid in annual installments over ten years.

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

AMENDMENT No. 1 to

DIRECTORS VARIABLE DEFERRED COMPENSATION PLAN

The Directors Variable Deferred Compensation Plan (the "Plan"), dated December 23, 1994, is hereby amended effective December 1, 1999, as follows:

1. Section 5.1 " Normal Retirement Benefit"

- a. The last sentence of the second paragraph is amended to read as follows:

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; interest will be credited monthly and compounded annually.

2. Section 5.4 "Survivor Benefits"

- a. The first sentence of Section 5.5(a) is amended to read as follows:

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

receiving Retirement Benefit payments with respect to a Benefit Unit, a Survivor Benefit will be paid to his Beneficiary in annual installments over ten years.

- b. The first sentence of Section 5.5(b)(ii) is amended to read as follows:

Option B. The Beneficiary will be entitled to receive a Survivor

Benefit equal to the Deferral Account balance for the Benefit Unit, which will be paid in annual installments over ten years.

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

AVERY DENNISON CORPORATION

NON-QUALIFIED STOCK OPTION AGREEMENT

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

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

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

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

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

ARTICLE I

DEFINITIONS

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

1.1 Option

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

1.2 Plan

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

1.3 Pronouns

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

* Refer to attached Notice.

1.4 Secretary

"Secretary" shall mean the Secretary of the Company.

1.5 Subsidiary

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

1.6 Termination of Employment

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

1.7 Change of Control

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

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

1.8 Beneficiary

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

ARTICLE II

GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

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

2.3 Consideration to Company

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

2.4 Adjustments in Option

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

* Refer to the attached Notice

ARTICLE III

PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

Such early vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the return on total capital of the median company among the peer group (as listed in the Company's proxy statement) for that year (for example, the performance test for accelerated vesting for options granted in 1999 will be based on the return on total capital for 2002).

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

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

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

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, and Section 3.4 below, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable; provided, however, that if all or a portion of the Option installments which otherwise would become exercisable pursuant to this Subsection 3.1(c) is determined by the Committee to constitute, when exercised, a "parachute payment" as defined by Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), such Option installments or portion thereof shall not become exercisable upon the Change of Control. In making this determination pursuant to the preceding sentence the Committee shall first take into account any payments to the Employee contingent on a change in the ownership or control of the Company or its assets (as provided in said Section 280G) under any other agreement or arrangement between the Company and Employee, exclusive of any agreement which is not subject to Section 280G because of Section 67(e) of the Tax Reform Act of 1984. Subsection 3.1(c) shall be final and binding upon Employee.

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

3.4 Exercise of Option Upon Merger or Consolidation

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- (a) Notwithstanding Section 3.3, the Option may not be exercised to any extent by anyone after the effective date of either the merger or consolidation of the Company into another corporation, the exchange of all or substantially all of the assets of the Company for the securities of another corporation, the acquisition by another corporation of 80% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company. At least ten (10) days prior to the effective date of such merger, consolidation, exchange, acquisition, liquidation, or dissolution, the Committee shall give the Employee notice of such event if the Option has then neither been fully exercised nor become unexercisable due to the passage of the specified time period in Subsection (b) below.

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

ARTICLE IV

EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

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

4.3 Conditions to Issuance of Stock Certificates

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

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

4.4 Rights as Shareholders

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

ARTICLE V

MISCELLANEOUS

5.1 Administration

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

5.2 Option Not Transferable

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

5.3 Notices

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

5.4 Titles

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

5.5 Construction

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

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

AVERY DENNISON CORPORATION

by: _____
Chairman & Chief Executive Officer

by: _____
Secretary

by: _____
Optionee

* Refer to attached Notice.

AVERY DENNISON CORPORATION
 AMENDED AND RESTATED
 1996 STOCK INCENTIVE PLAN

SECTION 1. Purpose; Definitions

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

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

- (a) "Affiliate" means a subsidiary of the Company.
- (b) "Award" means a Stock Appreciation Right, Stock Option, Restricted Stock, Performance Unit, Stock Payment or Dividend Equivalent.
- (c) "Awardee" means a person granted an Award.
- (d) "Award Cycle" shall mean a period of consecutive fiscal years or portions thereof designated by the Committee over which Performance Units are to be earned.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Cause" means (1) conviction of a participant for committing a felony under federal law or the law of the state in which such action occurred, (2) dishonesty in the course of fulfilling a participant's employment duties or (3) willful and deliberate failure on the part of a participant to perform his employment duties in any material respect, or such other events as shall be determined by the Committee. The Committee shall have the sole discretion to determine whether "Cause" exists, and its determination shall be final.
- (g) "Change in Control" and "Change in Control Price" have the meanings set forth in Sections 10(b) and (c), respectively.
- (h) "CEO" means the Chief Executive Officer of the Company.
- (i) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. References to Sections of the Code shall be deemed to include any successors to such Sections.
- (j) "Commission" means the Securities and Exchange Commission or any successor agency.
- (k) "Committee" means the Committee referred to in Section 2.
- (l) "Common Stock" means common stock, par value \$1.00 per share, of the Company, as presently constituted and any equity security of the Company issued or authorized to be issued in the future.
- 1
- (m) "Company" means Avery Dennison Corporation, a Delaware corporation.
- (n) "COO" means the Chief Operating Officer of the Company.
- (o) "Covered Employee" means a participant designated prior to the grant of shares of Restricted Stock or Performance Units by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which Restricted Stock or Performance Units are expected to be taxable to such participant.
- (p) "Disability" means permanent and total disability as determined under procedures established by the Committee for purposes of the Plan.
- (q) "Dividend Equivalent" means an Award made pursuant to Section 9.
- (r) "Early Retirement" means retirement from active employment with the Company, or an Affiliate pursuant to the early retirement provisions of the applicable pension plan of such employer or as otherwise determined by the Committee.
- (s) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- (t) "Fair Market Value" means, as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which the Common Stock is listed or on NASDAQ. If there is no regular public trading market for such Common Stock, the Fair Market Value of the Common Stock shall be determined by the Committee in good faith.
- (u) "Non-Employee Director" means a member of the Board who qualifies as a Non-Employee Director as defined in Rule 16b-3(b)(3), as promulgated by the Commission under the Exchange Act, or any successor definition adopted by the Commission.
- (v) "Non-qualified Stock Option" means a Stock Option, which is not an incentive stock option under Section 422 of the Code.
- (w) "Normal Retirement" means retirement from active employment with the Company, or an Affiliate at or after age 65.

(x) "Optionee" means an individual granted a Stock Option under this Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 2. Administration

The Plan shall be administered by the Compensation and Executive Personnel Committee or such other committee of the Board as the Board may from time to time designate (the "Committee"), which shall be composed of not less than two Non-Employee Directors, each of whom shall be an "outside director" for purposes of Section 162(m)(4) of the Code, and shall be appointed by and serve at the pleasure of the Board.

The Committee shall have plenary authority to grant Awards pursuant to the terms of the Plan to officers and employees of the Company and its Affiliates.

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 3. Common Stock Subject to Plan

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

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

In the event of any change in corporate capitalization, such as a stock split (whether or not effected in the form of a dividend), or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board shall make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, in the number, kind and option price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and/or such other equitable substitution or adjustments as it may determine to be appropriate in its discretion with the intent that, after such substitution or adjustments, the value of each Optionee's and each Awardee's interest shall be maintained as before the occurrence of such event; provided, however, that the number of shares subject to any Award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

SECTION 4. Eligibility

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

SECTION 5. Stock Options

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

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

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

(a) Option Price. The option price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee and set forth in the option agreement.

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

(c) Exercisability. Except as otherwise provided herein, Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Stock Option is exercisable only in installments, the Committee may at any time waive or modify such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Stock Option or extend the period during which it may be exercised (but not beyond the expiration of the term thereof).

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

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

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

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

No shares of Common Stock shall be issued until full payment therefor has been made. On exercise of a Stock Option, delivery of Common Stock may be made by delivery of Common Stock certificates or through a book-entry system (such as a direct registration system). Except as otherwise provided in Section 5(1) below and in the terms and conditions of the relevant Stock Option as determined by the Committee, an Optionee shall have all of the rights of a shareholder of the Company holding the class or series of Common Stock that is subject to such Stock Option (including, if applicable, the right to vote the shares and the right to receive dividends), when the Optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 13(a).

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

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

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

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

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

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

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

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

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

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

SECTION 6. Stock Appreciation Rights

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

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

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

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

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

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

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

SECTION 7. Restricted Stock

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

forfeiture and any other terms and conditions of the Awards, in addition to those contained in Section 7(c).

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

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

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

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

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

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

(iii) Except as provided in this paragraph (iii) and Sections 7(c)(i) and 7(c)(ii) and the Restricted Stock Agreement, the participant shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the

shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Restricted Stock Agreement and subject to Section 13(e) of the Plan, (A) cash dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically deferred and reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends, and (B) dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends.

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

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

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

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

SECTION 8. Performance Units

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

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

(i) The Committee may, prior to or at the time of the grant, designate Performance Units as Qualified Performance-Based Awards, in which event it shall condition the settlement thereof upon the attainment of Performance Goals. If the Committee does not designate Performance Units as Performance-Based Awards, it may also condition the settlement thereof upon the attainment of Performance Goals. Regardless of whether Performance Units are Qualified Performance-Based Awards, the Committee may also condition the settlement thereof upon the continued service of the participant. The provisions of such Awards (including without

limitation any applicable Performance Goals) need not be the same with respect to each recipient. Subject to the provisions of the Plan and the Performance Units Agreement referred to in Section 8(b)(vi), Performance Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Award Cycle.

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

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

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

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

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

SECTION 9. Stock Payments; Dividend Equivalents

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

Dividend Equivalents may be granted under this Plan either alone or in conjunction with any other Award. Dividend Equivalents shall represent the right to receive cash payments, shares of Common

Stock, or a combination thereof, having a value equal to the dividends declared on Common Stock during a specified period, and subject to such other terms and conditions as the Committee shall determine.

SECTION 10. Change in Control Provisions

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

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

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

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

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

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

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

(ii) A change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 9(b), that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms

are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

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

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

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

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

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

SECTION 11. Term, Amendment and Termination

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

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

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

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

SECTION 12. Unfunded Status of Plan

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

SECTION 13. General Provisions

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

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

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

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

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

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

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

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

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

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

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

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

(i) At the time an Award is made hereunder or at any time thereafter, the Committee may grant to the participant receiving such Award the right to receive a cash payment in an amount specified by the Committee, to be paid at such time or times (if ever) as the Award results in compensation income to the

participant, for the purpose of assisting the participant to pay the resulting taxes, all as determined by the Committee and on such other terms and conditions as the Committee shall determine.

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

SECTION 14. Director Stock Options

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

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

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

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

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

SECTION 15. Effective Date of Plan

The Plan shall be effective as of December 5, 1996. The Plan is amended and restated as of December 2, 1999.

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

THIS AGREEMENT, dated December 2, 1999, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee" or "Optionee."

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

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

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

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

ARTICLE I

DEFINITIONS

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

1.1 Beneficiary

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

1.2 Change of Control

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

1.3 Option

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

* Refer to attached Notice

1.4 Plan

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

1.5 Pronouns

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

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

1.7 Subsidiary

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

1.8 Termination of Employment

"Termination of Employment" means the termination of the participant's

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

ARTICLE II

GRANT OF OPTION

2.1 Grant of Option

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

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be Fifty-Nine and 1563/10000 dollars (\$59.1563) per share without commission or other charge.

2.3 Consideration to Company

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

ARTICLE III

PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

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

Such early vesting will occur provided that the Company's return on total capital as reported in the annual report to shareholders (or other report) for the most recently completed fiscal year equals or exceeds the return on total capital of the median company among the peer group (as listed in the Company's proxy statement) for that year (for example, the performance test for accelerated vesting for options granted in 1999 will be based on the return on total capital for 2002).

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

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

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

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

3.2 Term of Option

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

3.3 Exercise of Option after Termination of Employment

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

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

ARTICLE IV

EXERCISE OF OPTIONS

4.1 Partial Exercise

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

4.2 Manner of Exercise

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

- (a) A written exercise notice, complying with the applicable rules established by the Committee, stating that the Option or portion is thereby exercised. The notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the Option or portion thereof is exercised. Payment may be made by any one of the following methods:
 - (i) in cash (or by certified or bank cashier's check), or
 - (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the Option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the Option or portion thereof is exercised; or
 - (iii) by a combination of cash and surrender of stock in the manner herein specified; or
 - (iv) irrevocable instructions to a broker, acceptable to the Company, to delivery promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or
 - (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state or local taxes required to be withheld in connection with the exercise, which payment may be made in cash (or by certified or bank cashier's check) or by actual or constructive delivery and surrender to the Company in accordance with procedures established by the Company, of Company Common Stock then owned by the Employee with a Fair Market Value on the date the Option is exercised equal to the total of such taxes due in connection with the exercise, or by a combination of cash and surrender of stock in the manner herein specified; and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

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

of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

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

4.4 Rights as Shareholders

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

ARTICLE V

MISCELLANEOUS

5.1 Option Subject to Plan

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

5.2 Administration

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

5.3 Option Not Transferable

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

5.4 Notices

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

5.5 Titles

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

5.6 Construction

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

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

AVERY DENNISON CORPORATION

By: *

President and Chief Executive Officer

By: *

Secretary

By: *

Optionee

*

*

Address

*

Social Security Number

-
* Refer to attached Notice

AVERY DENNISON CORPORATION
EXECUTIVE LONG-TERM INCENTIVE PLAN

1. PURPOSE

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

2. PARTICIPATION

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

3. DEFINITIONS

"Achievement Factor" means the percentage to be used in determining a Participant's deferred cash incentive Award for achieving a specified percentage of the pre-established Performance Objectives.

"Average Capital" means the numerical average for a given year of ending Capital for the five most recently completed fiscal quarters, including the last quarter of that year.

"Average Shareholders' Equity" means the numerical average for a given year of ending Shareholders' Equity for the five most recently completed fiscal quarters, including the last quarter of that year.

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

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

"Business Unit" or "Unit" refers to a group, division or subsidiary of the Company.

"Business Unit Cumulative Economic Value Added" or "Business Unit CEVA" means the Cumulative Economic Value Added of a Business Unit as reported in the Company's internally prepared Summary of Operations, or other similar report.

"Business Unit Net Income" means net income of a Business Unit as reported in the Company's internally prepared Summary of Operations.

"Business Unit ROTC" means the return on total capital of a Business Unit as reported in the Company's internally prepared Summary of Operations, or other similar report.

1

"Capital" refers to the sum of Shareholders' Equity and Long-Term Debt.

"Cash Flow from Operations" means net cash provided by operating activities as disclosed in the Company's annual reports to shareholders and quarterly reports on Form 10-Q.

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

"Change of Control" means: (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 definition; 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.

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

"Company Cumulative Economic Value Added" or "Company CEVA" means the Cumulative Economic Value Added of the Company as reported in the Company's internally prepared Summary of Operations, or other similar report.

"Company ROTC" means the return on total capital of the Company as reported in the Company's internally prepared Summary of Operations, or other similar report.

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

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

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

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

"Earnings Per Share" or "EPS" means diluted earnings per share, including extraordinary gains and losses, divested operations and changes in accounting principles as disclosed in the Company's annual reports to shareholders.

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

"Effective Date" means January 1, 1998, which is the first day of the initial Performance Cycle.

"GAAP" means generally accepted accounting principles.

"Long-Term Debt" means long-term debt as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

"Net Income" refers to after-tax net income, including extraordinary items, discontinued operations and changes in accounting principles, as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

"Net Sales" means net sales as disclosed in the Company's annual reports to shareholders and quarterly reports on Form 10-Q.

"Participant" means an executive of the Company designated by the Committee to participate in the Plan.

"Peer Group" refers to a specified group of companies approved by the Committee against which the financial performance of the Company will be compared for purposes of the Plan.

"Performance Cycle" or "Cycle" refers to the three-year period over which performance is measured for purposes of determining cash Awards under the Plan. The initial Performance Cycle will cover the Company's 1998 through 2000 fiscal years.

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

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

"ROE" means the percentage determined by dividing "Net Income" by "Average Shareholders' Equity."

"ROS" means the percentage determined by dividing Net Income by Net Sales.

"ROTC" means the return on total capital of the Company as reported in the Company's annual report or other report.

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

"Shareholders' Equity" means total shareholders' equity, as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

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

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

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

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

"Tax Rate" refers to taxes on income divided by income before taxes on income, each as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable, subject to adjustments to exclude the effect of unusual, non-recurring items, as described in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

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

"Total Shareholder Return" means the cumulative shareholder return on the Company's common stock, including the reinvestment of dividends, as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between the Company's closing stock price at the end and the beginning of the measurement period, by (ii) the closing stock price at the beginning of the measurement period.

"Transfer" means the appointment of a Participant to a new position within the Company which may either be within the same position classification under the Plan or in a different position classification under the Plan.

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

4. GENERAL PLAN DESCRIPTION

A. Overview

Commencing as of the Effective Date, the Plan provides for each Participant the opportunity to earn a deferred cash incentive Award based on the financial performance of the Company and, in some cases, its Business Units. Within 90 days of the commencement of each cycle, the Committee will establish (and the Committee has established for the 1998-2000 cycle) one or more Performance Objectives.

B. Deferred Cash Incentive Awards

Each Participant will be provided with the opportunity to earn a deferred cash incentive Award after the end of a three-year Performance Cycle equal to the Target Award plus the Success Factor Award. The maximum cash payment to a participant for a Performance Cycle is \$2.2 million.

(1) Performance Cycle

The initial Performance Cycle will cover the period beginning with the Company's 1998 fiscal year and ending with the Company's 2000 fiscal year. Subsequent three-year Performance Cycles will begin every two years, starting with the Company's 2000 fiscal year.

(2) Range of Target and Success Factor Award Opportunities

The deferred cash incentive Target Award opportunity for each Participant during each Performance Cycle ranges from 30% to 80% of Base Salary depending upon position classification as illustrated in Table 1 below. The deferred cash incentive Success Factor Award opportunity for each Participant during each Performance

Cycle also ranges from 30% to 80%. Classification of Participants into the categories listed in Table 1 will be recommended by the Chief Executive Officer of the Company and approved by the Committee.

Table 1
Deferred Cash Incentive Award Range
By Position Classification

Category	Position Classification	Total Award Range as % of Base Salary	Target Award as % of Base Salary	Success Factor Award as % of Base Salary
1	Senior Executive Officers	0% - 160%	80%	80%
1	Corporate & Staff Officers	0% - 120%	30% - 60%	30% - 60%
2	Division VP/GM's and Officers	0% - 90%	30% - 45%	30% - 45%
2	Group and Sub-Group VP's	0% - 120%	45% - 60%	45% - 60%

The actual Total Award earned within the above range will depend upon the level of achievement versus specific Performance Objectives established under the Plan for each Performance Cycle.

(3) Performance Measurement and Calculation of Target Awards

(a) Calculation Formula

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

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

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

(b) Weighting Factors - Category 1

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

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

Target Performance Objective	Weighting Factor
Company ROTC	33.3%
Company EPS	33.3%
Company CEVA	33.3%

In subsequent Performance Cycles, the Committee will select one or more Performance Objectives and weightings to determine such Target Awards.

(c) Weighting Factors - Category 2

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

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

Target Performance Objective	Weighting Factor
Business Unit ROTC	33.3%
Business Unit Net Income	33.3%
Business Unit CEVA	33.3%

In subsequent Performance Cycles, the Committee will select one or more Performance Objectives and weightings to determine such Target Awards.

(d) Achievement Factor

The Achievement Factor for each Target Performance Objective will be between a threshold Achievement Factor of 70% (for achieving 80% of the Target Performance Objective) and a maximum Achievement Factor of 100% (for achieving the Target Performance Objective) as illustrated in the table below. The Achievement Factors for performance between the threshold and 100% Achievement Factors will be linearly interpolated.

% Achievement of Target Performance Objective	Achievement Factor
Less than 80%	0
80%	70%
85%	77.5%
90%	85.0%
95%	92.5%
100%	100%

(e) Measurement Process

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

(4) Performance Measurement and Calculation of Success Factor Awards

(a) Calculation Formula

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

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

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

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

(b) Weighting Factors

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

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

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

In subsequent Performance Cycles, the Committee will select one or more Performance Objectives and weightings to determine such Target Awards.

(c) Achievement Factor

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

If the Company's performance is between the Target Performance Objective and the first level Success Factor Performance Objective, then the Achievement Factor for that Success Factor Performance Objective will be between 0% and 50%. The Achievement Factor for performance between the Target Performance Objective and the first level Success Factor Performance Objective will be linearly interpolated.

If the Company's performance is between the first level Success Factor Performance Objective and the second level Success Factor Performance Objective then the Achievement Factor for that Success Factor Performance Objective will be between 50% and 100%. The Achievement Factor for performance between the first level Success Factor Performance Objective and the second level Success Factor Performance Objective will be linearly interpolated.

(d) Measurement Process

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

(5) Discretionary Pool Participation

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

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

(6) Deferral of Bonus

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

5. NEW PARTICIPANTS

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

6. TERMINATION OF SERVICE

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

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

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

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

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

If Termination Occurs Between X Months From Start of Cycle -----	% of Earned Award to be Paid -----
0 - 3 Months	0%
3 - 12 Months	33 1/3%
12 - 15 Months	50%
15 - 24 Months	66 2/3%
24 - 27 Months	Prorate to 100%
27 - 36 Months	100%

7. PAYMENT OF EARNED DEFERRED CASH INCENTIVE

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

8. TRANSFERS

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

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

9. PLAN ADMINISTRATION

A. General Administration

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

- o The selection of Participants;
- o The establishment and modification of performance measures, Performance Objectives and weighting of objectives;
- o The determination of performance results and Awards;
- o Exceptions to the provisions of the Plan made in good faith and for the benefit of the Company.

B. Amendment, Suspension or Termination of the Plan

The Committee may amend, suspend or terminate the Plan, whole or in part, at any time, if, in the sole judgment of the Committee, such action is in the best interests of the Company. Notwithstanding the

above, any such amendment, suspension or termination must be prospective in that it may not deprive Participants of that which they otherwise would have received under the Plan for the current Performance Cycle(s) had the Plan not been amended, suspended or terminated.

C. Designation of Beneficiaries

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

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

- o In the case of divorce, the previous spouse was not designated as beneficiary, and
- o In the case of marriage, the Participant's new spouse had previously been designated as beneficiary.

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

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

10. CHANGE OF CONTROL

A. Upon a Change of Control, each Participant shall receive a cash payment equal to his or her Target Award under the deferred cash incentive portion of the Plan for each Performance Cycle that begins on or before the date of the Change of Control and ends after the date of the Change of Control, based on the Participant's annual base salary rate in effect at the time of the Change of Control.

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

11. MISCELLANEOUS PROVISIONS

A. Unsecured Status of Claim

Participants and their beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any specific property or assets of the Company. No assets of the Company shall be

held under any trust for the benefit of Participants, their beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfillment of the Company's obligations under the Plan.

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

B. Employment Not Guaranteed

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

C. Right of Offset

If a Participant becomes entitled to a payment under the Plan, and if at such time the Participant has outstanding any debt, obligation or other liability representing any amount owing to the Company, then the Company may offset such amount against the amount of the payment otherwise due the Participant under the Plan.

D. Nonassignability

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

E. Validity

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

F. Withholding-Tax

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

G. Applicable Law

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

H. Inurement of Rights and Obligations

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

AMENDMENT No. 1 to

EXECUTIVE DEFERRED RETIREMENT PLAN

The Executive Deferred Retirement Plan (the "Plan"), amended and restated as of December 23, 1994, is hereby amended effective December 1, 1999, as follows:

1. Article 2 "Definitions and Certain Provisions"

- a. The definition of "Normal Retirement" shall be restated as follows:

Normal Retirement. "Normal Retirement" means with respect to any

Benefit Unit the termination of a Participant's employment with Employer for reasons other than death on or after the Participant attains age 62 and after completing deferrals of one hundred percent (100%) of the Cumulative Deferral Amount for such Benefit Unit, excluding deferrals under Options A and B, which are elected as a percentage of Bonus.

2. Section 5.1 "Retirement Benefit"

- a. The last sentence of the second paragraph is amended to read as follows:

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; interest will be credited monthly and compounded annually.

3. Section 5.4 "Survivor Benefits"

- a. The first sentence of Section 5.4(a) is amended to read as follows:

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

receiving Retirement Benefit payments with respect to a Benefit Unit, a Survivor Benefit will be paid to his Beneficiary in annual installments over ten years, except as set forth below.

- b. The third sentence of Section 5.4(a)(i) is amended to read as follows:

If the aforementioned lump sum payment is not made, or if the Deferral Account for a Beneficiary exceeds \$50,000, said Beneficiaries shall receive their Survivor Benefits in ten (10) annual installments with interest credited after the Participant's death on the unpaid balance at a rate to be determined each year by the Company, but in no case less than 7% per annum.

- c. The third sentence of Section 5.4(a)(ii) is amended to read as follows:

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If the aforementioned lump sum payment is not made, or if the Deferral Account for a Beneficiary exceeds \$50,000, said Beneficiaries shall receive their Survivor Benefits in ten (10) annual installments with interest credited after the Participant's death on the unpaid balance at a rate to be determined each year by the Company, but in no case less than 7% per annum.

- d. The first sentence of Section 5.4(b)(ii) is amended to read as follows:

Option B. The Participant's Beneficiary will be entitled to receive a Survivor Benefit equal to the Deferral Account balance for the Benefit Unit, which will be paid in annual installments over ten years.

- e. Section 5.4(c) is amended to read follows:

Large Survivor Benefit. If the aggregate Deferral Account balances which are payable to a Beneficiary as a Survivor Benefit for all of the Participant's Benefit Units exceed \$500,000, the Survivor Benefit for each Benefit Unit shall be payable to the Beneficiary over the number of years (if more than ten) which the Participant elected for payment of his Retirement Benefit.

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

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AVERY DENNISON CORPORATION
EXECUTIVE Leadership COMPENSATION PLAN

1. PURPOSE

The purposes of the Executive Leadership Compensation Plan ("ELCP" of the "Plan") for Avery Dennison Corporation (the "Company") are as follows:

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

2. DEFINITIONS

- a. Average Shareholders' Equity. "Average Shareholders' Equity" means the

numerical average for a given year of ending Shareholders' Equity for the five most recently completed fiscal quarters, including the last quarter of that year.
- b. Bonus Maximum. "Bonus Maximum" means 10% of the excess of (i) the Company's

Pre-Tax Return on Shareholders' Equity over (ii) the Minimum Threshold times Average Shareholders' Equity.
- c. Cash Flow from Operations. "Cash Flow from Operations" means net cash

provided by operating activities as disclosed in the Company's annual reports to shareholders and quarterly reports on Form 10-Q.
- d. Code. "Code" means the Internal Revenue Code of 1986, as amended.

- e. Committee. "Committee" means the Compensation and Executive Personnel

Committee of the Company's Board of Directors.
- f. Company. "Company" means Avery Dennison Corporation.

- g. Economic Value Added. "Economic Value Added" means operating profit after

taxes on income minus a capital charge based upon the Company's weighted average cost of capital.
- h. ELCP. "ELCP" means the Executive Leadership Compensation Plan of the Company.

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- i. EPS. "EPS" means earnings per share, including extraordinary gains and

losses, divested operations and --- changes in accounting principles as disclosed in the Company's annual reports to shareholders.
- j. Income Before Taxes on Income. "Income Before Taxes on Income" means the

income before income taxes as reported in the Company's annual reports to shareholders.
- k. Minimum Threshold. "Minimum Threshold" means a 12% Pre-tax Return on

Shareholders' Equity.
- l. MMBP "Middle Management Bonus Plan"

- m. Net Income. "Net Income" means after-tax net income, including extraordinary

items, discontinued operations and changes in accounting principles, as disclosed in the Company's annual reports to shareholders.
- n. Net Sales. "Net Sales" means net sales as disclosed in the Company's annual

reports to shareholders and quarterly reports on Form 10-Q.
- o. Performance Objectives. "Performance Objectives" means one or more

pre-established performance objectives, including: ROS, ROTC, ROE, EPS, Sales Growth, Net Income, Net Sales, Cash Flow from Operations, Economic Value Added and Total Shareholder Return.
- p. Participant. "Participant" means any employee of the Company or any of its

subsidiaries who has been designated as a participant in the Plan in accordance with Article 3.
- q. Plan. "Plan" means the Executive Leadership Compensation Plan for Avery

Dennison Corporation.
- r. Plan Year. "Plan Year" means the fiscal year of the Company.

- s. Pre-Tax Return On Shareholder's Equity. "Pre-Tax Return On Shareholder's

Equity" means the percentage determined by dividing "Income Before Taxes On Income" by "Average Shareholders' Equity".

t. ROE. "ROE" means the percentage determined by dividing "Net Income" by

"Average Shareholders' Equity".

u. ROS. "ROS" means the percentage determined by dividing Net Income by Net

Sales.

v. ROTC. "ROTC" means the return on total capital of the Company as reported in

the Company's internally prepared Summary of Operations.

w. Shareholders' Equity. "Shareholders' Equity" means total shareholders' equity

as disclosed in the Company's annual reports to shareholders and quarterly
reports on Form 10-Q.

x. Target Bonus. "Target Bonus" means with respect to a Participant for any Plan

Year the bonus opportunity for the Participant in such Plan Year on account of
services rendered to the Company during the immediately preceding Plan Year. The
Target Bonus is expressed as a percentage of the Participant's base salary in
effect at the end of the Plan Year.

y. Total Shareholder Return. "Total Shareholder Return" means the cumulative

shareholder return on the Company's common stock, including the reinvestment of dividends, as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between the Company's closing stock price at the end and the beginning of the measurement period, by (ii) the closing stock price at the beginning of the measurement period.

3. PARTICIPATION

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

4. ANNUAL BONUS OPPORTUNITY

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

a. Target Bonus

The Target Bonus for each Participant is established each Plan Year and may be up to 60% of Base Salary.

b. Bonus Payout

i. A Participant's annual bonus payout is based on the Company's and where appropriate, business unit performance versus pre-established Performance Objectives.

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

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

iii. Bonus payouts will be determined based on the following schedule:

Percentage Achievement of Performance Objectives -----	Bonus Payout (% of Target Bonus) -----
0 - 74%	0%
75 - 100%	4 - 100%
101 - 125%	Two-for-One over 100%
(percentage achievement required for upside payout will vary from 112.5% - 150% depending upon the Performance Objective)	(e.g. 104% Plan = 108% payout) (payout may vary from 1:1 - 1:8, depending upon the business unit and the Performance Objective)

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

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

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

vii. No bonuses for a Plan Year shall be paid to Participant unless the Minimum Threshold for such Plan Year is met. In addition, the total of the bonuses for a given Plan Year for the Participants shall not exceed the Bonus Maximum for such Plan Year.

c. Bonus Determination In Cases Of Prior Participation in MMBP

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

d. Bonus Determination In Cases Of Leave Of Absence

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

e. Bonus Determination In Cases Of Termination

i. Participants who terminate prior to the end of the Plan Year for any reasons other than death, disability, or retirement are not eligible to receive awards under this Plan, unless approved by the Chief Executive Officer.

ii. Participants who terminate after the end of the Plan Year, but before payment of the award, are eligible to receive the awards under this Plan.

f. Other Bonus Programs

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

5. TIMING OF PAYMENT OF BONUSES

a. Current Payment

Except as provided in Section 5.b., the bonus allocated by the Committee for each Participant shall be paid in cash and in full as soon as may be conveniently possible after such allocation by the Board and certification by the Committee of the Company's achievement of the relevant Performance Objectives, but not later than two and one-half months from the last day of the Plan Year to which such bonus relates.

b. Deferral of Bonus

Any Participants may elect to defer receipt of all or part of such bonus in accordance with established deferred compensation plans offered by the Company.

6. PLAN ADMINISTRATION

a. General Administration

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

i. Selection Participants

ii. Establishing and modifying Performance Objectives, and weighting Performance Objectives

iii. The determination of performance results and bonus awards

iv. Exceptions to the provisions of the Plan made in good faith and for the benefit of the Company

b. Adjustments for Extraordinary Events

If an event occurs during a Plan Year that materially influences the performance measures of the Company and is deemed by the Committee to be extraordinary and out of the control of management, the Committee may, in its sole discretion, increase or decrease the Performance Objectives used to determine the annual bonus payout. Events warranting such action may include, but are not limited to, changes in accounting, tax or regulatory rulings and significant changes in economic conditions resulting in windfall gains or losses.

c. Amendment, Suspension, or Termination of the Plan

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

7. MISCELLANEOUS PROVISIONS

a. Effective Date

The effective date of the Plan is January 1, 1999.

b. Titles

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

c. Employment Not Guaranteed

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

d. Validity

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

e. Withholding-Tax

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

f. Applicable Law

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

AVERY DENNISON CORPORATION
SENIOR EXECUTIVE LEADERSHIP COMPENSATION PLAN

1. PURPOSE

The purposes of the Senior Executive Leadership Compensation Plan ("SELCP" or the "Plan") for Avery Dennison Corporation (the "Company") are as follows:

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

2. DEFINITIONS

a. Average Shareholders' Equity. "Average Shareholders' Equity" means the

numerical average for a given year of ending Shareholders' Equity for the five most recently completed fiscal quarters, including the last quarter of that year.

b. Bonus Maximum. "Bonus Maximum" means 10% of the excess of (i) the Company's

Pre-Tax Return on Shareholders' Equity over (ii) the Minimum Threshold times Average Shareholders' Equity.

c. Cash Flow from Operations. "Cash Flow from Operations" means net cash

provided by operating activities as disclosed in the Company's annual reports to shareholders and quarterly reports on Form 10-Q.

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

e. Committee. "Committee" means the Compensation and Executive Personnel

Committee of the Company's Board of Directors.

f. Company. "Company" means Avery Dennison Corporation.

g. Economic Value Added. "Economic Value Added" means operating profit after

taxes on income minus a capital charge based upon the Company's weighted average cost of capital.

h. ELCP. "ELCP" means the Executive Leadership Compensation Plan of the Company.

i. EPS. "EPS" means earnings per share, including extraordinary gains and

losses, divested operations and changes in accounting principles as disclosed in the Company's annual reports to shareholders.

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j. Income Before Taxes on Income. "Income Before Taxes on Income" means the

income before income taxes as reported in the Company's annual reports to shareholders.

k. Minimum Threshold. "Minimum Threshold" means a 12% Pre-tax Return on

Shareholders' Equity.

l. Net Income. "Net Income" means after-tax net income, including extraordinary

items, discontinued operations and changes in accounting principles, as disclosed in the Company's annual reports to shareholders.

m. Net Sales. "Net Sales" means net sales as disclosed in the Company's annual

reports to shareholders and quarterly reports on Form 10-Q.

n. Performance Objectives. "Performance Objectives" means one or more

pre-established performance objectives, including: ROS, ROTC, ROE, EPS, Sales Growth, Net Income, Net Sales, Cash Flow from Operations, Economic Value Added and Total Shareholder Return.

o. Participant. "Participant" means any employee of the Company or any of its

subsidiaries who has been designated as a participant in the Plan in accordance with Article 3.

p. Plan. "Plan" means the Senior Executive Leadership Compensation Plan for

Avery Dennison Corporation.

q. Plan Year. "Plan Year" means the fiscal year of the Company.

r. Pre-Tax Return On Shareholder's Equity. "Pre-Tax Return On Shareholder's

Equity" means the percentage determined by dividing "Income Before Taxes On Income" by "Average Shareholders' Equity".

s. ROE. "ROE" means the percentage determined by dividing "Net Income" by

"Average Shareholders' Equity".

t. ROS. "ROS" means the percentage determined by dividing Net Income by Net

Sales.

u. ROTC. "ROTC" means the return on total capital of the Company as reported in

the Company's internally prepared Summary of Operations.

v. Shareholders' Equity. "Shareholders' Equity" means total shareholders' equity

as disclosed in the Company's annual reports to shareholders and quarterly
reports on Form 10-Q.

w. Target Bonus. "Target Bonus" means with respect to a Participant for any Plan

Year the bonus opportunity for the Participant in such Plan Year on account of
services rendered to the Company during the immediately preceding Plan Year. The
Target Bonus is expressed as a percentage of the Participant's base salary in
effect at the end of the Plan Year.

x. Total Shareholder Return. "Total Shareholder Return" means the cumulative

shareholder return on the Company's common stock, including the reinvestment of
dividends, as measured by dividing (i) the sum of (A) the cumulative amount of
dividends for the measurement period, assuming dividend reinvestment, and (B)
the difference between the Company's closing stock price at the end and the
beginning of the measurement period, by (ii) the closing stock price at the
beginning of the measurement period.

3. PARTICIPATION

Participation in the Plan is limited to key executives of the Company who have been designated as Participants by the Committee. Participants may include, but are not limited to: Chairman, CEO, President, Executive Vice Presidents, Senior Vice Presidents and Group Vice Presidents.

4. ANNUAL BONUS OPPORTUNITY

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

a. Target Bonus

The Target Bonus for each Participant is established each Plan Year and may be up to 100% of Base Salary.

b. Bonus Payout

i. A Participant's annual bonus payout is based on the Company's achievement versus pre-established Performance Objectives, subject to adjustment in certain circumstances by the Committee.

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

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

iii. Bonus payouts will be determined based on the following schedule:

Percentage Achievement of Performance Objectives	Bonus Payout (% of Target Bonus)
0 - 74%	0%
75 - 100%	4 - 100%
	depends on Plan achievement (e.g. 90% Plan = 60% Payout)
101 - 112.5%	four-for-one over 100% (e.g. 104% Plan = 116% Payout)

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

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

vi. No bonuses for a Plan Year shall be paid to Participant unless the Minimum Threshold for such Plan Year is met. In addition, the total of the bonuses for a given Plan Year for the Participants shall not exceed the Bonus Maximum for such Plan Year.

c. Bonus Determination In Cases Of Prior Participation in ELCP

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

d. Bonus Determination In Cases Of Leave Of Absence

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

e. Bonus Determination In Cases Of Termination

i. Participants who terminate prior to the end of the Plan Year for any reasons other than death, disability, or retirement are not eligible to receive awards under this Plan, unless approved by the Committee.

ii. Participants who terminate after the end of the Plan Year, but before payment of the award, are eligible to receive the awards under this Plan.

f. Other Bonus Programs

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

5. TIMING OF PAYMENT OF BONUSES

a. Current Payment

Except as provided in Section 6.b., the bonus determined by the Committee for each Participant shall be paid in cash and in full as soon as conveniently possible after such determination and certification by the Committee of the Company's achievement of the relevant Performance Objectives, but not later than two and one-half months from the last day of the Plan Year to which such bonus relates.

b. Deferral of Bonus

Participants may elect to defer receipt of all or part of such bonus in accordance with established deferred compensation plans offered by the Company.

6. PLAN ADMINISTRATION

a. General Administration

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

i. Selecting Participants

ii. Establishing and modifying Performance Objectives, and weighting Performance Objectives

iii. Determining performance results and bonus awards

iv. Making exceptions to the provisions of the Plan made in good faith and for the benefit of the Company

b. Adjustments for Extraordinary Events

If an event occurs during a Plan Year that materially influences the performance measures of the Company and is deemed by the Committee to be extraordinary and out of the control of management, the Committee may, in its sole discretion, increase or decrease the Performance Objectives used to determine the annual bonus payout. Events warranting such action may include, but are not limited to, changes in accounting, tax or regulatory rulings and significant changes in economic conditions resulting in windfall gains or losses.

c. Amendment, Suspension, or Termination of the Plan

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

7. MISCELLANEOUS PROVISIONS

a. Effective Date

The effective date of the Plan is January 1, 1999.

b. Titles

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

c. Employment Not Guaranteed

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

d. Validity

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

e. Withholding-Tax

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

f. Applicable Law

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

AMENDMENT No. 1 to

EXECUTIVE VARIABLE DEFERRED RETIREMENT PLAN

The Executive Variable Deferred Retirement Plan (the "Plan"), amended and restated as of December 1, 1997, is hereby amended effective December 1, 1999, as follows:

1. Article 2 Definitions and Certain Provisions

a. The definition of "Normal Retirement" is amended to read:

Normal Retirement. "Normal Retirement" means the termination of a

Participant's employment with Employer for reasons other than death on or after the Participant attains age 62.

b. The definition of "Second Beneficiary" is deleted in its entirety.

2. Section 7.7(c) "Second Beneficiary" is deleted in its entirety.

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

AMENDED AND RESTATED
CAPITAL ACCUMULATION PLAN

ARTICLE 1: Purpose

The purpose of the Avery Dennison Corporation Capital Accumulation Plan is to provide a means whereby Avery Dennison Corporation, a Delaware corporation, may provide a tax-favored capital accumulation and diversification opportunity to non-employee Directors and to a select group of key management employees of the Company and its subsidiaries who have rendered valuable services to the Company or its subsidiaries which constitute an important contribution towards the Company's continued growth and success.

ARTICLE 2: Definitions

2.1. "Administrator" shall mean the administrator appointed by the Committee to handle the day-to-day administration of the Plan pursuant to Article 8.

2.2. "Account" or "Accounts" shall mean a Participant's Deferral Accounts, or either of them, as appropriate.

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

2.4. "Base Salary" shall mean an Eligible Employee's rate of salary in effect on May 1, 1997 or any other subsequent date as determined by the Administrator in his discretion.

2.5. "Beneficiary" shall mean the person or entity designated as such by a Participant pursuant to Article 7.

2.6. "Benefit" shall mean a Retirement Benefit, Survivor Benefit or a Termination Benefit, as appropriate.

2.7. "Bonus" shall mean an Eligible Employee's bonus opportunity target in effect on May 1, 1997 or any subsequent year as determined by the Administrator in his discretion.

2.8. "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.9. "Committee" shall mean the Capital Accumulation Plan Committee appointed to administer the Plan pursuant to Article 8.

2.10. "Company" shall mean Avery Dennison Corporation, a Delaware Corporation, and any of its subsidiary companies, its successors and assigns.

2.11. "Declared Rate" shall mean the notional rates of return (which may be positive or negative) of the individual investment options selected by a Participant or a Participant's Beneficiary for such Participant's Diversified Account as set forth in Article 5.4.

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2.12. "Deferral" or "Deferrals" shall mean, as appropriate, the amount of individual or aggregate Stock Option Gains that a Participant defers under the Plan.

2.13. "Deferral Accounts" shall mean the accounts established for a Participant pursuant to Article 3, consisting of a Diversified Account and/or a Stock Account for Eligible Employees and for Directors. Deferral Accounts shall be maintained solely as bookkeeping entries by the Company to evidence unfunded obligations of the Company.

2.14. "Deferral Election Form" shall mean the form on which a Participant designates (i) the specified Options which, when exercised, shall result in the ensuing Stock Option Gains thereon deferred under the Plan, and (ii) initial elections with respect to the forms of distribution elections for Retirement Benefits under the Plan.

2.15. "Deferral Period" shall mean the period during which Deferrals must be completed. The initial Deferral Period shall be May 1, 1997, through December 31, 2005. The Committee, in its sole discretion, may determine future Deferral Periods, if any.

2.16. "Director" shall mean a member of the Board of Directors of the Company who is not an Employee.

2.17. "Disability" shall mean any inability on the part of an Eligible Employee, commencing before such Eligible Employee attaining the age of 64 1/2, to perform the substantial and material duties of the Employee's position due to injury or sickness of a duration greater than one hundred eighty (180) consecutive days, as such Disability is determined by the Administrator in his discretion. 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 Eligible 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 Eligible Employee shall be presumed to suffer from a Disability. The Administrator may require the Eligible Employee to submit to an examination by a physician or medical clinic selected by the Administrator. On the basis of such medical evidence as provided by such examination 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.

2.18. "Discounted Cash Out" shall mean a distribution made pursuant to Article 6.8.

2.19. "Discounted Cash Out Election" shall mean the written election by a Participant or Beneficiary to receive all or part of the Participant's Deferral Accounts pursuant to Article 6.8.

2.20. "Diversified Account" shall mean the Deferral Account credited with that portion of a Participant's Deferrals and earnings thereon allocated to the Diversified Account based on the performance of the Declared Rate(s) selected by a Participant or a Participant's Beneficiary as set forth in Article 5.4.

2.21. "Early Retirement" shall mean the termination of a Participant's position as a Director or 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, or a non-employee Director's retirement before Normal Retirement.

2.22. "Eligible Employee" shall mean an Employee who is a member of a select group of management or highly compensated employees and who is determined to be eligible to

participate in the Plan and so designated in writing by the Chairman and Chief Executive Officer, Chief Operating Officer and/or Compensation Committee of the Board of Directors.

2.23. "Employee" shall mean any person employed by the Company or its subsidiaries on a regular full-time salaried basis, including officers of the Company.

2.24. "Enrollment Period" shall mean a period designated by the Administrator for enrollment of Participants for participation in the Plan. The Plan's initial Enrollment Period shall be from May 1, 1997, to June 1, 1997. The Administrator may establish additional Enrollment Periods in his discretion. The Participant must submit a Participation Election Form during the Enrollment Period as designated by the Administrator.

2.25. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

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

2.27. "Exercise Declaration Form" shall mean the form filed with the Administrator indicating the date(s) on which Options previously designated on a Deferral Election Form are to be exercised.

2.28. "First Beneficiary" shall mean the Beneficiary (whether the primary or contingent Beneficiary) who first becomes entitled to Survivor Benefits under this Plan.

2.29. "Normal Retirement" shall mean the termination of a Participant's position as a Director or employment with the Company for any reason other than death or Disability on or after the Participant attains age 65.

2.30. "Option" shall mean an option to purchase Stock that is not an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

2.31. "Participation Election Form" shall mean the form on which a Participant elects the total dollar amount of Deferrals to be made during a Deferral Period under the Plan.

2.32. "Participant" shall mean a non-employee Director or an Eligible Employee who has met the requirements for participation in the Plan as prescribed by Article 3.

2.33. "Plan" shall mean this Amended and Restated Avery Dennison Corporation Capital Accumulation Plan, a non-qualified elective deferred compensation plan, as the same may be amended from time to time.

2.34. "Retirement" shall mean a termination of service as a Director or termination of employment by an Eligible Employee upon Normal Retirement or Early Retirement.

2.35. "Retirement Benefits" shall mean the Benefits payable to a Participant upon the Participant's satisfaction of the requirements for Normal or Early Retirement pursuant to Article 6.1.

2.36. "Second Beneficiary" shall mean the First Beneficiary's named Beneficiary (whether primary or contingent) who becomes the Second Beneficiary entitled to Survivor Benefits under the Plan.

2.37. "Settlement Date" shall mean the date upon which a Benefit payment is due and payable to a Participant or Beneficiary pursuant to Article 6.15.

2.38. "Stock" shall mean shares of Avery Dennison Corporation common stock.

2.39. "Stock Account" shall mean the Deferral Account credited with (i) that portion of a Participant's Deferrals allocated to Stock, (ii) additional shares of Stock distributed as dividends with respect to Stock credited to the Participant's Stock Account, and (iii) additional shares of Stock purchased with the proceeds of non-Stock dividends distributed with respect to Stock credited to the Participant's Stock Account.

2.40. "Stock Option Gains" shall mean the amount of a Participant's net gain resulting from the Participant's exercise of Options.

2.41. "Survivor Benefit" shall mean those Plan Benefits that become payable upon the death of a Participant pursuant to Article 6.6.

2.42. "Termination Benefit" shall mean the lump sum amount payable to an Eligible Employee who ceases to be an Employee pursuant to Article 6.5.

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

2.44. "Total Compensation" shall mean the sum of an Eligible Employee's Base Salary and Bonus.

2.45. "Unforeseeable Emergency" shall mean a severe financial hardship to a Participant, as determined by the Administrator, resulting from a sudden and unexpected illness or accident of a Participant or a dependent of a Participant, loss of a Participant's property due to a casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of an event beyond the control of a Participant. The circumstances that will constitute an Unforeseeable Emergency will depend on the facts of each case, but, in any case, payment may not be made in the event that such financial hardship is or may be relieved:

- (a) through reimbursement or compensation by insurance or otherwise,
- (b) by liquidation of a Participant's assets, to the extent that liquidation of such assets would not itself cause severe financial hardship, or
- (c) by cessation of Deferrals under the plan.

2.46. "Valuation Date" shall mean the date on which the Diversified Account is valued pursuant to Article 6.14 and the date on which the number of shares of Stock credited to the Stock Account is determined.

2.47. "Vested," when used with reference to a Participant's Accounts, shall mean non-forfeitable.

ARTICLE 3: Participation

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

3.2. Participation Election. A non-employee Director or an Eligible Employee shall become a Participant in the Plan after completing a Participation Election Form and submitting it to the Administrator. Participants must submit the Participation Election Form to the Administrator during an Enrollment Period. In the Participation Election Form, the Participant shall designate (i) for Eligible Employees, the total dollar amount of Deferrals to be made under the Plan during the Deferral Period (as a whole multiple of Total Compensation to a maximum established by the Committee, which currently is five times Total Compensation, or, for non-employee Directors, the Stock Option Gains from Options to be deferred under the Plan during the Deferral Period (as a total number of Options to purchase up to a maximum of 12,000 shares of Stock), (ii) the form of Retirement Benefit distributions, and (iii) any other information or elections required by the Administrator. Notwithstanding the foregoing, the Administrator, in his discretion, may permit a Participant who was a non-employee Director or an Eligible Employee during the initial Enrollment Period to submit a Participation Election Form in a subsequent Enrollment Period. A Participant who otherwise satisfies the requirements of this Article 3.2, but who makes no Deferrals under the Plan shall not be considered a Participant for purposes of the Plan.

3.3. Continuation of Participation. A Participant who has elected to participate in the Plan by making a Deferral election shall continue as a Participant in the Plan until the entire balance of the Participant's Deferral Accounts 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 Accounts shall be held and administered in accordance with the Plan until such time as Benefits are completely distributed.

ARTICLE 4: Participant Deferrals

4.1. Deferrals Under Plan. Subject to the conditions herein, a Participant shall designate specific Stock Option Gains from the exercise of specified Stock Options to be deferred into the Plan by completing and filing with the Administrator a Deferral Election Form(s). The election(s) shall be irrevocable, except as provided or limited under Articles 4.3, 4.4, 5.3, and 6.4. Not later than five (5) days prior to exercise of an Option designated on a Deferral Election Form for deferral under the Plan, a Participant shall file with the Administrator an Exercise Declaration Form with respect to such Option. Satisfaction of Deferral can come only from Stock Option Gains. To the extent there is no such Stock Option Gain at the time of exercise, then the Deferral election is deemed to be withdrawn.

4.2. Minimum Deferral. An Eligible Employee's minimum cumulative Deferrals over the term of the Plan should equal or exceed such Participant's Total Compensation as of May 1, 1997.

4.3. Maximum Deferral. The maximum cumulative or annual Deferrals under the Plan shall be determined by the Administrator in his discretion. Prior to the beginning of any Plan year (or, for periods shorter than a full calendar year during a Deferral Period,) during the Deferral Period, the Administrator may declare the amount of Stock Option Gains, that may be deferred by Participants during such period.

4.4. Disability. If an Eligible Employee suffers a Disability during the Deferral Period, the Deferrals previously designated on any Deferral Election Forms submitted to the Administrator

prior to the date of such Disability shall be completed within two (2) years of the commencement of the Disability and before any termination of employment from the Company. Subsequent to commencement of such Disability, no new Options may be designated for Deferrals by the Eligible Employee. In the event of Disability, Benefits shall be distributed in accordance with the Plan provisions for termination, Retirement or death.

4.5. Deferral Accounts. Solely for recordkeeping purposes, the Company shall maintain two (2) Deferral Accounts for each Participant, a Diversified Account and a Stock Account. A Participant's Diversified Account shall be credited with a Participant's Deferrals pursuant to Article 5.2, and credited with the Declared Rate(s) (which may be negative or positive) elected by the Participant or Beneficiary pursuant to Article 5.3. A Participant's Stock Account shall be credited with (i) the shares of Stock allocated to the Participant's Stock Account pursuant to Article 5.2, (ii) any additional shares of Stock distributed as a dividend with respect to Stock credited to the Participant's Stock Account, and (iii) shares of Stock purchased with cash dividends or other distributions with respect to Stock credited to the Participant's Stock Account (provided, however, that after September 16, 1998, no additional Stock Option Gains will be placed in a Stock Account).

The Company shall credit the amount of a Participant's Deferrals that is allocated to the Participant's Diversified Account under Article 5.2 on the settlement date (generally four business days following the exercise date of the Option to which such Deferral relates). The Company shall credit shares of Stock to a Participant's Stock Account in the amount allocated by the Participant under Article 5.2 on the settlement date (generally four business days following the exercise date of the Option to which such Deferral relates). Stock purchased with cash dividends or other distributions with respect to Stock credited to a Participant's Stock Account, or acquired as a dividend with respect to Stock so credited, shall be credited to the Participant's Stock Account on the date of such purchase, or, in the case of a dividend made in shares of Stock, on the date such dividend distribution is effected. The Diversified and Stock Accounts shall be debited by (i) the amount of any distributions made to a Participant or the Participant's Beneficiary pursuant to the Plan, and (ii) any charges or penalties with respect to such distributions.

4.6. Deferral Adjustment. Prior to any crediting of Deferrals to a Participant's Accounts, the Company shall deduct from the portion of each Deferral allocated to a Participant's Diversified Account an up-front load equal to three percent (3%) (or such lesser percentage as determined by the Administrator) of the amount so allocated.

4.7. Statement of Account. The Administrator shall provide to each Participant a periodic statement (at least semi-annually) setting forth the deferrals, dividends, declared rate(s) (credits or debits) and balance of the Accounts maintained for such Participant.

4.8. Vesting. The Participant shall be 100% Vested at all times in the Participant's Deferral Accounts.

4.9. Method of Exercise. A participant exercising Options, the Stock Options Gains of which are being deferred under the Plan, shall effect such exercise by constructively delivering the Stock with a fair market value on the date of exercise of the Option equal to the aggregate exercise price of the Option. Stock used for this purpose shall be Stock which the Participant has held for a period of greater than six (6) months prior to the date of exercise of the Option; provided, however, that if the Participant delivers to the Company Stock acquired through the exercise of an "incentive stock option" as defined in Section 422(b) of the Code, such Stock

shall have been held by the Participant for a period of greater than twelve (12) months from the date of exercise of the Option and twenty-four (24) months from the date of grant of the Option.

ARTICLE 5: Investment Options

5.1. Valuation of Accounts. A Participant's Diversified Account as of each Valuation Date shall consist of the balance of the Participant's Diversified Account as of the immediately preceding Valuation Date less any payments made to the Participant or the Participant's Beneficiary pursuant to Article 6, plus the amount of the Participant's Deferrals and the Declared Rate(s) thereon, in each case made (debited or credited) since the immediately preceding Valuation Date.

A Participant's Stock Account as of each Valuation Date shall be measured based upon the number of shares of Stock allocated to the Participant's Stock Account as of the immediately preceding Valuation Date less any shares of Stock distributed to the Participant or the Participant's Beneficiary plus any shares of Stock (i) credited as a dividend with respect to Stock credited to the Participant's Stock Account, and (ii) credited with non-Stock dividends distributed with respect to Stock allocated to the Participant's Stock Account, in each case made (credited or debited) since the immediately preceding Valuation Date.

5.2. Allocation of Accounts. After September 16, 1998, the Company shall allocate each Participant's Stock Options Gains as follows: 100 % to such Participant's Diversified Account.

5.3. Participant Election of Declared Rates. Participant may elect to have the Diversified Account allocated among the Declared Rate(s) in 25% increments. Notwithstanding the foregoing provision or any other provision of this Plan, if the Participant does not submit an Allocation Election Form to the Administrator, Amounts so allocated to Diversified Accounts shall be allocated 100% to the Money Market Declared Rate.

Subject to the second sentence of this paragraph, a Participant may change that Participant's Declared Rate(s) election by filing a new Allocation Election Form with the Administrator at least 30 days prior to such change becoming effective. A Participant may change the Participant's Diversified Account allocation elections under this Article 5.3 a minimum of twice a year effective as of the earlier of the March 1, June 1, September 1 or December 1 which immediately follows the date of filing the Allocation Election Form with the Administrator, and as otherwise permitted by the Administrator.

5.4. Declared Rates. The Declared Rate(s) are equal to the gross performance of each of the below-listed investment funds (which list may be expanded by the Committee) reduced by (i) investment advisory fees, (ii) daily operating expenses and (iii) forty (40) basis points. The Administrator may adjust the fees in his reasonable discretion annually to reflect decreased costs or to cover increased costs. A Participant may elect 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 below Declared Rate(s) are subject to normal investment risk. The Declared Rates available under the Plan are set forth in Exhibit A.

The Administrator shall have the right to invest all, part, or none of the aggregate Deferrals or any of the investment funds upon which the Declared Rates are based.

5.5. Valuation of Stock. The value of a share of Stock on a Valuation Date shall be the closing price of a single share of such Stock on the New York Stock Exchange on the last trading day immediately preceding such Valuation Date, as such valuation information is published in a nationally recognized daily business publication.

5.6. Crediting of Dividends With Respect to Stock. Stock and non-stock dividend distributions with respect to Stock allocated to a Participant's Stock Account shall be credited by the Administrator to the Participant's Stock Account in the form of additional shares or fractional shares of Stock as of the date upon which the Company makes such a distribution.

5.7. Beneficiary Powers. Following a Participant's death, the allocation of unpaid balances in the Participant's Diversified Account among any Declared Rate(s) may be made as elected by the Participant's Beneficiary.

ARTICLE 6: Benefits

6.1. Retirement Benefit. A Participant shall be eligible for a Retirement Benefit under this Plan upon satisfaction of all of the requirements for Normal Retirement or Early Retirement.

6.2. Benefit Election Alternatives. A Participant may elect to receive the Participant's Retirement Benefit in (i) a lump sum; (ii) annual installments (calculated pursuant to Article 6.3) over five (5), ten (10), fifteen (15), or twenty (20) years; or (iii) a combination of an initial lump sum distribution with the remainder paid in annual installments (calculated pursuant to section 6.3) over five (5), ten (10), fifteen (15), or twenty (20) years. A Participant has the right to make separate elections for each of his Deferral Accounts. The Retirement Benefit shall be paid over the period elected by the Participant, which election shall be made no later than thirteen months prior to Retirement. After a Participant has made an initial election, he may subsequently change his election at any time provided that such election is made at least thirteen (13) months prior to Retirement. If a Participant does not file an election with the Administrator, the Participant's Deferral Accounts shall be paid in annual installments (calculated pursuant to Article (6.3)) over ten (10) years.

6.3. Installment Payments. If a Participant elects to receive the Participant's Retirement Benefit in installment payments, the first payment shall be (i) an annualized amount pro-rated over the period commencing with the last day of the month of the Participant's date of Retirement through the following December 31, (ii) calculated pursuant to the method prescribed in this Article, and (iii) made within the periods established pursuant to Article 6.2. Subsequently, annual payments shall be made each January, over the period elected by or for such Participant.

The amount of any installment payment distributed from a Participant's Diversified Account shall be determined annually by dividing the Participant's Diversified Account balance, less any initial lump-sum distribution, on the Valuation Date as prescribed by Article 6.14 by (i) the number of years remaining in the Participant's payment period, or (ii) some other formula approved by the Committee which is designed to provide ratable payments using a reasonable interest rate assumption. The number of shares of Stock distributed from a Participant's Stock

Account, as part of any installment payment, shall be determined annually by dividing the number of shares of Stock credited to a Participant's Stock Account on the Valuation Date, as prescribed by Article 6.14, by the number of years remaining in the Participant's payment period. Solely for purposes of calculating the first installment payment provided for in the first sentence of this Article, (i) the year of a Participant's Retirement shall be counted as a pro-rated year in a Participant's payment period, and (ii) the Valuation Date shall be the last day of the month of the date of the Participant's Retirement. During any payment year, the unpaid Deferral Account balance shall be credited as provided in Article 4.5. A retired Participant may continue to change the allocation of the Participant's Diversified Account, as provided in Article 5.3, as long as such retired Participant has an undistributed Diversified Account balance.

6.4. Disability. If an Eligible Employee suffers a Disability, any Deferral Election Forms executed and delivered to the Administrator prior to the date of such Disability shall remain in effect in all respects. An Eligible Employee suffering a Disability may defer Stock Option Gains with respect to Options previously designated on such forms during the twenty-four (24) month period following the date of occurrence of the Disability; provided, however, that this shall not operate so as to extend the period during which the Option may be exercised under the appropriate stock option plan. Except as otherwise provided in the last sentence of this Article 6.4, (i) after the expiration of such 24-month period, all uncompleted Deferral elections shall be null and void, and (ii) no new Deferral Election Forms shall be accepted by the Administrator from such Eligible Employee after the date of the Disability. During the period of the Disability, the Eligible Employee's Diversified Account shall continue to be credited with the applicable Declared Rate(s) elected by the Eligible Employee. The Eligible Employee's Diversified Account shall be distributed at Retirement, Termination of Employment, or upon death, whichever is applicable, in accordance with the terms of the Plan or the Eligible Employee's distribution election in effect on the date Benefits commence under the Plan, whichever is applicable. If an Eligible Employee recovers from a Disability and returns to employment with the Company during the Deferral Period, the Eligible Employee shall resume making Deferrals in accordance with the Eligible Employee's elections in effect of the date of the Eligible Employee's Disability and may file additional Deferral Election Forms with the Administrator.

6.5. Termination Benefit. If an Eligible Employee (i) incurs a Termination of Employment, or (ii) fails to return to the status of an Employee within sixty (60) days following recovery from a Disability prior to Retirement, the Company shall pay to such Eligible Employee a Termination Benefit equal to the Eligible Employee's Deferral Account balances, determined as of the last day of the month of the Eligible Employee's Termination of Employment. Such Termination Benefit shall be in the form of a lump sum distribution, with the Stock Account balance distributed in Stock and the Diversified Account Balance distributed in cash. Upon distribution of the Termination Benefit, the Eligible Employee shall be entitled to no further benefits under the Plan. 6.6. Survivor Benefits.

(a) Pre-Retirement. If a Participant dies and has not yet commenced receiving Retirement Benefits under the Plan, a Survivor Benefit shall be paid to the Participant's First Beneficiary in annual installments over ten (10) years, except as provided below. The balance in the Participant's Diversified Account shall continue to be credited with the applicable Declared Rate(s) elected by the First Beneficiary. The balance in the Participant's Stock Account shall continue to be credited as provided in Article 4.5. The first distribution to the First Beneficiary shall be an annualized amount pro-rated over the period commencing with the last day of the month in which the Participant's death occurs through the following December 31, and calculated pursuant to the manner prescribed in Article 6.3.

Subsequently, ten (10) annual payments shall be paid to the First Beneficiary in January of each year in an amount determined pursuant to the manner prescribed in Article 6.3. The First Beneficiary may continue to change the Declared Rate(s) election as provided in Article 5.3 as long as he has a remaining Diversified Account balance under the Plan.

- (b) Post-Retirement. If a Participant dies after payment of Benefits to such Participant has commenced, the First Beneficiary shall be entitled to receive the remainder of the annual payments not yet paid to the Participant in accordance with the election of the Participant then in effect. After the Participant's death, (i) the Participant's Diversified Account shall continue to be credited with the applicable Declared Rate(s) elected by the Beneficiary, and (ii) the Participant's Stock Account shall continue to be credited as provided in Article 4.5.
- (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.

6.7. Scheduled Withdrawal. At the time a Participant first enrolls in the Plan, the Participant may make a one-time irrevocable election to receive a Scheduled Withdrawal of a specified dollar amount in January of any Plan year, provided that the amount of any Scheduled Withdrawal actually distributed shall not exceed a Participant's aggregate Account balances as of the date that is twenty-four (24) months prior to the date of such Scheduled Withdrawal. If the Participant terminates employment with the Company by reason of Retirement, the Scheduled Withdrawal shall be null and void, and the Benefit shall be paid in accordance with Article 6.2. If the Participant terminates employment with the Company for any other reason prior to the receipt of the Participant's Scheduled Withdrawal, the Participant's Scheduled Withdrawal election shall be null and void, and the Participant shall receive a Termination Benefit as provided in Article 6.5.

6.8. Discounted Cash Out Election. At any time a Participant or a Beneficiary has a remaining Account balance in the Plan, the Participant or a Beneficiary may elect to receive all or part of the Participant's Accounts in a lump sum by filing a written election to receive a Discounted Cash Out pursuant to this Article 6.8. Crediting of Declared Rates to the amount elected to be withdrawn shall cease to accrue as of the date the Discounted Cash Out Election is made. The requirements for a Discounted Cash Out Election and the manner of determining the amount to be paid to a Participant who makes a pre-retirement Discounted Cash Out Election are set forth in Articles 6.9 through 6.12.

6.9. Minimum Amount. Unless otherwise determined by the Committee, the Discounted Cash Out must be in an amount of at least \$200,000, unless the Participant's Accounts have 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 Accounts.

6.10. 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 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.

6.11. Adjustment of Accounts; Penalty. If a Participant or Beneficiary elects to receive a Discounted Cash Out, the total amount of such Discounted Cash Out shall be deducted ratably

from the Diversified Account and Stock Account in the proportion which the balance of each such Account bears to the aggregate balance of such Participant's Accounts. The amount of the Discounted Cash Out actually distributed to the Participant shall be the amount of the requested Discounted Cash Out Election less a penalty as established by the Committee which is six percent (6%) (unless otherwise required by law or regulation) of the amount of the requested Discounted Cash-Out Election. The forfeited amount shall be deducted from the portion of the Discounted Cash Out withdrawn from the Participant's Diversified Account and shall be returned to the Trust. To the extent that the Participant's Diversified Account balance is insufficient to satisfy the penalty, the remainder of the penalty amount shall be deducted from the Participant's Stock Account.

6.12. Number of Distributions. During the course of any calendar year and prior to retirement, a Participant may make one Discounted Cash Out Election per year; following retirement, a Participant or a Beneficiary in a payout status, may make two Discounted Cash Out Elections per year.

6.13. De Minimis Benefit. Notwithstanding anything in the Plan to the contrary, after a Participant ceases to be an employee then in the event the aggregate balance of such Participant's Accounts is \$50,000 or less, the Administrator may distribute any such amount in a single lump sum. The Administrator shall provide the Participant at least 30 days advance notice of its intention to make such distribution.

6.14. Valuation Date. Unless otherwise provided by the Administrator, the Valuation Date for determining Deferral Account balances shall be the last day of the month. Except as otherwise provided in the Plan, the Valuation Date for purposes of determining Annual Retirement or Survivor Benefit distributions shall be the November 30 preceding the date of such distribution.

6.15. Settlement Date. Unless otherwise provided in the Plan, the Settlement Date for Benefit payments shall be as soon as administratively feasible following the Valuation Date.

6.16. Distribution Due to Unforeseeable Emergency. A Participant may request a Distribution Due to Unforeseeable Emergency by submitting a written request to the Administrator accompanied by evidence to demonstrate that the circumstances being experienced qualify as an Unforeseeable Emergency. The Administrator shall have the authority to require such evidence as the Administrator deems, in his discretion, necessary to determine if such a distribution is warranted. If the Administrator approves the Participant's application for a Distribution Due to an Unforeseeable Emergency, the distribution is limited to an amount sufficient to meet the Unforeseeable Emergency. The allowed distribution shall be payable in a manner determined by the Administrator, as soon as possible after approval of such distribution.

The need to send a Participant's child to college or the desire to purchase a home shall not be an Unforeseeable Emergency.

ARTICLE 7: 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 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 with the Administrator shall 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, then such Benefits shall be distributed to the estate of the Participant or First Beneficiary, as the case may be.

ARTICLE 8: Administration of Plan

The Committee shall consist of at least three members who shall be appointed by the Company's Chief Executive Officer.

The Committee shall have the sole authority and discretion to administer the Plan and to make determinations, interpret, construe and apply its provisions in accordance with its terms. The Committee shall further establish, adopt or revise such determinations, rules, regulations, and procedures as it may deem necessary or advisable for the administration of the Plan. 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 members of the Committee shall be the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Senior Vice President, General Counsel and Secretary, the Vice President, Human Resources, the Vice President, Treasurer, the Vice President, Compensation & Benefits, the Vice President, Associate General Counsel and Assistant Secretary, the Controller, Corporate Center and the Director, Corporate Finance and Investment, and other members that may be designated by the Chief Executive Officer or elected by the Committee. 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.

The Committee, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or other employee of the Company or any subsidiary, the Company's independent certified public accountants, or any executive compensation consultant, legal counsel, or other professional retained by the Company to assist in the administration of the Plan. To the maximum extent permitted by law,

no member of the Committee or the Administrator, nor any person to whom ministerial duties have been delegated, shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan. To the maximum extent permitted by law, the Company shall defend and indemnify the members of the Committee against any and all claims, losses, damages, expenses, including any counsel fees and costs, incurred by them, and any liability, including any amounts paid in settlement with their approval, arising from their action or failure to act, unless and to the extent such liability arises from a member's own fraud, gross negligence or willful misconduct.

ARTICLE 9: Amendment and Termination of Plan

9.1. The Chief Executive Officer of the Company may amend or terminate the Plan provided, however, that (i) no such amendment or termination shall be effective to decrease the Benefits accrued to any Participant or Beneficiary of a deceased Participant (including, but not limited to, the rate of return credited to the Deferral Account(s) prior to the effective date of such amendment or termination); (ii) Article 6.1 may not be amended; (iii) the definition of Declared Rate may not be amended; and (iv) the other substantive provisions of the Plan related to the calculation of Benefits or other elections, 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 of a deceased Participant. The Committee may, in its discretion, adjust future Deferrals (as set forth in Article 4.3) and may allow Eligible Employees to make Deferrals into the Plan. In the event of termination of the Plan, Participants' account balances shall be distributed to the Participants within 60 (sixty) days following termination of the Plan.

9.2. Distribution Upon Constructive Receipt. Notwithstanding anything to the contrary in the Plan, the Administrator may authorize payments before they would otherwise be due if, based on a change in the federal tax or revenue laws, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a decision by a court of competent jurisdiction involving a Participant or a Beneficiary, or a closing agreement made under Section 7121 of the Internal Revenue Service Code that is approved by the Internal Revenue Service and involves a Participant, he determines that a Participant has or will recognize income for federal income tax purposes with respect to amounts that are or will be payable under the Plan before they otherwise would be paid.

ARTICLE 10: Maintenance of Accounts

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

The Company is not required to segregate physically any assets with respect to the Accounts under this Plan from any other assets of the Company and may commingle any such assets with any other moneys, securities and properties of any kind of the Company. Separate Accounts or records for the respective Participants' interest 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 11: Claims and Review Procedures

11.1. Claims Procedure. The Administrator or his designee shall notify a Participant or Beneficiary (each, for purposes of this Article, a "Claimant") of the denial of a claim made by or on behalf of such Claimant for the payment, commencement or continuation of benefits under the Plan, in writing, within ninety (90) days after submission of such claim. The notice of such denial shall be delivered to the last known address of the Claimant, and shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Plan on which the denial is based, (3) a description of any additional information or material necessary for the Claimant to perfect the Claimant's claim, and a description of why such information is needed, and (4) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Claimant wishes to have the claim reviewed. If the Administrator or his designee determines that there are special circumstances requiring additional time to make a decision, the Administrator or its designee shall notify the Claimant of the special circumstances and the date by which a decision is expected to be made, and may extend the time within which to make such decision for up to an additional ninety-day (90) period.

11.2. Review Procedure. If a Claimant is determined by the Administrator not to be eligible for benefits, or if the Claimant believes that the Claimant is entitled to greater or different benefits under the Plan, the Claimant or duly authorized representative shall have the opportunity to have such claim reviewed by the Committee by filing a petition for review with the Committee within sixty (60) days after receipt of the notice issued by the Administrator pursuant to Article 11.1. Said petition shall state the specific reasons that the Claimant believes entitle the Claimant to Benefits or to greater or different benefits. The Claimant or representative may review pertinent documents relating to the claim and its denial, and may submit issues and comments in writing to the Committee. The Committee shall notify the Claimant of its decision with respect to such petition in writing within sixty (60) days of receipt of such petition, stating specifically the basis of its decision, written in a manner calculated to be understood by the Claimant, and the specific provisions of the Plan on which the decision is based. If, because of the need for additional information, the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Committee, but notice of this deferral shall be given to the Claimant. In the event of the death of the Claimant, the same procedures shall apply to the Claimant's beneficiaries.

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. Provisions Relating to Section 16 of the Exchange Act and Section 162(m) of the Code.

With respect to a Participant who is then subject to the reporting requirements of Section 16(a) of the Exchange Act:

Any function of the Administrator under the Plan relating to such Participant shall be performed solely by the Administrator or a subcommittee thereof consisting solely of 2 or more members who constitute "non-employee directors" under Rule 16b-3, if and to the extent required to ensure the availability of an exemption under Rule 16b-3 or exclusion under Rule 16a for such Participant with respect to the Plan.

To the extent necessary so that transactions by and rights of such a Participant under the Plan are excluded from reporting under Rule 16a, if any provision of this Plan or any rule, election form or other form, or instruction does not comply with the requirements of such Rule as then applicable to such transaction or right under the Plan, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

It is the intent of the Company that any compensation (including any award) deferred under the Plan by a person who is, with respect to the year of payment, deemed by the Administrator to be a "covered employee" within the meaning of Code Section 162(m) and regulations thereunder, which compensation constitutes either "qualified performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder or compensation not otherwise subject to the limitation on deductibility under Section 162(m) and regulations thereunder, shall not, as a result of deferral hereunder, become compensation with respect to which the Company in fact would not be entitled to a tax deduction under Code Section 162(m). Accordingly, unless otherwise determined by the Administrator, if any compensation would become so disqualified under Section 162(m) as a result of deferral hereunder, the terms of such deferral shall be automatically modified to the extent necessary to ensure that the compensation would not, at the time of payout, be so disqualified.

12.5. Sources of Stock. If Stock is deposited under the Plan in a trust pursuant to Articles 12.13 or 12.18 in connection with a deferral of Stock Option Gains with respect to an Option award under another plan, program, employment agreement or other arrangement that provides for the issuance of shares, the shares of Stock so deposited shall be deemed to have originated, and shall be counted against the number of shares reserved, under such other plan, program or arrangement. The number of shares of Stock credited to such Stock Account shall in no event exceed the number of shares subject to the Stock Option Gains deferred under the Plan plus any additional shares of Stock dividends or Stock purchased with cash dividends on shares allocated to such Stock Account. The number of shares of Stock otherwise credited to Stock Accounts of Participants who are subject to Section 16(a) of the Exchange Act shall not exceed 10% of the Stock outstanding at any time. Stock actually delivered in settlement of Deferral Accounts shall be originally issued shares, treasury shares or shares from an employee stock trust, in the discretion of the Administrator.

12.6. Exempt ERISA Plan. The Plan consists of two plans under a single plan document. The first 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 201, 301 and 401 of ERISA, and therefor to be exempt from parts 2, 3 and 4 of Title 1 of ERISA. The second plan is a separate plan not subject to ERISA, and is

maintained to provide deferred compensation benefit for non-employee directors

12.7. 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.

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

12.9. 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 Company, directed to the attention of the Senior Vice President, General Counsel and Secretary of the Company. 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.

12.10. Obligations to Company. 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 Company, then the Company may offset such amount owed to it against the amount of Benefits otherwise distributable. Such determination shall be made by the Administrator.

12.11. 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.

12.12. 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.

12.13. 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 Article or Article 12.18, 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.

12.14. 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. In addition, the Company shall impose such restrictions on Stock delivered to a Participant hereunder and any other interest constituting a security as it may deem advisable in order to comply with the Securities Act of 1933, as amended, the requirements of the New York Stock Exchange or any other stock exchange or automated quotation system upon which the Stock is then listed or quoted, any state securities laws applicable to such a transfer, any provision of the Company's Certificate of Incorporation or Bylaws, or any other applicable law or applicable regulation.

12.15. Other Participant Rights. No Participant shall have any of the rights or privileges of a stockholder of the Company under the Plan, including as a result of the crediting of Stock equivalents or other amounts to a Deferral Account, or the creation of any trust and deposit of such Stock therein, except at such time as Stock may be actually delivered in settlement of a Deferral Account. Subject to the limitations set forth in Article 12.11 hereof, the Plan shall inure to the benefit of, and be binding upon, the parties hereto and their successors and assigns. Stock allocated in the trust will be voted by the trustee thereof in the same manner as the Company stock held in the Company's Employee Stock Benefit Trust.

12.16. 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. Shares of Stock may be withheld to satisfy such obligations in any case where taxation would be imposed upon the delivery of shares, except that shares issued or delivered under any plan, program, employment agreement or other arrangement may be withheld only in accordance with the terms of such plan, program, employment agreement or other arrangement and any applicable rules, regulations, or resolutions thereunder.

12.17. Protective Provisions. Each Participant shall cooperate with the Company by furnishing any and all information requested by the Company in order to facilitate the payment of Benefits hereunder, taking such physical examinations when and as the Company may deem necessary and taking such other relevant action as may be requested by the Company. If a Participant refuses so to cooperate, the Company 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.

12.18. Unsecured General Creditor. The Company intends to establish and fund a trust (the "Trust") under the Avery Dennison Corporation Capital Accumulation Plan. The assets of the Trust shall be subject to the claims of the Company's creditors. Benefits shall be paid directly by the Trustee, or its designated agent, from Trust assets to the Participant or Beneficiary. To the extent any Benefits provided under the Plan are actually paid from the Trust, the Company 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 Company. 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 the Company, nor shall they be beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, mutual funds, shares of Company stock or the proceeds therefrom owned or which may be acquired by the Company. Apart from the Trust, such policies or other assets of

the Company 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 Company under this Plan. Any and all of the Company's assets and policies shall be, and remain, the general, unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money or property in the future.

12.19. 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.

12.20. 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 Trust.

12.21. 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.

12.22. 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.

ARTICLE 13: Effective Date

The effective date of this Plan is May 1, 1997; the Plan is amended and restated effective as of September 16, 1998.

EXHIBIT A

Declared Rate 1 - based on the performance of the Money Market Fund managed by Pacific Mutual in the Pacific Select Fund.

Declared RATE 2 - based on the performance of the Managed Bond Fund managed by PIMCO in the Pacific Select Fund.

DECLARED RATE 3 - based on the performance of the Growth LT Fund managed by James Capital Corporation in the Pacific Select Fund.

Declared Rate 4 - based on the performance of the Equity Index Fund managed by Bankers Trust in the Pacific Select Fund.

Declared RATE 5 - based on the performance of the International Fund managed by Morgan Stanley in the Pacific Select Fund.

DECLARED RATE 6 - based on the performance of the Growth Fund managed by Capital Guardian Trust Co. in the Pacific Select Fund.

AMENDMENT No. 1 to

CAPITAL ACCUMULATION PLAN

The Capital Accumulation Plan (the "Plan"), amended and restated as of September 16, 1998, is hereby amended effective December 1, 1999, as follows:

1. Article 2 "Definitions"

a. The definition of "Normal Retirement" is amended to read as follows:

Normal Retirement. "Normal Retirement" shall mean the termination of a

Participant's position as a Director or employment with the Company
for any reason other than death or Disability on or after the
Participant attains age 62.

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

AVERY DENNISON CORPORATION
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in Millions)

	1999	1998
Earnings:	-----	-----
Income before taxes	\$ 330.4	\$ 336.7
Add: Fixed Charges*	62.6	52.5
Amortization of capitalized interest	1.6	1.5
Less: Capitalized interest	(2.4)	(3.0)
	-----	-----
	\$ 392.2	\$ 387.7
	=====	=====
*Fixed charges:		
Interest expense	\$ 43.4	\$ 34.6
Capitalized interest	2.4	3.0
Amortization of debt issuance costs	.3	.5
Interest portion of leases	16.5	14.4
	-----	-----
	\$ 62.6	\$ 52.5
	=====	=====
Ratio of Earnings to Fixed Charges	6.3	7.4
	=====	=====

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		1999(1)		1998		1997		1996	
	5 Year	10 Year	Dollars	%	Dollars	%	Dollars	%	Dollars	%
FOR THE YEAR										
Net sales	5.7%	4.2%	\$ 3,768.2	100.0	\$ 3,459.9	100.0	\$ 3,345.7	100.0	\$ 3,222.5	100.0
Gross profit	7.1	4.7	1,281.4	34.0	1,144.5	33.1	1,082.7	32.4	1,018.3	31.6
Marketing, general and administrative expense	4.0	3.6	842.6	22.4	773.2	22.3	739.8	22.1	712.4	22.1
Interest expense	.2	2.1	43.4	1.2	34.6	1.0	31.7	.9	37.4	1.2
Income before taxes	13.8	6.2	330.4	8.8	336.7	9.7	311.2	9.3	270.6	8.4
Taxes on income	12.6	5.6	115.0	3.1	113.4	3.3	106.4	3.2	94.7	2.9
Net income	14.5	6.6	215.4	5.7	223.3	6.5	204.8	6.1	175.9	5.5
=====										
			1999		1998		1997		1996	
PER SHARE INFORMATION										
Net income per common share	17.2%	9.0%	\$ 2.17		\$ 2.20		\$ 1.99		\$ 1.68	
Net income per common share, assuming dilution	17.0	n/a	2.13		2.15		1.93		1.63	
Dividends per common share	14.6	13.9	.99		.87		.72		.62	
Average common shares outstanding	(2.2)	(2.2)	99.2		101.5		103.1		105.0	
Average common shares outstanding, assuming dilution	(2.0)	n/a	101.3		104.1		106.1		107.6	
Book value at fiscal year end	3.8	2.3	\$ 8.20		\$ 8.33		\$ 8.18		\$ 8.03	
Market price at fiscal year end	32.6	16.4	72.88		45.06		43.75		35.88	
Market price range			39.75 to 72.88		40.88 to 60.75		33.38 to 44.13		23.88 to 35.88	

AT YEAR END										
Working capital			\$ 105.6		\$ 137.7		\$ 163.6		\$ 110.6	
Property, plant and equipment, net			1,043.5		1,035.6		985.3		962.7	
Total assets			2,592.5		2,142.6		2,046.5		2,036.7	
Long-term debt			617.5		465.9		404.1		370.7	
Total debt			685.7		537.2		447.7		466.9	
Shareholders' equity			809.9		833.3		837.2		832.0	
Number of employees			17,400		16,100		16,200		15,800	

OTHER INFORMATION										
Depreciation expense			\$ 126.5		\$ 114.6		\$ 105.5		\$ 100.2	
Research and development expense			64.3		65.0		61.1		54.6	
Effective tax rate			34.8%		33.7%		34.2%		35.0%	
Long-term debt as a percent of total long- term capital			43.3		35.9		32.6		30.8	
Total debt as a percent of total capital			45.8		39.2		34.8		35.9	
Return on average shareholders' equity (percent)			27.1		26.7		24.8		21.4	
Return on average total capital (percent)			17.0		19.0		18.1		16.4	
=====										

(1) In 1999, the Company incurred \$65 million in a pretax restructuring charge. After adjusting for this charge, 1999 net income was \$257.8 million, or \$2.60 per common share and \$2.54 per diluted common share. The 5 and 10 year compound growth rates (excluding the restructuring charge) for net income were 18.7 percent and 8.5 percent, respectively, and 21.5 percent and 10.9 percent, respectively, for net income per common share. The 5 year compound growth rate (excluding the restructuring charge) for net income per common share, assuming dilution was 21.2 percent.

1995		1994		1993		1992		1991		1990(2)		1989	
Dollars	%												
\$ 3,113.9	100.0	\$ 2,856.7	100.0	\$ 2,608.7	100.0	\$ 2,622.9	100.0	\$ 2,545.1	100.0	\$ 2,590.2	100.0	\$ 2,490.9	100.0
957.3	30.7	907.8	31.8	818.1	31.4	838.2	32.0	796.2	31.3	808.3	31.2	806.7	32.4
689.8	22.2	691.9	24.2	642.7	24.6	665.7	25.4	653.9	25.7	752.7	29.1	591.0	23.7
44.3	1.4	43.0	1.5	43.2	1.7	42.3	1.6	37.5	1.5	40.0	1.5	35.1	1.4
224.7	7.2	172.9	6.1	132.2	5.1	130.2	5.0	104.8	4.1	15.6	.6	180.6	7.3
81.0	2.6	63.5	2.2	48.9	1.9	50.1	1.9	41.8	1.6	9.7	.4	66.4	2.7
143.7	4.6	109.4	3.8	84.4	3.2	80.1	3.1	63.0	2.5	5.9	.2	114.2	4.6
=====													

	1995	1994	1993	1992	1991	1990	1989
	\$ 1.35	\$.98	\$.73	\$.66	\$.51	\$.05	\$.92
	1.32	.97	.72	.66	n/a	n/a	n/a
	.55	.50	.45	.41	.38	.32	.27
	106.5	111.1	115.9	120.8	123.9	123.9	124.2
	108.5	112.3	116.9	121.8	n/a	n/a	n/a
\$	\$ 7.69	\$ 6.81	\$ 6.40	\$ 6.82	\$ 6.73	\$ 6.83	\$ 6.55
	25.07	17.75	14.69	14.38	12.69	10.75	15.94
	16.63 to	13.32 to	12.75 to	11.63 to	9.69 to	7.82 to	10.50 to
	25.07	17.88	15.57	14.44	12.75	16.50	15.94
	\$ 127.6	\$ 122.8	\$ 141.6	\$ 222.6	\$ 226.0	\$ 298.8	\$ 323.9
	907.4	831.6	758.5	779.9	814.2	821.7	714.1
	1,963.6	1,763.1	1,639.0	1,684.0	1,740.4	1,890.3	1,715.9
	334.0	347.3	311.0	334.8	329.5	376.0	317.8
	449.4	420.7	397.5	427.5	424.0	510.4	418.9
	815.8	729.0	719.1	802.6	825.0	846.3	811.3
	15,500	15,400	15,750	16,550	17,095	18,816	19,215
	\$ 95.3	\$ 87.9	\$ 84.1	\$ 83.8	\$ 83.1	\$ 80.8	\$ 71.5
	52.7	49.1	45.5	46.7	48.7	53.7	51.0
	36.0%	36.7%	37.0%	38.5%	39.9%	62.2%	36.8%
	29.0	32.3	30.2	29.4	28.5	30.8	28.1
	35.5	36.6	35.6	34.8	33.9	37.6	34.1
	18.6	14.8	11.0	9.7	7.7	.7	14.7
	14.4	12.1	9.3	8.3	6.7	1.5	12.0

(2) 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.

Consolidated Balance Sheet

(Dollars in millions)	1999	1998
<hr/>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6.9	\$ 18.5
Trade accounts receivable, less allowance for doubtful accounts of \$19.5 and \$16.5 for 1999 and 1998, respectively	542.4	454.8
Inventories, net	279.8	230.6
Other receivables	23.8	24.0
Prepaid expenses	23.7	19.0
Deferred taxes	79.4	55.1
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Total current assets	956.0	802.0
Property, plant and equipment, at cost:		
Land	41.9	40.1
Buildings	434.4	439.9
Machinery and equipment	1,324.9	1,347.0
Construction-in-progress	133.5	105.6
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	1,934.7	1,932.6
Accumulated depreciation	891.2	897.0
<hr/>		
	1,043.5	1,035.6
Intangibles resulting from business acquisitions, net	397.0	145.1
Non-current deferred taxes	9.5	5.0
Other assets	186.5	154.9
<hr/>		
	\$ 2,592.5	\$ 2,142.6
<hr/>		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 68.2	\$ 71.3
Accounts payable	316.8	269.8
Accrued payroll and employee benefits	133.7	110.9
Other accrued liabilities	252.4	173.4
Income taxes payable	77.4	36.7
Deferred taxes	1.9	2.2
<hr/>		
Total current liabilities	850.4	664.3
Long-term debt	617.5	465.9
Long-term retirement benefits and other accrued liabilities	132.0	115.5
Non-current deferred taxes	99.4	63.6
Long-term obligation	83.3	--
Shareholders' equity:		
Common stock, \$1 par value, authorized - 400,000,000 shares at year end 1999 and 1998; issued - 124,126,624 shares at year end 1999 and 1998	124.1	124.1
Capital in excess of par value	962.3	587.5
Retained earnings	1,288.5	1,185.1
Cost of unallocated ESOP shares	(16.8)	(18.3)
Employee stock trusts, 13,914,515 shares and 15,036,525 shares at year end 1999 and 1998, respectively	(1,014.0)	(677.6)
Treasury stock at cost, 11,453,728 shares and 9,060,617 shares at year end 1999 and 1998, respectively	(481.3)	(359.4)
Accumulated other comprehensive loss	(52.9)	(8.1)
<hr/>		
Total shareholders' equity	809.9	833.3
<hr/>		
	\$ 2,592.5	\$ 2,142.6
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See Notes to Consolidated Financial Statements

Consolidated Statement of Income

(In millions, except per share amounts)	1999	1998	1997
Net sales	\$ 3,768.2	\$ 3,459.9	\$ 3,345.7
Cost of products sold	2,486.8	2,315.4	2,263.0
Gross profit	1,281.4	1,144.5	1,082.7
Marketing, general and administrative expense	842.6	773.2	739.8
Restructuring charge	65.0	--	--
Interest expense	43.4	34.6	31.7
Income before taxes	330.4	336.7	311.2
Taxes on income	115.0	113.4	106.4
Net income	\$ 215.4	\$ 223.3	\$ 204.8
Per share amounts:			
Net income per common share	\$ 2.17	\$ 2.20	\$ 1.99
Net income per common share, assuming dilution	2.13	2.15	1.93
Dividends	.99	.87	.72
Average shares outstanding:			
Common shares	99.2	101.5	103.1
Common shares, assuming dilution	101.3	104.1	106.1
Common shares outstanding at year end	98.8	100.0	102.4

See Notes to Consolidated Financial Statements

Consolidated Statement of Shareholders' Equity

(Dollars in millions)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares	Employee stock trusts	Treasury stock
Fiscal year ended 1996	\$124.1	\$475.4	\$945.6	\$(29.4)	\$(644.3)	\$(67.5)
Comprehensive income:						
Net income			204.8			
Other comprehensive income:						
Foreign currency translation adjustment						
Minimum pension liability adjustment						
Other comprehensive income						
Total comprehensive income						
Repurchase of 2.5 million shares for treasury						(99.3)
Stock issued under option plans, net of \$29.1 of tax and dividends paid on stock held in stock trusts		(17.3)			48.4	
Dividends: \$.72 per share			(86.8)			
ESOP transactions, net				6.0		
Employee stock benefit trust market value adjustment		134.4			(134.4)	

Fiscal year ended 1997	124.1	592.5	1,063.6	(23.4)	(730.3)	(166.8)
Comprehensive income:						
Net income			223.3			
Other comprehensive income:						
Foreign currency translation adjustment						
Minimum pension liability adjustment						
Other comprehensive income						
Total comprehensive income						
Repurchase of 4 million shares for treasury						(192.6)
Stock issued under option plans, net of \$43.6 of tax and dividends paid on stock held in stock trusts		(34.8)			82.5	
Dividends: \$.87 per share			(101.8)			
ESOP transactions, net				5.1		
Employee stock benefit trust market value adjustment		29.8			(29.8)	

Fiscal year ended 1998	124.1	587.5	1,185.1	(18.3)	(677.6)	(359.4)
Comprehensive income:						
Net income			215.4			
Foreign currency translation adjustment						
Total comprehensive income						
Repurchase of 2.4 million shares for treasury						(121.9)
Stock issued under option plans, net of \$34 of tax and dividends paid on stock held in stock trusts		(23.0)			61.4	
Dividends: \$.99 per share			(112.0)			
ESOP transactions, net				1.5		
Employee stock benefit trust market value adjustment		397.8			(397.8)	

Fiscal year ended 1999	\$124.1	\$962.3	\$1,288.5	\$(16.8)	\$(1,014.0)	\$(481.3)

See Notes to Consolidated Financial Statements

(Dollars in millions)	Accumulated other comprehensive income (loss)	Total
<hr/>		
Fiscal year ended 1996	\$28.1	\$832.0
Comprehensive income:		
Net income		204.8
Other comprehensive income:		
Foreign currency translation adjustment	(49.7)	(49.7)
Minimum pension liability adjustment	(.9)	(.9)
Other comprehensive income	(50.6)	(50.6)
Total comprehensive income		154.2
Repurchase of 2.5 million shares for treasury		(99.3)
Stock issued under option plans, net of \$29.1 of tax and dividends paid on stock held in stock trusts		31.1
Dividends: \$.72 per share		(86.8)
ESOP transactions, net		6.0
Employee stock benefit trust market value adjustment		--
<hr/>		
Fiscal year ended 1997	(22.5)	837.2
Comprehensive income:		
Net income		223.3
Other comprehensive income:		
Foreign currency translation adjustment	13.3	13.3
Minimum pension liability adjustment	1.1	1.1
Other comprehensive income	14.4	14.4
Total comprehensive income		237.7
Repurchase of 4 million shares for treasury		(192.6)
Stock issued under option plans, net of \$43.6 of tax and dividends paid on stock held in stock trusts		47.7
Dividends: \$.87 per share		(101.8)
ESOP transactions, net		5.1
Employee stock benefit trust market value adjustment		--
<hr/>		
Fiscal year ended 1998	(8.1)	833.3
Comprehensive income:		
Net income		215.4
Foreign currency translation adjustment	(44.8)	(44.8)
Total comprehensive income		170.6
Repurchase of 2.4 million shares for treasury		(121.9)
Stock issued under option plans, net of \$34 of tax and dividends paid on stock held in stock trusts		38.4
Dividends: \$.99 per share		(112.0)
ESOP transactions, net		1.5
Employee stock benefit trust market value adjustment		--
<hr/>		
Fiscal year ended 1999	\$(52.9)	\$809.9

See Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows (In millions)	1999	1998	1997
Operating Activities			
Net income	\$215.4	\$223.3	\$204.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Restructuring charge	65.0	--	--
Depreciation	126.5	114.6	105.5
Amortization	23.9	12.6	11.3
Deferred taxes	(15.3)	13.8	18.4
Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures, and restructuring charge:			
Trade accounts receivable, net	(66.1)	18.6	(26.6)
Inventories, net	(28.0)	11.0	5.7
Other receivables	(.3)	8.3	(4.8)
Prepaid expenses	(4.6)	1.0	(1.6)
Accounts payable and accrued liabilities	74.7	(11.8)	44.6
Taxes on income	60.9	41.5	16.5
Long-term retirement benefits and other accrued liabilities	(16.9)	(10.1)	(5.4)
Net cash provided by operating activities	435.2	422.8	368.4
Investing Activities			
Purchase of property, plant and equipment	(177.7)	(159.7)	(177.3)
(Payments) for acquisitions and net proceeds from sale of assets, business divestitures and acquisitions	(175.8)	(30.9)	4.6
Other	(30.4)	(26.9)	(16.3)
Net cash used in investing activities	(383.9)	(217.5)	(189.0)
Financing Activities			
Increase in long-term debt	--	50.0	60.0
Decrease in long-term debt	(.9)	(3.9)	(1.7)
Net increase (decrease) in other debt	152.2	39.3	(73.0)
Dividends paid	(112.0)	(101.8)	(86.8)
Purchase of treasury stock	(121.9)	(192.6)	(99.3)
Proceeds from exercise of stock options	16.9	20.7	13.3
Other	3.3	(2.3)	7.9
Net cash used in financing activities	(62.4)	(190.6)	(179.6)
Effect of foreign currency translation on cash balances	(.5)	.5	(.3)
(Decrease) increase in cash and cash equivalents	(11.6)	15.2	(.5)
Cash and cash equivalents, beginning of year	18.5	3.3	3.8
Cash and cash equivalents, end of year	\$ 6.9	\$ 18.5	\$ 3.3

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 segment and the Consumer and Converted Products segment 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.

FISCAL YEAR

The Company's 1999 and 1997 fiscal years reflected a 52-week period ending January 1, 2000 and December 27, 1997, respectively. Fiscal year 1998 reflected a 53-week period ending January 2, 1999. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

(In millions)	1999	1998	1997
Interest, net of capitalized amounts	\$ 44.1	\$ 29.8	\$ 31.5
Income taxes, net of refunds	62.7	86.3	88.1

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 39 percent and 37 percent of inventories before LIFO adjustment at year end 1999 and 1998, respectively. Inventories at year end were as follows:

(In millions)	1999	1998
Raw materials	\$86.2	\$69.2
Work-in-progress	77.0	66.6
Finished goods	144.0	121.4
LIFO adjustment	(27.4)	(26.6)
	\$279.8	\$230.6

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 tangible assets acquired and are amortized over a 5 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 1999 and 1998 was \$67 million and \$55.6 million, respectively.

Foreign Currency Translation

All asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenue, costs and expenses are translated at the weighted-average currency rate, which prevailed during the fiscal year. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently. 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 net income and are recorded directly to a component of other comprehensive income.

Transaction and translation losses decreased net income in 1999, 1998 and 1997 by \$1.7 million, \$2.9 million and \$1.5 million, respectively.

Note 1. Summary of Significant Accounting Policies (Continued)

Financial Instruments

The Company enters into foreign exchange forward, option and swap 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, option and swap 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, option and swap 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 as a component of other comprehensive income.

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 1999, 1998 and 1997 was \$64.3 million, \$65 million and \$61.1 million, respectively.

Stock-Based Compensation

No compensation expense is recognized for stock-based awards to employees 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

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	1999	1998	1997
(A) Net income available to common shareholders	\$215.4	\$223.3	\$204.8
(B) Weighted average number of common shares outstanding	99.2	101.5	103.1
Additional common shares issuable under employee stock options using the treasury stock method	2.1	2.6	3.0
(C) Weighted average number of common shares outstanding assuming the exercise of stock options	101.3	104.1	106.1
Net income per common share (A) / (B)	\$2.17	\$2.20	\$1.99
Net income per common share, assuming dilution (A) / (C)	2.13	2.15	1.93

Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments and adjustments to the minimum pension liability that are presented as a component of shareholders' equity.

Future Accounting Requirements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income. The new rules will be effective the first quarter of 2001. The Company is in the process of determining the impact of this new standard and, based on current market conditions, anticipates that the new rules will not have a material impact on the Company's financial results when effective.

Financial Presentation

Certain prior year amounts have been reclassified to conform with the 1999 financial statement presentation.

Note 2. Acquisitions and Joint Ventures

In the fourth quarter of 1998, the Company acquired Spartan International, Inc. (Spartan), a privately held specialty converting company based in Holt, Michigan. Spartan supplies pressure-sensitive products to the commercial graphics, sign making, vehicle marking and automotive markets.

In the first quarter of 1999, the Company completed a transaction with Steinbeis Holding GmbH to combine substantially all of the Company's office products businesses in Europe with Zweckform Buro-Produkte GmbH (Zweckform), a German office products supplier. The Company's aggregate cost basis in this venture was financed through available cash resources of approximately \$23 million and the assumption of an obligation as reported in the "Long-term obligation" line on the Consolidated Balance Sheet. It is the intention of the Company to pay the entire obligation in 2004. The excess of the cost basis over the fair value of net tangible assets acquired was \$104.6 million.

In the third quarter of 1999, the Company acquired Stimsonite Corporation (Stimsonite), based in Niles, Illinois, a leading manufacturer of reflective safety products for the transportation and highway safety markets. The Company paid approximately \$150 million (including the assumption of approximately \$20 million in debt) for Stimsonite, which was primarily funded with the issuance of debt. Stimsonite had sales of \$87 million in 1998. The excess of the cost-basis over the fair value of net tangible assets acquired was \$124.7 million.

In the fourth quarter of 1999, the Company acquired the remaining minority stake in its Argentine business, the largest pressure-sensitive materials operation in that country.

The acquired businesses added approximately 5 percent of the Company's total sales and did not have a significant impact on the Company's overall profitability in 1999.

Note 3. Restructuring

In the first quarter of 1999, the Company announced a major realignment of its cost structure designed to increase operating efficiencies and improve profitability. The realignment resulted in a pretax restructuring charge of \$65 million, or \$.42 per diluted share on an after-tax basis.

The restructuring involves the consolidation of manufacturing and distribution capacity in both of the Company's operating segments. The \$65 million charge reflects the costs to close eight manufacturing and distribution facilities, the elimination of approximately 1,500 positions (principally in manufacturing), and other initiatives to exit activities.

The significant components of the restructuring charge and the remaining balance as of January 1, 2000 (included in "Accrued payroll and employee benefits" and "Other accrued liabilities") were as follows:

(In millions)	Charge	Amounts Utilized	Balance
Severance and related costs	\$35.1	\$22.8	\$12.3
Asset write-downs	29.9	23.2	6.7
	\$65.0	\$46.0	\$19.0

Note 3. Restructuring (Continued)

Severance and related costs represent cash paid or to be paid to employees being terminated under the program. Asset write-downs identified as part of the restructuring program, principally related to equipment, represent non-cash charges required to reduce the carrying value of the assets to be disposed of to net realizable value as of the planned date of disposal.

At the end of 1999, five plant closures were completed and approximately 950 employees had left the Company. The Company expects to complete the restructuring program in the year 2000.

Note 4. Debt

Long-term debt at year end was as follows:

(In millions)	1999	1998
Medium-term notes (weighted-average of 6.95% at year end)	\$410.0	\$410.0
Domestic variable-rate short-term borrowings to be refinanced on a long-term basis (5.9% at year end)	193.3	42.0
Other	17.8	16.3
	621.1	468.3
Less: Amount classified as current	(3.6)	(2.4)
	\$617.5	\$465.9

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2004, with all amounts borrowed under this agreement due no later than 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 \$327.9 million at the end of 1999, of which \$64.6 million was utilized at variable interest rates ranging from 3.8 percent to 10.5 percent.

The Company previously registered with the Securities and Exchange Commission \$150 million in principal amount of uncollateralized medium-term notes, of which \$110 million in notes had been issued as of year end 1998. No notes were issued in 1999. Proceeds from the medium-term notes were used to refinance short-term debt and for other general corporate purposes. The Company's outstanding medium-term notes have maturities from 2000 through 2025.

The amount of long-term debt outstanding at the end of 1999, which matures during 2000 through 2004 is \$3.6 million, \$5.9 million, \$20.9 million, \$78.6 million and \$279.1 million, respectively, with \$233 million maturing thereafter.

Note 4. Debt (Continued)

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 1999 and 1998, the fair value of the Company's total debt, including short-term borrowings, was \$659.2 million and \$554.9 million, respectively.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios of consolidated debt and consolidated interest expense to certain measures of income.

The Company's total interest costs in 1999, 1998 and 1997 were \$45.8 million, \$37.6 million and \$34.9 million, respectively, of which \$2.4 million, \$3 million and \$3.2 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

Note 5. Financial Instruments

The Company enters into foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and commitments denominated in foreign currencies that arise primarily as a result of its operations outside the United States. At the end of 1999 and 1998, the Company had foreign exchange forward contracts with a notional value of \$94.7 million and \$311.9 million, respectively, primarily denominated in European currencies. The Company's foreign exchange option contracts, which were substantially denominated in European currencies, had notional amounts of \$12.9 million and \$13.4 million at the end of 1999 and 1998, 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 liability of approximately \$15.1 million and \$0.9 million at the end of 1999 and 1998, respectively. The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was \$0.2 million and \$0.3 million at the end of 1999 and 1998, respectively.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately \$9 million over a five year period. The carrying value of this contract approximated fair value, which was a liability of approximately \$1.5 million and \$0.1 million at the end of 1999 and 1998, respectively.

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

At the end of 1999, the Company had letters of credit outstanding for \$15.9 million which guaranteed various trade activities. The aggregate contract amount of all outstanding letters of credit approximated fair value.

As of year end 1999 and 1998, approximately 27 percent and 24 percent, respectively, of trade accounts receivable were from nine domestic customers. 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 6. Commitments

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

(In millions)

Year	
2000	\$35.0
2001	29.5
2002	23.4
2003	16.7
2004	12.7
Thereafter	21.0
Total minimum lease payments	\$138.3

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

Rent expense for 1999, 1998 and 1997 was \$47 million, \$41 million and \$39.4 million, respectively.

Note 7. Taxes Based On Income

Taxes based on income were as follows:

(In millions)	1999	1998	1997
Current:			
U.S. Federal tax	\$ 78.7	\$ 56.5	\$ 58.3
State taxes	12.8	13.4	15.6
International taxes	39.4	30.1	13.6
	130.9	100.0	87.5
Deferred:			
U.S. taxes	(9.9)	11.1	10.8
International taxes	(6.0)	2.3	8.1
	(15.9)	13.4	18.9
Taxes on income	\$ 115.0	\$113.4	\$106.4

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

(In millions)	1999	1998	1997
Computed tax at 35% of income before taxes	\$ 115.6	\$ 117.8	\$ 108.9
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefits	8.3	8.7	10.1
Other items, net	(8.9)	(13.1)	(12.6)
Taxes on income	\$ 115.0	\$ 113.4	\$ 106.4

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

(In millions)	1999	1998	1997
U.S.	\$ 222.6	\$ 232.2	\$ 222.7
International	107.8	104.5	88.5
	\$ 330.4	\$ 336.7	\$ 311.2

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries (\$436.7 million at year end 1999) 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 \$40.3 million are available to reduce income taxes payable, of which \$15.4 million will expire from 2000 through 2006, while \$24.9 million can be carried forward indefinitely.

Note 7. Taxes Based On Income (Continued)

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

(In millions)	1999	1998
Accrued expenses not currently deductible	\$92.9	\$65.2
Net operating losses and foreign tax credit carryforwards	14.3	22.8
Postretirement and postemployment benefits	12.6	12.1
Pension costs	(9.8)	(8.7)
Valuation allowance	(6.5)	(6.5)
Depreciation and amortization	(92.0)	(90.6)
Deferred tax on intangibles resulting from business acquisitions	(23.9)	--
Total net deferred tax liabilities	\$(12.4)	\$(5.7)

Note 8. 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.

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 8. Shareholders' Equity (Continued)

The Board of Directors has authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other Corporate purposes. At year end 1999, approximately 6.1 million shares were still available for repurchase pursuant to this authorization.

Stock Option and Incentive Plans

The Company's Employee Stock Benefit Trust (ESBT) funds a portion of the Company's obligations arising from various employee benefit plans. The ESBT common stock is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

The Company maintains various stock option and incentive plans which are fixed employee stock-based compensation plans. Under the plans, incentive stock options and stock options granted to directors may be granted at not less than 100 percent of the fair market value of the Company's common stock on the date of the grant, whereas nonqualified options granted to employees may be issued at prices no less than par value. 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 these plans (options in thousands):

	1999		1998		1997	
	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	\$ 28.70	7,744.9	\$ 23.19	9,147.7	\$ 18.76	9,775.7
Granted	58.23	1,190.5	45.65	1,098.5	42.29	1,339.0
Exercised	18.09	(1,460.7)	14.32	(2,204.7)	12.93	(1,706.9)
Forfeited or expired	35.18	(222.6)	28.28	(296.6)	22.39	(260.1)
Outstanding at year end	\$ 35.49	7,252.1	\$ 28.70	7,744.9	\$ 23.19	9,147.7
Options exercisable at year end		3,426.5		3,714.0		4,518.7

The following table summarizes information on fixed stock options outstanding at January 1, 2000 (options in thousands):

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$9.59 to 14.00	470.6	2.3 years	\$12.66	470.6	\$12.66
15.28 to 23.63	2,143.4	5.2 years	19.53	2,143.4	19.53
34.94 to 45.19	3,447.6	7.9 years	40.67	802.5	38.93
52.88 to 59.72	1,190.5	9.8 years	58.23	10.0	50.59
\$9.59 to 59.72	7,252.1	7.0 years	\$35.49	3,426.5	\$23.22

Note 8. Shareholders' Equity (Continued)

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 \$202.5 million and \$2.04, respectively, for 1999, \$213.4 million and \$2.10, respectively, for 1998 and \$197.8 million and \$1.92, respectively, for 1997. Net income per share, assuming dilution, would have been \$2.00, \$2.05 and \$1.86 for 1999, 1998 and 1997, respectively.

The weighted-average fair value of options granted during 1999, 1998 and 1997 was \$19.70, \$13.07 and \$12.70, respectively. Option grant date fair values were determined using a Black-Scholes option pricing model. The underlying assumptions used were as follows:

	1999	1998	1997
Risk-free interest rate	5.40%	5.37%	6.39%
Expected stock price volatility	28.13	24.34	17.74
Expected dividend yield	1.72	2.18	1.74
Expected option term	10 years	10 years	10 years

Note 9. Contingencies

The Company has been designated by the U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies as a potentially responsible party (PRP) at 13 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 10. Pensions and Other Postretirement Benefits

Defined Benefit Plans and Postretirement Health Benefits

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

The Company provides postretirement health benefits to 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.

Note 10. Pensions and Other Postretirement Benefits (Continued)

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

(In millions)	Pension	Benefits	Postretirement	
	1999	1998	Health	Benefits

Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 473.6	\$ 439.7	\$ 29.9	\$ 30.0
Service cost	12.3	10.1	.8	1.0
Interest cost	30.6	29.9	1.7	2.0
Participant contribution	1.9	1.9	--	--
Amendments	.3	7.8	--	--
Actuarial (gain) loss	(18.8)	3.7	(6.1)	(1.5)
Benefits paid	(26.7)	(25.6)	(1.6)	(1.6)
Acquisition	6.2	--	--	--
Curtailement	1.0	--	(.3)	--
Foreign currency translation	(18.3)	6.1	--	--

Benefit obligation at end of year	\$ 462.1	\$ 473.6	\$ 24.4	\$ 29.9

Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 605.5	\$ 521.8	--	--
Actual return on plan assets	91.9	95.6	--	--
Employer contribution	5.7	3.3	1.6	1.6
Participant contribution	1.9	1.9	--	--
Benefits paid	(26.7)	(25.6)	(1.6)	(1.6)
Foreign currency translation	(22.9)	8.5	--	--

Fair value of plan assets at end of year	\$ 655.4	\$ 605.5	--	--

Funded status of the plans:				
Plan assets in excess of (less than) benefit obligation	\$ 193.3	\$ 131.9	\$ (24.4)	\$ (29.9)
Unrecognized net actuarial gain	(119.9)	(59.0)	(10.6)	(4.3)
Unrecognized prior service cost	2.1	4.2	1.4	1.0
Unrecognized net asset	(15.1)	(18.5)	--	--

Net amount recognized	\$ 60.4	\$ 58.6	\$ (33.6)	\$ (33.2)

Amounts recognized in the Consolidated Balance Sheet consist of:				
Prepaid benefit cost	\$ 99.4	\$ 84.1	--	--
Accrued benefit liability	(39.6)	(26.8)	(33.6)	(33.2)
Intangible asset	.6	1.3	--	--

Net amount recognized	\$ 60.4	\$ 58.6	\$ (33.6)	\$ (33.2)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$30.7 million, \$29 million and \$3.5 million, respectively, at year end 1999, and \$24.1 million, \$22.2 million and \$3.7 million, respectively, at year end 1998.

Note 10. Pensions and Other Postretirement Benefits (Continued)

	Pension Benefits			Postretirement Health Benefits		
	1999	1998	1997	1999	1998	1997
Weighted-average assumptions used:						
Discount rate	7.2%	6.7%	7.0%	7.75%	7.00%	7.25%
Expected long-term rate of return on plan assets	9.3	9.2	9.3	--	--	--
Rate of increase in future compensation levels	4.1	4.1	4.4	--	--	--

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

(In millions)	Pension Benefits			Postretirement Health Benefits		
	1999	1998	1997	1999	1998	1997
Components of net periodic benefit (income) cost:						
Service cost	\$12.3	\$10.1	\$ 8.4	\$.8	\$1.0	\$1.1
Interest cost	30.6	29.9	29.1	1.7	2.0	2.0
Expected return on plan assets	(48.1)	(44.0)	(39.4)	--	--	--
Recognized net actuarial (gain) loss	(.2)	.6	2.3	(.4)	(.1)	--
Amortization of prior service cost	.9	.9	.1	.1	--	.1
Amortization of transition obligation or asset	(2.0)	(2.0)	(2.0)	--	--	--
Curtailment	1.3	--	--	(.2)	--	--
Net periodic benefit (income) cost	\$(5.2)	\$(4.5)	\$(1.5)	\$2.0	\$2.9	\$3.2

For measurement purposes, a 6 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to remain at that level.

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

(In millions)	One percentage-point increase	One percentage-point decrease
Effect on total of service and interest cost components	\$.3	\$ (.3)
Effect on postretirement benefit obligation	2.5	(2.1)

As a result of changes in assumptions used during 1999 and 1998, an additional liability of \$.6 million and \$1.3 million, respectively, is reflected in the Company's Consolidated Balance Sheet. These amounts are offset in 1999 and 1998 by the recording of an intangible pension asset of \$.6 million and \$1.3 million, respectively. Consolidated pension (income) expense for 1999, 1998 and 1997 was \$(3.8) million, \$(2.9) million and \$.4 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.

Note 10. Pensions and Other Postretirement Benefits (Continued)

ESOP expense is accounted for under two different methodologies: the cost of shares allocated method and the fair value method. Total ESOP (income) expense for 1999, 1998 and 1997 was \$(1.6) million, \$.1 million and \$3.5 million, respectively. There were no Company contributions to pay interest or principal on ESOP borrowings for 1999. Company contributions to pay interest and principal on ESOP borrowings for 1998 and 1997 were \$.1 million and \$3.2 million, respectively.

Interest costs incurred by the ESOPs for 1999, 1998 and 1997 were \$1.5 million, \$1.8 million and \$2.6 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.6 million in 1999, 1998 and 1997.

Consolidated (income) expense for all defined contribution plans (including total ESOP expense) for 1999, 1998 and 1997 was \$(.4) million, \$.8 million and \$4 million, respectively. Of the total shares held by the ESOP, 5.6 million shares were allocated and 1.6 million shares were unallocated at year end 1999, and 6.4 million shares were allocated and 1.7 million shares were unallocated at year end 1998. Of the total shares held by the ESOP, all shares accounted for under the fair value method were allocated at year end 1999 and 1998.

Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earn specified and variable rates of return. As of year end 1999 and 1998, the Company had accrued \$99.4 million and \$78.2 million, respectively, for its obligations under these plans. The Company's expense, which includes Company contributions and interest expense, was \$13.1 million, \$6.3 million and \$8.1 million for 1999, 1998 and 1997, respectively. A portion of the interest may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

To assist in the funding of these plans, the Company purchases corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of the participant. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" was \$67.7 million and \$46.6 million at year end 1999 and 1998, respectively.

Note 11. Segment Information

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

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

The Company does not disclose total assets by operating segment since the Company does not produce such information internally. Instead, the Company reviews each operating segment's average invested capital to assess performance and decide how to allocate resources to each segment.

Note 11. Segment Information (Continued)

Financial information by operating segment is set forth below:
(In millions)

	1999(1)	1998	1997
Net sales:			
Pressure-sensitive Adhesives and Materials	\$2,015.7	\$1,874.5	\$1,824.5
Consumer and Converted Products	1,932.5	1,741.4	1,671.9
Intersegment	(180.0)	(156.0)	(151.9)
Divested operations	--	--	1.2
Net sales	\$3,768.2	\$3,459.9	\$3,345.7
Income (loss) from operations before interest and taxes:			
Pressure-sensitive Adhesives and Materials	\$ 182.4	\$ 167.4	\$ 171.9
Consumer and Converted Products	222.1	226.7	187.9
Divested operations	--	--	(.6)
Corporate administrative and research and development expenses	(30.7)	(22.8)	(16.3)
Interest expense	\$ 373.8	\$ 371.3	\$ 342.9
	(43.4)	(34.6)	(31.7)
Income before taxes	\$ 330.4	\$ 336.7	\$ 311.2
Capital expenditures:			
Pressure-sensitive Adhesives and Materials	\$ 78.9	\$ 82.9	\$ 105.7
Consumer and Converted Products	81.1	70.0	66.8
Corporate and divested operations	17.7	6.8	4.8
Capital expenditures	\$ 177.7	\$ 159.7	\$ 177.3
Depreciation expense:			
Pressure-sensitive Adhesives and Materials	\$ 64.6	\$59.1	\$ 55.0
Consumer and Converted Products	53.5	48.2	43.8
Corporate and divested operations	8.4	7.3	6.7
Depreciation expense	\$ 126.5	\$ 114.6	\$ 105.5

(1) Results for 1999 include a pretax restructuring charge of \$65 million. The charge was allocated as follows: \$25.1 million to the Pressure-sensitive Adhesives and Materials segment, \$37.6 million to the Consumer and Converted Products segment, and \$2.3 million to Corporate. See Note 3 for additional information regarding the Company's 1999 restructuring charge.

Note 11. Segment Information (Continued)

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

(In millions)	1999	1998	1997

Net sales:			
U.S.	\$2,342.9	\$2,195.9	\$2,142.6
International	1,472.2	1,293.4	1,237.5
Intersegment	(46.9)	(29.4)	(35.6)
Divested operations	--	--	1.2

Net sales	\$3,768.2	\$3,459.9	\$3,345.7

Property, plant and equipment, net:			
U.S.	\$ 583.8	\$ 578.4	\$ 565.6
International	389.4	396.9	358.4
Corporate and divested operations	70.3	60.3	61.3

Property, plant and equipment, net	\$1,043.5	\$1,035.6	\$ 985.3

Revenues are attributed to geographic areas based on the location to which the product is shipped. The Company's international operations, conducted primarily in continental Europe 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.

Note 12. Quarterly Financial Information (Unaudited)
(In millions, except per share data)

	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter(2)

1999 (1)				

Net sales	\$933.9	\$928.5	\$961.0	\$944.8
Gross profit	311.9	314.2	327.5	327.8
Net income	18.4	63.7	66.0	67.3
Net income per common share	.19	.64	.66	.68
Net income per common share, assuming dilution	.18	.63	.65	.67

1998 (2)				

Net sales	\$843.6	\$871.5	\$860.2	\$884.6
Gross profit	280.5	291.3	280.9	291.8
Net income	54.2	57.4	55.8	55.9
Net income per common share	.53	.56	.55	.56
Net income per common share, assuming dilution	.52	.55	.54	.54

1997				

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

(1) Net income for the first quarter of 1999 includes expense of \$42.5 million, or \$.42 per diluted share on an after-tax basis, related to the restructuring charge.

(2) The Company's 1998 fiscal year reflected a 53-week period compared to 52-week periods in 1999 and 1997. The extra week in 1998 was reflected in the fourth quarter.

Report of Independent Accountants

To the Board of Directors and Shareholders of Avery Dennison:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows, which appear on pages 34 through 37 of this Annual Report, present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at January 1, 2000 and January 2, 1999, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2000 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California

January 25, 2000

Corporate Information

Counsel

Latham & Watkins
Los Angeles, California

Independent Accountants

PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent-Registrar

First Chicago Trust Company of New York,
a division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 756-8200
(201) 222-4955 (hearing impaired number)
equiserve@equiserve.com (e-mail)
<http://www.equiserve.com> (Web site)

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:30 pm, Thursday, April 27, 2000, in the Conference Center of Avery Dennison's Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

DirectSERVICE(tm) Investment and Stock Purchase Program

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by writing to The DirectSERVICE Investment Program, c/o First Chicago Trust Company of New York (include a reference to Avery Dennison in the correspondence), P.O. Box 2598, Jersey City, NJ 07303-2598, or calling (800) 649-2291, or logging onto their Web site at <http://www.equiserve.com>.

Direct Deposit of Dividends

Avery Dennison shareholders may deposit quarterly dividend checks directly into their checking or savings accounts. For more information, call Avery Dennison's transfer agent and registrar, 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

Avery Dennison Corporation
Miller Corporate Center
150 North Orange Grove Boulevard
Pasadena, California 91103
Phone: (626) 304-2000
Fax: (626) 792-7312

Mailing Address:

P.O. Box 7090
Pasadena, California 91109-7090

Stock and Dividend Data

Common shares of Avery Dennison are listed on the New York and Pacific stock exchanges.

Ticker symbol: AVY

	1999		1998	
	High	Low	High	Low
Market Price				
First Quarter	59	39 3/4	54 3/16	41 9/16
Second Quarter	69 1/8	56 5/8	55 5/16	49 11/16
Third Quarter	63 15/16	52 3/16	60 3/4	47 1/16
Fourth Quarter	72 7/8	51 13/16	49 5/8	40 7/8

Prices shown represent closing prices on the NYSE.

	1999	1998
Dividends Per Common Share		
First Quarter	.24	.21
Second Quarter	.24	.21
Third Quarter	.24	.21
Fourth Quarter	.27	.24
Total	.99	.87

Number of shareholders of record as of year end 1999: 13,817

NAME OF CURRENT SUBSIDIARY	JURISDICTION IN WHICH ORGANIZED
A.V. Chemie AG.....	Switzerland
ADC Philippines, Inc.....	Philippines
AEAC, Inc.....	U.S.A.
Avery (China) Company Limited.....	China
Avery Automotive Limited.....	United Kingdom
Avery Corp.....	U.S.A.
Avery de Mexico S.A. de C.V.....	Mexico
Avery Dennison (Fiji) Limited.....	Fiji
Avery Dennison (Hong Kong) Limited.....	Hong Kong
Avery Dennison (India) Private Limited.....	India
Avery Dennison (Ireland) Limited.....	Ireland
Avery Dennison (Kunshan) Limited.....	China
Avery Dennison (Malaysia) Sdn. Bhd.....	Malaysia
Avery Dennison (Shanghai) International Trading Limited	China
Avery Dennison (Thailand) Ltd.....	Thailand
Avery Dennison Australia Group Holdings Pty Limited.....	Australia
Avery Dennison Belgie N.V.....	Belgium
Avery Dennison C.A.....	Venezuela
Avery Dennison Canada Inc.....	Canada
Avery Dennison Chile S.A.....	Chile
Avery Dennison Colombia S.A.....	Colombia
Avery Dennison Converted Products de Mexico, S.A. de C.V....	Mexico
Avery Dennison Coordination Center N.V.....	Belgium
Avery Dennison Corporation.....	U.S.A.
Avery Dennison Danmark A/S.....	Denmark
Avery Dennison Danmark Holding ApS.....	Denmark
Avery Dennison Deutschland GmbH.....	Germany
Avery Dennison do Brasil Ltda.....	Brazil
Avery Dennison Dover S.A.....	Argentina
Avery Dennison Etiket Ticaret Limited Sirketi	Turkey
Avery Dennison Foreign Sales Corporation.....	Barbados
Avery Dennison France S.A.....	France
Avery Dennison Health Management Corporation.....	U.S.A.
Avery Dennison Holding AG.....	Switzerland
Avery Dennison Holding GmbH.....	Germany
Avery Dennison Holdings Limited.....	Australia
Avery Dennison Hong Kong B.V.....	Netherlands
Avery Dennison Hungary Limited.....	Hungary
Avery Dennison Iberica, S.A.....	Spain
Avery Dennison Italia S.p.A.....	Italy
Avery Dennison Korea Limited.....	Korea
Avery Dennison Luxembourg S.A.....	Luxembourg
Avery Dennison Materials France S.a.r.l.....	France
Avery Dennison Materials GmbH.....	Germany
Avery Dennison Materials Ireland Limited.....	Ireland
Avery Dennison Materials Nederland B.V.....	Netherlands
Avery Dennison Materials Pty Limited.....	Australia
Avery Dennison Materials U.K. Limited.....	United Kingdom
Avery Dennison Mexico S.A. de C.V.....	Mexico
Avery Dennison Norge A/S.....	Norway
Avery Dennison Office Products (NZ) Limited.....	New Zealand
Avery Dennison Office Products (Pty.) Ltd.....	South Africa
Avery Dennison Office Products Company.....	U.S.A.
Avery Dennison Office Products de Mexico, S.A. de C.V.....	Mexico
Avery Dennison Office Products Italia S.r.l.....	Italy
Avery Dennison Office Products Pty Limited.....	Australia
Avery Dennison Office Products U.K. Limited.....	United Kingdom
Avery Dennison Osterreich GmbH.....	Austria
Avery Dennison Overseas Corporation.....	U.S.A.
Avery Dennison Overseas Corporation (Japan Branch)	Japan
Avery Dennison Pension Trustee Limited.....	United Kingdom
Avery Dennison Polska Sp. z o.o.....	Poland
Avery Dennison Printer Labels A/S.....	Denmark
Avery Dennison Scandinavia A/S.....	Denmark
Avery Dennison Schweiz AG.....	Switzerland
Avery Dennison Security Printing Europe A/S.....	Denmark
Avery Dennison Singapore (Pte) Ltd.....	Singapore
Avery Dennison South Africa (Proprietary) Limited.....	South Africa
Avery Dennison Suomi OY.....	Finland
Avery Dennison Sverige AB.....	Sweden
Avery Dennison Systemes D'Etiquetage France S.A.S.....	France
Avery Dennison U.K. Limited.....	United Kingdom
Avery Dennison Zweckform Austria GmbH.....	Austria
Avery Dennison Zweckform Office Products Europe GmbH	Germany
Avery Dennison Zweckform Unterstutzungskasse GmbH.....	Germany
Avery Dennison, S.A. de C.V.....	Mexico
Avery Dennison-Maxell K.K.....	Japan
Avery Etiketsystemer A/S.....	Denmark
Avery Etiketten B.V.....	Netherlands
Avery Etikettssystem Svenska AB.....	Sweden
Avery Graphic Systems, Inc.....	U.S.A.
Avery Holding B.V.....	Netherlands
Avery Holding Limited.....	United Kingdom
Avery Holding S.A.....	France
Avery Label (Northern Ireland) Limited.....	United Kingdom
Avery Maschinen GmbH.....	Germany
Avery Pacific Corporation.....	U.S.A.
Avery Properties Pty. Limited.....	Australia
Avery Research Center, Inc.....	U.S.A.
Avery, Inc.....	U.S.A.
Bear Rock Technologies Corporation.....	U.S.A.

Cardinal Insurance Limited.....	Bermuda(U.S.A.)
Dennison do Brasil Industria E Comercio Ltda.....	Brazil
Dennison International Company.....	U.S.A.
Dennison International Holding B.V.....	Netherlands
Dennison Ireland Limited.....	Ireland
Dennison Manufacturing (Trading) Ltd.....	Channel Islands
Dennison Manufacturing Company.....	U.S.A.
Dennison Monarch Systems, Inc.....	U.S.A.
Dennison Office Products Limited.....	Ireland
DMC Development Corporation.....	U.S.A.
Etikettrykkeriet A/S.....	Denmark
Fasson Canada Inc.....	Canada
Fasson Portugal Produtos Auto-Adesivos Lda.....	Portugal
LAC Retail Systems Limited.....	United Kingdom
Monarch Industries, Inc.....	U.S.A.
PT Avery Dennison Indonesia.....	Indonesia
Retail Products Limited.....	Ireland

Security Printing Division, Inc.....	U.S.A.
Societe Civile Immobiliere Sarrail.....	France
Spartan International, Inc.....	U.S.A.
Spartan Plastics Canada, Ltd.....	Canada
Stimsonite Australia Pty Limited.....	Australia
Stimsonite Corporation.....	U.S.A.
Stimsonite do Brasil Ltda.....	Brazil
Stimsonite Europa Limited.....	United Kingdom
Stimsonite Foreign Sales Corporation.....	Barbados
Stimsonite Hong Kong Limited.....	Hong Kong
Stimsonite International Corporation.....	U.S.A.
Stimsonite Paint Corporation.....	U.S.A.
Tiadeco Participacoes, Ltda.....	Brazil
Zweckform U.K. Ltd.....	United Kingdom

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, expectations, projections and estimates relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called "safe harbor" provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in 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, economic and regulatory environment (including tariffs) in the countries in which the Company conducts its operations.

As a manufacturer, the Company's sales and profitability are also dependent upon availability and cost of raw materials and 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, judgements 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; loss of a significant contract(s) or customer(s); impact of Year 2000 issues; the euro conversion; 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.

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.

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 AVERY DENNISON

12-MOS

	JAN-01-2000	
	JAN-03-1999	
	JAN-01-2000	6,900
		0
		561,900
		19,500
		279,800
		956,000
		1,934,700
		891,200
		2,592,500
	850,400	617,500
	0	0
		124,100
		685,800
2,592,500		3,768,200
	3,768,200	2,486,800
		2,486,800
		907,600
		0
	43,400	
		330,400
		115,000
215,400		0
		0
		0
		215,400
		2.17
		2.13

Includes \$65 million pre-tax restructuring charge.