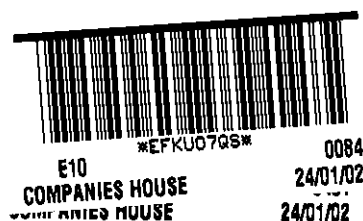


CONSOLIDATED BALANCE SHEET - AVERY DENNISON CORPORATION
FC 9365
ACCOUNTS FOR THE PERIOD ENDED
31 DECEMBER 2000

(Dollars in millions)	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11.4	\$ 6.9
Trade accounts receivable, less allowance for doubtful accounts of \$19.4 and \$19.5 for 2000 and 1999, respectively	580.5	542.4
Inventories, net	271.5	279.8
Other receivables	29.3	23.8
Prepaid expenses	25.2	23.7
Deferred taxes	64.5	79.4
Total current assets	982.4	956.0
Property, plant and equipment, net	1,079.0	1,043.5
Intangibles resulting from business acquisitions, net	394.3	397.0
Other assets	243.4	196.0
	\$ 2,699.1	\$ 2,592.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 54.3	\$ 68.2
Accounts payable	326.4	316.8
Accrued payroll and employee benefits	117.1	133.7
Other accrued liabilities	236.0	252.4
Income taxes payable	66.9	79.3
Total current liabilities	800.7	850.4
Long-term debt	772.9	617.5
Long-term retirement benefits and other accrued liabilities	129.5	132.0
Non-current deferred taxes	94.0	99.4
Other long-term obligation	73.9	83.3
Shareholders' equity:		
Common stock, \$1 par value, authorized - 400,000,000 shares at year end 2000 and 1999; issued - 124,126,624 shares at year end 2000 and 1999	124.1	124.1
Capital in excess of par value	692.0	962.3
Retained earnings	1,448.3	1,288.5
Cost of unallocated ESOP shares	(15.3)	(16.8)
Employee stock trusts, 12,758,017 shares and 13,914,515 shares at year end 2000 and 1999, respectively	(699.9)	(1,014.0)
Treasury stock at cost, 13,881,533 shares and 11,453,728 shares at year end 2000 and 1999, respectively	(615.7)	(481.3)
Accumulated other comprehensive loss	(105.4)	(52.9)
Total shareholders' equity	828.1	809.9
	\$ 2,699.1	\$ 2,592.5

See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	2000	1999	1998
Net sales	\$ 3,893.5	\$ 3,768.2	\$ 3,459.9
Cost of products sold	2,561.3	2,486.8	2,315.4
Gross profit	1,332.2	1,281.4	1,144.5
Marketing, general and administrative expense	851.3	842.6	773.2
Restructuring charge	—	65.0	—
Interest expense	54.6	43.4	34.6
Income before taxes	426.3	330.4	336.7
Taxes on income	142.8	115.0	113.4
Net income	\$ 283.5	\$ 215.4	\$ 223.3
Per share amounts:			
Net income per common share	\$ 2.88	\$ 2.17	\$ 2.20
Net income per common share, assuming dilution	2.84	2.13	2.15
Dividends	1.11	.99	.87
Average shares outstanding:			
Common shares	98.3	99.2	101.5
Common shares, assuming dilution	99.8	101.3	104.1
Common shares outstanding at year end	97.5	98.8	100.0

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in millions)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares	Employee stock trusts	Treasury stock	Accumulated other comprehensive income (loss)	Total
Fiscal year ended 1997	\$ 124.1	\$ 592.5	\$ 1,063.6	\$ (23.4)	\$ (730.3)	\$ (166.8)	\$ (22.5)	\$ 837.2
Comprehensive income:								
Net income			223.3					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)		(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			47.7
Dividends: \$.87 per share			(101.8)					(101.8)
ESOP transactions, net				5.1				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)	(8.1)	833.3
Comprehensive income:								
Net income			215.4					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)		(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			38.4
Dividends: \$.99 per share			(112.0)					(112.0)
ESOP transactions, net				1.5				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)	(52.9)	809.9
Comprehensive income:								
Net income			283.5					283.5
Foreign currency translation adjustment							(52.5)	(52.5)
Total comprehensive income								231.0
Repurchase of 2.4 million shares for treasury						(134.4)		(134.4)
Stock issued under option plans, net of \$36.3 of tax and dividends paid on stock held in stock trusts		(28.9)			72.7			43.8
Dividends: \$1.11 per share			(123.7)					(123.7)
ESOP transactions, net				1.5				1.5
Employee stock benefit trust market value adjustment		(241.4)			241.4			—
Fiscal year ended 2000	\$ 124.1	\$ 692.0	\$ 1,448.3	\$ (15.3)	\$ (699.9)	\$ (615.7)	\$ (105.4)	\$ 828.1

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2000	1999	1998
OPERATING ACTIVITIES			
Net income	\$ 283.5	\$ 215.4	\$ 223.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Restructuring charge	—	65.0	—
Depreciation	126.0	126.5	114.6
Amortization	30.9	23.9	12.6
Deferred taxes	11.8	(15.3)	13.8
Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures, and restructuring charge:			
Trade accounts receivable, net	(37.0)	(66.1)	18.6
Inventories, net	8.8	(28.0)	11.0
Other receivables	(6.4)	(.3)	8.3
Prepaid expenses	(2.0)	(4.6)	1.0
Accounts payable and accrued liabilities	(4.3)	74.7	(11.8)
Taxes on income	6.5	60.9	41.5
Long-term retirement benefits and other accrued liabilities	(7.9)	(25.2)	(13.4)
Net cash provided by operating activities	409.9	426.9	419.5
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(198.3)	(177.7)	(159.7)
Acquisitions, net of miscellaneous proceeds from sale of assets	(64.7)	(175.8)	(30.9)
Other	(52.5)	(22.1)	(23.6)
Net cash used in investing activities	(315.5)	(375.6)	(214.2)
FINANCING ACTIVITIES			
Increase in long-term debt	40.0	—	50.0
Decrease in long-term debt	(13.4)	(.9)	(3.9)
Net increase in other debt	118.9	152.2	39.3
Dividends paid	(123.7)	(112.0)	(101.8)
Purchase of treasury stock	(134.4)	(121.9)	(192.6)
Proceeds from exercise of stock options	19.7	16.9	20.7
Other	3.9	3.3	(2.3)
Net cash used in financing activities	(89.0)	(62.4)	(190.6)
Effect of foreign currency translation on cash balances	(.9)	(.5)	.5
Increase (decrease) in cash and cash equivalents	4.5	(11.6)	15.2
Cash and cash equivalents, beginning of year	6.9	18.5	3.3
Cash and cash equivalents, end of year	\$ 11.4	\$ 6.9	\$ 18.5

See Notes to Consolidated Financial Statements

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 and continental Europe.

PRINCIPLES OF CONSOLIDATION

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

FISCAL YEAR

The Company's 2000 and 1999 fiscal years reflected 52-week periods ending December 30, 2000 and January 1, 2000, 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)	2000	1999	1998
Interest, net of capitalized amounts	\$ 54.8	\$ 44.1	\$ 29.8
Income taxes, net of refunds	142.8	62.7	86.3

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

37 percent and 40 percent of inventories before LIFO adjustment at year end 2000 and 1999, respectively. Inventories at year end were as follows:

(In millions)	2000	1999
Raw materials	\$ 85.8	\$ 86.2
Work-in-progress	67.1	77.0
Finished goods	139.9	137.0
LIFO adjustment	(21.3)	(20.4)
	\$ 271.5	\$ 279.8

PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment were as follows:

(In millions)	2000	1999
Land	\$ 44.5	\$ 41.9
Buildings and improvements	443.6	434.4
Machinery and equipment	1,378.9	1,324.9
Construction-in-progress	144.8	133.5
	2,011.8	1,934.7
Accumulated depreciation	932.8	891.2
	\$ 1,079.0	\$ 1,043.5

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

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 2000 and 1999 was \$83.4 million and \$67 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 2000, 1999 and 1998 by \$3 million, \$1.7 million and \$2.9 million, respectively.

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. Actual product returns are charged against estimated sales return allowances. If title to product does not pass to customers upon shipment, estimates are used, where significant, to delay revenue recognition until such time that title is transferred.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements and was effective the fourth quarter of 2000. The implementation of this guidance did not have a material impact on the Company's financial results.

SHIPPING AND HANDLING COSTS

Shipping and handling costs, which consist primarily of freight-out costs, are included in "Cost of products sold" for the Pressure-sensitive Adhesives and Materials segment and in "Marketing, general and administrative expense" for the Consumer and Converted Products segment. Freight-out costs included in "Marketing, general and

administrative expense" were \$32.9 million, \$33.7 million and \$28.4 million for 2000, 1999 and 1998, respectively.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Research and development expense for 2000, 1999 and 1998 was \$67.8 million, \$64.3 million and \$65 million, respectively.

STOCK-BASED COMPENSATION

The Company's stock option grants are generally priced at fair market value on the date of grant. Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock Based Compensation," the Company uses the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees."

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.

NET INCOME PER SHARE

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2000	1999	1998
(A) Net income available to common shareholders	\$ 283.5	\$ 215.4	\$ 223.3
(B) Weighted average number of common shares outstanding	98.3	99.2	101.5
Additional common shares issuable under employee stock options using the treasury stock method	1.5	2.1	2.6
(C) Weighted average number of common shares outstanding assuming the exercise of stock options	99.8	101.3	104.1
Net income per common share (A) ÷ (B)	\$ 2.88	\$ 2.17	\$ 2.20
Net income per common share, assuming dilution (A) ÷ (C)	2.84	2.13	2.15

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. Accumulated comprehensive income balances consist primarily of foreign currency translation adjustments.

FUTURE ACCOUNTING REQUIREMENTS

The Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related amendments. This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are required to be recorded each period in current earnings or other comprehensive income, depending upon the type of hedging transaction and the hedge effectiveness.

The Company formed an implementation team drawn from both internal and external resources, which reviewed the Company's derivative contracts and existing hedge relationships, developed appropriate hedge effectiveness models and updated accounting and reporting procedures to ensure proper measurement, recording and reporting of derivative instruments and hedge items.

The Company will adopt SFAS No. 133 in the first quarter of 2001. Based on current market conditions, the Company anticipates that the impact of this new standard will result in a transition adjustment of approximately \$5 million to decrease net income.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB Statement No. 125." This Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral. This Statement is effective for the Company's 2001 fiscal year. The Company does not believe that the new standard will have a material impact on the Company's financial results.

RELATED PARTY TRANSACTIONS

From time to time, the Company enters into transactions in the normal course of business with affiliated entities or individuals. The Company believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. None of these transactions are significant to the financial position or results of operations of the Company.

FINANCIAL PRESENTATION

Certain prior year amounts have been reclassified to conform with the 2000 financial statement presentation.

NOTE 2. ACQUISITIONS AND JOINT VENTURES

In the first quarter of 2000, the Company acquired the Adespan pressure-sensitive materials operation of Panini S.p.A., a European printing and publishing company based in Italy. Adespan had sales of approximately \$75 million in 1999. The Adespan business operates as a division within the Company's Fasson roll materials business in Europe.

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.

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 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 Büro-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 "Other 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 Company made other acquisitions during 2000 and 1999 that were also not significant to the consolidated position of the Company. The aggregate cost of acquired companies was approximately \$76 million, \$285 million and \$31 million in 2000, 1999 and 1998, respectively.

In 2000 and 1999, acquired businesses added approximately 3 percent and 5 percent, respectively, to the Company's total sales. The acquired businesses did not have a significant impact on the Company's results of operations for any of the three years in the period ended December 30, 2000.

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

The restructuring charge consisted of employee severance and related costs of \$35.1 million and asset write-downs of \$29.9 million. Severance and related costs represented cash paid to employees terminated under the program. Asset write-downs, principally related to equipment, represented 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 year end 1999, \$12.3 million remained accrued for severance and related costs (included in "Accrued payroll and employee benefits") and \$6.7 million remained accrued for asset write-downs (included in "Other accrued liabilities"). During 2000, the Company completed the 1999 restructuring program and utilized amounts accrued for purposes identified in the realignment plan.

NOTE 4. DEBT

Long-term debt and its respective weighted average interest rates at December 30, 2000 consisted of the following:

(In millions)	Dec. 30, 2000	Jan. 1, 2000
Medium-term notes		
Series 1993 at 6.6%	\$ 98.0	\$ 100.0
Series 1994 at 7.7%	100.0	100.0
Series 1995 at 7.2%	100.0	100.0
Series 1996 at 6.6%	60.0	60.0
Series 1998 at 5.9%	50.0	50.0
Series 2000 at 6.6%	40.0	—
Other long-term borrowings	6.3	17.8
Domestic variable rate short-term borrowings at 6.6% to be refinanced on a long-term basis	322.3	193.3
Less: amount classified as current	(3.7)	(3.6)
	\$ 772.9	\$ 617.5

The Company's medium-term notes have maturities from 2002 through 2025 and accrue interest at fixed and floating rates. The Company issued \$40 million of medium-term notes during 2000. The proceeds from this issuance were used to refinance long-term debt and for other general corporate purposes.

Maturities of long-term debt during 2001 through 2005 are \$3.7 million, \$20.9 million, \$70.9 million, \$85.8 million and \$395.3 million, respectively, with \$200 million maturing thereafter.

The Company's total interest costs in 2000, 1999 and 1998 were \$59 million, \$45.8 million and \$37.6 million, respectively, of which \$4.4 million, \$2.4 million and \$3 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

The Company had \$50.6 million of borrowings outstanding under short-term lines of credit at variable interest rates ranging from 4.5 percent to 17 percent at year end 2000.

As of December 30, 2000, the Company had additional available short-term lines of credit totaling \$446.7 million. These available lines of credit included a 364-day revolving credit facility with four domestic banks to provide up to \$200 million in borrowings through December 13, 2001. All amounts borrowed under this agreement will be due no later than that date. The Company may annually extend the revolving period and due date with the approval of the banks. The financing available under this agreement will be used as a commercial paper back-up facility and to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2000.

The Company also has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2005, with all amounts borrowed under this agreement due no later than that date. The Company may annually extend the revolving period and due date with the approval of the banks. The financing available under this agreement will be used, as needed, to repay uncollateralized short-term and currently maturing long-term debt and to finance other corporate requirements. There was no debt outstanding under this agreement as of year end 2000.

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

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debts of the same remaining maturities. At year end 2000 and 1999, the fair value of the Company's total debt, including short-term borrowings, was \$835.5 million and \$659.2 million, respectively.

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 2000 and 1999, the Company had foreign exchange forward contracts with a notional value of \$97 million and \$94.7 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 \$9.5 million and \$12.9 million at the end of 2000 and 1999, 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 \$5.5 million and \$15.1 million at the end of 2000 and 1999, respectively. The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was \$2 million at the end of 2000 and 1999. The carrying value of the foreign exchange option contracts approximated the fair market value.

During 1998, the Company entered into a swap contract to hedge foreign currency commitments of approximately \$9 million over a five year period. The carrying value of this contract approximated fair value, which was a liability of approximately \$6 million and \$1.5 million at the end of 2000 and 1999, 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 2000, the Company had letters of credit outstanding for \$6.4 million which guaranteed various trade activities. The aggregate contract amount of all outstanding letters of credit approximated fair value.

As of year end 2000 and 1999, approximately 26 percent and 27 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	
2001	\$ 35.5
2002	30.1
2003	22.4
2004	18.2
2005	14.4
Thereafter	17.4
Total minimum lease payments	\$ 138.0

Operating leases relate primarily to office and warehouse space, electronic data processing and transportation equipment.

Rent expense for 2000, 1999 and 1998 was \$44 million, \$47 million and \$41 million, respectively.

NOTE 7. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2000	1999	1998
Current:			
U.S. Federal tax	\$ 68.6	\$ 78.7	\$ 56.5
State taxes	12.3	12.8	13.4
International taxes	50.6	39.4	30.1
	131.5	130.9	100.0
Deferred:			
U.S. taxes	8.4	(9.9)	11.1
International taxes	2.9	(6.0)	2.3
	11.3	(15.9)	13.4
Taxes on income	\$ 142.8	\$ 115.0	\$ 113.4

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)	2000	1999	1998
Computed tax at 35% of income before taxes	\$ 149.2	\$ 115.6	\$ 117.8
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefits	8.0	8.3	8.7
Other items, net	(14.4)	(8.9)	(13.1)
Taxes on income	\$ 142.8	\$ 115.0	\$ 113.4

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

(In millions)	2000	1999	1998
U.S.	\$ 245.5	\$ 222.6	\$ 232.2
International	180.8	107.8	104.5
	\$ 426.3	\$ 330.4	\$ 336.7

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries (\$606.6 million at year end 2000) 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 \$29.3 million are available to reduce income taxes payable, of which \$9.7 million will expire from 2001 through 2010, while \$19.6 million can be carried forward indefinitely. A valuation allowance has been provided for approximately 46 percent of the deferred tax assets related to the net operating losses and foreign tax credit carryforwards.

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)	2000	1999
Accrued expenses not currently deductible	\$ 81.2	\$ 92.9
Net operating losses and foreign tax credit carryforwards	14.9	14.3
Postretirement and postemployment benefits	12.6	12.6
Pension costs	(13.1)	(9.8)
Depreciation and amortization	(89.9)	(92.0)
Deferred tax on intangibles resulting from business acquisitions	(21.5)	(23.9)
Valuation allowance	(6.8)	(6.5)
Total net deferred tax liabilities	\$ (22.6)	\$ (12.4)

NOTE 8. CONTINGENCIES

The Company has been designated by the U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies as a potentially responsible party (PRP) at nine waste disposal or waste recycling sites which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed upon. Litigation has been initiated by a governmental authority with respect to two of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes the potential liability over the amounts currently accrued would not materially affect the Company.

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

NOTE 9. SHAREHOLDERS' EQUITY**COMMON STOCK AND COMMON STOCK REPURCHASE PROGRAM**

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

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

20 percent of the Company's common stock. The 20 percent threshold may be reduced by the Company to as low as 10 percent at any time prior to a person's acquiring a percent of Company stock equal to the lowered threshold.

The Board of Directors has authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other Corporate purposes. At year end 2000, approximately 3.7 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):

	2000		1999		1998	
	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	\$ 35.49	7,252.1	\$ 28.70	7,744.9	\$ 23.19	9,147.7
Granted	54.57	744.0	58.23	1,190.5	45.65	1,098.5
Exercised	22.34	(1,611.6)	18.09	(1,460.7)	14.32	(2,204.7)
Forfeited or expired	46.43	(313.3)	35.18	(222.6)	28.28	(296.6)
Outstanding at year end	\$ 40.75	6,071.2	\$ 35.49	7,252.1	\$ 28.70	7,744.9
Options exercisable at year end		3,095.2		3,426.5		3,714.0

The following table summarizes information on fixed stock options outstanding at December 30, 2000 (options in thousands):

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$ 11.97 to 13.53	193.7	1.5 years	\$ 13.04	193.7	\$ 13.04
15.28 to 23.63	1,192.0	4.4 years	20.45	1,192.0	20.45
34.94 to 45.19	2,895.9	6.9 years	40.99	1,528.7	38.11
45.53 to 67.31	1,789.6	9.3 years	56.87	180.8	58.02
\$ 11.97 to 67.31	6,071.2	6.9 years	\$ 40.75	3,095.2	\$ 30.90

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 \$271.1 million and \$2.75, respectively, for 2000, \$202.5 million and \$2.04, respectively, for 1999 and \$213.4 million and \$2.10, respectively, for 1998. Net income per share, assuming dilution, would have been \$2.72, \$2.00 and \$2.05 for 2000, 1999 and 1998, respectively.

The weighted-average fair value of options granted during 2000, 1999 and 1998 was \$22.16, \$19.70 and \$13.07, respectively. Option grant date fair values were determined using a Black-Scholes option pricing model. The underlying assumptions used were as follows:

	2000	1999	1998
Risk-free interest rate	6.10%	5.40%	5.37%
Expected stock price volatility	34.63	28.13	24.34
Expected dividend yield	1.43	1.72	2.18
Expected option term	10 years	10 years	10 years

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.

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

(In millions)	Pension Benefits		Postretirement Health Benefits	
	2000	1999	2000	1999
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	\$ 462.1	\$ 473.6	\$ 24.4	\$ 29.9
Service cost	12.0	12.3	.6	.8
Interest cost	32.3	30.6	1.9	1.7
Participant contribution	1.9	1.9	—	—
Amendments	1.7	.3	—	—
Actuarial loss (gain)	20.8	(18.8)	1.2	(6.1)
Benefits paid	(27.8)	(26.7)	(2.0)	(1.6)
Acquisition	—	6.2	—	—
Curtailment	(.4)	1.0	—	(.3)
Foreign currency translation	(15.9)	(18.3)	—	—
Benefit obligation at end of year	\$ 486.7	\$ 462.1	\$ 26.1	\$ 24.4
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	\$ 655.4	\$ 605.5	—	—
Actual return on plan assets	26.0	91.9	—	—
Employer contribution	4.6	5.7	\$ 2.0	\$ 1.6
Participant contribution	1.9	1.9	—	—
Benefits paid	(27.8)	(26.7)	(2.0)	(1.6)
Foreign currency translation	(9.2)	(22.9)	—	—
Fair value of plan assets at end of year	\$ 650.9	\$ 655.4	—	—
FUNDED STATUS OF THE PLANS:				
Plan assets in excess of (less than) benefit obligation	\$ 164.2	\$ 193.3	\$ (26.1)	\$ (24.4)
Unrecognized net actuarial gain	(81.6)	(119.9)	(8.9)	(10.6)
Unrecognized prior service cost	2.7	2.1	1.2	1.4
Unrecognized net asset	(12.1)	(15.1)	—	—
Net amount recognized	\$ 73.2	\$ 60.4	\$ (33.8)	\$ (33.6)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET CONSIST OF:				
Prepaid benefit cost	\$ 118.2	\$ 99.4	—	—
Accrued benefit liability	(45.3)	(39.6)	\$ (33.8)	\$ (33.6)
Intangible asset	.3	.6	—	—
Net amount recognized	\$ 73.2	\$ 60.4	\$ (33.8)	\$ (33.6)

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 \$215.4 million, \$208.8 million and \$176.7 million, respectively, at year end 2000, and \$30.7 million, \$29 million and \$3.5 million, respectively, at year end 1999.

	Pension Benefits			Postretirement Health Benefits		
	2000	1999	1998	2000	1999	1998
WEIGHTED-AVERAGE ASSUMPTIONS USED:						
Discount rate	7.2%	7.2%	6.7%	7.75%	7.75%	7.00%
Expected long-term rate of return on plan assets	9.1	9.3	9.2	—	—	—
Rate of increase in future compensation levels	4.0	4.1	4.1	—	—	—

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

(In millions)	Pension Benefits			Postretirement Health Benefits		
	2000	1999	1998	2000	1999	1998
COMPONENTS OF NET PERIODIC BENEFIT (INCOME) COST:						
Service cost	\$ 12.0	\$ 12.3	\$ 10.1	\$.6	\$.8	\$ 1.0
Interest cost	32.3	30.6	29.9	1.9	1.7	2.0
Expected return on plan assets	(53.2)	(48.1)	(44.0)	—	—	—
Recognized net actuarial (gain) loss	(1.9)	(.2)	.6	(.4)	(.4)	(.1)
Amortization of prior service cost	.8	.9	.9	.1	.1	—
Amortization of transition obligation or asset	(1.9)	(2.0)	(2.0)	—	—	—
Curtailement	—	1.3	—	—	(.2)	—
Net periodic benefit (income) cost	\$ (11.9)	\$ (5.2)	\$ (4.5)	\$ 2.2	\$ 2.0	\$ 2.9

For measurement purposes, a 6 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. 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	(.2)
Effect on postretirement benefit obligation	2.5	(2.2)

As a result of changes in assumptions used during 2000 and 1999, an additional liability of \$.3 million and \$.6 million, respectively, is reflected in the Company's Consolidated Balance Sheet. These amounts are offset in 2000 and 1999 by the recording of an intangible pension asset of \$.3 million and \$.6 million, respectively. Consolidated pension income for 2000, 1999 and 1998 was \$(10.9) million, \$(3.8) million and \$(2.9) 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.

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 2000, 1999 and 1998 was \$(1.6) million, \$(1.6) million and \$.1 million, respectively. There were no Company contributions to pay interest or principal on ESOP borrowings for

2000 and 1999. Company contributions to pay interest or principal on ESOP borrowings for 1998 were \$.1 million.

Interest costs incurred by the ESOPs for 2000, 1999 and 1998 were \$1.7 million, \$1.5 million and \$1.8 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.6 million in 2000, 1999 and 1998.

Consolidated (income) expense for all defined contribution plans (including total ESOP expense) for 2000, 1999 and 1998 was \$(.5) million, \$(.4) million and \$.8 million, respectively. Of the total shares held by the ESOP, 5.1 million shares were allocated and 1.4 million shares were unallocated at year end 2000, and 5.6 million shares were allocated and 1.6 million shares were unallocated at year end 1999. Of the total shares held by the ESOP, all shares accounted for under the fair value method were allocated at year end 2000 and 1999.

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 2000 and 1999, the Company had accrued \$102.6 million and \$99.4 million, respectively, for its obligations under these plans. The Company's expense, which includes Company contributions and interest expense, was \$10.8 million, \$13.1 million and \$6.3 million for 2000, 1999 and 1998, 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 \$82 million and \$67.7 million at year end 2000 and 1999, 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.

Financial information by operating segment is set forth below:

(In millions)	2000	1999 ⁽¹⁾	1998
NET SALES:			
Pressure-sensitive Adhesives and Materials	\$ 2,136.4	\$ 2,025.0	\$ 1,877.7
Consumer and Converted Products	1,898.3	1,887.9	1,726.2
Intersegment ⁽²⁾	(141.2)	(149.0)	(152.5)
Divested operations	—	4.3	8.5
Net sales	\$ 3,893.5	\$ 3,768.2	\$ 3,459.9
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST AND TAXES:			
Pressure-sensitive Adhesives and Materials	\$ 212.4	\$ 181.2	\$ 168.5
Consumer and Converted Products	293.2	224.8	229.1
Divested operations	—	(1.8)	(3.9)
Corporate administrative and research and development expenses	(24.7)	(30.4)	(22.4)
Interest expense	\$ 480.9	\$ 373.8	\$ 371.3
Income before taxes	\$ 426.3	\$ 330.4	\$ 336.7
CAPITAL EXPENDITURES:			
Pressure-sensitive Adhesives and Materials	\$ 111.1	\$ 79.1	\$ 81.4
Consumer and Converted Products	74.2	80.9	69.9
Corporate and divested operations	13.0	17.7	8.4
Capital expenditures	\$ 198.3	\$ 177.7	\$ 159.7
DEPRECIATION EXPENSE:			
Pressure-sensitive Adhesives and Materials	\$ 69.9	\$ 64.7	\$ 58.2
Consumer and Converted Products	48.7	53.2	47.9
Corporate and divested operations	7.4	8.6	8.5
Depreciation expense	\$ 126.0	\$ 126.5	\$ 114.6

- (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.
- (2) Intersegment sales primarily represent sales from Pressure-sensitive Adhesives and Materials to Consumer and Converted Products.

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

(In millions)	2000	1999	1998
NET SALES:			
U.S.	\$ 2,393.9	\$ 2,341.4	\$ 2,194.8
International	1,539.9	1,468.0	1,283.1
Intersegment	(40.3)	(45.5)	(26.5)
Divested operations	—	4.3	8.5
Net sales	\$ 3,893.5	\$ 3,768.2	\$ 3,459.9
PROPERTY, PLANT AND EQUIPMENT, NET:			
U.S.	\$ 604.9	\$ 582.2	\$ 578.1
International	411.0	385.7	388.2
Corporate and divested operations	63.1	75.6	69.3
Property, plant and equipment, net	\$ 1,079.0	\$ 1,043.5	\$ 1,035.6

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

NOTE 12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per share data)	First Quarter ⁽¹⁾	Second Quarter	Third Quarter	Fourth Quarter ⁽²⁾
2000				
Net sales	\$ 965.3	\$ 993.4	\$ 1,001.7	\$ 933.1
Gross profit	334.1	343.7	340.3	314.1
Net income	70.2	72.8	73.0	67.5
Net income per common share	.71	.74	.74	.69
Net income per common share, assuming dilution	.70	.73	.73	.69
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

- (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 2000 and 1999. The extra week in 1998 was reflected in the fourth quarter.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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



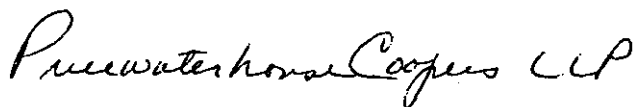
Philip M. Neal
Chairman and
Chief Executive Officer



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

REPORT OF INDEPENDENT ACCOUNTANTS**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AVERY DENNISON CORPORATION:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows, which appear on pages 44 through 47 of this Annual Report, present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 30, 2000 and January 1, 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP
Los Angeles, California
January 22, 2001