

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 2, 1999  
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  
(State or other jurisdiction of incorporation or organization)  
150 North Orange Grove Boulevard  
Pasadena, California  
(Address of principal executive offices)

95-1492269  
(I.R.S. Employer Identification No.)  
91103  
(Zip Code)

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

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

| Title of Each Class<br>-----    | Name of each<br>exchange on which<br>registered<br>----- |
|---------------------------------|--|
| Common stock, \$1 par value     | New York Stock Exchange<br>Pacific Exchange              |
| Preferred Share Purchase Rights | New York Stock Exchange<br>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 March 1, 1999, was approximately \$5,246,115,237.

Number of shares of common stock, \$1 par value, outstanding as of March 1, 1999: 113,813,785.

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

| Document<br>-----   | Incorporated by reference into:<br>----- |
|---|--|
| Annual Report to Shareholders for fiscal year ended January 2, 1999 (the "1998 Annual Report").....                     | Parts I, II                              |
| Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 29, 1999 (the "1999 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 self-adhesive material is one that adheres to a surface by mere press-on contact. It consists of four elements--a face material, which may be paper, metal foil, plastic film or fabric; an adhesive which may be permanent or removable; a release coating; and a backing material to protect the adhesive against premature contact with other surfaces, and which can also serve as the carrier for supporting and dispensing individual labels. When the products are to be used, the release coating and protective backing are removed, exposing the adhesive, and the label or other device is pressed or rolled into place.

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

International operations, principally in Western Europe, constitute a significant portion of the Company's business. In addition, the Company is currently expanding its operations in Asia Pacific, Latin America and Eastern Europe. As of January 2, 1999, the Company manufactured and sold its products from 200 manufacturing facilities and sales offices located in 39 countries, and employed a total of approximately 16,100 persons worldwide.

On January 26, 1999, the Company announced plans for a major realignment of its cost structure to streamline operations and improve profitability. In connection with this realignment, the Company will close eight manufacturing facilities, three of which have been announced: Rochelle, Illinois; Rancho Cucamonga, California; and Haan, Germany. As a result of these closures, approximately 1,500 positions will be eliminated, representing approximately nine percent of the Company's total workforce.

The Company 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, availability and pricing of raw materials, legal proceedings, and the impact of the Year 2000 issue.

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 4 of Notes to Consolidated Financial Statements on page 41

of the 1998 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 Sector

The Pressure-Sensitive Adhesives and Materials sector manufactures and sells Fasson and Avery Dennison-brand pressure-sensitive base materials, specialty tapes, graphic films and chemicals. Base materials consist primarily of papers, fabrics, plastic films and metal foils which are primed and coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films for protection. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. The business of this sector is not seasonal.

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

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

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 for government and traffic applications. In addition, the Company sells specialty print-receptive films to the industrial label market, metallic dispersion products to the packaging industry and proprietary woodgrain film laminates for housing exteriors and automotive applications. 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, protective coatings and binders for internal uses as well as for sale to other companies.

During 1998, the Company established coating operations in India and completed a manufacturing facility in Thailand to market and sell a variety of pressure-sensitive materials. In late 1998, the Company also increased its majority ownership position in its base materials operation in Argentina.

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

#### Consumer and Converted Products Sector

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

The Company's principal consumer products are generally sold worldwide through wholesalers and dealers, mass market channels of distribution, and discount superstores. The Company manufactures and sells a wide range of Avery-brand products for home, school and office uses, including copier, laser and ink-jet printer labels, related computer software, presentation and organizing systems, laser-printer card and index products; data-processing labels; notebooks; notebook and presentation dividers; three-ring binders; sheet protectors; and

various vinyl and heat-sealed products. A wide range of other stationery products is offered, including children's laser and ink-jet labels, markers, adhesives and specialty products under brand names such as Avery, Avery Kids, Marks-A-Lot and HI-LITER, and accounting products, note pads and presentation products under the National brand name. The extent of product offerings varies by geographic market. Operations in Latin America, Asia Pacific and Europe have been established to market and distribute the Avery-brand line of stock self-adhesive products, including copier, laser and ink-jet labels and related software; laser printed card products and other unprinted labels.

Custom label products in North America primarily consist of custom pressure-sensitive and heat-transfer labels for automotive and durable goods industries and custom pressure-sensitive labels and specialty combination products for the electronic data-processing market. These products are sold directly to manufacturers and packagers and retailers, as well as through international subsidiaries, distributors and licensees. Label products in Europe include custom and stock labels, labeling machinery and data printing systems, which are marketed to a wide range of industrial and retail users.

The Company designs, fabricates and sells a wide variety of tags and labels, including bar-coded tags and labels, and a line of machines for imprinting, dispensing and attaching preprinted roll tags and labels. The machine products are generally designed for use with tags and labels as a complete system. The Company also designs, assembles and sells labeling systems for integration into a customer's shipping and receiving operations. Principal markets include apparel, retail and industrial 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 fine-paper merchants.

During 1998, the Company acquired an office products company in Italy, and broadened its distribution of Avery-brand products in Asia Pacific and Latin America. In late 1998, the Company acquired Spartan International, a distributor of pressure-sensitive products to the commercial graphics, sign making, vehicle marking and automotive markets. In February 1999, the Company also acquired certain assets and the graphic film business of Universal Products, Inc., another distributor of films for digital printing applications. In early 1999, the Company formed a joint venture with a German office products company. The Company holds a majority ownership position in the joint venture, which provides a platform for further expansion in the office products market in Europe.

In this sector, the Company competes, both domestically and internationally, with a number of small to large firms (among the principal competitors are Esselte AB, Fortune Brands, Inc., and Minnesota Mining and Manufacturing Co.). The Company believes that its ability to service its customers with an extensive product line; its distribution strength; its ability to develop internally and to commercialize new products successfully; 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 \$65 million, \$61.1 million, and \$54.6 million, in 1998, 1997 and 1996, respectively, on research related activities by operating units and the Avery Research Center (the "Research Center"), located in Pasadena, California. A substantial amount of the Company's research and development activities are conducted at the Research Center. Much of the effort of the Research Center applies to both of the Company's industry sectors.

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

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

#### Three-Year Summary of Sector Information

The Business Sector Information attributable to the Company's operations for the three years ended January 2, 1999, which appears in Note 10 of Notes to Consolidated Financial Statements on pages 47 through 48 of the 1998 Annual Report, is incorporated herein by reference.

#### Other Matters

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

At present, the Company produces a majority of its self-adhesive materials using non-solvent technology. However, a significant portion of the Company's manufacturing process for self-adhesive materials utilizes certain evaporative organic solvents which, unless controlled, would be emitted into the atmosphere. Emissions of these substances are regulated by 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.

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

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

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

## Item 2. PROPERTIES

The Company operates approximately 29 principal manufacturing facilities ranging in size from approximately 100,000 square feet to approximately 270,000 square feet and totaling approximately 5 million square feet. The following sets forth the locations of such principal facilities and the business sectors for which they are presently used:

### Pressure-Sensitive Adhesives and Materials Sector

Domestic--Painesville and Fairport, Ohio; Peachtree City, Georgia; Quakertown, Pennsylvania; 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 Sector

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 (S.A.R.), China; Juarez, Mexico; Utrecht, The Netherlands; Maidenhead, U.K.; and Oberlaidern, Germany.

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

All of the Company's principal properties identified above are owned in fee except the facilities in Ajax, Canada 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 encumbrances on, any of its properties except for mortgage liens against four other facilities not listed separately above.

## Item 3. LEGAL PROCEEDINGS

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency ("EPA") and state environmental agencies alleging that the Company is a potentially responsible party ("PRP") for past and future cleanup costs at hazardous waste sites. The Company has been designated by the EPA and/or other responsible state agencies as a PRP at 17 waste disposal or waste recycling sites which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed upon. Litigation has been initiated by a governmental authority with respect to two of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities. The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the amount of the loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites which could

be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes the potential liability over the amounts currently accrued would not materially affect the Company.

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

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

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

EXECUTIVE OFFICERS OF THE REGISTRANT\*

| Name<br>-----  | Served as<br>Executive<br>Age Officer since | Former Positions and<br>Offices with Registrant  |
|--|---|--|
| Charles D. Miller.....<br>Chairman (also Director of<br>Registrant)  | 71 May 1965                                 | 1964-1983 Various positions of increasing<br>responsibility<br>1983-1998 Chairman and Chief Executive<br>Officer                                 |
| Philip M. Neal.....<br>President and Chief<br>Executive Officer<br>(also Director of<br>Registrant)                        | 58 January 1974                             | 1974-1990 Various positions of increasing<br>responsibility<br>1990-1998 President and Chief Operating<br>Officer                                |
| Kim A. Caldwell.....<br>Executive Vice President,<br>Global Technology and<br>New Business Development                     | 51 June 1990                                | 1990-1997 Senior Group V.P., Worldwide<br>Materials--Americas and<br>Asia  |
| Robert M. Calderoni.....<br>Senior Vice President,<br>Finance and Chief Financial<br>Officer                               | 39 October 1997                             | **1994-1996 V.P., Finance IBM Storage<br>Systems Division<br>**1996-1997 Senior V.P., Finance Apple<br>Computer, Inc.                            |
| Robert G. van Schoonenberg...<br>Senior Vice President,<br>General Counsel and<br>Secretary                                | 52 December 1981                            | 1981-1996 V.P., General Counsel and<br>Secretary   |
| Wayne H. Smith.....<br>Vice President and Treasurer  | 57 June 1979                                | None   |
| Thomas E. Miller.....<br>Vice President and<br>Controller  | 51 March 1994                               | 1993-1994 V.P. and Assistant Controller  |
| Diane B. Dixon.....<br>Vice President, Worldwide<br>Communications and<br>Advertising                                      | 47 December 1985                            | 1985-1997 V.P., Corporate<br>Communications  |
| Geoffrey T. Martin.....<br>Senior Group Vice President,<br>Worldwide Converting,<br>Graphic Systems and<br>Specialty Tapes | 44 January 1994                             | 1994-1997 Senior V.P., Worldwide Tape &<br>Converting and Materials--<br>Europe  |
| Stephanie A. Streeter.....<br>Group Vice President,<br>Worldwide Office Products   | 41 March 1996                               | 1993-1996 V.P. and General Manager,<br>Avery Dennison Brands   |
| Dean A. Scarborough.....<br>Group Vice President, Fasson<br>Roll--North America and<br>Europe                              | 43 August 1997                              | 1993-1995 V.P. and General Manager,<br>Fasson Roll Division--<br>Europe<br><br>1995-1997 V.P. and General Manager,<br>Fasson Roll Division--U.S. |

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

\*\* Business experience prior to service with Registrant.

PART II

Item 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information called for by this item appears on page 52 of Registrant's 1998 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 1998 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

|   | 1998                  | 1997      | 1996      |
|---|-----------------------|-----------|-----------|
|   | -----                 |           |           |
|   | (Dollars in millions) |           |           |
| Net sales.....  | \$3,459.9             | \$3,345.7 | \$3,222.5 |
| Cost of products sold.....                              | 2,315.4               | 2,263.0   | 2,204.2   |
|   | -----                 |           |           |
| Gross profit.....                                       | 1,144.5               | 1,082.7   | 1,018.3   |
| Marketing, general and administrative expense....       | 773.2                 | 739.8     | 712.4     |
| Net gain on divestitures and restructuring charges..... | --                    | --        | 2.1       |
|   | -----                 |           |           |
| Earnings before interest and taxes.....                 | \$ 371.3              | \$ 342.9  | \$ 308.0  |

Sales increased 3.4 percent to \$3.46 billion in 1998, compared to \$3.35 billion in 1997. Excluding changes in foreign currency exchange rates, sales increased 4.8 percent. The Company's 1998 fiscal year reflected a 53-week period compared to 52-week periods in 1997 and 1996. The extra week in 1998 was reflected in the fourth quarter; however, this was a slow shipping period due to the holidays and carried a full week of expense. As a result, the impact on profit was immaterial. In 1997, sales increased 3.8 percent over 1996 sales of \$3.22 billion. Excluding the impact of changes in foreign currency exchange rates for 1997, sales increased 6.6 percent.

Gross profit margins for the years ended 1998, 1997 and 1996 were 33.1 percent, 32.4 percent and 31.6 percent, respectively. The improvements in 1998 and 1997 were primarily due to increased productivity, cost control and an improved product mix.

Marketing, general and administrative expense as a percent of sales was 22.3 percent in 1998 and 22.1 percent in 1997 and 1996. The increase in 1998 over 1997 was primarily due to the extra week of expenses incurred in 1998. The expense for 1997 benefited from cost control and lower costs for certain employee benefit plans; however, these benefits were offset by increased expenditures for marketing, and research and development activities.

During the third quarter of 1996, restructuring actions were taken, resulting in a net pretax gain of \$2.1 million. The Company sold its equity interest in a label operation in Japan for \$28.4 million, resulting in a pretax gain of \$17.9 million. The Company also recorded \$15.8 million of restructuring charges, which included an asset impairment write-down of \$6.3 million for long-lived assets held in the Company's Consumer and Converted Products sector. The restructuring program also included the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 200 positions worldwide (\$7.4 million) and the discontinuance of product lines and related asset write-offs (\$2.1 million). These actions were completed during the third quarter of 1997.

Interest expense for the years ended 1998, 1997 and 1996 was \$34.6 million, \$31.7 million and \$37.4 million, respectively. The increase in 1998 compared to 1997 was primarily due to higher average borrowings to support a more aggressive share repurchase program. The decrease in 1997 compared to 1996 was primarily due to lower weighted-average interest rates and lower average borrowings.

Income before taxes, as a percent of sales, was 9.7 percent for 1998, 9.3 percent for 1997 and 8.4 percent for 1996. The improvement during 1998 was primarily due to higher gross profit margins. The improvement during 1997 compared to 1996 was primarily due to higher gross profit margins and lower interest expense as a percent of sales. The effective tax rate was 33.7 percent in 1998, 34.2 percent in 1997 and 35 percent in 1996. The decrease in 1998 was primarily due to an increase in U.S. tax credits for research and experimentation. The decrease in 1997 compared to 1996 was primarily due to the utilization of foreign tax loss carryforwards and an increase in U.S. tax credits for research and experimentation. The Company estimates that the effective tax rate for 1999 will be 34 percent to 34.5 percent.

|   | 1998                                    | 1997    | 1996    |
|---|---|---------|---------|
|   | -----                                   | -----   | -----   |
|   | (In millions, except per share amounts) |         |         |
| Net income.....                                     | \$223.3                                 | \$204.8 | \$175.9 |
| Net income per common share.....                    | 2.20                                    | 1.99    | 1.68    |
| Net income per common share, assuming dilution..... | 2.15                                    | 1.93    | 1.63    |

Net income increased to \$223.3 million in 1998 compared to \$204.8 million in 1997, reflecting a 9 percent increase over 1997. Net income in 1996 was \$175.9 million. Net income, as a percent of sales, was 6.5 percent, 6.1 percent and 5.5 percent in 1998, 1997 and 1996, respectively.

Net income per common share increased 10.6 percent to \$2.20 in 1998, compared to \$1.99 in 1997. Net income per common share was \$1.68 in 1996. Net income per common share, assuming dilution, increased 11.4 percent to \$2.15 in 1998 compared to \$1.93 in 1997. Net income per common share, assuming dilution was \$1.63 in 1996.

#### Results of Operations by Business Sector

##### Pressure-Sensitive Adhesives and Materials:

|   | 1998          | 1997      | 1996      |
|---|---------------|-----------|-----------|
|   | -----         | -----     | -----     |
|   | (In millions) |           |           |
| Net sales.....                                    | \$1,874.1     | \$1,823.8 | \$1,783.8 |
| Income from operations before interest and taxes. | 170.3         | 172.1     | 160.7     |

The Pressure-Sensitive Adhesives and Materials Sector 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 sector 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 prior year. Total international operations in the sector 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.

In the fourth quarter of 1998, the Company increased its investment in its Argentine business, the largest base material company in that region. The Company now has a substantial majority in this venture.

The Pressure-Sensitive Adhesives and Materials Sector reported increased sales and profitability for 1997 compared to 1996. The U.S. operations' sales growth was primarily led by increased sales volume for products in the pharmaceutical, variable imprint and graphics businesses; however, sales were partially impacted by paper

price deflation and product mix. Income from the U.S. operations benefited from improved capacity utilization and the extent of restructuring charges taken in 1996 compared to 1997. The international businesses reported increased sales and profitability primarily due to higher unit volume and geographic expansion, which were partially offset by changes in foreign currency rates.

Consumer and Converted Products:

|   | 1998          | 1997      | 1996      |
|---|---------------|-----------|-----------|
|   | -----         |           |           |
|   | (In millions) |           |           |
| Net sales.....                                    | \$1,742.1     | \$1,672.6 | \$1,580.1 |
| Income from operations before interest and taxes. | 227.0         | 188.5     | 158.5     |

The Consumer and Converted Products sector 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 and expects the inventory reduction programs to continue into 1999. However, point-of-sale data obtained from these customers through February 1999 continued to show strong demand for Avery-brand products. 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.

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

Financial Condition

Average working capital, excluding short-term debt, as a percent of sales was 7.1 percent in 1998, 8 percent in 1997 and 9.1 percent in 1996. The decrease in 1998 was primarily due to improved payables management. The decrease in 1997 compared to 1996 was primarily due to increased sales, reduced days sales outstanding in accounts receivable, improved inventory turnover and better payables management programs. Average inventory turnover was 9.9 turns in 1998, 9.5 turns in 1997 and 9.3 turns in 1996; the average number of days sales outstanding in accounts receivable was 52 days in 1998 and 1997 and 55 days in 1996.

Total debt increased \$89.5 million to \$537.2 million compared to year end 1997. Total debt to total capital increased to 39.2 percent at year end 1998 compared to 34.8 percent at year end 1997. Long-term debt as a percent of total long-term capital increased to 35.9 percent from 32.6 percent at year end 1997.

Shareholders' equity decreased to \$833.3 million from \$837.2 million at year end 1997. During 1998, the Company repurchased 4 million shares of common stock at a cost of \$192.6 million. As of year end 1998, a

cumulative 31.9 million shares of common stock had been repurchased since 1991 and 3.5 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, decreased by \$52.7 million to \$677.6 million from year end 1997.

Return on average shareholders' equity was 26.7 percent in 1998, 24.8 percent in 1997 and 21.4 percent in 1996. Return on average total capital for those three years was 19 percent, 18.1 percent and 16.4 percent, respectively. The improvements in 1998 and 1997 for these returns were primarily due to an increase in profitability, more effective utilization of the Company's assets and the impact from share repurchases.

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency and state environmental agencies alleging that the Company is a potentially responsible party (PRP) for past and future cleanup costs at hazardous waste sites. The Company has received requests for information, notices and/or claims with respect to 17 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 \$422.8 million in 1998, \$368.4 million in 1997 and \$304 million in 1996. The increase in net cash flow in 1998 and 1997 was 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.

During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission \$150 million in principal amount of uncollateralized medium-term notes, of which \$50 million and \$60 million in notes were issued in 1998 and 1997, respectively. No notes were issued in 1996. 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.

The Company's 1996 restructuring program was completed in 1997 and included the \$28.4 million sale of its equity interest in a label operation in Japan. The restructuring program had a cost of \$15.8 million.

Capital expenditures were \$159.7 million in 1998 and \$177.3 million in 1997. Capital expenditures for 1999 are expected to be approximately \$150 million.

The annual dividend per share increased to \$.87 in 1998 from \$.72 in 1997 and \$.62 in 1996. This was the 23rd consecutive year the Company increased dividends.

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.

In 1998 and 1997, the Company's Mexican operations were treated as being in a hyperinflationary economy for accounting purposes due to the cumulative inflation rate over the past three years. In 1998, the Company's Brazilian operations were no longer treated as being in a hyperinflationary economy as they had been in 1997. For operations in hyperinflationary economies, all translation gains and losses were included in net income. These operations were not significant to the Company's consolidated financial position.

Beginning in 1999, Mexico will no longer be treated as being in a hyperinflationary economy for accounting purposes. As a result, all asset and liability accounts for the Company's Mexican operations will be translated into U.S. dollars at current rates and related losses and gains will be recorded directly to a component of other comprehensive income. Gains and losses resulting from foreign currency transactions will be included in net income on a current basis.

#### Subsequent Events

On January 12, 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. Zweckform produces labels, films and specialty papers for use with personal computers, desktop printers and copiers. Zweckform had sales of approximately \$120 million in 1997. The Company has a substantial majority position in the venture.

On January 26, 1999, the Company announced plans for a major realignment of its cost structure to increase operating efficiencies and improve profitability. This restructuring program will include the closure of eight manufacturing facilities in the Consumer and Converted Products and Pressure-sensitive Adhesives and Materials sectors and will result in the elimination of approximately 1,500 positions, or nine percent of the Company's current workforce. In addition, a portion of the restructuring program will involve the consolidation of some of its office products manufacturing facilities into a new facility in Northern Mexico, which will involve the addition of some positions in the year 2000.

The restructuring program is expected to result in a one-time pretax charge of \$60 million to \$65 million, or \$.40 to \$.42 per diluted share after tax, in the first quarter of 1999. Approximately two-thirds of the total estimated charge is related to severance costs. The remainder of the charge represents related asset write-offs and other one-time costs. After taxes, the cash requirements to fund the restructuring will be in the range of \$20 million to \$25 million in 1999. The restructuring program will be funded through operating cash flow. The Company plans to complete the restructuring program in the year 2000, with a significant portion of the actions planned for the next four quarters.

Cost savings associated with the restructuring will begin to be recognized in the second quarter of 1999. The Company expects 1999 pretax savings in the range of \$15 million to \$18 million for the year. When fully implemented, the Company expects annual pretax savings of \$58 million to \$62 million.

#### 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 2000. 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 Year 2000 (Y2K) issue is the result of computer programs being written for, or microprocessors using, two digits (rather than four) to define the applicable year. Company computer programs that have date-sensitive

software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in system failures or miscalculations. The Company is currently working to mitigate the Y2K issue and has established processes for assessing the risks and associated costs.

The Company categorizes its Y2K efforts as follows: hardware, software, embedded processors, vendors and customers. Progress in assessing and remediating information technology systems (hardware and software) and non-information technology systems (embedded processors) continues to be tracked in phases including assessment, identification of non-compliant systems, remediation, testing and verification. Hardware, software and embedded processors have been assessed and remediation is in progress. The Company's Y2K project is progressing and a large portion of its internal remediation work was completed at year end 1998. The Company is using internal and external resources to remediate and test its systems.

The Company has initiated communications with significant vendors and customers to coordinate the Y2K issue, and is in the process of determining the Company's vulnerability if these companies fail to remediate their Y2K issues. There can be no guarantee that the systems of other companies will be timely remediated, or that other companies' failure to remediate Y2K issues would not have a material adverse effect on the Company. The Company continues to develop contingency plans to mitigate risks associated with the Y2K issue.

Costs incurred to date in addressing the Y2K issue have been expensed as incurred and are not material. Based on current information, the total cost to remediate and test the Company's systems is not expected to be material.

The Company presently believes that with remediation, Y2K risks can be mitigated. Although the Company is not currently aware of any material internal operational or financial Y2K related issues, the Company cannot provide assurances that the computer systems, products, services or other systems upon which the Company depends will be Y2K ready on schedule, that the costs of its Y2K program will not become material or that the Company's contingency plans will be adequate. The Company is currently unable to evaluate accurately the magnitude, if any, of the Y2K related issues arising from the Company's vendors and customers. If any such risks (either with respect to the Company or its vendors or customers) materialize, the Company could experience serious consequences to its business which could have material adverse effects on the Company's financial condition, results of operations and liquidity.

#### 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 between January 1, 1999 and July 1, 2002. During this 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 January 1999. The cost of system modifications to accommodate the euro was not material.

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 are discussed in more detail in the Company's Annual Report on Form 10-K for the year ended December 27, 1997 and include, but are not limited to, risks and uncertainties relating to investment in new production facilities, timely development and successful marketing of new products, impact of competitive products and pricing, customer and supplier and manufacturing concentrations, changes in customer order patterns and inventory levels, increased competition, 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 2, 1999 and December 27, 1997.

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 to 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 interest rate contracts outstanding at year end 1998.

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

##### Foreign Exchange Value-at-Risk

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

The VAR was estimated using a variance-covariance methodology based on historical volatility for each currency. The volatility and correlation used in the calculation were based on historical observations, using one year's data with equal weightings. This data was obtained from the publicly available JP Morgan RiskMetrics data set on the Internet. A 95 percent confidence level was used for a one-day time horizon.

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

The estimated maximum potential one-day loss in earnings for the Company's foreign exchange positions and contracts would have been immaterial to the Company's 1998 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 1998 earnings.

#### Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in Registrant's Consolidated Financial Statements and the Notes thereto appearing on pages 34 through 48, and in the Report of Independent Certified Public Accountants on page 49 of Registrant's 1998 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 1999 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 14 of the 1999 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 21 of the 1999 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 filed no Reports on Form 8-K for the three months ended January 2, 1999, but the Company did file one Report Form 8-K in January 1999:

Form 8-K dated January 26, 1999, in connection the Company's January 26, 1999 news release concerning the Company's 4th quarter and year-end results, and realignment of the Company's cost structure.

(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 1998 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, 1999

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<br>-----                                      | Title<br>-----  | Date<br>----   |
|---|---|----------------|
| /s/ Charles D. Miller<br>_____<br>Charles D. Miller     | Chairman; Director  | March 30, 1999 |
| /s/ Philip M. Neal<br>_____<br>Philip M. Neal           | President and Chief<br>Executive Officer; Director  | March 30, 1999 |
| /s/ Robert M. Calderoni<br>_____<br>Robert M. Calderoni | Senior Vice President,<br>Finance and Chief Financial<br>Officer (Principal<br>Financial Officer) | March 30, 1999 |
| /s/ Thomas E. Miller<br>_____<br>Thomas E. Miller       | Vice President and<br>Controller (Principal<br>Accounting Officer)                                | March 30, 1999 |

Signature  
-----

Title  
-----

Date  
-----

/s/ Dwight L. Allison, Jr.

Director

March 30, 1999

-----  
Dwight L. Allison, Jr.

/s/ John C. Argue

Director

March 30, 1999

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John C. Argue

/s/ Joan T. Bok

Director

March 30, 1999

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Joan T. Bok

/s/ Frank V. Cahouet

Director

March 30, 1999

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Frank V. Cahouet

/s/ Richard M. Ferry

Director

March 30, 1999

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Richard M. Ferry

/s/ Kent Kresa

Director

March 30, 1999

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Kent Kresa

/s/ Peter W. Mullin

Director

March 30, 1999

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Peter W. Mullin

/s/ Sidney R. Petersen

Director

March 30, 1999

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Sidney R. Petersen

/s/ John B. Slaughter

Director

March 30, 1999

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John B. Slaughter

AVERY DENNISON CORPORATION  
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL  
STATEMENT SCHEDULES

Reference (Page)  
-----  
Form  
10-K      Annual  
Annual Report to  
Report Shareholders  
-----

Data incorporated by reference from the attached portions  
of the 1998 Annual

|  |    |       |
|--|----|-------|
| Report to Shareholders of Avery Dennison Corporation:<br>Report of Independent Certified Public Accountants..... | -- | 49    |
| Consolidated Balance Sheet at January 2, 1999 and<br>December 27, 1997.....                                      | -- | 34    |
| Consolidated Statement of Income for 1998, 1997 and<br>1996.....   | -- | 35    |
| Consolidated Statement of Shareholders' Equity for 1998,<br>1997 and 1996.....                                   | -- | 36    |
| Consolidated Statement of Cash Flows for 1998, 1997 and<br>1996.....   | -- | 37    |
| Notes to Consolidated Financial Statements.....  | -- | 38-48 |

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

With the exception of the consolidated financial statements and the  
accountants' report thereon listed in the above index, and the information  
referred to in Items 1, 5 and 6, all of which is included in the 1998 Annual  
Report and incorporated herein by reference, the 1998 Annual Report is not to  
be deemed "filed" as part of this report.

Data submitted herewith:

|  |     |    |
|--|-----|----|
| Report of Independent Certified Public Accountants.....  | S-2 | -- |
| Financial Statement Schedules (for 1998, 1997 and 1996):<br>II--Valuation and Qualifying Accounts and Reserves.... | S-3 | -- |
| Consent of Independent Accountants.....  | S-4 | -- |

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders  
of Avery Dennison Corporation

Our report on the consolidated financial statements of Avery Dennison Corporation and subsidiaries has been incorporated by reference in this Form 10-K from page 49 of the 1998 Annual Report to Shareholders of Avery Dennison Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page S-1 of this Form 10-K.

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

PricewaterhouseCoopers LLP

Los Angeles, California  
January 26, 1999

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)

|   | Balance<br>at<br>Beginning<br>of Year | Additions                              |                      | Deductions--<br>Uncollectible<br>Accounts<br>Written Off | Balance<br>at End<br>of Year |
|---|---------------------------------------|--|----------------------|--|------------------------------|
|   |                                       | Charged<br>to Costs<br>and<br>Expenses | From<br>Acquisitions |  |                              |
| 1998                                    |                                       |  |                      |  |                              |
| Allowance for doubtful<br>accounts..... | \$15.6<br>=====                       | \$2.7<br>=====                         | \$ .2<br>=====       | \$2.0<br>=====   | \$16.5<br>=====              |
| 1997                                    |                                       |  |                      |  |                              |
| Allowance for doubtful<br>accounts..... | \$17.5<br>=====                       | \$4.3<br>=====                         | \$--<br>=====        | \$6.2<br>=====   | \$15.6<br>=====              |
| 1996                                    |                                       |  |                      |  |                              |
| Allowance for doubtful<br>accounts..... | \$17.6<br>=====                       | \$4.1<br>=====                         | \$--<br>=====        | \$4.2<br>=====   | \$17.5<br>=====              |

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Avery Dennison Corporation on Form S-3 (File Nos. 333-16375 and 333-38905) and Form S-8 (File Nos. 33-1132, 33-3645, 33-27275, 33-35995-01, 33-41238, 33-45376, 33-54411, 33-58921, 33-63979, 333-38707 and 333-38709) of our report, dated January 26, 1999, which appears on page 49 of the 1998 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the financial statement schedule listed in the index on page S-1.

PricewaterhouseCoopers LLP

Los Angeles, California  
March 30, 1999

S-4

EVERY DENNISON CORPORATION

EXHIBIT INDEX

For the Year Ended December 27, 1997

INCORPORATED BY REFERENCE:

| Exhibit<br>No.<br>----- | Item<br>-----  | Originally<br>Filed as<br>Exhibit<br>No.<br>----- | Document<br>-----   |
|-------------------------|--|---|---|
| (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)   | Second Quarterly report for 1998 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  |

| Exhibit<br>No.<br>----- | Item<br>-----  | Originally<br>Filed as<br>Exhibit<br>No.<br>----- | Document<br>-----                                  |
|-------------------------|--|---|--|
| (4.6)                   | Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series B" under the Indenture, as amended by the Supplemental Indenture |   | Current Report on Form 8-K filed March 29, 1994    |
| (4.7)                   | Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the Indenture, as amended by the Supplemental Indenture |   | Current Report on Form 8-K filed May 12, 1995      |
| (4.8)                   | Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the Indenture, as amended by the Supplemental Indenture |   | Current Report on Form 8-K filed December 16, 1996 |
| (10.1)                  | *Amended 1973 Stock Option and Stock Appreciation Rights Plan for Key Employees of Avery International Corporation ("1973 Plan")                               | 10.1  | 1987 Annual Report on Form 10-K                    |
| (10.1.1)                | *Form of Incentive Stock Option Agreement for use under 1973 Plan  | 10.1.3  | 1984 Annual Report on Form 10-K                    |
| (10.1.2)                | *Form of Non-Qualified Stock Option Agreement for use under 1973 Plan  | 10.1.4  | 1987 Annual Report on Form 10-K                    |
| (10.1.3)                | *Form of coupled Stock Appreciation Right Agreement for use under 1973 Plan  | 10.1.5  | 1985 Annual Report on Form 10-K                    |
| (10.1.4)                | 1985 U.K. Stock Option Scheme  | 10.1.7  | 1985 Annual Report on Form 10-K                    |
| (10.1.5)                | Form of Incentive Stock Option Agreement for use under U.K. Stock Option Scheme  | 10.1.8  | 1985 Annual Report on Form 10-K                    |
| (10.1.6)                | Form of Stock Option Agreement for use under U.K. Stock Option Scheme  | 10.1.9  | 1985 Annual Report on Form 10-K                    |
| (10.2.2)                | *Form of Incentive Stock Option Agreement for use under 1988 Plan  | 10.2.2  | 1991 Annual Report on Form 10-K                    |
| (10.3)                  | *Deferred Compensation Plan for Directors  | 10.3  | 1981 Annual Report on Form 10-K                    |
| (10.5)                  | *Executive Medical and Dental Plan (description)   | 10.5  | 1981 Annual Report on Form 10-K                    |
| (10.6)                  | *Executive Financial Counseling Service (description)  | 10.6  | 1981 Annual Report on Form 10-K                    |
| (10.7.1)                | *Executive Employment Security Policy dated February 1, 1983   | 10.7.1  | 1982 Annual Report on Form 10-K                    |
| (10.7.2)                | *Executive Employment Security Policy dated February 1, 1985   | 10.13   | 1984 Annual Report on Form 10-K                    |
| (10.7.3)                | *Executive Employment Security Policy dated November 19, 1987  | 10.7.3  | 1993 Annual Report on Form 10-K                    |



| Exhibit<br>No.<br>----- | Item<br>-----   | Originally<br>Filed as<br>Exhibit<br>No.<br>----- | Document<br>-----               |
|-------------------------|---|---|---------------------------------|
| (10.8.1)                | *Agreement dated October 24, 1990 with Charles D. Miller  | 10.8.1  | 1990 Annual Report on Form 10-K |
| (10.8.1.1)              | *Amendment dated April 15, 1997 to Agreement with Charles D. Miller   | 10.8.1  | 1997 Annual Report on Form 10-K |
| (10.8.1.2)              | *Amendment dated February 26, 1998 to Agreement with Charles D. Miller  | 10.8.2  | 1997 Annual Report on Form 10-K |
| (10.8.2)                | *Agreement dated April 15, 1997 with Philip M. Neal   | 10.8.2.1  | 1997 Annual Report on Form 10-K |
| (10.8.3)                | *Agreement dated March 16, 1996 with R.G. van Schoonenberg  | 10.8.3  | 1996 Annual Report on Form 10-K |
| (10.8.4)                | *Form of Employment Agreement dated April 15, 1997  | 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 Agreements between Registrant and certain directors and officers                             | 10.10   | 1986 Annual Report on Form 10-K |
| (10.10.1)               | *Form of Indemnity Agreement between Registrant and certain directors and officers                              | 10.10.1   | 1993 Annual Report on Form 10-K |
| (10.11)                 | *Supplemental Executive Retirement Plan ("SERP")  | 10.11   | 1983 Annual Report on Form 10-K |
| (10.11.1)               | *Amended Letter of Grant to C.D. Miller under Supplemental Executive Retirement Plan                            | 10.11.2   | 1992 Annual Report on Form 10-K |
| (10.12)                 | *Complete Restatement and Amendment of Avery Dennison Corporation Executive Deferred Compensation Plan          | 10.12   | 1994 Annual Report on Form 10-K |
| (10.12.1)               | *Form of Enrollment Agreement for use under Executive Deferred Compensation Plan                                | 10.13.2   | 1985 Annual Report on Form 10-K |
| (10.13)                 | *Fourth Amended Avery Dennison Retirement Plan for Directors  | 10.13.2   | 1992 Annual Report on Form 10-K |
| (10.15)                 | *1988 Stock Option Plan for Non-- Employee Directors ("Director Plan")  | 10.15   | 1987 Annual Report on Form 10-K |
| (10.15.1)               | *Amendment No. 1 to 1988 Stock Option Plan for Non-Employee Directors ("Director Plan")                         | 10.15.1   | 1994 Annual Report on Form 10-K |
| (10.15.2)               | *Form of Non-Employee Director Stock Option Agreement for use under Director Plan                               | 10.15.2   | 1994 Annual Report on Form 10-K |
| (10.16)                 | *Complete Restatement and Amendment of Avery Dennison Corporation Executive Variable Deferred Compensation Plan | 10.16   | 1994 Annual Report on Form 10-K |
| (10.16.1)               | *Form of Enrollment Agreement for use under Executive Variable Deferred Compensation Plan                       | 10.16.1   | 1987 Annual Report on Form 10-K |



| Exhibit<br>No.<br>----- | Item<br>-----   | Originally<br>Filed as<br>Exhibit<br>No.<br>----- | Document<br>-----   |
|-------------------------|---|---|---|
| (10.17)                 | *Complete Restatement and Amendment of Avery Dennison Corporation Directors Deferred Compensation Plan  | 10.17   | 1994 Annual Report on Form 10-K                           |
| (10.17.1)               | *Form of Enrollment Agreement for use under Directors Deferred Compensation Plan  | 10.17.2   | 1985 Annual Report on Form 10-K                           |
| (10.18)                 | *Complete Restatement and Amendment of Avery Dennison Corporation Directors Variable Deferred Compensation Plan   | 10.18   | 1994 Annual Report on Form 10-K                           |
| (10.18.1)               | *Form of Enrollment Agreement for use under Directors Variable Deferred Compensation Plan   | 10.18.1   | 1989 Annual Report on Form 10-K                           |
| (10.19)                 | *1990 Stock Option and Incentive Plan for Key Employees of Avery International Corporation ("1990 Plan")  | 10.19   | 1989 Annual Report on Form 10-K                           |
| (10.19.1)               | *Amendment No. 1 to 1990 Plan   | 10.19.1   | 1993 Annual Report on Form 10-K                           |
| (10.19.2)               | *Form of Incentive Stock Option Agreement for use under 1990 Plan   | 10.19.2   | 1991 Annual Report on Form 10-K                           |
| (10.19.3)               | *Form of Non-Qualified Stock Option Agreement for use under 1990 Plan   | 10.19.3   | 1994 Annual Report on Form 10-K                           |
| (10.19.4)               | *Form of Non-Qualified Stock Option Agreement for use under 1990 Plan (for LTIP Participants)   | 10.19.4   | 1994 Annual Report on Form 10-K                           |
| (10.19.5)               | *Amendment No. 2 to 1990 Plan   | 10.19.5   | 1996 Annual Report on Form 10-K                           |
| (10.20.1)               | *1982 Incentive Stock Option Plan of Dennison Manufacturing Company   |   | Registration Statement on Form S-8 (File No. 33-35995-01) |
| (10.20.2)               | *1985 Incentive Stock Option Plan of Dennison Manufacturing Company   |   | Registration Statement on Form S-8 (File No. 33-35995-01) |
| (10.20.3)               | *1988 Stock Option Plan of Dennison Manufacturing Company   |   | Registration Statement on Form S-8 (File No. 33-35995-01) |
| (10.20.4)               | *Amendments effective as of October 16, 1990 to the 1982 Incentive Stock Option Plan, 1985 Incentive Stock Option Plan and 1988 Stock Option Plan of Dennison Manufacturing Company |   | Registration Statement on Form S-8 (File No. 33-35995-01) |
| (10.21)                 | *1996 Stock Incentive Plan of Avery Dennison Corporation  | 10.21   | 1996 Annual Report on Form 10-K                           |
| (10.27.1)               | *Amended and Restated Key Executive Long-Term Incentive Plan ("LTIP")   | 10.27.1   | 1993 Annual Report on Form 10-K                           |
| (10.27.2)               | *Second Amended and Restated Key Executive LTIP   |   | 1995 Annual Report on Form 10-K                           |
| (10.27.3)               | *Third Amended and Restated Key Executive LTIP  | 10.27.3   | 1996 Annual Report on Form 10-K                           |



| Exhibit<br>No.<br>----- | Item<br>-----  | Originally<br>Filed as<br>Exhibit<br>No.<br>----- | Document<br>-----                                       |
|-------------------------|--|---|---|
| (10.28)                 | *Complete Restatement and Amendment of Avery Dennison Corporation Executive Deferred Retirement Plan | 10.28   | 1994 Annual Report on Form 10-K                         |
| (10.28.1)               | *Form of Enrollment Agreement for use under Executive Deferred Retirement Plan                       | 10.28.1   | 1992 Annual Report on Form 10-K                         |
| (10.29)                 | *Executive Incentive Compensation Plan   | 10.29   | 1993 Annual Report on Form 10-K                         |
| (10.30)                 | *Senior Executive Incentive Compensation Plan  | 10.30   | 1993 Annual Report on Form 10-K                         |
| (10.31)                 | *Executive Variable Deferred Retirement Plan   | 10.31   | Registration Statement on Form S-8 (File No. 33-63979)  |
| (10.31.1)               | *Amended and Restated Executive Variable Deferred Retirement Plan                                    | 10.31.1   | 1997 Annual Report on Form 10-K                         |
| (10.32)                 | *Benefit Restoration Plan  | 10.32   | 1995 Annual Report on Form 10-K                         |
| (10.33.1)               | *Restated Trust Agreement for Employee Stock Benefit Trust   | 10.33.1   | 1997 Annual Report on Form 10-K                         |
| (10.33.2)               | *Common Stock Purchase Agreement   | 10.2  | Current Report on Form 8-K filed October 24, 1996       |
| (10.33.3)               | *Restated Promissory Note  | 10.33.3   | 1997 Annual Report on Form 10-K                         |
| (10.34.1)               | *Capital Accumulation Plan ("CAP")   | 4.1   | Registration Statement on Form S-8 (File No. 333-38707) |
| (10.34.2)               | *Trust under CAP   | 4.2   | Registration Statement on Form S-8 (File No. 333-38707) |

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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).

SUBMITTED HEREWITH:

| Exhibit<br>No.<br>----- | Item<br>-----  |
|-------------------------|--|
| 3.2                     | Bylaws, as amended on January 28, 1999   |
| 10.8.2.1                | *Agreement dated May 1, 1998 with P.M. Neal  |
| 10.11.1                 | *Amendment and Restated SERP dated April 23, 1998  |
| 10.11.2                 | *Letter of Grant to P.M. Neal under SERP   |
| 12                      | Computation of Ratio of Earnings to Fixed Charges  |
| 13                      | Portions of Annual Report to Shareholders for fiscal year ended<br>January 2, 1999   |
| 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<br>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.

[Logo of Avery Dennison Corporation]

BYLAWS  
OF  
AVERY DENNISON CORPORATION

ARTICLE I  
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OFFICES

Section 1. Registered Office. The registered office of Avery Dennison Corporation (hereinafter called the "corporation") in the State of Delaware shall be at 1013 Centre Road, City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be United States Corporation Company.

Section 2. Principal Office. The principal executive office for the transaction of the business of the corporation is hereby fixed and located in Los Angeles County, California. The board of directors is hereby granted full power and authority to change said principal executive office from one location to another within or without the State of California.

Section 3. Other Offices. The corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine, or the business of the corporation may require.

ARTICLE II  
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STOCKHOLDERS

Section 1. Place of Meetings. Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

Section 2. Annual Meetings of Stockholders. The annual meeting of stockholders shall be held on the last Thursday in April of each year at 1:30 p.m. of said day, or on such other day, which shall not be a legal holiday, as shall be determined by the board of directors. Any previously scheduled annual meeting of stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such annual meeting of stockholders.

Section 3. Special Meetings. A special meeting of the stockholders may be called at any time by the board of directors, or by a majority of the directors or by a committee authorized by the board to do so. Any previously scheduled special meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders.

Section 4. Notice of Stockholders' Meetings. All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting being noticed. The notice shall specify the place, date and hour of the meeting and (i) in case of a special meeting, the general nature of the business to be transacted, or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders. The notice of any meeting at which directors are to be

elected shall include the name of any nominee or nominees who, at the time of the notice, management intends to present for election.

Section 5. Manner of Giving Notice; Affidavit of Notice. Notice of any meeting of stockholders shall be given either personally or by mail or telegraphic or other written communication, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or has been so given, notice shall be deemed to have been given if sent by mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where such office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting shall be executed by the secretary, assistant secretary or any transfer agent of the corporation giving such notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. Quorum. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of stockholders shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. Adjourned Meeting and Notice Thereof. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the Chairman of the meeting, but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 6 of this Article II.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting. Notice of any such adjourned meeting, if required, shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. Voting. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the Chairman of the meeting. Any stockholder entitled to vote on any matter (other than the election of directors) may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal; but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders, unless the vote of a greater number or voting by classes is required by the Delaware General Corporation Law or the certificate of incorporation or the certificate of determination of preferences as to any preferred stock.

At a stockholders' meeting involving the election of directors, no stockholder shall be entitled to cumulate (i.e., cast for any one or more candidates a number of votes greater than the number of the stockholder's shares). The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 9. Waiver of Notice or Consent by Absent Stockholders. The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents or approvals shall be filed with the corporate records or made part of the minutes of the meeting.

Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if such objection is expressly made at the meeting.

Section 10. No Stockholder Action by Written Consent Without a Meeting. Stockholders may take action only at a regular or special meeting of stockholders.

Section 11. Record Date for Stockholder Notice and Voting. For purposes of determining the holders entitled to notice of any meeting or to vote, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of any such meeting, and in such case only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

Section 12. Proxies. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) written notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of eleven (11) months from the date of such proxy, unless otherwise provided in the proxy.

Section 13. Inspectors of Election; Opening and Closing the Polls. The board of directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 14. Nomination and Stockholder Business Bylaw..

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting, (b) by or at the direction of the board of directors or (c) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the board of directors or (b) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) of this Bylaw shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock, if any, to elect directors under certain circumstances.

ARTICLE III

-----

DIRECTORS

Section 1. Powers. Subject to the provisions of the Delaware General Corporation Law and any limitations in the certificate of incorporation and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the power and authority to:

(a) Select and remove all officers, agents and employees of the corporation, prescribe such powers and duties for them as may not be inconsistent with law, the certificate of incorporation or these bylaws, fix their compensation, and require from them security for faithful service.

(b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or foreign country and conduct business within or outside the State of California; designate any place within or without the State of California for the holding of any stockholders' meeting or meetings, including annual meetings; adopt, make and use a corporate seal, and prescribe the forms of certificates of stock, and alter the form of such seal and of such certificates from time to time as in their judgment they may deem best, provided that such forms shall at all times comply with the provisions of law.

(c) Authorize the issuance of shares of stock of the corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done or services actually rendered, debts or securities canceled or tangible or intangible property actually received.

(d) Borrow money and incur indebtedness for the purpose of the corporation, and cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, or other evidences of debt and securities therefor.

Section 2. Number and Qualification of Directors. The number of directors of the corporation shall be eleven (11) until changed by a bylaw amending this Section 2, duly adopted by the board of directors or by the stockholders.

Section 3. Election and Term of Office of Directors. Subject to Section 15 below, one class of the directors shall be elected at each annual meeting of the stockholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of stockholders held for that purpose. All directors shall hold office until their respective successors are elected. Irrespective of the provisions of Section 15 of this Article III and of the preceding sentence, a director shall automatically be retired on the date of the expiration of the first annual meeting following his 72nd birthday.

Section 4. Vacancies. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Each director elected to fill a vacancy shall hold office for the remainder of the term of the person whom he succeeds, and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, retirement, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors be increased, or if the stockholders fail at any meeting of stockholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

Any director may resign or voluntarily retire upon giving written notice to the chairman of the board, the president, the secretary or the board of directors. Such retirement or resignation shall be effective upon the giving of the notice, unless the notice specifies a later time for its effectiveness. If such retirement or resignation is effective at a future time, the board of directors may elect a successor to take office when the retirement or resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office. No director may be removed during his term except for cause.

Section 5. Place of Meetings and Telephonic Meetings. Regular meetings of the board of directors may be held at any place within or without the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or without the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in such meeting can hear one another, and all such directors shall be deemed to be present in person at such meeting.

Section 6. Annual Meetings. Immediately following each annual meeting of stockholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers and transaction of other business. Notice of this meeting shall not be required.

Section 7. Other Regular Meetings. Other regular meetings of the board of directors shall be held at such time as shall from time to time be determined by the board of directors. Such regular meetings may be held without notice provided that notice of any change in the determination of time of such meeting shall be sent to all of the directors. Notice of a change in the determination of the time shall be given to each director in the same manner as for special meetings of the board of directors.

Section 8. Special Meetings. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at his or her address as it is shown upon the records of the corporation. In case such notice is mailed, it shall

be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered personally, or by telephone or telegram, it shall be delivered personally, or by telephone or to the telegraph company at least forty-eight (48) hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. Quorum. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 10. Waiver of Notice. The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.

Section 11. Adjournment. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. Notice of Adjournment. Notice of the time and place of an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. Action Without Meeting. Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to such action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent or consents shall be filed with the minutes of the proceedings of the board.

Section 14. Fees and Compensation of Directors. Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for such services.

Section 15. Classification of Directors. The board of directors shall be and is divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of directors by three, and if a fraction is also contained in such quotient then if such fraction is one-third ( $1/3$ ) the extra director shall be a member of Class III and if the fraction is two-thirds ( $2/3$ ) one of the extra directors shall be a member of Class III and

the other shall be a member of Class II. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected.

In the event of any increase or decrease in the authorized number of directors, (a) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal, and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the board of directors to such class or classes as shall, so far as possible, bring the number of directors in the respective classes into conformity with the formula in this Section 15, as applied to the new authorized number of directors.

#### ARTICLE IV

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#### COMMITTEES

Section 1. Committees of Directors. The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, including an executive committee, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the General Corporation Law of Delaware, also requires stockholders' approval or approval of the outstanding shares;

(b) the filling of vacancies on the board of directors or in any committee;

(c) the fixing of compensation of the directors for serving on the board or on any committee;

(d) the amendment or repeal of bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the stockholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members thereof.

Section 2. Meetings and Action of Committees. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment) and 13 (action without meetings), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined by resolution of the board of directors as well as the committee, special meetings of committees may also be

called by resolution of the board of directors, and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

## ARTICLE V

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### OFFICERS

Section 1. Officers. The officers of the corporation shall be the chairman of the board, the president, a vice president, a secretary and a treasurer. The corporation may also have, at the discretion of the board of directors, one or more additional vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. Election of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen annually by the board of directors, and each shall hold his office until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified.

Section 3. Subordinate Officers, etc. The board of directors may appoint, and may empower the president and chief executive officer to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the board of directors may from time to time determine.

Section 4. Removal and Resignation of Officers. Any officer may be removed, either with or without cause, by the board of directors, at any regular or special meeting thereof, or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies in Office. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 6. Chairman of the Board. The chairman of the board shall be an officer of the corporation and shall, subject to the control of the board of directors, have general responsibility for strategic growth initiatives, leadership development and other affairs as assigned by the board of directors of the corporation.

Section 7. President. The president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and affairs of the corporation.

Section 8. Vice Presidents. In the absence or disability of the president, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the bylaws.

Section 9. Secretary. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors may order, a book of minutes of all meetings and actions of directors, committees of directors and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a stock register, or a duplicate register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required by the bylaws or by law to be given, and he shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by the bylaws.

Section 10. Treasurer. The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all reasonable times to inspection by any director.

The treasurer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and chief executive officer and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

Section 11. Assistant Secretaries and Assistant Treasurers. Any assistant secretary may perform any act within the power of the secretary, and any assistant treasurer may perform any act within the power of the treasurer, subject to any limitations which may be imposed in these bylaws or in board resolutions.

ARTICLE VI  
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INDEMNIFICATION OF DIRECTORS, OFFICERS,  
EMPLOYEES AND OTHER AGENTS

Section 1. Indemnification. The corporation shall indemnify, in the manner and to the full extent permitted by law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether or not by or in the

right of the corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is a director or officer of the corporation, and at the discretion of the board of directors may indemnify any person (or the estate of any person) who is such a party or threatened to be made such a party by reason of the fact that such person is or was an employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Unless otherwise permitted by law, the indemnification provided for herein shall be made only as authorized in the specific case upon a determination, in the manner provided by law, that indemnification of the director, officer, employee or agent is proper in the circumstances. The corporation may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against him. To the full extent permitted by law, the indemnification provided herein shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and, in the manner provided by law, any such expenses may be paid by the corporation in advance of the final disposition of such action, suit or proceeding. The indemnification provided herein shall not be deemed to limit the right of the corporation to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the corporation may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

Section 2. Fiduciaries of Corporate Employee Benefit Plan. This Article VI does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation as defined in Section 1 of this Article VI. Nothing contained in this Article VI shall limit any right to indemnification to which such a trustee, investment manager or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by Section 410 of the Employee Retirement Income Security Act of 1974, as amended, other than this Article VI.

#### ARTICLE VII

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#### RECORDS AND REPORTS

Section 1. Maintenance and Inspection of Stock Register. The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed, and as determined by resolution of the board of directors, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder.

A stockholder or stockholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation may (i) inspect and copy the records of stockholders' names and addresses and stockholders during usual business hours upon five days prior written demand upon the corporation, and/or (ii) obtain from the transfer agent of the corporation, upon written demand and upon the tender of such transfer agent's usual charges for such list, a list of the stockholders' names and addresses, who are entitled to vote for the election of directors, and their shareholdings as of the most recent record date for which such list has been compiled or as of a date specified by the stockholder subsequent to the date of demand. Such list shall be made available to such stockholder or stockholders by the transfer agent on or before the later of five (5) days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

The record of stockholders shall be open to inspection upon the written demand of any stockholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as the holder of a voting trust certificate. Any inspection and copying under this Section 1 may be made in person or by an agent or attorney of the stockholder or holder of a voting trust certificate making such demand.

Section 2. Maintenance and Inspection of Bylaws. The corporation shall keep at its principal executive office the original or a copy of the bylaws as amended to date, which shall be open to inspection by the stockholders at all reasonable times during office hours.

Section 3. Maintenance and Inspection of Other Corporate Records. The accounting books and records and minutes of proceedings of the stockholders and the board of directors and any committee or committees of the board of directors shall be kept at such place or places designated by the board of directors, or, in the absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. Such minutes and accounting books and records shall be open to inspection upon the written demand of any stockholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as a holder of a voting trust certificate. Such inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. The foregoing rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

Section 4. Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

Section 5. Annual Report to Stockholders. The board of directors shall cause an annual report to be sent to the stockholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days prior to the annual meeting of stockholders to be held during the next fiscal year and in the manner specified in Section 5 of Article II of these bylaws for giving notice to stockholders of the corporation. The annual report shall contain a balance sheet and statement of changes in financial position for such fiscal year, accompanied by any report thereon of independent accountants.

Section 6. Financial Statements. A copy of any annual financial statement and any income statement of the corporation for each quarterly period of each fiscal year, and any accompanying balance sheet for the corporation as of the end of each such period, that has been prepared by the corporation shall be kept on file in the principal executive office of the corporation for twelve (12) months and each such statement shall be exhibited at all reasonable times to any stockholder demanding an examination of any such statement or a copy shall be mailed to any such stockholder.

If a stockholder or stockholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation make a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty (30) days prior to the date of the request, and a balance sheet of the corporation as of the end of such period, the treasurer shall cause such statement to be prepared, if not already prepared, and shall deliver personally or mail such statement or statements to the person making the request within thirty (30) days after the receipt of such request. If the corporation has not sent to the stockholders its annual

report for the last fiscal year, this report shall likewise be delivered or mailed to such stockholder or stockholders within thirty (30) days after such request.

The corporation also shall, upon the written request of any stockholder, mail to the stockholder a copy of the last annual, semi-annual or quarterly income statement which it has prepared and a balance sheet as of the end of such period.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report thereon, if any, of any independent accountants engaged by the corporation, or the certificate of an authorized officer of the corporation that such financial statements were prepared without audit from the books and records of the corporation.

## ARTICLE VIII

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### GENERAL CORPORATE MATTERS

Section 1. Record Date for Purposes Other Than Notice and Voting. For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action, and in such case only stockholders of record on the date so fixed are entitled to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such action, whichever is later.

Section 2. Checks, Drafts, Evidences of Indebtedness. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. Corporate Contracts and Instruments; How Executed. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 4. Stock Certificates. A certificate or certificates for shares of the capital stock of the corporation shall be issued to each stockholder when any such shares are fully paid. All certificates shall be signed in the name of the corporation by the chairman of the board or the president or vice president and by the treasurer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose

facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Section 5. Lost Certificates. Except as hereinafter in this Section 5 provided, no new stock certificate shall be issued in lieu of an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may in case any stock certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, upon such terms and conditions as the board of directors may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 6. Representation of Stock of Other Corporations. The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all stock of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all stock by the corporation in any other corporation or corporations may be exercised by any such officer in person or by any person authorized to do so by proxy duly executed by said officer.

Section 7. Construction and Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of the bylaws. Without limiting the generality of the foregoing, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

Section 8. Fiscal Year. The fiscal year of the corporation shall commence the first day of the calendar year.

Section 9. Seal. The seal of the corporation shall be round and shall bear the name of the corporation and words and figures denoting its organization under the laws of the State of Delaware and year thereof, and otherwise shall be in such form as shall be approved from time to time by the board of directors.

ARTICLE IX  
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AMENDMENTS

Section 1. Amendment by Stockholders. New bylaws may be adopted or these bylaws may be amended or repealed by the vote of not less than 80% of the total voting power of all shares of stock of the corporation entitled to vote in the election of directors, considered for purposes of this Section 1 as one class.

Section 2. Amendment by Directors. Subject to the rights of the stockholders as provided in Section 1 of this Article IX, to adopt, amend or repeal bylaws, bylaws may be adopted, amended or repealed by the board of directors.

As Amended 1/28/99

EMPLOYMENT AGREEMENT  
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This EMPLOYMENT AGREEMENT is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Philip M. Neal (the "Executive"), effective as of May 1, 1998.

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

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

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

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

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

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

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

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

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

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

4. Terms of Employment

(a) Position and Duties

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

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

(b) Compensation

(i) Base Salary

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

(ii) Annual Bonus

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

(iii) Incentive, Savings and Retirement Plans

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

(iv) Welfare Benefit Plans

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

(v) Expenses

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

(vi) Fringe Benefits

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

(vii) Office and Support Staff

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

(viii) Vacation

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

5. Termination of Employment

(a) Death or Disability

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

(b) Cause

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

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

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

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

(c) Good Reason

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

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

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

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

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

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

(d) Notice of Termination

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

(e) Date of Termination

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

6. Obligations of the Company upon Termination

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

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

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

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

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

(C) an amount equal to the difference between (a) the aggregate benefit under the Company's qualified defined benefit retirement plans (collectively, the "Retirement Plan") and any excess or supplemental defined benefit retirement plans (including the Benefit Restoration Plan) in which the Executive participates (collectively, the "SRP") which the Executive would have accrued (whether or not vested) if the Executive's employment had continued for three years after the Date of Termination, but not after the date on which the Executive attains age 65, and (b) the actual vested benefit, if any, of the Executive under the Retirement Plan and the SRP, determined as of the Date of Termination (with the foregoing amounts to be computed on an actuarial present value basis, based on the assumption that the Executive's compensation in each of the three years following such termination would have been that required by Section 4(b)(i) and Section 4(b)(ii), and using the actuarial assumptions in effect for purposes of computing benefit entitlements under the Retirement Plan and the SRP at

the Date of Termination or, following a Change of Control, using actuarial assumptions no less favorable to the Executive than the most favorable assumptions which were in effect for such purposes at any time from the day before the Change of Control through the Date of Termination;

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

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

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

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

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

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

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

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

(b) Death

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

(c) Disability

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

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

(d) Cause; Other than for Good Reason

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

#### 7. Non-exclusivity of Rights

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

#### 8. Full Settlement; Offsets

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

Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. However, the amount of any payments and benefits provided for in this Agreement shall be reduced by one hundred percent (100%) of any benefits and earned income (within the meaning of Section 911(d)(2)(A) of the Code) which is earned by the Executive for services rendered to persons or entities other than the Company or its affiliates during or with respect to

the Employment Period or, after a Change of Control, during the 36-month period after the Date of Termination. Medical and welfare benefits shall be offset as provided in Section 6(a)(ii).

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

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

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

such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

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

- (i) give the Company any information reasonably requested by the Company relating to such claim,
- (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (iii) cooperate with the Company in good faith in order effectively to contest such claim, and
- (iv) permit the Company to participate in any proceedings relating to such claim;

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

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

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

11. Successors  
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(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(a) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

12. Miscellaneous  
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(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This

Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:  
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Philip M. Neal  
518 Pacific Avenue  
Manhattan Beach, CA 90266

If to the Company:  
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Avery Dennison Corporation  
North Orange Grove Boulevard  
Pasadena, California 91103  
Attention: General Counsel

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AVERY DENNISON CORPORATION

EXECUTIVE

/s/ Robert G. van Schoonenberg

/s/ Philip M. Neal

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

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Philip M. Neal

AMENDED AND RESTATED  
AVERY DENNISON CORPORATION  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

GENERAL  
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Avery Dennison Corporation (the "Company" and successor to Avery International Corporation), a corporation organized under the laws of the State of Delaware, by resolution of its Board of Directors dated November 17, 1983, adopted the Avery International Corporation Supplemental Executive Retirement Plan effective as of December 1, 1983, and which by resolution of the Compensation and Executive Personnel Committee of the Board of Directors dated April 23, 1998, is amended to be the Avery Dennison Corporation Supplemental Executive Retirement Plan (the "Plan") effective as of April 23, 1998.

The purpose of the Plan is to provide its participants (the "Participants") with (i) additional incentive to further the growth, development and financial success of the Company, and (ii) an inducement to remain in the service of the Company, by offering benefits to supplement (but not to be part of) other benefits they may be entitled to receive at the time of their retirement.

Benefits under the Plan shall not be funded and shall be payable solely from the general assets of the Company, in consideration of service to be rendered to the Company by the Participants in the future.

Responsibility for the administration of the Plan shall rest exclusively with the Compensation and Executive Personnel Committee Compensation Committee (the "Committee") of the Board of Directors of the Company.

ELIGIBILITY  
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The participants in the Plan shall be those employees of the Company (or an affiliate of the Company) who are so designated by the Committee.

BENEFITS  
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The benefit payable to a Participant under the Plan will be determined by the Committee at the time he is designated as a Participant. In general terms, the benefit will be a designated percentage of his "Average Compensation" (defined as base compensation plus annual bonus) over the last three years of his employment.

For the purpose of determining a Participant's future service with the Company, any period in which the Participant is disabled (unable to perform his job because of medically determined mental or physical condition) shall be treated as a period of service with the Company.

A Participant shall be eligible to commence receiving his benefits under the Plan upon retiring at or after age 65, or upon such earlier date as the Committee designates with respect to him.

FORM OF BENEFIT

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The form in which each Participant's benefit is paid under the Plan shall be a 50%, 75% or 100% joint and survivor annuity, or a certain and continuous payment for life with continuation of such payments until the end of a period specified by the Participant (5, 10 or 15 years) if he dies within that period. The actuarial value of the benefit paid shall be unaffected by the form of payment selected.

PRE-RETIREMENT SURVIVOR ANNUITY

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If the Participant dies while employed by the Company (or affiliate) and is survived by the spouse to whom he was married on the date of his death, the Committee may designate a percentage of the Participant's average "Compensation" over his last three years of his employment to be paid to such surviving spouse. In general, the designated percentage shall be that which will produce a benefit to the surviving spouse equal to the benefit that would have been paid had the Participant retired on the day before his death having selected the 50 percent joint and survivor form of annuity.

DESIGNATION OF BENEFICIARIES AND CONTINGENT ANNUITANTS

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At any time prior to the first benefit payment hereunder a Participant shall have the right to designate, revoke or redesignate beneficiaries and contingent annuitants to receive benefits under the Plan in accordance with the Participant's designated form of benefit. Designation, revocation and redesignation of beneficiaries and contingent annuitants shall be made in writing in accordance with procedures established by the Committee.

ADMINISTRATION

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The "Administrator" (the Committee or its delegate), shall conduct the general administration of the Plan and shall have the necessary power and authority to interpret any provisions of the Plan and specifically to determine a person's status as a Participant and the benefits which he shall receive. In carrying out its responsibilities, the Administrator shall have the power and authority to engage actuaries, attorneys, accountants or other consultants necessary to provide advice and consultation if, in the determination of the Committee, such consultation is required to interpret or implement any provision of the Plan properly and equitably. While the Plan is intended to be a permanent program, the Company shall have the right to terminate the Plan by action of its Board of Directors.

OTHER PROVISIONS

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The receipt of any person entitled to payment under the Plan (or payment to such person at the last address on file with the Company) shall be a complete discharge to the Company, its directors and employees, and the Administrator. If the Administrator determines that a person

entitled to a payment under the Plan is unable (by reason of physical or mental condition) to give a valid receipt for such payment, payment shall instead be made to such other person found by the Administrator to have assumed the care of such person.

No Participant's benefit under the Plan shall be liable at any time for the debts, contracts or engagements of any Participant, his beneficiaries, contingent annuitants, or successors in interest, or be taken in execution by levy, attachment or garnishment or by any other legal or equitable proceeding, prior to payment hereunder, nor shall any such person have any right to alienate, anticipate, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever, except to designate a beneficiary or contingent annuitant as provided in the Plan.

The Plan may be amended by the Company's Board of Directors or the Committee.

LETTER OF GRANT  
as of  
May 1, 1998

Mr. Philip M. Neal  
President and Chief Operating Officer  
Avery Dennison Corporation  
150 North Orange Grove Boulevard  
Pasadena, California 91103

Dear Mr. Neal:

Avery Dennison Corporation ("Company"), which is the successor of Avery International Corporation, has adopted the Avery Dennison Corporation Supplemental Executive Retirement Plan ("Plan"), a copy of which is enclosed. This letter is written to advise you that the Compensation and Executive Personnel Committee of the Board of Directors of the Company has designated you as a Participant under the Plan.

As an inducement for you to remain in the service of the Company, and to provide you with additional incentive to further the growth, development and financial success of the Company, the Company hereby agrees to provide you with a Benefit which, subject to the terms of the Plan and those set forth below, shall be the Actuarial Equivalent of an annual payment of a straight life annuity with payments commencing as described below and each payment equal to the excess of sixty-two and one-half percent (62.5%) of your Average Compensation over the total of the offsets numbered (1), (2), (3) and (4) below.

The amount of the offsets described below will be calculated as of the date of your Retirement or other termination of employment with the Company; provided, however, that the amount of offset (4) shall not be calculated or take effect before August 28, 2005, or such earlier date, if any, upon which you commence receiving benefit payments under the Social Security Act. The offsets are as follows:

- (1) The annual payment under a straight life annuity which is the Actuarial Equivalent of the benefit payable to or with respect to you under The Retirement Plan for Employees of Avery Dennison Corporation, as amended ("Retirement Plan"), the Benefit Restoration Plan ("BRP") or any other defined benefit plan or arrangement created by the Company which provides benefits in lieu thereof or in addition thereto, including any payments under the Retirement Plan which are due to transfers from the Stock Holding and Retirement Enhancement Plan of Avery Dennison Corporation ("SHARE Plan") and any "Augmentation Retirement Benefit" under the Avery Dennison Corporation Executive Deferred Compensation Plan ("EDCP");
- (2) The annual payment under a straight life annuity which is the Actuarial Equivalent of the total of your "Company Contributions Account" and your "Prior Account" under the Avery Dennison Employee Savings Plan ("Saving Plan") and the portion of your Accounts which represent Company contributions plus interest under the EDCP, the Avery Dennison Corporation Executive Variable Deferred

Compensation Plan ("EVDCP") or any other deferred compensation or defined contribution plan or arrangement under which Company contributions are made on your behalf;

(3) The annual payment under a straight life annuity which is the Actuarial Equivalent of the total value distributed to you in cash from your "Cash Account" or in shares of "Company Stock" from your "Stock Account" under the SHARE Plan, other than amounts transferred to the Retirement Plan which are offset under (1) above; and

(4) Twelve (12) times your monthly Primary Social Security Benefit.

You may elect to receive your Benefit in any form allowed by the Plan and the provisions set forth below at any time more than twelve (12) months before August 28, 2005, when you will attain age 65. The time when Benefit payments hereunder shall commence and the conditions of your entitlement to the Benefit are described below:

**Retirement.** In the event of your Retirement at or after age 65, payment of your Benefit will commence on your Retirement Date.

**Cause.** In the event your employment with the Company is terminated Cause before you attain age 65, no Benefit shall be payable hereunder or under the Plan.

**Voluntary Resignation.** In the event your employment with the Company is terminated by voluntary resignation (other than for Good Reason) before you attain age 65, no Benefit shall be payable hereunder or under the Plan. If you terminate employment for Good Reason pursuant to your Employment Agreement with the Company, as amended from time to time (the "Employment Agreement"), payment of your Benefit shall commence upon the first to occur of (i) August 28, 2005 or (ii) three years after your termination of employment. If payment of your Benefit commences before you attain age 65, your Benefit will be actuarially reduced for early commencement in the same manner as provided in the Retirement Plan.

**Disability.** In the event your employment with the Company is terminated because of your Disability, payment of your Benefit will commence on August 28, 2005, provided that you (or, if you should die before that date, the spouse to whom you were married on the date of your death) are/is then living. If only that spouse is then living, the payments to her shall be the Actuarial Equivalent of the payments which would have been made to her hereunder had you selected the 50% joint and survivor form of annuity and survived until August 28, 2005.

**Death.** In the event your employment with the Company is terminated death, payment of your Benefit will be made only to the spouse to whom you were married on the date of your death, and will commence on August 28, 2005, provided that such spouse is then living. The payments to her shall be the Actuarial Equivalent of the payments which would have been made to her hereunder had you selected the 50% joint and survivor form of annuity and survived until August 28, 2005. No Benefit shall be payable hereunder or under the Plan if you die before age 65 while unmarried.

**Other.** In the event your employment with the Company is terminated for any reason other than death, Disability, Cause, voluntary resignation by you (other than for Good Reason) before age 65, or Retirement at or after age 65, payment of your Benefit will commence upon the first to occur of (i) August 28, 2005 or (ii) three years after your termination of employment. If payment of your Benefit

commences before you attain age 65, your Benefit will be actuarially reduced for early commencement in the same manner as provided in the Retirement Plan.

For purposes of determining your rights hereunder and under the Plan, the terms Cause, Good Reason and Disability shall have the meanings set forth in the Employment Agreement, and the terms Actuarial Equivalent, Average Compensation, Primary Social Security Benefit, Retirement and Retirement Date shall have the meanings set forth in Appendix A hereto.

Neither future amendments nor termination of the Plan will adversely affect the Benefit to be provided hereunder or under the Plan without your prior written consent. The rights provided hereunder and under the Plan may not be sold, pledged, assigned or transferred in any manner other than by will or by the laws of descent and distribution.

Please acknowledge your receipt and acceptance of this Letter of Grant, and your agreement to be bound by all of the terms hereof and of the Plan, by countersigning and dating the enclosed copy of this letter in the space provided below and returning the same to me.

Very truly yours,

AVERY DENNISON CORPORATION

By: /s/ Charles D. Miller  
-----  
Charles D. Miller

Enclosures

I hereby acknowledge having received, read and understood this Letter of Grant and the Plan, and agree to be bound by the terms hereof and of the Plan.

/s/ Philip M. Neal  
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Philip M. Neal

APPENDIX A

As used in the Letter of Grant to which this Appendix is attached, and herein, the following terms shall have the meanings specified:

1. "Actuarial Equivalent" shall mean the equivalent of a given amount (or series of amounts) payable in another manner or by another means in accordance with actuarial principles, methods and assumptions as approved for this purpose by the Compensation Committee of the Board of Directors of the Company and which shall include the following:

(a) Mortality - 1971 Group Annuity Mortality Table; and

(b) Interest - Eight and one-half percent (8 1/2%).

2. "Average Compensation" shall mean the average of your annual salary plus annual bonus for your last thirty-six (36) months of employment with the Company. For this purpose your annual salary and bonus shall include any such compensation which is deferred by you under any Company deferred compensation plan or arrangement.

3. "Primary Social Security Benefit" shall mean the monthly payments you are entitled to receive commencing on your Retirement Date (or such earlier date, if any upon which you commence receiving benefits under the Social Security Act), determined under the federal Social Security Act as in effect on the January 1 coincident with or next preceding the termination of your employment with the Company (irrespective of subsequent amendments of the Act, including retroactive amendments, and irrespective of whether or not you actually apply for and receive all or any part of such amount for any month) by assuming in the case of termination of your employment with the Company prior to your Retirement Date that you will have no further employment and no further earnings.

4. "Retirement" shall mean the termination of your employment with the Company on your Retirement Date.

5. "Retirement Date" shall mean the first day of any month coincident with or following your sixty-fifth birthday as you shall elect for Retirement.

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

|                                      | 1998    | 1997    |
|--------------------------------------|---------|---------|
|                                      | -----   | -----   |
| Earnings:                            |         |         |
| Income before taxes                  | \$336.7 | \$311.2 |
| Add: Fixed charges*                  | 52.5    | 49.2    |
| Amortization of capitalized interest | 1.5     | 1.4     |
| Less: Capitalized interest           | (3.0)   | (3.2)   |
|                                      | -----   | -----   |
|                                      | \$387.7 | \$358.6 |
|                                      | =====   | =====   |
| *Fixed charges:                      |         |         |
| Interest expense                     | \$ 34.6 | \$ 31.7 |
| Capitalized interest                 | 3.0     | 3.2     |
| Amortization of debt issuance costs  | .5      | .5      |
| Interest portion of leases           | 14.4    | 13.8    |
|                                      | -----   | -----   |
|                                      | \$ 52.5 | \$ 49.2 |
|                                      | =====   | =====   |
| Ratio of Earnings to Fixed Charges   | 7.4     | 7.3     |
|                                      | =====   | =====   |

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.

## EXHIBIT 13

## ELEVEN-YEAR SUMMARY

## Avery Dennison Corporation

| (In millions, except per share amounts)                | Compound Growth Rate |         | 1998      |                      | 1997      |                      |
|--|----------------------|---------|-----------|----------------------|-----------|----------------------|
|  | 5 Year               | 10 Year | Dollars   | %                    | Dollars   | %                    |
| <b>FOR THE YEAR</b>                                    |                      |         |           |                      |           |                      |
| Net sales  | 5.8%                 | 4.2%    | \$3,459.9 | 100.0                | \$3,345.7 | 100.0                |
| Gross profit   | 6.9                  | 3.9     | 1,144.5   | 33.1                 | 1,082.7   | 32.4                 |
| Marketing, general and administrative expense          | 3.8                  | 3.4     | 773.2     | 22.3                 | 739.8     | 22.1                 |
| Interest expense                                       | (4.3)                | (.3)    | 34.6      | 1.0                  | 31.7      | .9                   |
| Income before taxes                                    | 20.6                 | 5.9     | 336.7     | 9.7                  | 311.2     | 9.3                  |
| Taxes on income  | 18.3                 | 4.5     | 113.4     | 3.3                  | 106.4     | 3.2                  |
| Net income   | 21.5                 | 6.7     | 223.3     | 6.5                  | 204.8     | 6.1                  |
|  |                      |         |           | 1998                 |           | 1997                 |
| <b>PER SHARE INFORMATION</b>                           |                      |         |           |                      |           |                      |
| Net income per common share                            | 24.7%                | 8.8%    |           | \$ 2.20              |           | \$ 1.99              |
| Net income per common share, assuming dilution         | 24.5                 | n/a     |           | 2.15                 |           | 1.93                 |
| Dividends per common share                             | 14.1                 | 14.2    |           | .87                  |           | .72                  |
| Average common shares outstanding                      | (2.6)                | (1.9)   |           | 101.5                |           | 103.1                |
| Average common shares outstanding, assuming dilution   | (2.3)                | n/a     |           | 104.1                |           | 106.1                |
| Book value at fiscal year end                          | 5.4                  | 2.9     |           | \$ 8.33              |           | \$ 8.18              |
| Market price at fiscal year end                        | 25.1                 | 15.1    |           | 45.06                |           | 43.75                |
| Market price range                                     |                      |         |           | 40.88<br>to<br>60.75 |           | 33.38<br>to<br>44.13 |
| <b>AT YEAR END</b>                                     |                      |         |           |                      |           |                      |
| Working capital  |                      |         |           | \$ 137.7             |           | \$ 163.6             |
| Property, plant and equipment, net                     |                      |         |           | 1,035.6              |           | 985.3                |
| Total assets   |                      |         |           | 2,142.6              |           | 2,046.5              |
| Long-term debt   |                      |         |           | 465.9                |           | 404.1                |
| Total debt   |                      |         |           | 537.2                |           | 447.7                |
| Shareholders' equity                                   |                      |         |           | 833.3                |           | 837.2                |
| Number of employees                                    |                      |         |           | 16,100               |           | 16,200               |
| <b>OTHER INFORMATION</b>                               |                      |         |           |                      |           |                      |
| Depreciation expense                                   |                      |         |           | \$ 114.6             |           | \$ 105.5             |
| Research and development expense                       |                      |         |           | 65.0                 |           | 61.1                 |
| Effective tax rate                                     |                      |         |           | 33.7%                |           | 34.2%                |
| Long-term debt as a percent of total long-term capital |                      |         |           | 35.9                 |           | 32.6                 |
| Total debt as a percent of total capital               |                      |         |           | 39.2                 |           | 34.8                 |
| Return on average shareholders' equity (percent)       |                      |         |           | 26.7                 |           | 24.8                 |
| Return on average total capital (percent)              |                      |         |           | 19.0                 |           | 18.1                 |

| (In millions, except per share amounts)                | Dollars   | %        | Dollars   | %        |
|--|-----------|----------|-----------|----------|
| <b>FOR THE YEAR</b>                                    |           |          |           |          |
| Net sales  | \$3,222.5 | 100.0    | \$3,113.9 | 100.0    |
| Gross profit   | 1,018.3   | 31.6     | 957.3     | 30.7     |
| Marketing, general and administrative expense          | 712.4     | 22.1     | 689.8     | 22.2     |
| Interest expense                                       | 37.4      | 1.2      | 44.3      | 1.4      |
| Income before taxes                                    | 270.6     | 8.4      | 224.7     | 7.2      |
| Taxes on income  | 94.7      | 2.9      | 81.0      | 2.6      |
| Net income   | 175.9     | 5.5      | 143.7     | 4.6      |
|  |           | 1996     |           | 1995     |
| <b>PER SHARE INFORMATION</b>                           |           |          |           |          |
| Net income per common share                            |           | \$ 1.68  |           | \$ 1.35  |
| Net income per common share, assuming dilution         |           | 1.63     |           | 1.32     |
| Dividends per common share                             |           | .62      |           | .55      |
| Average common shares outstanding                      |           | 105.0    |           | 106.5    |
| Average common shares outstanding, assuming dilution   |           | 107.6    |           | 108.5    |
| Book value at fiscal year end                          |           | \$ 8.03  |           | \$ 7.69  |
| Market price at fiscal year end                        |           | 35.88    |           | 25.07    |
| Market price range                                     |           | 23.88    |           | 16.63    |
|  |           | to       |           | to       |
|  |           | 35.88    |           | 25.07    |
| <b>AT YEAR END</b>                                     |           |          |           |          |
| Working capital  |           | \$ 110.6 |           | \$ 127.6 |
| Property, plant and equipment, net                     |           | 962.7    |           | 907.4    |
| Total assets   |           | 2,036.7  |           | 1,963.6  |
| Long-term debt   |           | 370.7    |           | 334.0    |
| Total debt   |           | 466.9    |           | 449.4    |
| Shareholders' equity                                   |           | 832.0    |           | 815.8    |
| Number of employees                                    |           | 15,800   |           | 15,500   |
| <b>OTHER INFORMATION</b>                               |           |          |           |          |
| Depreciation expense                                   |           | \$ 100.2 |           | \$ 95.3  |
| Research and development expense                       |           | 54.6     |           | 52.7     |
| Effective tax rate                                     |           | 35.0%    |           | 36.0%    |
| Long-term debt as a percent of total long-term capital |           | 30.8     |           | 29.0     |
| Total debt as a percent of total capital               |           | 35.9     |           | 35.5     |
| Return on average shareholders' equity (percent)       |           | 21.4     |           | 18.6     |
| Return on average total capital (percent)              |           | 16.4     |           | 14.4     |

## ELEVEN-YEAR SUMMARY

## Avery Dennison Corporation

| (In millions, except per share amounts)                | 1994      |                      | 1993      |                      | 1992      |                      | 1991      |                     |
|--|-----------|----------------------|-----------|----------------------|-----------|----------------------|-----------|---------------------|
|  | Dollars   | %                    | Dollars   | %                    | Dollars   | %                    | Dollars   | %                   |
| <b>FOR THE YEAR</b>                                    |           |                      |           |                      |           |                      |           |                     |
| Net sales  | \$2,856.7 | 100.0                | \$2,608.7 | 100.0                | \$2,622.9 | 100.0                | \$2,545.1 | 100.0               |
| Gross profit   | 907.8     | 31.8                 | 818.1     | 31.4                 | 838.2     | 32.0                 | 796.2     | 31.3                |
| Marketing, general and administrative expense          | 691.9     | 24.2                 | 642.7     | 24.6                 | 665.7     | 25.4                 | 653.9     | 25.7                |
| Interest expense                                       | 43.0      | 1.5                  | 43.2      | 1.7                  | 42.3      | 1.6                  | 37.5      | 1.5                 |
| Income before taxes                                    | 172.9     | 6.1                  | 132.2     | 5.1                  | 130.2     | 5.0                  | 104.8     | 4.1                 |
| Taxes on income  | 63.5      | 2.2                  | 48.9      | 1.9                  | 50.1      | 1.9                  | 41.8      | 1.6                 |
| Net income   | 109.4     | 3.8                  | 84.4      | 3.2                  | 80.1      | 3.1                  | 63.0      | 2.5                 |
| <b>PER SHARE INFORMATION</b>                           |           |                      |           |                      |           |                      |           |                     |
| Net income per common share                            |           | \$ .98               |           | \$ .73               |           | \$ .66               |           | \$ .51              |
| Net income per common share, assuming dilution         |           | .97                  |           | .72                  |           | .66                  |           | n/a                 |
| Dividends per common share                             |           | .50                  |           | .45                  |           | .41                  |           | .38                 |
| Average common shares outstanding                      |           | 111.1                |           | 115.9                |           | 120.8                |           | 123.9               |
| Average common shares outstanding, assuming dilution   |           | 112.3                |           | 116.9                |           | 121.8                |           | n/a                 |
| Book value at fiscal year end                          |           | \$ 6.81              |           | \$ 6.40              |           | \$ 6.82              |           | \$ 6.73             |
| Market price at fiscal year end                        |           | 17.75                |           | 14.69                |           | 14.38                |           | 12.69               |
| Market price range                                     |           | 13.32<br>to<br>17.88 |           | 12.75<br>to<br>15.57 |           | 11.63<br>to<br>14.44 |           | 9.69<br>to<br>12.75 |
| <b>AT YEAR END</b>                                     |           |                      |           |                      |           |                      |           |                     |
| Working capital  |           | \$ 122.8             |           | \$ 141.6             |           | \$ 222.6             |           | \$ 226.0            |
| Property, plant and equipment, net                     |           | 831.6                |           | 758.5                |           | 779.9                |           | 814.2               |
| Total assets   |           | 1,763.1              |           | 1,639.0              |           | 1,684.0              |           | 1,740.4             |
| Long-term debt   |           | 347.3                |           | 311.0                |           | 334.8                |           | 329.5               |
| Total debt   |           | 420.7                |           | 397.5                |           | 427.5                |           | 424.0               |
| Shareholders' equity                                   |           | 729.0                |           | 719.1                |           | 802.6                |           | 825.0               |
| Number of employees                                    |           | 15,400               |           | 15,750               |           | 16,550               |           | 17,095              |
| <b>OTHER INFORMATION</b>                               |           |                      |           |                      |           |                      |           |                     |
| Depreciation expense                                   |           | \$ 87.9              |           | \$ 84.1              |           | \$ 83.8              |           | \$ 83.1             |
| Research and development expense                       |           | 49.1                 |           | 45.5                 |           | 46.7                 |           | 48.7                |
| Effective tax rate                                     |           | 36.7%                |           | 37.0%                |           | 38.5%                |           | 39.9%               |
| Long-term debt as a percent of total long-term capital |           | 32.3                 |           | 30.2                 |           | 29.4                 |           | 28.5                |
| Total debt as a percent of total capital               |           | 36.6                 |           | 35.6                 |           | 34.8                 |           | 33.9                |
| Return on average shareholders' equity (percent)       |           | 14.8                 |           | 11.0                 |           | 9.7                  |           | 7.7                 |
| Return on average total capital (percent)              |           | 12.1                 |           | 9.3                  |           | 8.3                  |           | 6.7                 |

| (In millions, except per share amounts)                | 1990(1)   |                     | 1989      |                      | 1988      |                     |
|--|-----------|---------------------|-----------|----------------------|-----------|---------------------|
|  | Dollars   | %                   | Dollars   | %                    | Dollars   | %                   |
| <b>FOR THE YEAR</b>                                    |           |                     |           |                      |           |                     |
| Net sales  | \$2,590.2 | 100.0               | \$2,490.9 | 100.0                | \$2,291.4 | 100.0               |
| Gross profit   | 808.3     | 31.2                | 806.7     | 32.4                 | 780.2     | 34.0                |
| Marketing, general and administrative expense          | 752.7     | 29.1                | 591.0     | 23.7                 | 554.7     | 24.2                |
| Interest expense                                       | 40.0      | 1.5                 | 35.1      | 1.4                  | 35.5      | 1.5                 |
| Income before taxes                                    | 15.6      | .6                  | 180.6     | 7.3                  | 190.0     | 8.3                 |
| Taxes on income  | 9.7       | .4                  | 66.4      | 2.7                  | 73.0      | 3.2                 |
| Net income   | 5.9       | .2                  | 114.2     | 4.6                  | 117.0     | 5.1                 |
| <b>PER SHARE INFORMATION</b>                           |           |                     |           |                      |           |                     |
| Net income per common share                            | \$ .05    |                     | \$ .92    |                      | \$ .95    |                     |
| Net income per common share, assuming dilution         |           | n/a                 |           | n/a                  |           | n/a                 |
| Dividends per common share                             |           | .32                 |           | .27                  |           | .23                 |
| Average common shares outstanding                      |           | 123.9               |           | 124.2                |           | 123.4               |
| Average common shares outstanding, assuming dilution   |           | n/a                 |           | n/a                  |           | n/a                 |
| Book value at fiscal year end                          | \$ 6.83   |                     | \$ 6.55   |                      | \$ 6.25   |                     |
| Market price at fiscal year end                        |           | 10.75               |           | 15.94                |           | 11.00               |
| Market price range                                     |           | 7.82<br>to<br>16.50 |           | 10.50<br>to<br>15.94 |           | 8.57<br>to<br>13.00 |
| <b>AT YEAR END</b>                                     |           |                     |           |                      |           |                     |
| Working capital  | \$ 298.8  |                     | \$ 323.9  |                      | \$ 314.3  |                     |
| Property, plant and equipment, net                     |           | 821.7               |           | 714.1                |           | 667.3               |
| Total assets   |           | 1,890.3             |           | 1,715.9              |           | 1,652.2             |
| Long-term debt   |           | 376.0               |           | 317.8                |           | 298.8               |
| Total debt   |           | 510.4               |           | 418.9                |           | 411.3               |
| Shareholders' equity                                   |           | 846.3               |           | 811.3                |           | 769.6               |
| Number of employees                                    |           | 18,816              |           | 19,215               |           | 19,114              |
| <b>OTHER INFORMATION</b>                               |           |                     |           |                      |           |                     |
| Depreciation expense                                   | \$ 80.8   |                     | \$ 71.5   |                      | \$ 63.8   |                     |
| Research and development expense                       |           | 53.7                |           | 51.0                 |           | 47.4                |
| Effective tax rate                                     |           | 62.2%               |           | 36.8%                |           | 38.4%               |
| Long-term debt as a percent of total long-term capital |           | 30.8                |           | 28.1                 |           | 28.0                |
| Total debt as a percent of total capital               |           | 37.6                |           | 34.1                 |           | 34.8                |
| Return on average shareholders' equity (percent)       |           | .7                  |           | 14.7                 |           | 16.0                |
| Return on average total capital (percent)              |           | 1.5                 |           | 12.0                 |           | 12.7                |

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

| (Dollars in millions)  | 1998             | 1997             |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$ 18.5          | \$ 3.3           |
| Trade accounts receivable, less allowance for doubtful accounts<br>of \$16.5 and \$15.6 for 1998 and 1997, respectively                          | 454.8            | 457.7            |
| Inventories, net   | 230.6            | 230.1            |
| Other receivables  | 24.0             | 28.3             |
| Prepaid expenses   | 19.0             | 19.6             |
| Deferred taxes   | 55.1             | 54.5             |
| <b>Total current assets</b>  | <b>802.0</b>     | <b>793.5</b>     |
| Property, plant and equipment, at cost:  |                  |                  |
| Land   | 40.1             | 35.4             |
| Buildings  | 439.9            | 389.3            |
| Machinery and equipment  | 1,347.0          | 1,230.1          |
| Construction-in-progress   | 105.6            | 135.7            |
| <b>Accumulated depreciation</b>  | <b>1,932.6</b>   | <b>1,790.5</b>   |
|  | 897.0            | 805.2            |
| <b>Intangibles resulting from business acquisitions, net</b>   | <b>1,035.6</b>   | <b>985.3</b>     |
| Non-current deferred taxes   | 145.1            | 133.7            |
| Other assets   | 5.0              | 6.8              |
|  | 154.9            | 127.2            |
|  | <b>\$2,142.6</b> | <b>\$2,046.5</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                  |                  |
| Current liabilities:   |                  |                  |
| Short-term and current portion of long-term debt   | \$ 71.3          | \$ 43.6          |
| Accounts payable   | 269.8            | 245.3            |
| Accrued payroll and employee benefits  | 110.9            | 115.8            |
| Other accrued liabilities  | 173.4            | 202.1            |
| Income taxes payable   | 36.7             | 20.9             |
| Deferred taxes   | 2.2              | 2.2              |
| <b>Total current liabilities</b>   | <b>664.3</b>     | <b>629.9</b>     |
| Long-term debt   | 465.9            | 404.1            |
| Long-term retirement benefits and other accrued liabilities  | 115.5            | 125.1            |
| Non-current deferred taxes   | 63.6             | 50.2             |
| Shareholders' equity   |                  |                  |
| Common stock, \$1 par value, authorized - 400,000,000 shares at year end 1998<br>and 1997; issued - 124,126,624 shares at year end 1998 and 1997 | 124.1            | 124.1            |
| Capital in excess of par value   | 587.5            | 592.5            |
| Retained earnings  | 1,185.1          | 1,063.6          |
| Cost of unallocated ESOP shares  | (18.3)           | (23.4)           |
| Employee stock trusts, 15,036,525 shares and<br>16,693,347 shares at year end 1998 and 1997, respectively  | (677.6)          | (730.3)          |
| Treasury stock at cost, 9,060,617 shares and<br>5,053,046 shares at year end 1998 and 1997, respectively   | (359.4)          | (166.8)          |
| Accumulated other comprehensive income   | (8.1)            | (22.5)           |
| <b>Total shareholders' equity</b>  | <b>833.3</b>     | <b>837.2</b>     |
|  | <b>\$2,142.6</b> | <b>\$2,046.5</b> |

See Notes to Consolidated Financial Statements

| (In millions, except per share amounts)            | 1998      | 1997      | 1996      |
|--|-----------|-----------|-----------|
| Net sales  | \$3,459.9 | \$3,345.7 | \$3,222.5 |
| Cost of products sold                              | 2,315.4   | 2,263.0   | 2,204.2   |
| Gross profit                                       | 1,144.5   | 1,082.7   | 1,018.3   |
| Marketing, general and administrative expense      | 773.2     | 739.8     | 712.4     |
| Net gain on divestitures and restructuring charges | --        | --        | 2.1       |
| Interest expense                                   | 34.6      | 31.7      | 37.4      |
| Income before taxes                                | 336.7     | 311.2     | 270.6     |
| Taxes on income                                    | 113.4     | 106.4     | 94.7      |
| Net income   | \$ 223.3  | \$ 204.8  | \$ 175.9  |
| Per share amounts:                                 |           |           |           |
| Net income per common share                        | \$ 2.20   | \$ 1.99   | \$ 1.68   |
| Net income per common share,<br>assuming dilution  | 2.15      | 1.93      | 1.63      |
| Dividends  | .87       | .72       | .62       |
| Average shares outstanding:                        |           |           |           |
| Common shares                                      | 101.5     | 103.1     | 105.0     |
| Common shares, assuming dilution                   | 104.1     | 106.1     | 107.6     |
| Common shares outstanding at year end              | 100.0     | 102.4     | 103.6     |

See Notes to Consolidated Financial Statements

| (Dollars in millions)  | Common stock, \$1 par value | Capital in excess of par value | Retained earnings | Cost of unallocated ESOP shares | Employee stock trusts |
|--|-----------------------------|--------------------------------|-------------------|---------------------------------|-----------------------|
| Fiscal year ended 1995   | \$124.1                     | \$129.6                        | \$ 837.8          | (27.0)                          | --                    |
| Comprehensive income:  |                             |                                |                   |                                 |                       |
| Net income   |                             |                                | 175.9             |                                 |                       |
| Other comprehensive income:  |                             |                                |                   |                                 |                       |
| Foreign currency translation adjustment  |                             |                                |                   |                                 |                       |
| Minimum pension liability adjustment   |                             |                                |                   |                                 |                       |
| Other comprehensive income   |                             |                                |                   |                                 |                       |
| Total comprehensive income   |                             |                                |                   |                                 |                       |
| Repurchase of 3.8 million shares for treasury  |                             |                                |                   |                                 |                       |
| Stock issued under option plans, net of \$13.8 million of tax and dividends paid on stock held in stock trusts |                             | 9.0                            |                   |                                 |                       |
| Dividends: \$.62 per share   |                             |                                | (68.1)            |                                 |                       |
| ESOP transactions, net   |                             |                                |                   | (2.4)                           |                       |
| Employee stock benefit trust transaction, net  |                             | 336.8                          |                   |                                 | (644.3)               |
| Fiscal year ended 1996   | 124.1                       | 475.4                          | 945.6             | (29.4)                          | (644.3)               |
| 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  |                             |                                |                   |                                 |                       |
| Stock issued under option plans, net of \$29.1 million 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)               |
| 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  |                             |                                |                   |                                 |                       |
| Stock issued under option plans, net of \$43.6 million 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)             |

See Notes to Consolidated Financial Statements

| (Dollars in millions)  | Treasury Stock | Accumulated other comprehensive income (loss) | Total    |
|--|----------------|---|----------|
| Fiscal year ended 1995   | \$(279.9)      | \$ 31.2                                       | \$ 815.8 |
| Comprehensive income:  |                |   |          |
| Net income   |                |   | 175.9    |
| Other comprehensive income:  |                |   |          |
| Foreign currency translation adjustment  |                | (5.5)   | (5.5)    |
| Minimum pension liability adjustment   |                | 2.4   | 2.4      |
| Other comprehensive income   |                | (3.1)   | (3.1)    |
| Total comprehensive income   |                |   | 172.8    |
| Repurchase of 3.8 million shares for treasury  | (109.3)        |   | (109.3)  |
| Stock issued under option plans, net of \$13.8 million of tax and dividends paid on stock held in stock trusts | 11.2           |   | 20.2     |
| Dividends: \$.62 per share   |                |   | (68.1)   |
| ESOP transactions, net   |                |   | (2.4)    |
| Employee stock benefit trust transaction, net  | 310.5          |   | 3.0      |
| Fiscal year ended 1996   | (67.5)         | 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)    |         | (99.3)   |
| Stock issued under option plans,<br>net of \$29.1 million of tax and dividends paid on<br>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   |           |         | --       |
|  |           | -----   |          |
| Fiscal year ended 1997   | (166.8)   | (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)   |         | (192.6)  |
| Stock issued under option plans,<br>net of \$43.6 million of tax and dividends paid on<br>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   |           |         | --       |
|  |           | -----   |          |
| Fiscal year ended 1998   | \$(359.4) | \$(8.1) | \$ 833.3 |
|  | =====     | =====   | =====    |

See Notes to Consolidated Financial Statements

| (In millions)  | 1998     | 1997     | 1996     |
|--|----------|----------|----------|
| <b>OPERATING ACTIVITIES</b>  |          |          |          |
| Net income   | \$ 223.3 | \$ 204.8 | \$ 175.9 |
| Adjustments to reconcile net income to net cash provided by operating activities:  |          |          |          |
| Depreciation   | 114.6    | 105.5    | 100.2    |
| Amortization   | 12.6     | 11.3     | 13.2     |
| Net gain on divestiture and restructuring charges  |          |          | (2.1)    |
| Deferred taxes   | 13.8     | 18.4     | .8       |
| Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures, and restructuring charges: |          |          |          |
| Trade accounts receivable, net   | 18.6     | (26.6)   | (.9)     |
| Inventories, net   | 11.0     | 5.7      | (18.1)   |
| Other receivables  | 8.3      | (4.8)    | 1.2      |
| Prepaid expenses   | 1.0      | (1.6)    | 3.7      |
| Accounts payable and accrued liabilities   | (11.8)   | 44.6     | 45.7     |
| Taxes on income  | 41.5     | 16.5     | (12.4)   |
| Long-term retirement benefits and other accrued liabilities  | (10.1)   | (5.4)    | (3.2)    |
| Net cash provided by operating activities  | 422.8    | 368.4    | 304.0    |
| <b>INVESTING ACTIVITIES</b>  |          |          |          |
| Purchase of property, plant and equipment  | (159.7)  | (177.3)  | (187.6)  |
| (Payments) for acquisitions and net proceeds from sale of assets, business divestitures and acquisitions   | (30.9)   | 4.6      | 12.1     |
| Other  | (26.9)   | (16.3)   | (2.1)    |
| Net cash used in investing activities  | (217.5)  | (189.0)  | (177.6)  |
| <b>FINANCING ACTIVITIES</b>  |          |          |          |
| Increase in long-term debt   | 50.0     | 60.0     | -        |
| Decrease in long-term debt   | (3.9)    | (1.7)    | (14.3)   |
| Net increase (decrease) in short-term debt   | 39.3     | (73.0)   | 32.2     |
| Dividends paid   | (101.8)  | (86.8)   | (68.1)   |
| Purchase of treasury stock   | (192.6)  | (99.3)   | (109.3)  |
| Proceeds from exercise of stock options  | 20.7     | 13.3     | 13.5     |
| Other  | (2.3)    | 7.9      | (3.6)    |
| Net cash used in financing activities  | (190.6)  | (179.6)  | (149.6)  |
| Effect of foreign currency translation on cash balances  | .5       | (.3)     | -        |
| Increase (decrease) in cash and cash equivalents   | 15.2     | (.5)     | (23.2)   |
| Cash and cash equivalents, beginning of year   | 3.3      | 3.8      | 27.0     |
| Cash and cash equivalents, end of year   | \$ 18.5  | \$ 3.3   | \$ 3.8   |

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Company is a worldwide manufacturer of pressure-sensitive adhesives and materials, and consumer and converted products. The Company's major markets are in office products, data processing, health care, retail, transportation, industrial and durable goods, food and apparel. The Pressure-sensitive Adhesives and Materials sector and the Consumer and Converted Products sector each contribute approximately 50 percent of the Company's total sales. Sales are generated primarily in the United States, continental Europe and the United Kingdom.

PRINCIPLES OF CONSOLIDATION

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

FISCAL YEAR

The Company's 1998 fiscal year reflected a 53-week period ending January 2, 1999. The Company's 1997 and 1996 fiscal years reflected 52-week periods ending December 27, 1997 and December 28, 1996, respectively. Normally each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

| (In millions)                        | 1998   | 1997   | 1996    |
|--------------------------------------|--------|--------|---------|
| Interest, net of capitalized amounts | \$29.8 | \$31.5 | \$ 40.0 |
| Income taxes, net of refunds         | 86.3   | 88.1   | 115.9   |

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 37 percent and 35 percent of inventories before LIFO adjustment at year end 1998 and 1997, respectively.

During 1998, 1997 and 1996, certain inventories were reduced resulting in the liquidation of LIFO inventory carried at lower costs prevailing in prior years as compared with current costs. The effect was to reduce 1998, 1997 and 1996 cost of products sold by \$3.3 million, \$4.2 million and \$3.2 million, respectively. Inventories at year end were as follows:

| (In millions)    | 1998    | 1997    |
|------------------|---------|---------|
| Raw materials    | \$ 69.2 | \$ 74.4 |
| Work-in-progress | 66.6    | 70.9    |
| Finished goods   | 121.4   | 114.7   |
| LIFO adjustment  | (26.6)  | (29.9)  |
|                  | \$230.6 | \$230.1 |

PROPERTY, PLANT AND EQUIPMENT

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

INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Intangibles resulting from business acquisitions consist primarily of the excess of the acquisition cost over the fair value of net assets acquired and are amortized over a 25-to-40 year period using the straight-line method. The Company evaluates the carrying value of its goodwill on an ongoing basis and recognizes an impairment when the estimated future undiscounted cash flows from operations are less than the carrying value of the goodwill. Accumulated amortization at year end 1998 and 1997 was \$55.6 million and \$49.4 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. 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. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently.

Transaction and translation losses decreased net income in 1998, 1997 and 1996, by \$2.9 million, \$1.5 million and \$1.6 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 in 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 1998, 1997 and 1996 was \$65 million, \$61.1 million and \$54.6 million, respectively.

STOCK-BASED COMPENSATION

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

ENVIRONMENTAL EXPENDITURES

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

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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)   | 1998    | 1997    | 1996    |
|---|---------|---------|---------|
| (A) Net income available to common shareholders   | \$223.3 | \$204.8 | \$175.9 |
| (B) Weighted average number of common shares outstanding  | 101.5   | 103.1   | 105.0   |
| Additional common shares issuable under employee stock options using the treasury stock method  | 2.6     | 3.0     | 2.6     |
| (C) Weighted average number of common shares outstanding assuming the exercise of stock options | 104.1   | 106.1   | 107.6   |
| Net income per common share (A) / (B)   | \$ 2.20 | \$ 1.99 | \$ 1.68 |
| Net income per common share, assuming dilution (A) / (C)  | 2.15    | 1.93    | 1.63    |

COMPREHENSIVE INCOME

Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income", was adopted during the first quarter of 1998. The standard established guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes net income, foreign currency translation adjustments and adjustments to the minimum pension liability. The Company has changed the format of its Consolidated Statement of Shareholders' Equity to present comprehensive income and its components.

The following table reflects the balances of each classification within accumulated other comprehensive income (loss):

| (In millions)        | Foreign currency translation adjustment | Minimum pension liability | Accumulated other comprehensive income (loss) |
|----------------------|---|---------------------------|---|
| Fiscal year end 1995 | \$ 33.8                                 | \$(2.6)                   | \$ 31.2                                       |
| 1996 change          | (5.5)                                   | 2.4                       | (3.1)   |
| Fiscal year end 1996 | 28.3                                    | (.2)                      | 28.1  |
| 1997 change          | (49.7)                                  | (.9)                      | (50.6)  |
| Fiscal year end 1997 | (21.4)                                  | (1.1)                     | (22.5)  |
| 1998 change          | 13.3                                    | 1.1                       | 14.4  |
| Fiscal year end 1998 | \$ (8.1)                                | \$ -                      | \$ (8.1)                                      |

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", was adopted in the fourth quarter of 1998 and supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise". The new standard established guidelines for reporting information on operating segments in interim and annual financial statements. The adoption of the standard did not affect the Company's results of operations or financial position. In addition, the standard did not materially change the Company's segment disclosures (see Note 10).

FUTURE ACCOUNTING REQUIREMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS 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 2000. 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.

FINANCIAL PRESENTATION

Certain prior year amounts have been reclassified to conform with the 1998 financial statement presentation.

Note 2. DIVESTITURE AND RESTRUCTURING

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

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

The Company's 1996 restructuring program was completed as of the third quarter of 1997.

## Note 3. DEBT

Long-term debt at year end was as follows:

| (In millions)   | 1998    | 1997    |
|---|---------|---------|
| Medium-term notes (5.9% to 8.0% at year end)  | \$410.0 | \$360.0 |
| Domestic variable-rate short-term borrowings to be refinanced on a long-term basis (5.1% at year end) | 42.0    | 26.4    |
| Industrial Revenue Bonds (4.1% to 9.9% at year end)   | 10.8    | 15.6    |
| Other long-term debt (4.2% to 9.5% at year end)   | 5.5     | 3.6     |
|   | 468.3   | 405.6   |
| Less: Amount classified as current  | (2.4)   | (1.5)   |
|   | \$465.9 | \$404.1 |

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2003, with all amounts borrowed under this agreement due on the same date. The Company may annually extend the revolving period and due date under certain conditions with approval of the banks. The financing available under this revolving credit agreement will be used, as needed, to repay uncollateralized short-term and currently maturing long-term debt, and to finance other corporate requirements.

In addition to the above revolving credit agreement, the Company had short-term lines of credit available aggregating \$360.2 million at the end of 1998, of which \$68.9 million was utilized at variable interest rates ranging from 4 percent to 7 percent.

During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission \$150 million in principal amount of uncollateralized medium-term notes. In 1998 and 1997, \$50 million and \$60 million in notes were issued, respectively. 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.

The amount of long-term debt outstanding at the end of 1998, which matures during 1999 through 2003 is \$2.4 million, \$4.9 million, \$3.2 million, \$20.1 million and \$119.7 million, respectively, with \$318 million maturing thereafter.

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 1998 and 1997, the fair value of the Company's total debt, including short-term borrowings, was \$554.9 million and \$447.9 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 1998, 1997 and 1996 were \$37.6 million, \$34.9 million and \$40.9 million, respectively, of which \$3.0 million, \$3.2 million and \$3.5 million, respectively, were capitalized as part of the cost of assets constructed for the Company's use.

## Note 4. FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward, 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 1998 and 1997, the Company had foreign exchange forward contracts with a notional value of \$311.9 million and \$205.1 million, respectively, substantially all of which were denominated in European currencies. The Company's foreign exchange option contracts, which were also primarily denominated in European currencies, had notional amounts of \$13.4 million and \$25.8 million at the end of 1998 and 1997, 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 \$0.9 million and a net asset of approximately \$1.3 million at the end of 1998 and 1997, respectively. The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was \$0.3 million and \$0.9 million at the end of the 1998 and 1997, 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 \$0.1 million at the end of 1998.

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 1998, the Company had letters of credit outstanding totaling \$14.4 million which guaranteed various trade activities. The aggregate contract amount of all outstanding letters of credit approximates fair value.

As of year end 1998 and 1997, approximately 24 percent and 26 percent, respectively, of trade accounts receivables 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 5. COMMITMENTS

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

(In millions)

| Year                                |                |
|-------------------------------------|----------------|
| 1999                                | \$ 32.6        |
| 2000                                | 27.4           |
| 2001                                | 20.8           |
| 2002                                | 14.8           |
| 2003                                | 11.2           |
| Thereafter                          | 15.0           |
| <b>Total minimum lease payments</b> | <b>\$121.8</b> |

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

Rent expense for 1998, 1997 and 1996 was \$41 million, \$39.4 million and \$39 million, respectively.

## NOTE 6. TAXES BASED ON INCOME

Taxes based on income were as follows:

| (In millions)       | 1998    | 1997    | 1996   |
|---------------------|---------|---------|--------|
| Current:            |         |         |        |
| U.S. Federal tax    | \$ 56.5 | \$ 58.3 | \$55.9 |
| State taxes         | 13.4    | 15.6    | 12.3   |
| International taxes | 30.1    | 13.6    | 28.1   |
|                     | 100.0   | 87.5    | 96.3   |
| Deferred:           |         |         |        |
| U.S. taxes          | 11.1    | 10.8    | (4.7)  |
| International taxes | 2.3     | 8.1     | 3.1    |
|                     | 13.4    | 18.9    | (1.6)  |
| Taxes on income     | \$113.4 | \$106.4 | \$94.7 |

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)                                | 1998    | 1997    | 1996   |
|--|---------|---------|--------|
| Computed tax at 35% of income before taxes   | \$117.8 | \$108.9 | \$94.7 |
| Increase (decrease) in taxes resulting from: |         |         |        |
| State taxes, net of federal tax benefits     | 8.7     | 10.1    | 8.0    |
| Other items, net                             | (13.1)  | (12.6)  | (8.0)  |
| Taxes on income                              | \$113.4 | \$106.4 | \$94.7 |

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

| (In millions) | 1998    | 1997    | 1996    |
|---------------|---------|---------|---------|
| U.S.          | \$232.2 | \$222.7 | \$176.4 |
| International | 104.5   | 88.5    | 94.2    |
|               | \$336.7 | \$311.2 | \$270.6 |

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries (\$382.1 million at year end 1998) 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 \$41.6 million are available to reduce income taxes payable, of which \$15.2 million will expire from 1999 through 2005, while \$26.4 million can be carried forward indefinitely.

NOTE 6. TAXES BASED ON INCOME (CONTINUED)

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

| (In millions)   | 1998            | 1997          |
|---|-----------------|---------------|
| Accrued expenses not currently deductible                 | \$ 65.2         | \$ 67.6       |
| Net operating losses and foreign tax credit carryforwards | 22.8            | 20.9          |
| Postretirement and postemployment benefits                | 12.1            | 11.7          |
| Pension costs   | (8.7)           | (5.0)         |
| Valuation allowance                                       | (6.5)           | (5.0)         |
| Depreciation  | (90.6)          | (82.9)        |
| Other items, net  | --              | 1.6           |
| <b>Total net deferred tax (liabilities) assets</b>        | <b>\$ (5.7)</b> | <b>\$ 8.9</b> |

Note 7. SHAREHOLDERS' EQUITY

COMMON STOCK AND COMMON STOCK REPURCHASE PROGRAM

The Company's Certificate of Incorporation authorizes five million shares of \$1 par value preferred stock, with respect to which the Board of Directors may fix the series and terms of issuance, and 400 million shares of \$1 par value voting common stock.

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

NOTE 7. SHAREHOLDERS' EQUITY (CONTINUED)

The Board of Directors has authorized the repurchase of an aggregate 35.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans. At year end 1998, approximately 3.5 million shares were still available for repurchase pursuant to this authorization.

STOCK OPTION AND INCENTIVE PLANS

In October 1996, the Company established the Avery Dennison Corporation Employee Stock Benefit Trust (the "ESBT") to fund a portion of the Company's obligations arising from various employee benefit plans. The Company sold 18 million shares of treasury stock to the ESBT in exchange for a promissory note of \$564.8 million that bears an interest rate of 8 percent per annum. The ESBT has a 15-year life during which it will utilize the common stock to satisfy certain Company obligations. The common stock in the ESBT is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

The Company maintains various stock option and incentive plans which are fixed employee stock-based compensation plans. Under the plans, incentive stock options and stock options granted to directors may be granted at not less than 100 percent of the fair market value of the Company's common stock on the date of the grant, whereas nonqualified options granted to executives may be issued at prices no less than par value. Options granted are generally priced at fair market value on the date of the grant and generally vest ratably over a four year period. Unexercised options expire ten years from the date of grant. The following table sets forth stock option information relative to these plans:

| (Options in thousands)           | 1998                            |                   | 1997                            |                   | 1996                            |                   |
|----------------------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|
|                                  | 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 | \$23.19                         | 9,147.7           | \$18.76                         | 9,775.7           | \$15.03                         | 10,224.6          |
| Granted                          | 45.65                           | 1,098.5           | 42.29                           | 1,339.0           | 34.67                           | 1,623.0           |
| Exercised                        | 14.32                           | (2,204.7)         | 12.93                           | (1,706.9)         | 11.96                           | (1,778.9)         |
| Forfeited or expired             | 28.28                           | (296.6)           | 22.39                           | (260.1)           | 18.23                           | (293.0)           |
| Outstanding at year end          | \$28.70                         | 7,744.9           | \$23.19                         | 9,147.7           | \$18.76                         | 9,775.7           |
| Options exercisable at year end  |                                 | 3,714.0           |                                 | 4,518.7           |                                 | 4,670.4           |

The following table summarizes information on fixed stock options outstanding at January 2, 1999 (options in thousands):

| Range of exercise prices | Options outstanding |   |                                 | Options exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number outstanding  | Weighted-average remaining contractual life | Weighted-average exercise price | Number exercisable  | Weighted-average exercise price |
| \$ 9.59 - 14.00          | 1,137.9             | 3.2 years                                   | \$12.86                         | 1,137.9             | \$12.86                         |
| 15.28 - 23.63            | 2,808.2             | 6.2 years                                   | 19.30                           | 2,022.4             | 17.61                           |
| 34.94 - 45.19            | 3,798.8             | 8.8 years                                   | 40.40                           | 553.7               | 36.61                           |
| \$ 9.59 - 45.19          | 7,744.9             | 7.0 years                                   | \$28.70                         | 3,714.0             | \$18.99                         |

NOTE 7. 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 \$213.4 million and \$2.10, respectively, for 1998, \$197.8 million and \$1.92, respectively, for 1997 and \$172.1 million and \$1.64, respectively, for 1996. Net income per share, assuming dilution, would have been \$2.05, \$1.86 and \$1.59 for 1998, 1997 and 1996, respectively.

The weighted-average fair value of options granted during 1998, 1997 and 1996 was \$13.07, \$12.70 and \$9.51, respectively. Option grant date fair values were determined using a Black-Scholes option pricing value. The underlying assumptions used were as follows:

|                                 | 1998     | 1997     | 1996     |
|---------------------------------|----------|----------|----------|
| Risk-free interest rate         | 5.37%    | 6.39%    | 6.40%    |
| Expected stock price volatility | 24.34    | 17.74    | 18.57    |
| Expected dividend yield         | 2.18     | 1.74     | 2.09     |
| Expected option term            | 10 years | 10 years | 10 years |

NOTE 8. CONTINGENCIES

The Company has been designated by the U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies as a potentially responsible party (PRP) at 17 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. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" in 1998. SFAS No. 132 revises employers' disclosures for pensions and other postretirement benefit plans. It does not change measurement or recognition of those plans. Prior year information has been presented in accordance with the new standard.

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 were 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.

Avery Dennison Corporation

NOTE 9. 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 Health Benefits |          |
|--|------------------|---------|--------------------------------|----------|
|  | 1998             | 1997    | 1998                           | 1997     |
| Change in benefit obligation:                                    |                  |         |                                |          |
| Benefit obligation at beginning of year                          | \$439.7          | \$401.1 | \$ 30.0                        | \$ 28.4  |
| Service cost   | 10.1             | 8.4     | 1.0                            | 1.1      |
| Interest cost  | 29.9             | 29.1    | 2.0                            | 2.0      |
| Participant contribution   | 1.9              | 1.7     | -                              | -        |
| Amendments   | 7.8              | 9.4     | -                              | -        |
| Actuarial loss (gain)  | 3.7              | 25.4    | (1.5)                          | -        |
| Benefits paid  | (25.6)           | (23.3)  | (1.6)                          | (1.5)    |
| Foreign currency translation                                     | 6.1              | (12.1)  | -                              | -        |
| Benefit obligation at end of year                                | \$473.6          | \$439.7 | \$ 29.9                        | \$ 30.0  |
| Change in plan assets:   |                  |         |                                |          |
| Fair value of plan assets at beginning of year                   | \$521.8          | \$471.5 | -                              | -        |
| Actual return on plan assets                                     | 95.6             | 71.5    | -                              | -        |
| Employer contribution  | 3.3              | 6.8     | 1.6                            | 1.5      |
| Participant contribution   | 1.9              | 1.7     | -                              | -        |
| Benefits paid  | (25.6)           | (23.3)  | (1.6)                          | (1.5)    |
| Foreign currency translation                                     | 8.5              | (6.4)   | -                              | -        |
| Fair value of plan assets at end of year                         | \$605.5          | \$521.8 | -                              | -        |
| Funded status of the plans:                                      |                  |         |                                |          |
| Plan assets in excess of (less than) benefit obligation          | \$131.9          | \$ 82.1 | \$(29.9)                       | \$(30.0) |
| Unrecognized net actuarial gain                                  | (59.0)           | (10.4)  | (4.3)                          | (3.0)    |
| Unrecognized prior service cost (benefit)                        | 4.2              | (2.8)   | 1.0                            | 1.1      |
| Unrecognized net asset   | (18.5)           | (19.6)  | -                              | -        |
| Net amount recognized  | \$ 58.6          | \$ 49.3 | \$(33.2)                       | \$(31.9) |
| Amounts recognized in the Consolidated Balance Sheet consist of: |                  |         |                                |          |
| Prepaid benefit cost   | \$ 84.1          | \$ 68.7 | -                              | -        |
| Accrued benefit liability  | (26.8)           | (21.9)  | (33.2)                         | (31.9)   |
| Intangible asset   | 1.3              | 1.4     | -                              | -        |
| Accumulated other comprehensive income                           | -                | 1.1     | -                              | -        |
| Net amount recognized  | \$ 58.6          | \$ 49.3 | \$(33.2)                       | \$(31.9) |

NOTE 9. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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 \$24.1 million, \$22.2 million and \$3.7 million, respectively, at year end 1998, and \$182.7 million, \$169.3 million and \$149.7 million, respectively, at year end 1997.

|  | Pension Benefits |      |      | Postretirement Health Benefits |       |       |
|--|------------------|------|------|--------------------------------|-------|-------|
|  | 1998             | 1997 | 1996 | 1998                           | 1997  | 1996  |
| -----  |                  |      |      |                                |       |       |
| Weighted-average assumptions used:               |                  |      |      |                                |       |       |
| Discount rate                                    | 6.7%             | 7.0% | 7.4% | 7.00%                          | 7.25% | 7.25% |
| Expected long-term rate of return on plan assets | 9.2              | 9.3  | 9.7  | -                              | -     | -     |
| Rate of increase in future compensation levels   | 4.1              | 4.4  | 5.0  | -                              | -     | -     |
| =====  |                  |      |      |                                |       |       |

Avery Dennison Corporation

NOTE 9. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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

| (In millions)                                     | Pension Benefits |          |          | Postretirement Health Benefits |        |        |
|---|------------------|----------|----------|--------------------------------|--------|--------|
|   | 1998             | 1997     | 1996     | 1998                           | 1997   | 1996   |
| Components of net periodic benefit (income) cost: |                  |          |          |                                |        |        |
| Service cost                                      | \$ 10.1          | \$ 8.4   | \$ 9.1   | \$ 1.0                         | \$ 1.1 | \$ .9  |
| Interest cost                                     | 29.9             | 29.1     | 27.0     | 2.0                            | 2.0    | 1.8    |
| Expected return on plan assets                    | (44.0)           | (39.4)   | (38.4)   | -                              | -      | -      |
| Recognized net actuarial loss (gain)              | .6               | 2.3      | 1.8      | (.1)                           | -      | (.1)   |
| Amortization of prior service cost                | .9               | .1       | -        | -                              | .1     | .1     |
| Amortization of transition obligation or asset    | (2.0)            | (2.0)    | (1.9)    | -                              | -      | -      |
| Net periodic benefit (income) cost                | \$ (4.5)         | \$ (1.5) | \$ (2.4) | \$ 2.9                         | \$ 3.2 | \$ 2.7 |

For measurement purposes, a 7 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease to 6 percent by 2000 and 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 | \$ .5                         | \$ (.4)                       |
| Effect on postretirement benefit obligation             | 3.9                           | (3.5)                         |

As a result of changes in assumptions used during 1998 and 1997, an additional liability of \$1.3 million and \$2.5 million, respectively, is reflected in the Company's Consolidated Balance Sheet. These amounts are offset in 1998 and 1997 by the recording of an intangible pension asset of \$1.3 million and \$1.4 million, respectively, and a charge to equity of \$1.1 million in 1997. Consolidated pension (income) expense for 1998, 1997 and 1996 was \$(2.9) million, \$.4 million and \$1.5 million, respectively.

DEFINED CONTRIBUTION PLANS

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

The Company also maintained another leveraged ESOP for employees not covered by a collective bargaining agreement. This ESOP also borrowed funds to purchase shares of the Company's common stock at market prices. On December 1, 1997, the Savings Plan ESOP merged with this ESOP. The combined ESOP funds the Company's stock contributions to the Savings Plan.

NOTE 9. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

ESOP expense is accounted for under three different methodologies: the cost of shares allocated method, the cash flow method and the fair value method. Total ESOP expense for 1998, 1997 and 1996 was \$1.1 million, \$3.5 million and \$8.9 million, respectively. Company contributions to pay interest and principal on ESOP borrowings for 1998, 1997 and 1996 were \$1.1 million, \$3.2 million and \$8.8 million, respectively.

Interest costs incurred by the ESOPs for 1998, 1997 and 1996 were \$1.8 million, \$2.6 million and \$2.7 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$1.6 million in 1998 and 1997, and \$1.7 million in 1996.

Consolidated expense for all defined contribution plans (including total ESOP expense) for 1998, 1997 and 1996 was \$8.8 million, \$4 million and \$9.3 million, respectively. Of the total shares held by the ESOP, 6.4 million shares were allocated and 1.7 million shares were unallocated at year end 1998, and 6.8 million shares were allocated and 1.9 million shares were unallocated at year end 1997.

Of the total shares held by the ESOP, shares accounted for under the fair value method were comprised of 337,400 allocated shares at year end 1998, and 200,100 allocated shares and 137,300 unallocated shares at year end 1997. Under the fair value method, unallocated shares were valued at \$6 million at year end 1997.

OTHER RETIREMENT PLANS

The Company has deferred compensation plans which permit eligible employees and directors to defer a specific portion of their compensation. The deferred compensation, together with certain Company contributions, earn specified and variable rates of return. As of year end 1998 and 1997, the Company had accrued \$78.2 million and \$72.3 million, respectively, for its obligations under these plans. The Company's expense, which includes Company contributions and interest expense, was \$6.3 million, \$8.1 million and \$6 million for 1998, 1997 and 1996, respectively. A portion of the interest may be forfeited by participants in the event employment is terminated before age 55 other than by reason of death, disability or retirement.

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 \$46.6 million and \$30.7 million at year end 1998 and 1997, respectively.

NOTE 10. SEGMENT INFORMATION

During the fourth quarter of 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Company manages its business in two reportable 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 to be further processed. 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 reportable segments are the same as those described in the summary of significant accounting policies. Intersector 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 reportable 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.

Avery Dennison Corporation

NOTE 10. SEGMENT INFORMATION (CONTINUED)

Financial information by reportable operating segment is set forth below:

| (In millions)  | 1998      | 1997      | 1996/(1)/ |
|--|-----------|-----------|-----------|
| -----  |           |           |           |
| Net sales:   |           |           |           |
| Pressure-sensitive Adhesives and Materials                     | \$1,874.1 | \$1,823.8 | \$1,783.8 |
| Consumer and Converted Products                                | 1,742.1   | 1,672.6   | 1,580.1   |
| Intersector  | (156.3)   | (151.9)   | (145.5)   |
| Divested operations  | -         | 1.2       | 4.1       |
| -----  |           |           |           |
| Net sales  | \$3,459.9 | \$3,345.7 | \$3,222.5 |
| =====  |           |           |           |
| Income (loss) from operations before interest and taxes:       |           |           |           |
| Pressure-sensitive Adhesives and Materials                     | \$ 170.3  | \$ 172.1  | \$ 160.7  |
| Consumer and Converted Products                                | 227.0     | 188.5     | 158.5     |
| Divested operations  | -         | (.6)      | (3.6)     |
| Corporate administrative and research and development expenses | (26.0)    | (17.1)    | (7.6)     |
| -----  |           |           |           |
| Interest expense   | \$ 371.3  | \$ 342.9  | \$ 308.0  |
|  | (34.6)    | (31.7)    | (37.4)    |
| -----  |           |           |           |
| Income before taxes  | \$ 336.7  | \$ 311.2  | \$ 270.6  |
| =====  |           |           |           |
| Capital expenditures:  |           |           |           |
| Pressure-sensitive Adhesives and Materials                     | \$ 82.9   | \$ 105.7  | \$ 101.6  |
| Consumer and Converted Products                                | 70.0      | 66.8      | 76.1      |
| Corporate and divested operations                              | 6.8       | 4.8       | 9.9       |
| -----  |           |           |           |
| Capital expenditures   | \$ 159.7  | \$ 177.3  | \$ 187.6  |
| =====  |           |           |           |
| Depreciation expense:  |           |           |           |
| Pressure-sensitive Adhesives and Materials                     | \$ 59.1   | \$ 55.0   | \$ 50.3   |
| Consumer and Converted Products                                | 48.2      | 43.8      | 40.0      |
| Corporate and divested operations                              | 7.3       | 6.7       | 9.9       |
| -----  |           |           |           |
| Depreciation expense   | \$ 114.6  | \$ 105.5  | \$ 100.2  |
| =====  |           |           |           |

/(1)/ Fiscal 1996 results include a pretax gain of \$17.9 million from the sale of its equity interest in a label operation in Japan which was included in Corporate's administrative expense. Fiscal 1996 results also include pretax restructuring charges of \$15.8 million. The restructuring charges were allocated as follows: \$7.1 million to the Pressure-sensitive Adhesives and Materials sector and \$8.7 million to the Consumer and Converted Products sector.

The 1996 restructuring charges, along with the gains on divestiture, were reported in the "Net gain on divestitures and restructuring charges" line of the Consolidated Statement of Income.

## NOTE 10. SECTORS OF BUSINESS OPERATIONS (CONTINUED)

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

| (In millions)                       | 1998      | 1997      | 1996      |
|-------------------------------------|-----------|-----------|-----------|
| -----                               |           |           |           |
| Net sales:                          |           |           |           |
| U.S.                                | \$2,206.4 | \$2,154.0 | \$2,039.6 |
| International                       | 1,288.4   | 1,227.3   | 1,212.6   |
| Intersector                         | (34.9)    | (36.8)    | (33.8)    |
| Divested operations                 | -         | 1.2       | 4.1       |
| -----                               |           |           |           |
| Net sales                           | \$3,459.9 | \$3,345.7 | \$3,222.5 |
| =====                               |           |           |           |
| Property, plant and equipment, net: |           |           |           |
| U.S.                                | \$ 584.0  | \$ 572.3  | \$ 552.1  |
| International                       | 391.3     | 351.7     | 338.7     |
| Corporate and divested operations   | 60.3      | 61.3      | 71.9      |
| -----                               |           |           |           |
| Property, plant and equipment, net  | \$1,035.6 | \$ 985.3  | \$ 962.7  |
| =====                               |           |           |           |

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.

Avery Dennison Corporation

NOTE 11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| (In millions, except per share data)           | First<br>Quarter | Second<br>Quarter | Third<br>Quarter/(2)/ | Fourth<br>Quarter/(1)/,(3)/ |
|--|------------------|-------------------|-----------------------|-----------------------------|
| -----  |                  |                   |                       |                             |
| 1998 /(1)/, /(3)/                              |                  |                   |                       |                             |
| 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 /(1)/                                     |                  |                   |                       |                             |
| Net sales                                      | \$828.9          | \$844.8           | \$835.6               | \$836.4                     |
| Gross profit                                   | 262.9            | 273.8             | 270.1                 | 275.9                       |
| Net income                                     | 48.2             | 49.6              | 52.6                  | 54.4                        |
| Net income per common share                    | .47              | .48               | .51                   | .53                         |
| Net income per common share, assuming dilution | .45              | .47               | .50                   | .52                         |
| -----  |                  |                   |                       |                             |
| 1996 /(1)/, /(2)/                              |                  |                   |                       |                             |
| Net sales                                      | \$796.6          | \$797.7           | \$819.3               | \$808.9                     |
| Gross profit                                   | 246.7            | 248.4             | 260.5                 | 262.7                       |
| Net income                                     | 40.0             | 41.6              | 46.6                  | 47.7                        |
| Net income per common share                    | .38              | .39               | .45                   | .46                         |
| Net income per common share, assuming dilution | .37              | .39               | .44                   | .45                         |
| =====  |                  |                   |                       |                             |

- /(1)/ During the fourth quarter of 1998, 1997 and 1996, certain inventories were reduced, resulting in the liquidation of LIFO inventory. The effect was to reduce cost of products sold by \$1.9 million, \$3 million and \$1.7 million, respectively.
- /(2)/ Net income for the third quarter of 1996 includes income of \$1.4 million, or \$.01 per common share, related to the net gain on divestiture and restructuring charges.
- /(3)/ The Company's 1998 fiscal year reflected a 53-week period compared to 52-week periods in 1997 and 1996. The extra week in 1998 was reflected in the fourth quarter.

NOTE 12. SUBSEQUENT EVENTS

On January 12, 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. Zweckform produces labels, films and specialty papers for use with personal computers, desktop printers and copiers. Zweckform had sales of approximately \$120 million in 1997. The Company has a substantial majority position in the venture.

On January 26, 1999, the Company announced plans for a major realignment of the Company's cost structure, which will include a one-time restructuring charge in the first quarter of 1999, designed to increase operating efficiencies and improve profitability. The restructuring will result in a one-time pretax charge of \$60 million to \$65 million, or \$.40 to \$.42 per diluted share on an after-tax basis. The restructuring charge will include severance costs, related asset write-offs, and other one-time expenses. The Company will close eight facilities around the world and eliminate approximately 1,500 positions. In addition, a portion of the restructuring program will involve the consolidation of some of its office products manufacturing facilities into a new facility in Northern Mexico, which will involve the addition of some positions in the year 2000.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Avery Dennison:

We have audited the accompanying consolidated balance sheet of Avery Dennison Corporation and subsidiaries as of January 2, 1999 and December 27, 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 2, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above, which appear on pages 34 through 48 of this Annual Report, present fairly, in all material respects, the consolidated financial position of Avery Dennison Corporation and subsidiaries as of January 2, 1999 and December 27, 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP  
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PricewaterhouseCoopers LLP  
Los Angeles, California  
January 26, 1999

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)  
fctc@em.fcncbd.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 29, 1999, in the Conference Center of the Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

FAX-ON-DEMAND

To obtain news releases on Avery Dennison earnings, dividends or other activities, dial our 24-hour fax-on-demand service at (800) 947-1093, and follow the voice prompts.

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 into their website 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

Miller Corporate Center  
150 North Orange Grove Boulevard  
Pasadena, California 91103  
(626) 304-2000

Mailing Address:  
P.O. Box 7090  
Pasadena, California 91109-7090  
Fax: (626) 792-7312

INVESTOR RELATIONS CONTACT

Wayne H. Smith, Vice President and Treasurer  
(626) 304-2000  
investorcom@averydennison.com

WORLDWIDE WEB SITES

<http://www.averydennison.com>  
<http://www.avery.com> (direct address for Avery-brand office and consumer products)  
<http://www.fasson.com> (direct address for Fasson-brand products)

PRODUCT INFORMATION

For information about Avery Dennison office products and services, call the Consumer Service Center toll-free at (800) 252-8379.

Avery Dennison Corporation

STOCK AND DIVIDEND DATA

Common shares of Avery Dennison are listed on the New York and Pacific stock exchanges.

Ticker symbol: AVY

|                | 1998    |          | 1997   |         |
|----------------|---------|----------|--------|---------|
|                | High    | Low      | High   | Low     |
| Market Price   |         |          |        |         |
| First Quarter  | 54 3/16 | 41 9/16  | 43 1/2 | 33 3/8  |
| Second Quarter | 55 5/16 | 49 11/16 | 39 5/8 | 35 1/8  |
| Third Quarter  | 60 3/4  | 47 1/16  | 44 1/8 | 38 5/16 |
| Fourth Quarter | 49 5/8  | 40 7/8   | 43 3/4 | 38 1/4  |

Prices shown represent closing prices on the NYSE.

|                            | 1998 | 1997 |
|----------------------------|------|------|
| Dividends Per Common Share |      |      |
| First Quarter              | .21  | .17  |
| Second Quarter             | .21  | .17  |
| Third Quarter              | .21  | .17  |
| Fourth Quarter             | .24  | .21  |
| Total                      | .87  | .72  |

Number of shareholders of record as of year end 1998: 14,209

| NAME OF CURRENT SUBSIDIARY                                   | JURISDICTION IN WHICH ORGANIZED |
|--|---------------------------------|
| 1 A-D Holdings Argentina S.A.                                | Argentina                       |
| 2 A.V. Chemie AG   | Switzerland                     |
| 3 ADC Philippines, Inc.                                      | Philippines                     |
| 4 AEAC, Inc.   | Delaware                        |
| 5 Avery (China) Company Limited                              | China                           |
| 6 Avery Automotive Limited                                   | United Kingdom                  |
| 7 Avery Corp.  | Delaware                        |
| 8 Avery de Mexico S.A. De C.V.                               | Mexico                          |
| 9 Avery Dennison (Fiji) Limited                              | Fiji                            |
| 10 Avery Dennison (Hong Kong) Limited                        | Hong Kong                       |
| 11 Avery Dennison (India) Private Limited                    | India                           |
| 12 Avery Dennison (Ireland) Limited                          | Ireland                         |
| 13 Avery Dennison (Malaysia) Sdn. Bhd.                       | Malaysia                        |
| 14 Avery Dennison (Retail) Limited                           | Australia                       |
| 15 Avery Dennison (Thailand) Ltd.                            | Thailand                        |
| 16 Avery Dennison Argentina S.A.                             | Argentina                       |
| 17 Avery Dennison Australia Group Holdings Pty Limited       | Australia                       |
| 18 Avery Dennison Australia Limited                          | Australia                       |
| 19 Avery Dennison Belgie N.V.                                | Belgium                         |
| 20 Avery Dennison C.A.                                       | Venezuela                       |
| 21 Avery Dennison Canada Inc.                                | Canada                          |
| 22 Avery Dennison Chile S.A.                                 | Chile                           |
| 23 Avery Dennison Colombia S.A.                              | Colombia                        |
| 24 Avery Dennison Converted Products de Mexico, S.A. de C.V. | Mexico                          |
| 25 Avery Dennison Coordination Center N.V.                   | Belgium                         |
| 26 Avery Dennison Corporation                                | Delaware                        |
| 27 Avery Dennison Danmark A/S                                | Denmark                         |
| 28 Avery Dennison Deutschland GmbH                           | Germany                         |
| 29 Avery Dennison do Brasil Ltda.                            | Brazil                          |
| 30 Avery Dennison Dover S.A.                                 | Argentina                       |
| 31 Avery Dennison Etiket Ticaret Limited Sirketi             | Turkey                          |
| 32 Avery Dennison Foreign Sales Corporation                  | Barbados                        |
| 33 Avery Dennison France S.A.                                | France                          |
| 34 Avery Dennison Health Management Corporation              | California                      |
| 35 Avery Dennison Holding AG                                 | Switzerland                     |
| 36 Avery Dennison Holding GmbH                               | Germany                         |
| 37 Avery Dennison Holdings Limited                           | Australia                       |
| 38 Avery Dennison Hong Kong B.V.                             | Hong Kong                       |
| 39 Avery Dennison Hungary Limited                            | Hungary                         |
| 40 Avery Dennison Iberica, S.A.                              | Spain                           |
| 41 Avery Dennison Italia S.p.a.                              | Italy                           |
| 42 Avery Dennison Korea Limited                              | Korea                           |
| 43 Avery Dennison Luxembourg S.A.                            | Luxembourg                      |
| 44 Avery Dennison Materials France S.a.r.l.                  | France                          |
| 45 Avery Dennison Materials GmbH                             | Germany                         |
| 46 Avery Dennison Materials Ireland Limited                  | Ireland                         |
| 47 Avery Dennison Materials Nederland B.V.                   | Netherlands                     |
| 48 Avery Dennison Materials Pty Limited                      | Australia                       |

## NAME OF CURRENT SUBSIDIARY

## JURISDICTION IN WHICH ORGANIZED

|    |  |                |
|----|--|----------------|
| 49 | Avery Dennison Materials U.K. Limited                | United Kingdom |
| 50 | Avery Dennison Mexico S.A. de C.V.                   | Mexico         |
| 51 | Avery Dennison Norge A/S                             | Norway         |
| 52 | Avery Dennison Office Products (Pty.) Ltd.           | South Africa   |
| 53 | Avery Dennison Office Products Company               | Nevada         |
| 54 | Avery Dennison Office Products Italia S.r.l.         | Italy          |
| 55 | Avery Dennison Office Products Pty Limited           | Australia      |
| 56 | Avery Dennison Office Products U.K. Limited          | United Kingdom |
| 57 | Avery Dennison Osterreich GmbH                       | Austria        |
| 58 | Avery Dennison Overseas Corporation                  | Massachusetts  |
| 59 | Avery Dennison Polska Sp. z o.o.                     | Poland         |
| 60 | Avery Dennison Printer Labels A/S                    | Denmark        |
| 61 | Avery Dennison Scandinavia A/S                       | Denmark        |
| 62 | Avery Dennison Schweiz AG                            | Switzerland    |
| 63 | Avery Dennison Security Printing Europe A/S          | Denmark        |
| 64 | Avery Dennison Singapore (Pte) Ltd                   | Singapore      |
| 65 | Avery Dennison South Africa (Proprietary) Limited    | South Africa   |
| 66 | Avery Dennison Suomi OY                              | Finland        |
| 67 | Avery Dennison Sverige AG                            | Sweden         |
| 68 | Avery Dennison Systemes d'Etiquetage France S.A.S.   | France         |
| 69 | Avery Dennison U.K. Limited                          | United Kingdom |
| 70 | Avery Dennison Zweckform Office Products Europe GmbH | Germany        |
| 71 | Avery Dennison, S.A. de C.V.                         | Mexico         |
| 72 | Avery Etiketsystemer A/S                             | Denmark        |
| 73 | Avery Etiketten B.V.                                 | Netherlands    |
| 74 | Avery Etikettsystem Svenska AB                       | Sweden         |
| 75 | Avery Foreign Sales Corporation B.V.                 | Netherlands    |
| 76 | Avery Graphic Systems, Inc.                          | Delaware       |
| 77 | Avery Guidex Limited                                 | United Kingdom |
| 78 | Avery Holding B.V.                                   | Netherlands    |
| 79 | Avery Holding Limited                                | United Kingdom |
| 80 | Avery Holding S.A.                                   | France         |
| 81 | Avery Label (Northern Ireland) Limited               | United Kingdom |
| 82 | Avery Maschinen GmbH                                 | Germany        |
| 83 | Avery Pacific Corporation                            | California     |
| 84 | Avery Properties Pty. Limited                        | Australia      |
| 85 | Avery Research Center, Inc.                          | California     |
| 86 | Avery, Inc.  | California     |
| 87 | Cardinal Insurance Limited                           | Bermuda        |
| 88 | Delhi International Sales Corporation                | Barbados       |
| 89 | Dennison do Brasil Industria e Comercio Ltda.        | Brazil         |
| 90 | Dennison International Company                       | Massachusetts  |
| 91 | Dennison International Holding B.V.                  | Netherlands    |
| 92 | Dennison Ireland Limited                             | Ireland        |
| 93 | Dennison Manufacturing (Trading) Ltd.                | United Kingdom |
| 94 | Dennison Manufacturing Company                       | Nevada         |
| 95 | Dennison Monarch Systems, Inc.                       | Delaware       |
| 96 | Dennison Office Products Limited                     | Ireland        |
| 97 | DMC Development Corporation                          | Nevada         |

| NAME OF CURRENT SUBSIDIARY                      | JURISDICTION IN WHICH ORGANIZED |
|---|---------------------------------|
| 98 Etikettrykkeriet A/S                         | Denmark                         |
| 100 Fasson Canada Inc.                          | Canada                          |
| 101 Fasson Portugal Produtos Auto-Adesivos Lda. | Portugal                        |
| 102 LAC Retail Systems Limited                  | United Kingdom                  |
| 103 Monarch Industries, Inc.                    | New Jersey                      |
| 104 Plastimpres S.A.                            | Argentina                       |
| 105 PT Avery Dennison Indonesia                 | Indonesia                       |
| 106 Retail Products Limited                     | Ireland                         |
| 107 Security Printing Division, Inc.            | Delaware                        |
| 108 Societe Civile Immobiliere Sarrail          | France                          |
| 109 Spartan International, Inc.                 | Michigan                        |
| 110 Spartan Plastics Canada, Ltd                | Canada                          |
| 112 Tiadeco Participacoes, Ltda.                | Brazil                          |
| 113 Zweckform Austria GmbH                      | Austria                         |
| 114 Zweckform France S.a.r.l.                   | France                          |
| 115 Zweckform U.K. Ltd.                         | United Kingdom                  |



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.

000008818  
 AVERY DENNISON

|           |             |
|-----------|-------------|
| 12-MOS    |             |
|           | JAN-02-1999 |
|           | DEC-28-1997 |
|           | JAN-02-1999 |
|           | 18,500      |
|           | 0           |
|           | 471,300     |
|           | 16,500      |
|           | 230,600     |
|           | 802,000     |
|           | 1,932,600   |
|           | 897,000     |
|           | 2,142,600   |
| 664,300   | 465,900     |
| 0         | 0           |
|           | 124,100     |
|           | 709,200     |
| 2,142,600 | 3,459,900   |
|           | 3,459,900   |
|           | 2,315,400   |
|           | 2,315,400   |
|           | 773,200     |
|           | 0           |
|           | 34,600      |
|           | 336,700     |
|           | 113,400     |
| 223,300   | 0           |
|           | 0           |
|           | 0           |
|           | 223,300     |
|           | 2.20        |
|           | 2.15        |

Represents EPS-Basic

## Exhibit 99

CAUTIONARY STATEMENT FOR PURPOSES OF THE  
"SAFE HARBOR" PROVISIONS OF THE  
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information provided by the Company may contain certain forward-looking information, as defined by the Private Securities Litigation Reform Act of 1995 (the "Act"). This may relate to such matters as sales, unit volume, income, margins, earnings per share, return on equity, return on total capital, economic value added, capital expenditures, dividends, cash flow, debt to capital ratios, growth rates, future economic performance and trends, short- and long-term plans (including financing, operating and strategic plans) and objectives for future operations as well as assumptions relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called "safe harbor" provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in predicting the outcome of future events. Therefore, actual results may differ materially from those expressed or implied.

The ability of the Company to attain management's goals and objectives are materially dependent on numerous factors, including those set forth herein.

Operating results are importantly influenced by general economic conditions and growth (or contraction) of the principal economies in which the Company operates, including the United States, Canada, Europe, Latin America and the Asia-Pacific region. All economies in which the Company operates are cyclical and the rates of growth (or contraction) can vary substantially. More than one-third of the Company's sales and one-quarter of the income from operations (before interest and taxes) are in foreign currencies, which fluctuate in relation to one another and to the United States dollar. Fluctuations in currencies can cause transaction, translation and other losses to the Company. The Company's international operations are strongly influenced by the political, 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 of raw materials and the ability to control or pass on costs of raw materials and labor. Inflationary and other increases in the costs of raw materials and labor have occurred in the past and are expected to recur, and the Company's ability to reflect these costs in increased selling prices for its products, increasing its productivity, and focusing on higher profit businesses, has allowed the Company generally to maintain its margins. Past performance may or may not be replicable in the future.

The Company's customers are widely diversified, but in certain portions of its business, industry concentration has increased the importance and decreased the number of significant customers. In particular, sales of the Company's consumer products in the United States are increasingly concentrated in a few major customers, principally discount office product superstores and distributors. These developments, including increased credit risks, may increase pressures on the Company's margins.

A significant portion of the revenues in each of its recent fiscal years has been represented by sales of products introduced by the Company within five years prior to the period in question. The Company's ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights is therefore essential to maintaining the Company's growth, which ability cannot be assured.

Other factors include costs and other effects of interest rate increases, legal and administrative cases and proceedings (whether civil, such as environment and product related, or criminal), settlements and investigations, claims, and changes in those items; developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses; adoption of new, or change in, accounting policies and practices and the application of such policies and practices; changes in business mix, rates of growth and profitability may be influenced by business reorganizations or combinations; loss of a significant 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.