

May 6, 2004

Dear Shareholder:

Please find enclosed information on your Company's First Quarter results for 2004.

Your Board of Directors is gratified in seeing the continued improvement in earnings excluding the negative effect of foreign exchange. Our primary personal care customers are enjoying good growth in their businesses and CCL has partnered with its customers to expand in new markets and with new products. The strategy to take advantage of organic growth in our businesses by increasing capital spending and by making acquisitions that are accretive to earnings is meeting our expectations.

In recognition of the strong cash flow generated by your Company, the Board of Directors is pleased to approve an increase in the quarterly dividend payable on June 30, 2004. This 11% increase raises the dividend to \$0.10 from \$0.09 per Class B Non-Voting Share and \$0.0875 from \$0.0775 per Class A Voting Share.

As you may be aware, conference calls with our stakeholders are always held following the release of our quarterly results. These calls are made to ensure that all stakeholders can gain further insight into our business in keeping with good corporate governance practices. Presentation material used during the conference calls is posted on our web site and an audio recording of the calls is also available. Instructions for accessing these services are set out at the end of this earnings release.

We encourage all shareholders to access our web site [www.cclind.com](http://www.cclind.com) on a regular basis for investor and company news including scheduled dates for future earnings releases. If you would like to have future Press Releases e-mailed to you at the time they are issued, please complete the Information Request Form under the Investor Relations Section on our Web Site. You may also request a direct mailing of all Press Releases by writing to us, attention Christene Duncan.

Yours truly,

Jon K. Grant  
Chairman of the Board

**Investor Update**

1. 2004 First Quarter Results and Dividend Release
2. Consolidated Statements of Earnings and Retained Earnings
3. Consolidated Balance Sheets
4. Consolidated Statements of Cash Flows
5. Notes to Interim Consolidated Financial Statements
6. First Quarter Management's Discussion and Analysis
7. CCL forms European Joint Venture with COLEP Press Release

News Release

Stock Symbol: TSX – CCL.A and CCL.B

For Immediate Release – Thursday, May 6, 2004

**CCL Releases First Quarter 2004 Results and Increases Dividend**

<u>Results Summary</u>  (in millions of Cdn dollars except per share data)	<u>For First Quarters Ended March 31st</u>		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Sales	\$ <u>390.1</u>	\$ <u>426.8</u>	(8.6)
Unusual items - net	\$ <u>-</u>	\$ <u>(2.4)</u>	
Net earnings	\$ <u>14.8</u>	\$ <u>14.1</u>	5.0
Per Class B share			
Net earnings	\$ <u>0.46</u>	\$ <u>0.43</u>	7.0
Unusual items included in net earnings - net loss	\$ <u>-</u>	\$ <u>(0.04)</u>	
Number of shares outstanding (in 000s)			
Weighted average for the period	<u>32,238</u>	<u>32,858</u>	(1.9)
Actual at period-end	<u>32,423</u>	<u>32,366</u>	

**Toronto, May 6, 2004** - CCL Industries Inc., a world leader in developing manufacturing, packaging and labelling solutions for the consumer products industry, announced today its financial results for the first quarter ended March 31, 2004 and an increase in its quarterly dividend.

Sales for the first quarter of 2004 of \$390.1 million were 9% below the \$426.8 million registered in 2003. Financial comparisons to the prior year's results have been affected primarily by the appreciation of the Canadian dollar relative to the U.S. dollar. In addition, business acquisitions net of dispositions have impacted the comparison to prior periods. Excluding the effect of currency changes and divestitures, sales were up 6%.

Net earnings for the first quarter of \$14.8 million were up 5% from the \$14.1 million recorded in the first quarter of 2003. There were no unusual items in the first quarter of 2004. Net earnings were impacted by an unusual loss of \$2.4 million before tax (\$1.5 million after tax) in the first quarter of 2003.

Earnings per Class B share were \$0.46 in the first quarter of 2004 compared to the \$0.43 earned in the same period last year, an increase of 7%. The unusual item in the first quarter of 2003 lowered that quarter's reported earnings per Class B share by \$0.04.

The United States dollar, the base currency of approximately 55% of CCL's sales, has depreciated by 12% against the Canadian dollar in the first quarter versus the first quarter of last year. This has had two effects on earnings: first, the impact of currency translation on reported results for all currencies reduced comparative earnings by \$0.03 per share; secondly, the Company's Canadian plants hedged their sales to U.S. customers by selling forward U.S. dollars at much higher exchange rates in 2003. Since the U.S. dollar has weakened, the change in the exchange rates has reduced comparative earnings by \$0.05 per share.

Donald G. Lang, President and Chief Executive Officer said, "We are pleased with the overall performance of our business considering the currency challenges that we have faced in the first quarter. Most of our name brand personal care customers have experienced improvements in their businesses so far this year and we have benefited from these healthier market conditions. Our strategy to grow in value-added products and geographies to complement our customers' marketing plans is paying off. Our announcement yesterday on the formation of a European joint venture with RAR - Sociedade de Controle (Holding), S.A., based in Portugal, combining our contract manufacturing operations, is a further step in supporting this strategy. In addition, the disposition of non-core operations in the last couple of years has allowed management at all levels to better focus on the future."

Mr. Lang continued, "Our Label Division has exceeded all financial expectations in the first quarter with the strong performance of its recent acquisitions, particularly in Europe. Earnings from our Custom Manufacturing Division were below last year due to unfavourable currency, continuing margin pressures and volume losses incurred in 2003, despite the improved performance in Europe. However, we are well along the way to replacing the lost volume as we have been successful in landing new contracts and are negotiating with major customers for further opportunities to produce their products. Our Container sales are very strong on the aluminum side as we try to keep up with record demand by installing more capacity, however, currency and production issues have temporarily reduced profitability. In Plastic Packaging, we continue to see

excess capacity in the market affecting our volume and pricing along with unfavourable product mix and manufacturing inefficiencies. We are continuing to work hard to rectify these issues.”

Mr. Lang concluded, “Our outlook for the year is positive as customer demand continues to remain reasonably buoyant. Cash flow from our business continues to be very good in this environment. I am pleased to inform you that your Board of Directors has approved a dividend increase of 11% and has declared the payment of a dividend of \$0.0875 on the Class A Voting shares and \$0.10 on the Class B non-voting shares payable June 30, 2004 to shareholders of record at the close of business on June 15, 2004. This is the third dividend increase in the last five years for a total increase of 43%”.

The Company’s financial position continues to be strong. At the end of the first quarter, cash and cash equivalents amounted to \$60.2 million while the current portion of long-term debt was a modest \$14.9 million. Net debt amounted to \$367.4 million at March 31, 2004, \$2.7 million lower than the \$370.1 million level a year ago. Net debt to total capitalization at the end of the first quarter of 2004 was 45.9%, down from 47.6% a year ago and slightly above the 45.2% at the end of 2003. Book value per share was \$13.42 at March 31, 2004, up over 6% from the \$12.62 recorded a year earlier.

CCL Industries Inc. (TSX CCL.A and CCL.B), provides state-of-the-art packaging solutions, including specialty aluminum and plastic packaging and innovative product labelling, to some of the world’s largest producers of consumer brands, helping them to get their products to market quickly and cost-effectively. CCL develops solutions for producers of leading consumer brands in personal care, cosmetic, pharmaceutical, household and specialty food products. With headquarters in Toronto, Canada, CCL employs 6,100 people and operates 37 production facilities in North and Central America, Europe and Asia.

Statements contained in this Press Release, other than statements of historical facts, are forward-looking statements subject to a number of uncertainties that could cause actual events or results to differ materially from some statements made.

For more information, contact:

Steve Lancaster

Executive Vice President  
and Chief Financial Officer

416-756-8517

Note: CCL will hold a conference call at 10:00 a.m. EST on Friday, May 7, 2004 to discuss these results.

To access this call, please dial 1-800-387-2917 or 416-620-5690.

Post-View service will be available from Friday, May 7, 2004 at 12:00 p.m. EST until Sunday, June 6, 2004 at 12:00 p.m. EST

Dial: 1-800-558-5253; Access Code: 21192479.

For more details on CCL, visit our web site - [www.cclind.com](http://www.cclind.com)

Financial Tables follow ...

**CCL INDUSTRIES INC.**  
**2004 First Quarter**  
**Consolidated Statements of Earnings and Retained Earnings**

Unaudited	First quarters ended March 31st		
(in millions of Cdn dollars, except per share data)	2004	2003	% Change
<b>Sales</b>	\$ 390.1	\$ 426.8	(8.6)
<b>Income from operations before undernoted items:</b>	<b>43.3</b>	<b>45.9</b>	<b>(5.7)</b>
Depreciation, and amortization of other assets	16.9	18.3	
Interest expense, net	5.3	6.1	
	<b>21.1</b>	<b>21.5</b>	<b>(1.9)</b>
Unusual items - net loss	-	(2.4)	
<b>Earnings before income taxes</b>	<b>21.1</b>	<b>19.1</b>	<b>10.5</b>
Income taxes	6.3	5.0	
<b>Net earnings</b>	<b>\$ 14.8</b>	<b>\$ 14.1</b>	<b>5.0</b>
<b>Retained earnings, beginning of period</b>	227.1	199.4	
Net earnings	14.8	14.1	
Repurchase of shares	-	(11.4)	
	<b>241.9</b>	<b>202.1</b>	
Less dividends:			
Class A shares	0.2	0.2	
Class B shares	2.7	2.6	
	2.9	2.8	
<b>Retained earnings, end of period</b>	<b>\$ 239.0</b>	<b>\$ 199.3</b>	
<b>Earnings per share</b>			
Class B	\$ 0.46	\$ 0.43	7.0
Class A	\$ 0.45	\$ 0.42	7.1
<b>Diluted earnings per share</b>			
Class B	\$ 0.45	\$ 0.42	7.1
Class A	\$ 0.44	\$ 0.41	7.3

See notes to interim consolidated financial statements.

**CCL INDUSTRIES INC.**  
**2004 First Quarter**  
**Consolidated Balance Sheets**

Unaudited	March 31st	March 31st	Dec 31st
(in millions of Cdn dollars, except book value per share data)	<b>2004</b>	<b>2003</b>	<b>2003</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 60.2	\$ 114.5	\$ 81.8
Accounts receivable - trade	197.7	216.4	167.0
Other receivables and prepaid expenses	27.0	30.9	30.0
Income and other taxes recoverable	-	2.6	-
Inventories	115.0	124.2	114.1
	<u>399.9</u>	<u>488.6</u>	<u>392.9</u>
Capital assets	454.1	480.2	442.8
Other assets	58.0	26.7	58.2
Goodwill	299.8	259.5	298.0
<b>Total assets</b>	<b>\$ 1,211.8</b>	<b>\$ 1,255.0</b>	<b>\$ 1,191.9</b>
<b>Liabilities</b>			
Current liabilities			
Bank advances	\$ 5.0	\$ -	\$ 7.5
Accounts payable and accrued liabilities	251.7	257.1	253.9
Income and other taxes payable	5.7	-	0.3
Current portion of long-term debt	14.9	15.5	14.8
	<u>277.3</u>	<u>272.6</u>	<u>276.5</u>
Long-term debt	407.7	469.1	404.5
Other long-term items	24.1	31.2	25.0
Future income taxes	69.3	75.5	67.0
<b>Total liabilities</b>	<b>778.4</b>	<b>848.4</b>	<b>773.0</b>
<b>Shareholders' equity</b>			
Share capital (note 2)	188.8	186.5	188.0
Executive share purchase plan loans	(1.8)	(1.9)	(1.8)
Contributed surplus	0.1	-	-
Retained earnings	239.0	199.3	227.1
Foreign currency translation adjustment	7.3	22.7	5.6
<b>Total shareholders' equity</b>	<b>433.4</b>	<b>406.6</b>	<b>418.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,211.8</b>	<b>\$ 1,255.0</b>	<b>\$ 1,191.9</b>

See notes to interim consolidated financial statements.

**CCL INDUSTRIES INC.**  
**2004 First Quarter**  
**Consolidated Statements of Cash Flows**

Unaudited	First quarters ended March 31st	
(in millions of Cdn dollars)	2004	2003
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net earnings	\$ 14.8	\$ 14.1
Items not requiring cash:		
Depreciation, and amortization of other assets	16.9	18.3
Stock-based compensation	0.1	-
Future income taxes	1.8	2.5
Unusual items	-	1.9
	33.6	36.8
Net change in non-cash working capital	(24.9)	(22.0)
Cash provided by operating activities	8.7	14.8
<b>Financing activities</b>		
Retirement of long-term debt	(1.4)	(1.2)
Decrease in bank advances	(2.6)	(0.4)
Issue of shares	0.7	0.1
Repurchase of shares	-	(17.2)
Dividends	(2.9)	(2.8)
Cash used for financing activities	(6.2)	(21.5)
<b>Investing activities</b>		
Additions to capital assets	(23.3)	(27.2)
Proceeds on disposals	-	1.2
Other	(1.3)	(0.6)
Cash used for investing activities	(24.6)	(26.6)
Effect of exchange rate changes on cash	0.5	(8.3)
Decrease in cash	(21.6)	(41.6)
Cash and cash equivalents at beginning of period	81.8	156.1
Cash and cash equivalents at end of period	\$ 60.2	\$ 114.5

Certain 2003 quarterly figures have been restated for comparative purposes

Cash and cash equivalents are defined as cash and short-term investments.

See notes to interim consolidated financial statements.

**CCL INDUSTRIES INC.**

**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**PERIODS ENDED MARCH 31, 2004 AND 2003**

**(Tabular amounts in millions of Cdn dollars except share data)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The disclosures contained in these unaudited interim consolidated financial statements do not include all of the requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2003.

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated statements, except that: starting January 1, 2004, the Company adopted (1) the new Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 13 on "Hedging Relationships" and (2) the new CICA handbook section 3110 "Asset Retirement Obligations" which was established for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. This standard requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. Neither this new guideline nor the new standard have a material impact on the Company.

**2. SHARE CAPITAL**

**Issued and outstanding**

Actual number of shares:

	<u>March 31.</u> <u>2004</u>	<u>March 31.</u> <u>2003</u>	<u>December 31.</u> <u>2003</u>
Class A	2,442,424	2,446,899	2,442,424
Class B	29,980,819	29,919,244	29,917,419
Less: Executive Share Purchase Plan shares	(150,000)	(150,000)	(150,000)
Total	<u>32,273,243</u>	<u>32,216,143</u>	<u>32,209,843</u>

Year-to-date weighted average number of shares:

	<u>March 31.</u> <u>2004</u>	<u>March 31.</u> <u>2003</u>	<u>December 31.</u> <u>2003</u>
Total	<u>32,238,010</u>	<u>32,857,927</u>	<u>32,348,626</u>

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED MARCH 31, 2004 AND 2003

(Tabular amounts in millions of Cdn dollars except share data)

3. SEGMENTED INFORMATION

Industry segments

	First quarters ended March 31st			
	Sales		Operating income	
	2004	2003	2004	2003
Custom Manufacturing	\$ 203.3	\$ 229.3	\$ 8.5	\$ 11.5
Container	50.2	88.7	4.0	9.4
Label	136.6	108.8	16.2	9.2
<b>Total operations</b>	<b>\$ 390.1</b>	<b>\$ 426.8</b>	<b>28.7</b>	<b>30.1</b>
Corporate expense			(2.3)	(2.5)
			26.4	27.6
Interest expense, net			5.3	6.1
			21.1	21.5
Unusual items - net loss			-	(2.4)
Earnings before income taxes			21.1	19.1
Income taxes			6.3	5.0
<b>Net earnings</b>			<b>\$ 14.8</b>	<b>\$ 14.1</b>

	<u>Identifiable Assets</u>		<u>Goodwill</u>		<u>Depreciation &amp; Amortization</u>		<u>Capital Expenditures</u>	
	<u>March 31st</u>	<u>Dec 31st</u>	<u>March 31st</u>	<u>Dec 31st</u>	<u>Three months ended March 31st</u>		<u>Three months ended March 31st</u>	
	2004	2003	2004	2003	2004	2003	2004	2003
Custom Manufacturing	\$ 340.0	\$ 348.5	\$ 35.7	\$ 35.6	\$ 4.9	\$ 5.1	\$ 4.2	\$ 3.2
Container	262.9	382.3	55.1	54.6	4.3	7.1	12.1	10.0
Label	519.4	392.2	209.0	207.8	7.4	5.9	6.8	14.0
Corporate	89.5	132.0	-	-	0.3	0.2	0.2	-
<b>Total</b>	<b>\$ 1,211.8</b>	<b>\$ 1,255.0</b>	<b>\$ 299.8</b>	<b>\$ 298.0</b>	<b>\$ 16.9</b>	<b>\$ 18.3</b>	<b>\$ 23.3</b>	<b>\$ 27.2</b>

Certain 2003 quarterly figures have been restated for comparative purposes

4. SUBSEQUENT EVENT

On May 5, 2004, the Company signed a joint venture agreement with RAR - Sociedade de Controle (Holding), S.A., based in Portugal. This agreement provides for the merger of CCL's Custom Manufacturing European operations with COLEP Europe. CCL's contribution for a 40% interest in the joint venture will be its two plants in the U.K. and Germany and cash of approximately \$18.5 million. Closing is subject to the completion of customary due diligence and regulatory approvals and is expected to occur in July 2004.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **First Quarters ended March 31, 2004 and 2003**

This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the first quarters ended March 31, 2004 and 2003 and an update to the 2003 Annual MD&A document. This interim MD&A should be read in conjunction with the Company's March 31, 2004 unaudited first quarter financial statements released on May 6, 2004 and the 2003 Annual MD&A document, which forms part of the CCL INDUSTRIES INC. 2003 Annual Report, dated February 13, 2004.

The financial statements have been prepared in accordance with Canadian generally accepted principles and in accordance with the requirements of section 1751 of the CICA Handbook. Unless otherwise noted, both these financial statements and this interim MD&A are expressed in Canadian dollars. CCL's Audit Committee and its Board of Directors have reviewed this interim MD&A to ensure consistency with the approved strategy of the Company.

Management's Discussion and Analysis contains forward-looking statements, including statements concerning possible or assumed future results of operations of the Company. Forward-looking statements typically are preceded by, followed by or include the words "believes", "expects", "anticipates", "estimates", "intends", "plans" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including, but not limited to: the impact of competition; consumer confidence and spending preferences; general economic conditions; currency exchange rates; and CCL's ability to attract and retain qualified employees and, as such, the Company's results could differ materially from those anticipated in these forward-looking statements.

#### **Overview of Business Conditions**

The improvement in the economies of North America and Western Europe in the first quarter of 2004 compared to the sluggish growth of 2003 was apparent in the consumer markets in which CCL participates. Specifically, the U.S. consumer non-durable products index showed an increase in manufacturing production of 2.1% in the first quarter of 2004. This compares to a more stagnant growth of only 0.1% for all of last year. In Europe, there also appears to have been a modest improvement in demand for these products.

More specifically to CCL, many of our international marketing customers have reported strong volume gains in their first quarter earnings releases. There has also generally been an increase in new product introductions by these marketers with a view to higher growth and increased market share. These positive industry developments have been experienced in many of CCL's businesses and locations but certain segments have continued to be sluggish and slower to benefit from this growth.

#### **Review of Consolidated Operations**

Sales for the first quarter of 2004 of \$390.1 million were 9% below the \$426.8 million achieved in 2003. Financial comparisons to prior year's results have been affected by the appreciation of the Canadian dollar relative to the U.S. dollar. In addition, business acquisitions net of dispositions have impacted the comparison to prior periods. Excluding the effect of changing foreign currency translation rates and business dispositions, sales increased by 6%. On a comparative

volume basis, sales increased in the Label Division and Aluminum Container business, but decreased in the Custom Manufacturing Division and Plastic Packaging unit of the Container Division.

Net earnings for the first quarter of \$14.8 million were up 5% from the \$14.1 million recorded in the first quarter of 2003. There were no unusual items in the first quarter of 2004. Net earnings were impacted by an unusual loss of \$2.4 million before tax (\$1.5 million after tax) in the first quarter of 2003. In addition to the negative effect from changes in currency exchange rates, operating income was lower in the Custom Manufacturing and Container Divisions but was partially offset by strong performance in the Label Division. Net interest expense, excluding the currency impact, and corporate costs were modestly lower than last year. The overall effective income tax rate increased to 30% in the first quarter of 2004 against a rate of 26% in 2003.

Earnings per Class B share were \$0.46 in the first quarter of 2004 compared to the \$0.43 earned in the same period last year, an increase of 7%. The unusual item in 2003 lowered that quarter's reported earnings per Class B share by \$0.04. There were no unusual items this year. Diluted earnings per Class B share were \$0.01 lower for the quarter in both 2004 and 2003.

Approximately 80% of CCL's sales are generated in foreign currencies and are then translated into Canadian dollars for reporting purposes. Since January 2003, the U.S. dollar in particular has depreciated against the Canadian dollar. The U.S. currency is the base currency for approximately 55% of CCL's total sales and has depreciated by 12% compared to the Canadian dollar in the first quarter versus last year. Changes in foreign exchange rates, primarily the depreciation of the U.S. dollar, have reduced earnings per share by \$0.03 for the quarter compared to 2003.

Additionally, CCL has a hedging program to lock in a portion of its expected U.S. dollar revenues earned in Canada. These hedge transactions were at an average rate of \$1.59 in the first quarter of 2003 but, due to the decline in the U.S. dollar over the last year, the average rate on these hedges was \$1.34 in the first quarter of 2004. The change in the rates on these currency transactions reduced comparative income before taxes by \$1.8 million in the first quarter of 2004 and reduced comparative earnings per share by \$0.05.

Net interest expense was \$5.3 million for the first quarter of 2004, down from \$6.1 million a year ago. The depreciation of the U.S. dollar has had the effect of reducing reported interest expense since CCL's borrowings are almost all denominated in U.S. dollars in the form of private placements from U.S. institutional investors. Net interest expense is net of interest earned on both short-term investments and Interest Rate Swaps. The Interest Rate Swap Agreements ("IRSA") have had the effect of converting U.S. dollar fixed rate debt

into U.S. dollar floating rate debt. The Company is amortizing a gain realized on the sale of an IRSA in 2001.

The unrealized gain on these agreements, as at March 31, 2004 amounted to approximately \$7.3 million. The effect of these four IRSAs has been to reduce interest expense by \$1.8 million in the first quarter of 2004 compared to a reduction of \$1.4 million in the first quarter of 2003. Interest coverage (defined as operating income before unusual items and interest expense divided by interest expense calculated on a 12-month rolling basis) improved to 4.5 times in 2004 compared to 3.8 times in 2003.

The income tax rate was 30.0% in the first quarter of this year and 26.1% in last year's first quarter. These effective tax rates are lower than the combined Canadian federal and provincial tax rates of 34.2% for the year 2004 and 32.5% for 2003 due to the benefit of lower tax rates in foreign subsidiaries net of income and expense items not subject to tax expense or tax recovery. Over the last year, the Company has used up tax loss carry-forwards in certain subsidiaries and has seen a change in mix to jurisdictions with higher tax rates.

There were no unusual items in the first quarter of 2004. The unusual item of \$2.4 million before tax or \$0.04 per Class B share in the first quarter of 2003 arose from restructuring costs related to the sale of the non-core "Series 400" product line of plastic closures which was manufactured in the Los Angeles Plastic Packaging facility.

The Company's financial position remains strong. As at March 31, 2004, cash and cash equivalents amounted to \$60.2 million compared to \$81.8 million as at December 31, 2003 and \$114.5 million as at March 31, 2003. This reduced level of cash since March 31, 2003 is due to the significant capital spending program and the acquisitions completed in 2003. As is usual in CCL's business, working capital increased in its traditional seasonal pattern in the first quarter of 2004 which was primarily the reason for the lower cash balance than year-end 2003. Net debt amounted to \$367.4 million at March 31, 2004, \$2.7 million lower than the \$370.1 million level of a year ago but \$22.4 million higher than the year-end 2003 net debt of \$345.0 million. The increase in net debt since December 31, 2003 is primarily due to the normal seasonal growth in working capital.

During the first quarters of 2004 and 2003, the Company generated cash from operations of \$33.6 million before the change in non-cash working capital. The expected seasonal build-up of working capital consumed \$24.9 million of this cash in 2004. In addition, \$23.3 million was spent on capital additions in the quarter as CCL continues to reinvest in its businesses to take advantage of current and future expected organic growth. The Company anticipates just over \$90 million in capital spending for the full year to improve operating efficiencies and to access new market opportunities. This level of capital spending is

expected to be slightly lower than the \$112 million spent in 2003 but still higher than the \$70 million of estimated depreciation and amortization in 2004.

Net debt to total capitalization at March 31, 2004 was 45.9%, down from 47.6% a year ago and modestly above the 45.2% at the end of 2003. Book value per share was \$13.42 at the end of the first quarter of 2004 which was higher than the \$12.62 at the end of the first quarter of 2003 and the year-end 2003 level at \$13.00. The increase is primarily the result of earnings retained in the Company.

## **Discussion of Divisional Business Segments**

### **Custom Manufacturing**

Operating Income for the first quarter of 2004 was \$8.5 million, down 26% from the \$11.5 million in the comparable period of 2003. Excluding the effect of currency translation and currency hedging as described below, operating income would have been down by 14% for the quarter compared to last year.

Sales in Custom Manufacturing were \$203.3 million in the first quarter of 2004, down 11% from \$229.3 million in the same quarter of 2003. If the effect of foreign currency translation was excluded, sales would have been down 6% year over year. In the third quarter of 2003, CCL exited the liquid filling business in Grimsby, U.K. which accounts for a part of this decrease. In addition, the Division experienced reduced demand and lost certain business due to competitive pricing during 2003, which continued into the first quarter of 2004. However, new contracts have been signed with customers and new customer business is being negotiated which could offset these losses in 2004 as the year progresses.

Income contribution continued to be negatively affected by softness in demand, increased margin pressures and the impact of the lower value of the U.S. dollar on the translated results. European results improved year over year, primarily in Germany, but were more than offset by reductions in North America. In addition, the Rexdale, Ontario operation sells a large part of its production to the United States market. During 2003, this operation hedged its profit margins by selling forward the U.S. dollar into Canadian dollars at the rate of \$1.59. However, as the U.S. dollar weakened, the contracts for the first quarter of 2004 were at \$1.34 which further reduced the Division's income by \$1.2 million compared to 2003.

In order to take advantage of customer and market opportunities, to reduce operating costs and to maintain the business, the Division spent \$4.2 million to purchase capital assets in the quarter compared to \$3.2 million in 2003. This compares to depreciation and amortization of \$4.9 million in the first quarter of 2004 and \$5.1 million in 2003.

On May 5, 2004, the Company signed a joint venture agreement with RAR – Sociedade de Controle (Holding), S.A., based in Portugal, which will merge the

Division's European Custom Manufacturing businesses located in the U.K. and Germany with COLEP Europe. CCL will also contribute approximately \$18.5 million which will result in a 40% ownership of the joint venture and COLEP will also contribute its metal packaging business. Closing is expected in July 2004, subject to normal due diligence and regulatory approvals.

The new entity will be the largest European contract manufacturer of personal care, cosmetic, over-the-counter medicated and household care products, with combined sales in 2003 of over Cdn \$460 million and is expected to be accretive to CCL's earnings. COLEP's increasing strength as a contract manufacturer in Europe makes this alliance of significant benefit to current and potential CCL and COLEP customers. The new venture has the added benefit of COLEP's existing Poland facility as a "beach-head" to the rapidly growing Eastern European market and will provide increased outsourcing and full service options to our international customer base.

### **Container**

Operating Income for the first quarter of 2004 was \$4.0 million, down 57% from the \$9.4 million earned in the first quarter of 2003. Excluding the effect of dispositions, currency translation and currency hedging as described below, operating income would have been down by 25% for the quarter compared to last year.

In August 2003, the Division sold four non-core business units. In the first quarter of 2003, these business units contributed \$30.0 million and \$2.9 million of sales and operating income respectively. In the first quarter of 2003, the Division also sold its Series 400 closure business.

Sales for this Division, when translated into Canadian dollars, decreased 43% in the first quarter of 2004 versus 2003. If the effect of foreign currency translation and dispositions were excluded, sales in the first quarter of 2004 would have decreased by 4% compared to the first quarter of 2003.

The Container Division continues to benefit from the strong demand for aluminum aerosol containers, the growth of aluminum bottles and other new applications for this technology. The backlog for aluminum container products continues to grow even as new capacity is added to meet this demand and to improve service levels. In the meantime, certain production requirements are being outsourced to satisfy this short-term situation. In the Plastic Packaging business, demand continues to be soft due to the increase in imports primarily from Europe and added industry capacity in North America.

In addition, the Penetanguishene, Ontario operation sells a large part of its production to the United States market. During 2003, this operation hedged its profit margins by selling forward the U.S. dollar into Canadian dollars at the rate of \$1.59. However, as the U.S. dollar has weakened, the contracts for the first

quarter of 2004 were at \$1.34, which further reduced the Division's income by \$0.6 million compared to last year.

Income for the Division has been further impacted by unplanned equipment repairs and a slower than planned ramping up of new capacity in the aluminum container business which has added costs and reduced expected output, and by unfavourable product mix and manufacturing inefficiencies including higher scrap rates in Plastic Packaging. In March, there was meaningful improvement in the new aluminum aerosol lines as the operation progresses through the learning curve.

The Container Division has invested \$12.1 million in capital so far in 2004 compared to \$10.0 million last year, to maintain and expand its manufacturing base and to reduce its production costs. Depreciation and amortization amounted to \$4.3 million in 2004 compared to \$7.1 million in 2003. The Division has now successfully installed two aluminum container lines with a third line expected to be up and running in the fall of 2004.

### **Label**

Operating Income for the first quarter of 2004 was \$16.2 million, up 76% from \$9.2 million in the first quarter of 2003. Excluding the effect of foreign currency translation, operating income in the first quarter of 2004 would have been up by 91% over last year.

Sales for the Label Division of \$136.6 million for the first quarter were up 26% from \$108.8 million in the same quarter last year. If the effect of foreign currency translation was excluded, sales were up 35% in the first quarter of 2004 compared to the same period in 2003. Sales growth was primarily driven by acquisitions and volume gains in the personal care market in North America and Europe. The North American Healthcare and Specialty business saw modest volume growth. Sales volumes and operating income in the original European operations were up significantly and the results of the 2003 European acquisitions in total were very strong.

During 2003, the Division completed a number of acquisitions to expand its business, emphasizing higher margin product lines and geographic expansion. In June 2003, the Division acquired Lucas-Insertco in the U.S. and Puerto Rico; in July 2003, CCL-Pachem, a joint venture owned 51% by CCL, was created in Europe; and in October 2003, CCL acquired the Avery Dennison European label converting business. Sales and operating income from these acquisitions in the first quarter amounted to \$33.5 million and \$5.3 million respectively.

The new operation in Thailand commenced providing product to its primary personal care customer in January 2004. Operating results were slightly below plan with a modest loss but it is anticipated that production capacity will be sold out as the year goes on due to strong customer demand in that market.

Sales backlogs for this business are generally short but indications are that customers' orders are reasonably strong. However, it will be challenging to duplicate the strong first quarter results due partially to seasonality.

The Label Division invested \$6.8 million in capital in the first quarter compared to \$14.0 million in the same period last year. The capital was spent throughout the Division to maintain and expand its manufacturing base with the most significant item being the purchase of the land and the construction of a building in Wakefield, U.K. to replace the Leeds, U.K. plant which is expected to be sold in late 2004 or early 2005 for a significant gain. The Division expects to continue to spend capital to increase its capabilities and replace or upgrade existing plants and equipment to improve efficiencies over the next few years.

### **Liquidity and Capital Structure**

The Company's debt structure is primarily comprised of three private debt placements completed in 1996, 1997 and 1998 totaling US\$314.3 million (Cdn\$412.1 million) at March 31, 2004, with an average interest rate of 5.1% factoring in the related Interest Rate Swap Agreements. A scheduled annual repayment of US\$9.4 million (Cdn\$12.3 million) on one of these notes is to be made in September 2004. The reported amounts outstanding for debt and cash have been significantly reduced since the prior year, as the majority of debt and cash are denominated in U.S. dollars. The net debt analysis is as follows:

<b><u>\$ Millions</u></b>	<b><u>March 31, 2004</u></b>	<b><u>December 31, 2003</u></b>	<b><u>March 31, 2003</u></b>
Total debt	\$427.6	\$426.8	\$484.6
Cash on hand	<u>60.2</u>	<u>81.8</u>	<u>114.5</u>
<b>Net debt</b>	<b><u>\$367.4</u></b>	<b><u>\$345.0</u></b>	<b><u>\$370.1</u></b>

A summary of cash flows is as follows:

Non-cash working capital traditionally increases during the first quarter of each year to accommodate increased customer activity following the slower year-end period before reducing to its lowest point at the next year-end. Non-cash working capital grew by \$24.9 million in the first quarter of this year compared to an increase of \$22.0 million in the first quarter of 2003 to satisfy this higher activity level.

Capital spending was \$23.3 million in the quarter, slightly lower than the \$27.2 million spent in the same quarter last year. Overall, the level of capital spending exceeded depreciation and amortization to provide for increased capacity in all divisions as previously described, to implement cost reduction programs, and to maintain the existing business and asset base. It is expected that capital spending will continue at about this pace for the balance of the year and will finish in excess of \$90 million.

Dividends declared in the first quarters of 2004 and 2003, were \$2.9 million and \$2.8 million, respectively. There has been no increase in the dividend rate during this time and the number of shares outstanding are virtually unchanged year over year. The current annualized dividend rate is \$0.31 per Class A share and \$0.36 per Class B share. The Company has historically paid out dividends at a rate of 20-25% of normalized earnings. Since the Company's cash flow is strong and there is a good level of cash on hand, the Board approved an increase in the quarterly dividend rate of 11% to \$0.0875 per Class A share and \$0.10 per Class B share effective in the Second Quarter of 2004.

Effective January 1, 2004, the Company has adopted the new accounting guideline of the Canadian Institute of Chartered Accountants ("CICA") with respect to hedging relationships and the new accounting standard of the CICA relating to asset retirement obligations. The adoption of the new guideline and standard had no material impact on the Company.

The Company has no material "off balance sheet" financing obligations except for typical long-term operating lease agreements. The nature of these commitments is described in note 13 of the December 31, 2003 Annual Consolidated Financial Statements. The Company does not have any material related party transactions. Additionally, the vast majority of the Company's post-employment obligations are defined contribution pension plans. There are no defined benefit plans funded with CCL stock.

### **Risks and Strategies**

There have not been any significant changes during 2004 in the risks to the business or the strategies from those discussed earlier in this document or in the 2003 Management's Discussion and Analysis in the Annual Report.