

**CCL INDUSTRIES INC.**  
**2005 Third Quarter**  
**Consolidated Statements of Earnings and Retained Earnings**

Unaudited	Three months ended September 30th			Nine months ended September 30th		
	2005	2004	% Change	2005	2004	% Change
(in millions of Cdn dollars, except per share data)						
<b>Sales</b>	\$ 281.9	\$ 220.0	28.1	\$ 827.7	\$ 692.7	19.5
<b>Income before undernoted items</b>	43.8	33.5	30.7	130.9	98.2	33.3
Depreciation and amortization	17.4	16.7		49.1	43.8	
Interest expense, net	4.4	4.7		15.0	13.8	
	22.0	12.1	81.8	66.8	40.6	64.5
Unusual items - net gain (loss) (note 5)	-	1.4		(15.5)	1.4	
<b>Earnings before income taxes</b>	22.0	13.5	63.0	51.3	42.0	22.1
Income taxes (recovery)	6.7	(0.1)		14.8	7.8	
<b>Net earnings from continuing operations</b>	15.3	13.6	12.5	36.5	34.2	6.7
Net earnings from discontinued operations, net of tax (note 4)	-	5.0		5.3	11.1	
Gain on sale of discontinued operations, net of tax (note 4)	-	-		107.0	-	
<b>Net earnings</b>	15.3	18.6		148.8	45.3	
<b>Retained earnings, beginning of period</b>	389.1	247.7		272.7	227.1	
Net earnings	15.3	18.6		148.8	45.3	
Repurchase of shares	-	(1.1)		(10.7)	(1.1)	
	404.4	265.2		410.8	271.3	
Less dividends:						
Class A shares	0.2	0.2		0.6	0.6	
Class B shares	3.0	3.0		9.0	8.7	
	3.2	3.2		9.6	9.3	
<b>Retained earnings, end of period</b>	\$ 401.2	\$ 262.0		\$ 401.2	\$ 262.0	
<b>Earnings per share</b>						
Class B - Continuing operations	\$ 0.48	\$ 0.42	14.3	\$ 1.14	\$ 1.06	7.5
Discontinued operations	\$ -	\$ 0.16		\$ 0.17	\$ 0.35	
Gain on sale of discontinued operations	\$ -	\$ -		\$ 3.31	\$ -	
Class B - Net earnings	\$ 0.48	\$ 0.58		\$ 4.62	\$ 1.41	
Class A *	\$ 0.47	\$ 0.57		\$ 4.58	\$ 1.37	
<b>Diluted earnings per share</b>						
Class B - Continuing operations	\$ 0.46	\$ 0.42	9.5	\$ 1.11	\$ 1.04	6.7
Discontinued operations	\$ -	\$ 0.15		\$ 0.16	\$ 0.34	
Gain on sale of discontinued operations	\$ -	\$ -		\$ 3.24	\$ -	
Class B - Net earnings	\$ 0.46	\$ 0.57		\$ 4.51	\$ 1.38	
Class A *	\$ 0.45	\$ 0.56		\$ 4.47	\$ 1.34	

\* Earnings per class A shares are \$0.01 lower than Class B shares for the third quarters ( \$0.04 year-to-date) for 2004 and 2005.

See notes to interim consolidated financial statements.

Certain 2004 and 2005 figures have been restated (note 4) for discontinued operations.

**CCL INDUSTRIES INC.**  
**2005 Third Quarter**  
**Consolidated Balance Sheets**

Unaudited (in millions of Cdn dollars)	September 30th <b>2005</b>	September 30th <b>2004</b>	December 31st <b>2004</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 119.3	\$ 45.3	\$ 71.4
Accounts receivable - trade	172.3	212.9	194.3
Other receivables and prepaid expenses	23.1	24.5	29.5
Inventories	100.4	122.1	125.3
	<hr/> 415.1	<hr/> 404.8	<hr/> 420.5
Capital assets	512.7	461.2	471.8
Other assets	29.8	41.9	38.8
Intangible assets	28.7	17.7	27.5
Goodwill	369.4	335.7	315.5
<b>Total assets</b>	<hr/> <b>\$ 1,355.7</b>	<hr/> <b>\$ 1,261.3</b>	<hr/> <b>\$ 1,274.1</b>
<b>Liabilities</b>			
Current liabilities			
Bank advances	\$ 9.8	\$ 40.1	\$ 39.4
Accounts payable and accrued liabilities	236.2	265.8	271.4
Income and other taxes payable	27.8	3.8	8.1
Current portion of long-term debt	158.5	14.2	19.3
	<hr/> 432.3	<hr/> 323.9	<hr/> 338.2
Long-term debt	244.1	387.3	367.7
Other long-term items	43.0	32.3	32.3
Future income taxes	86.6	72.9	86.9
<b>Total liabilities</b>	<hr/> 806.0	<hr/> 816.4	<hr/> 825.1
<b>Shareholders' equity</b>			
Share capital (note 2)	188.0	187.7	188.0
Contributed surplus	1.5	0.2	0.2
Retained earnings	401.2	262.0	272.7
Foreign currency translation adjustment	(41.0)	(5.0)	(11.9)
<b>Total shareholders' equity</b>	<hr/> 549.7	<hr/> 444.9	<hr/> 449.0
<b>Total liabilities and shareholders' equity</b>	<hr/> <b>\$ 1,355.7</b>	<hr/> <b>\$ 1,261.3</b>	<hr/> <b>\$ 1,274.1</b>

See notes to interim consolidated financial statements.

Certain 2004 figures have been restated for comparative purposes.

**CCL INDUSTRIES INC.**  
**2005 Third Quarter**  
**Consolidated Statements of Cash Flows**

Unaudited	Three months ended September 30th		Nine months ended September 30th	
(in millions of Cdn dollars)	2005	2004	2005	2004
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net earnings	\$ 15.3	\$ 18.6	\$ 148.8	\$ 45.3
Earnings from discontinued operations	-	(5.0)	(5.3)	(11.1)
Gain on sale of discontinued operations	-	-	(107.0)	-
Items not requiring cash:				
Depreciation and amortization	17.4	16.7	49.1	43.8
Stock-based compensation	1.2	0.1	1.3	0.2
Future income taxes	(1.0)	0.7	1.7	3.6
Unusual items (note 5)	-	(3.9)	15.4	(3.9)
	32.9	27.2	104.0	77.9
Net change in non-cash working capital	(9.7)	(12.0)	(37.9)	(26.7)
Cash provided by continuing operations	23.2	15.2	66.1	51.2
Cash provided by (used for) discontinued operations	(0.5)	8.6	3.2	21.8
Cash provided by operating activities	22.7	23.8	69.3	73.0
<b>Financing activities</b>				
Proceeds and issuance of long-term debt	5.5	-	41.0	-
Retirement of long-term debt	(14.0)	(12.6)	(16.7)	(14.4)
Increase (decrease) in bank advances	(0.4)	3.7	(26.2)	6.3
Issue of shares	0.3	0.9	3.9	2.1
Repurchase of shares	-	(1.7)	(14.1)	(1.7)
Purchase of shares held in trust (note 2)	(5.5)	-	(5.5)	-
Dividends	(3.2)	(3.2)	(9.6)	(9.3)
Cash used for financing activities	(17.3)	(12.9)	(27.2)	(17.0)
<b>Investing activities</b>				
Additions to capital assets	(33.2)	(33.4)	(117.9)	(82.4)
Proceeds on disposals	-	17.7	272.8	17.7
Business acquisitions (note 3)	(75.3)	(24.3)	(139.4)	(24.3)
Other	(2.5)	(2.6)	(2.2)	(2.2)
Cash provided by (used for) investing activities	(111.0)	(42.6)	13.3	(91.2)
Effect of exchange rate changes on cash	(5.4)	(2.3)	(7.5)	(1.3)
Increase (decrease) in cash	(111.0)	(34.0)	47.9	(36.5)
Cash and cash equivalents at beginning of period	230.3	79.3	71.4	81.8
Cash and cash equivalents at end of period	\$ 119.3	\$ 45.3	\$ 119.3	\$ 45.3

Cash and cash equivalents are defined as cash and short-term investments.  
See notes to interim consolidated financial statements.

Certain 2004 figures have been restated (note 4) for discontinued operations.

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED September 30, 2005 AND 2004  
(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, 2004.

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, 2005, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to Emerging Issues Committee (EIC) - 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" related to recording of vendor rebates by a purchaser. The Committee reached a consensus that the customer should measure the rebate based on the estimated amount of the rebate that is expected to be received for the underlying transactions that have occurred and that result in progress by the customer toward achieving the specified requirement to receive the rebate. This change to EIC - 144 did not have a material impact on the Company.

Accounting Guideline - 15, "Consolidation of Variable Interest Entities", is effective for periods beginning on or after November 1, 2004. The Guideline did not have any effect on the Company as it is not party to any variable interest entities.

Comparative figures have been restated to reflect discontinued operations (note 4) and reclassified where necessary to correspond with the current period's presentation.

2. SHARE CAPITAL

Issued and outstanding

	September 30, 2005	September 30, 2004	December 31, 2004
Issued share capital	\$ 195.4	\$ 189.5	\$ 189.8
Less: Executive share purchase plan loans	(1.8)	(1.8)	(1.8)
Shares held in trust	(5.6)	-	-
Total	<u>\$ 188.0</u>	<u>\$ 187.7</u>	<u>\$ 188.0</u>

During 2005, the Company granted a restricted stock award of 200,000 shares of the Company. 80,000 shares will vest in 2009 dependent on continuing employment, and 120,000 shares will vest in 2007 dependent on performance conditions. The Company purchased 200,000 shares in the open market and has placed them in trust until the restricted stock is fully vested. The fair value of the restricted share award is being amortized over the vesting period.

Actual number of shares:

	September 30, 2005	September 30, 2004	December 31, 2004
Class A	2,428,396	2,439,592	2,439,187
Class B	29,998,597	30,000,151	30,021,756
Less: Executive Share Purchase Plan shares	(150,000)	(150,000)	(150,000)
Shares held in trust	(200,000)	-	-
Total	<u>32,076,993</u>	<u>32,289,743</u>	<u>32,310,943</u>

	September 30, 2005	September 30, 2004	December 31, 2004
Year-to-date weighted average number of shares	32,199,702	32,287,305	32,290,097
Year-to-date weighted average diluted number of shares	<u>33,032,306</u>	<u>32,860,069</u>	<u>32,848,536</u>

During the year, 0.6 million shares (2004 - 0.1 million) were repurchased for \$14.1 million (2004 - \$1.7 million). The excess of the purchase price over the paid-up capital of \$10.7 million (2004 - \$1.1 million) was charged to retained earnings.

3. ACQUISITIONS

In September 2005, the Company purchased Inprint Systems based in Ashford, England, for \$63.4 million, net of cash acquired. Inprint Systems, through its plants in the Netherlands, United Kingdom, Italy and the USA, manufactures specialty label products.

The Company is reviewing the valuation of the net assets acquired, including intangible assets, therefore, certain items disclosed below may change when the review is completed in the fourth quarter of 2005.

Details of the transaction are as follows :

Current assets	\$ 10.1
Current liabilities	(7.5)
Non-current assets at assigned values	20.8
Long-term liabilities	(1.1)
Goodwill and intangibles	41.1
Net assets purchased	<u>\$ 63.4</u>
Total consideration:	
Cash, less cash acquired of \$3.5 million	<u>\$ 63.4</u>

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED September 30, 2005 AND 2004  
(Tabular amounts in millions of Cdn dollars except share data)

3. ACQUISITIONS (Cont'd)

In August 2005, the Company purchased the remaining 49% of its European joint venture, CCL-Pachem. CCL entered the joint venture with Pachem AG, based in Austria, in 2003, by purchasing a 51% interest. CCL-Pachem, through its plants in Austria, France and the United Kingdom, produces pressure sensitive, shrink sleeve and in mould labels for the global market. The Company paid cash of \$6.3 million, issued 200,000 shares of restricted shares worth \$5.0 million and assumed debt of \$12.1 million as consideration. The restricted shares are price protected and cannot be sold until December 31, 2008. The Company is reviewing the valuation of the net assets acquired, therefore, certain items disclosed below may change when the review is completed in the fourth quarter of 2005.

Details of the transaction are as follows :

Current assets	\$ 9.3
Current liabilities	(11.8)
Non-current assets at assigned values	15.2
Goodwill	11.0
Long-term liabilities	(0.3)
Net assets purchased	<u>\$ 23.4</u>
Total consideration:	
Cash	\$ 6.3
Restricted shares	5.0
Assumed debt	12.1
	<u>\$ 23.4</u>

In August 2005, the Company purchased the assets of Merroc Ltd. a privately owned label converter based in Cumbernauld, Scotland.

Details of the transaction are as follows :

Current assets	\$ 0.2
Non-current assets at assigned values	2.0
Net assets purchased	<u>\$ 2.2</u>
Total consideration:	
Cash	<u>\$ 2.2</u>

In July 2005, the Company purchased the remaining 30% of its U.S. plastic closure joint venture, CCL Dispensing Systems, LLC for \$3.4 million cash.

Details of the transaction are as follows :

Current assets	\$ 1.7
Current liabilities	(4.2)
Non-current assets at assigned values	3.1
Goodwill	2.8
Net assets purchased	<u>\$ 3.4</u>
Total consideration:	
Cash	<u>\$ 3.4</u>

In January 2005, the Company purchased Steinbeis Packaging based in Holzkirchen, Germany, for \$64.1 million, net of cash acquired. The purchase price was financed by cash on hand and bridge bank financing denominated in Euros. In addition, the Company intends to exercise its option to purchase the Holzkirchen building and land right for \$4.0 million Euros in January 2006. Steinbeis Packaging, through its plants in the U.S., France, Germany and China, supplies battery labels on a global basis and provides premium decorative label solutions for the European consumer products market.

Details of the transaction are as follows :

Current assets	\$ 33.0
Current liabilities	(32.0)
Non-current assets at assigned values	45.1
Long-term liabilities	(9.8)
Future taxes	(4.2)
Intangible assets	3.7
Goodwill	28.3
Net assets purchased	<u>\$ 64.1</u>
Total consideration:	
Cash, less cash acquired of \$4.8 million	<u>\$ 64.1</u>

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED September 30, 2005 AND 2004  
(Tabular amounts in millions of Cdn dollars except share data)

4. DISCONTINUED OPERATIONS

In May 2005, the Company sold its North American Custom Manufacturing Division, for \$272.8 million in cash, to KCP Income Fund, a Toronto based contract manufacturer of private label household products. The sale resulted in a gain of \$129.8 million (\$107.0 million after tax). The gain on sale may be adjusted based on purchase price adjustments and finalization of costs. The disposition is reported as discontinued operations and the results are as follows:

	Three months ended September 30th		Nine months ended September 30th	
	2005	2004	2005	2004
<b>Sales from discontinued operations</b>	\$ -	\$ 158.3	\$ 246.8	\$ 453.1
<b>Income before undernoted items</b>	-	11.9	14.0	29.6
Depreciation and amortization	-	3.6	5.1	10.7
Interest expense, net	-	0.7	1.0	2.5
<b>Earnings before income taxes</b>	\$ -	\$ 7.6	\$ 7.9	\$ 16.4
Income taxes	-	2.6	2.6	5.3
<b>Net earnings from discontinued operations</b>	\$ -	\$ 5.0	\$ 5.3	\$ 11.1
<b>Gain on sale of discontinued operations, net of tax of \$22.8 million</b>	\$ -	\$ -	\$ 107.0	\$ -

Interest expense is reported in discontinued operations by the allocation of total interest expense based on the ratio of net assets sold to total net assets. Income tax expense has been based on the effective income tax rate in the local country.

The Company has indemnified the purchasers against defined claims from the past conduct of the business. It is not possible to quantify the maximum potential liability in relation to the indemnities, however, the Company has made a provision for estimated indemnification claims.

5. UNUSUAL ITEMS

	Division	Three months ended September 30,		Nine months ended September 30	
		2005	2004	2005	2004
Mexico Container business restructuring and asset write-down	Container	\$ -	\$ -	\$ (3.8)	\$ -
Impairment of IntraPac L.P. investment	Corporate	-	-	(11.7)	-
Sale of Leeds property	Label	-	8.7	-	8.7
Plastic Packaging business restructuring and asset write-down	Container	-	(9.6)	-	(9.6)
Label Division asset write-down	Label	-	(2.1)	-	(2.1)
Sale of Winnipeg business	Label	-	4.4	-	4.4
Gain (Loss)		\$ -	\$ 1.4	\$ (15.5)	\$ 1.4
Tax recovery on unusual items		\$ -	\$ (2.5)	\$ (0.1)	\$ (2.5)

In June 2005, the Company completed an evaluation of its plastic packaging business within the Container Division in Mexico and recorded a provision for impairment of related capital assets and inventory write-downs that amounted to \$3.8 million, with no tax benefit.

In June 2005, the Company provided for an impairment of its equity investment in IntraPac L.P. in the amount of \$11.7 million (\$11.6 million after tax). The investment was sold in October 2005.

In September 2004, the Company sold its Leeds, U.K. property for \$11.1 million cash and realized a gain of \$8.7 million (\$6.8 million after tax).

In September 2004 the Company recorded provisions for restructuring and capital assets and inventory write-downs within its Plastic Packaging business which is under new management that amounted to \$9.6 million (\$6.0 million after tax). Capital asset write-downs related to assets no longer in use and assets to be sold within six months at their fair value of \$1.2 million.

In September 2004 the Company recorded capital asset write-downs within its Label Division for \$2.1 million (\$1.3 million after tax) relating to assets no longer in use.

In July 2004, the Company sold its label manufacturing business in Winnipeg, Manitoba to a privately held company for \$7.2 million. The gain on this disposition was \$4.4 million and did not give rise to any tax effect due to the utilization of capital losses carried forward.

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED September 30, 2005 AND 2004  
(Tabular amounts in millions of Cdn dollars except share data)

6. EMPLOYEE FUTURE BENEFITS

The expense for the defined benefit plans in the third quarter is \$0.3 million (2004 - \$0.4 million) and year-to-date \$1.2 million (2004 - \$1.0 million). In addition, the second quarter gain on disposal of discontinued operations included \$1.3 million of settlement losses.

7. INCOME TAXES

As a result of the gain realized on the sale of the North American Custom Manufacturing division, the Company reduced its valuation allowance against tax losses carried forward by \$4.3 million in the second quarter.

8. SEGMENTED INFORMATION

Industry segments

As a result of the disposal of the North American Custom Manufacturing division, the Custom segment consists of the European Custom Manufacturing business now conducted through the ColepCCL joint venture.

	Three months ended September 30th				Nine months ended September 30th			
	Sales		Operating income		Sales		Operating income	
	2005	2004	2005	2004	2005	2004	2005	2004
		<i>Restated Note 4</i>		<i>Restated Note 4</i>		<i>Restated Note 4</i>		<i>Restated Note 4</i>
ColepCCL / Custom Manufacturing Europe	\$ 46.5	\$ 46.8	\$ 3.6	\$ 3.5	\$ 145.7	\$ 147.6	\$ 13.1	\$ 8.0
Container	66.2	54.0	6.9	4.0	188.3	159.4	20.2	13.0
Label	169.2	119.2	19.1	10.5	493.7	385.7	57.5	39.1
<b>Total operations</b>	<b>\$ 281.9</b>	<b>\$ 220.0</b>	<b>29.6</b>	<b>18.0</b>	<b>\$ 827.7</b>	<b>\$ 692.7</b>	<b>90.8</b>	<b>60.1</b>
Corporate expense			(3.2)	(1.2)			(9.0)	(5.7)
			26.4	16.8			81.8	54.4
Interest expense, net			4.4	4.7			15.0	13.8
			22.0	12.1			66.8	40.6
Unusual items - net gain (loss)			-	1.4			(15.5)	1.4
Earnings before income taxes			22.0	13.5			51.3	42.0
Income taxes			6.7	(0.1)			14.8	7.8
<b>Net earnings from continuing operations</b>			<b>15.3</b>	<b>13.6</b>			<b>36.5</b>	<b>34.2</b>
Net earnings from discontinued operations, net of tax			-	5.0			5.3	11.1
Gain on sale of discontinued operations, net of tax			-	-			107.0	-
<b>Net earnings</b>	<b>\$</b>	<b>\$</b>	<b>\$ 15.3</b>	<b>\$ 18.6</b>	<b>\$</b>	<b>\$</b>	<b>\$ 148.8</b>	<b>\$ 45.3</b>

	Identifiable Assets		Goodwill		Depreciation & Amortization		Capital Expenditures	
	September 30th	December 31st	September 30th	December 31st	Nine months ended September 30th		Nine months ended September 30th	
	2005	2004	2005	2004	2005	2004	2005	2004
					<i>Continuing operations</i>			
Custom Manufacturing	\$ 174.4	\$ 411.9	\$ 42.1	\$ 65.9	\$ 5.8	\$ 6.2	\$ 8.6	\$ 14.0
Container	286.7	261.7	53.1	51.5	13.7	13.6	34.4	31.2
Label	743.5	512.6	274.2	198.1	29.1	23.2	74.8	36.9
Corporate	151.1	87.9	-	-	0.5	0.8	0.1	0.3
<b>Total</b>	<b>\$ 1,355.7</b>	<b>\$ 1,274.1</b>	<b>\$ 369.4</b>	<b>\$ 315.5</b>	<b>\$ 49.1</b>	<b>\$ 43.8</b>	<b>\$ 117.9</b>	<b>\$ 82.4</b>

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

### **Third Quarters ended September 30, 2005 and 2004**

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 three and nine month periods ended September 30, 2005 and 2004 and an update to the 2004 Annual MD&A document. The information in this interim MD&A is current to October 27, 2005 and should be read in conjunction with the Company's September 30, 2005 unaudited third quarter financial statements released on October 27, 2005 and the 2004 Annual MD&A document, which forms part of the CCL INDUSTRIES INC. 2004 Annual Report, dated February 10, 2005.

The financial statements have been prepared in accordance with Canadian generally accepted accounting 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 as the reporting currency. The measurement currencies of CCL's operations are primarily the Canadian dollar, the U.S. dollar, the Euro, the Danish krone, the U.K. pound sterling, the Mexican peso, the Thailand baht and the Chinese renminbi. CCL's Audit Committee and its Board of Directors have reviewed this interim MD&A to ensure consistency with the current approved strategy and actual results 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 markets in which CCL's customers operate have continued to be generally buoyant through the third quarter of 2005. CCL has experienced good growth in most of its product categories in line with its customers' performance. This has occurred despite the continued economic drag and uncertain impact of higher energy and commodity costs on consumers and the supply chain. The Federal Reserve continues to ramp up short-term interest rates in the United States in its attempt to soften the impact of potential inflation, the weakening of the U.S. dollar and the U.S. trade and fiscal deficits. Europe is experiencing a weaker economy overall despite substantially lower and more stable interest rates while the Asian markets continue to grow rapidly.

Most of CCL's international marketing customers in the personal care industry have been benefiting from higher sales volumes than last year, particularly in a number of specific product categories and regions, whereas our pharmaceutical customers are continuing to experience more modest growth. Overall, customer demand for CCL's products appears to be firm into the last quarter of 2005 on the back of very strong demand in our more seasonally weak third quarter. The fourth quarter now tends to be a relatively stronger quarter for CCL, primarily in the Label Division, in advance of the holiday season for battery label products and the spring agricultural chemical season. This strength is partly tempered by

plant shutdowns during the holiday season in certain countries for CCL and its customers.

The impact of higher material prices on our customers' products and the supply chain's ability to access raw materials is a growing concern. All CCL business units are direct or indirect users of hydrocarbon-based commodities and energy. The current supply interruptions caused by hurricanes in the Gulf of Mexico have added to the already volatile pricing and supply challenges. Management has been able to control these highly unusual issues effectively but they continue to be a cause for concern and diligence.

The current demand for new and existing products in CCL's aluminum container business persists and despite additional new manufacturing capacity, is still surpassing our ability to supply our customers in a satisfactory manner. Personal care orders are still reasonably strong with a high backlog while orders for beverage containers are more mixed. The Plastic Packaging business unit of the Container Division is experiencing a steady turnaround in sales volumes with expectations for good production levels in the last quarter of 2005. The Label business continues to enjoy good volume growth as customers are expanding product lines and realizing the benefits of our international network as they roll out products on a worldwide basis. CCL's 40% owned joint venture, ColepCCL, which was formed in July 2004, is maintaining good volume levels with both existing and new customers as it continues to benefit from the combined capabilities of the merged businesses. Further details on divisional sales trends can be found later in this report.

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

Sales for the third quarter of 2005 of \$281.9 million were 28% ahead of the \$220.0 million recorded in the third quarter of 2004 for continuing operations, while sales for the first nine months of 2005 of \$827.7 million were 20% ahead of last year's \$692.7 million. Financial comparisons to the prior year's results have continued to be negatively affected by the appreciation of the Canadian dollar relative to the U.S. dollar and the Euro. In addition, business acquisitions have impacted the comparison to prior periods. Sales increased for the quarter by 36% (year-to-date 26%) due to acquisitions and organic growth partially offset by a decrease of 8% (year-to-date 6%) due to foreign exchange. On a comparative basis with last year's third quarter, sales volumes increased in the Label Division and the Aluminum Container business while sales volumes in the Plastic Packaging business and ColepCCL were essentially flat with last year.

The following acquisitions, divestitures and merger affected financial comparisons in the third quarter and in the first nine months of 2005:

On July 12, 2004, CCL completed the merger of its European Custom Manufacturing operations with COLEP Europe to create the largest contract manufacturing company in Europe of personal care, cosmetic and over-the-counter medication and household care products. COLEP contributed its four contract manufacturing plants including its metal packaging business to the joint

venture and CCL contributed its two European plants and \$24 million to acquire a 40% investment in the joint venture named ColepCCL. CCL is proportionately consolidating its interest in the joint venture.

Also in July 2004, the Label Division acquired Graphiques Apex Inc. located in Boucherville, Québec and divested its non-core Winnipeg label business.

On January 31, 2005, the Label Division acquired Steinbeis Packaging, based in Holzkirchen, Germany for \$64 million. Steinbeis supplies battery labels on a global basis and produces premium decorative label solutions for the European consumer products market.

Effective July 1, 2005, the Plastic Packaging Division acquired the remaining 30% of CCL Dispensing Systems that it did not already own for \$3 million.

On August 2, 2005, the Label Division acquired the remaining 49% of the CCL-Pachem European joint venture for \$23 million including debt assumed and in addition, purchased the assets of Merroc Ltd., a label converter located in Cumbernauld, Scotland for \$2 million.

On September 13, 2005, the Label Division acquired the business of Inprint Systems headquartered in Ashford, England with plants in the United Kingdom, the Netherlands, Italy and the USA for approximately \$63 million.

Net earnings from continuing operations for the third quarter of 2005 of \$15.3 million were up by 13% from the \$13.6 million recorded in the third quarter of 2004. There were no unusual items in the third quarter of 2005. In the third quarter of 2004, included in net earnings was a net gain from unusual items of \$1.4 million (\$3.9 million after tax). Operating income improved from last year's third quarter due to a substantially stronger performance in the Label Division and the Container Division (in both the aluminum and plastic packaging units), and slightly higher income from the new ColepCCL joint venture in 2005 than 2004. These improvements in operating income were partly offset by the negative effect of currency translation and transactions due to the lower value of the U.S. dollar and the Euro relative to the Canadian dollar.

Net interest expense allocated to continuing operations was \$0.3 million lower than last year in the quarter due primarily to the higher level of cash on hand than a year ago. Since the sale of Custom Manufacturing in mid-May, all interest expense and the interest income received on the cash from the sale of Custom Manufacturing are included in continuing operations. Corporate expenses for the quarter were \$2.0 million higher than last year due to higher public company costs, additional incentive-based compensation provisions and inflation. In addition, Corporate expenses allocated to Discontinued Operations in third quarter 2004 were \$0.3 million. The tax rate for continuing operations was 31% for the quarter compared to a small tax recovery in last year's third quarter due to the unusual items. The tax rate in 2004 before unusual items would have been 20%. The tax rate is higher this year due to significant earnings improvements in

countries with higher tax rates and the inability to recover income tax in certain operations with operating losses.

For the first nine months of 2005, net earnings from continuing operations were \$36.5 million, up 7% from the \$34.2 million in the comparable 2004 period. Net earnings for the nine months were affected by the unusual losses of \$15.5 million (\$15.4 million after tax) in the second quarter of 2005 and the net unusual gains of \$1.4 million (\$3.9 million after tax) in the third quarter of 2004. Operating income in the first nine months improved in all divisions, compared to 2004, but was partially offset by the negative effect of currency translation and transactions due to the weaker U.S. dollar and Euro. Net interest expense allocated to continuing operations before unusual items for the nine months was up \$1.2 million compared to last year, due to higher floating interest rates and acquisition debt offset in part by interest income from higher levels of cash on hand in third quarter 2005. The tax rate from continuing operations for the nine months was 22% but would have been 29% excluding the benefit of utilizing previously unrecognized tax losses as a result of the gain on the disposition of Custom (\$4.3 million) in the second quarter. The tax rate for the first nine months of 2004 was 19% but would have been 25% before unusual items. The tax rate is higher this year due to significant earnings improvements in countries with higher tax rates and the inability to recover income tax in certain operations with operating losses.

Earnings from continuing operations per Class B share were \$0.48 in the third quarter of 2005 compared to the \$0.42 earned in the same period last year, an increase of 14%. In last year's third quarter, unusual items increased earnings per share by \$0.13. For comparative purposes, if the unusual items were excluded, operational earnings were significantly higher in third quarter 2005 versus 2004. The impact of the unusual items on a per share basis is measured by dividing the after-tax income of the unusual items by the average number of shares outstanding in the relevant period. Management will continue to disclose the impact of significant unusual items on its results because the timing and extent of such items do not reflect or relate to the Company's ongoing operating performance. Management evaluates the operating income of its divisions before the effect of unusual items.

For the first nine months of 2005, earnings from continuing operations per Class B share were \$1.14 compared to \$1.06, an 8% increase from the previous year. Unusual items reduced earnings per share by \$0.48 for the nine months of 2005 and the tax benefit from unrecognized tax losses positively impacted earnings per share by \$0.13 for the nine months of 2005. Unusual items in the first nine months of 2004 increased earnings per Class B share by \$0.13. Diluted earnings per Class B share from continuing operations were \$0.02 lower than the basic earnings for the third quarter of 2005 and \$0.03 lower than basic earnings year-to-date.

There were two unusual items in the second quarter of 2005 totaling \$15.5 million (\$15.4 million after tax). In the third quarter of 2003, the Company sold

four non-core business units in its Container Division to IntraPac L.P. for \$71.5 million and retained a 50% equity interest. The value of this equity interest had been impaired and had been written-down by \$11.7 million (\$11.6 million after tax) to its net expected realizable value in the second quarter of 2005. In October 2005, CCL divested all of its interest in IntraPac L.P. primarily in exchange for certain real estate of the business. There was no further gain or loss recorded on this transaction. Additionally, the Company restructured its Mexican Plastic Container business in the second quarter of 2005, giving rise to the impairment of certain equipment and inventory write-downs. This unusual expense was \$3.8 million with no tax benefit recognized. The earnings impact of these unusual items was \$0.48 per Class B share for the year to date.

The unusual items in the third quarter and year-to-date in 2004 were as follows:

	<u>Gain/ (Loss)</u>	<u>Tax Expense (Recovery)</u>	<u>Net Earnings</u>
Gain on sale of Label Leeds, U.K. property	\$ 8.7	\$ 1.8	\$ 6.9
Gain on sale of Label Winnipeg	\$ 4.4	\$ -	\$ 4.4
Plastic Packaging restructuring costs and asset write-down	\$ (9.6)	\$ ( 3.6)	\$ (6.0)
Label asset write-down	\$ <u>(2.1)</u>	\$ <u>(0.7)</u>	\$ <u>(1.4)</u>
Total unusual items	\$ <u>1.4</u>	\$ <u>(2.5)</u>	\$ <u>3.9</u>

On May 17, 2005, CCL completed the sale of its North American CCL Custom Manufacturing Division ("Custom") to KCP Income Fund for approximately Cdn \$273 million in cash, resulting in an after tax gain of \$107.0 million. This transaction completed the transformation of CCL into a focused specialty packaging company. The proceeds of the sale are continuing to fund the expansion of CCL's higher growth Label and Container businesses through further accretive acquisitions and capital spending for organic internal growth and technology enhancements. The Company may also repay debt and repurchase stock under its Normal Course Issuer Bid.

CCL has recorded this divestiture as a Discontinued Operation and consequently its sales and income contribution have been excluded from the disclosure of Continuing Operations.

The following table is presented to provide context to the change in the Company's business in 2005 as a result of the sale of Custom. CCL's strategy is to replace the ongoing income previously generated by Custom. The plan to replace this income by the end of 2006 includes investing in its existing businesses by capital expenditures and accretive acquisitions, generating interest income on the cash proceeds from the sale, paying down debt and potentially repurchasing stock at appropriate prices. The progress of the replacement of the Custom income is of primary importance to our shareholders and the financial community. This progress is measured based on earnings per Class B share from the following table. The gain from the sale of the Custom

business is excluded for this purpose. If the net negative impact of unusual items and the tax benefit from previously unrecognized tax losses is excluded from these results, there is meaningful improvement over the prior year performance.

(in Canadian dollars)

<b><u>Earnings per Class B shares</u></b>	<b><u>Three Months</u></b>		<b><u>Nine Months</u></b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
From Continuing Operations	\$0.48	\$0.42	\$1.14	\$1.06
From Discontinued Operations	-	\$0.16	\$0.17	\$0.35
Net (loss) gain from Unusual Items and Tax Benefit included in Continuing Operations	-	\$0.13	\$(0.35)	\$0.13

The gain, after tax, on the sale of Custom recorded in the second quarter of 2005 is \$107.0 million or \$3.31 per Class B share. Adjustments to the gain on disposal may be required upon resolution of contingencies related to the disposal. Interest expense was allocated based on the ratio of the net assets employed in the business (not the proceeds from the sale) to the total net assets of CCL. The income tax expense was based on Custom operating as an independent business in Canada and the USA and incurring income tax at the appropriate federal, provincial and state tax rates.

The following is selected financial information for the eleven most recently completed quarters.

(in millions of Canadian dollars, except per share amounts)

	<b><u>Qtr 1</u></b>	<b><u>Qtr 2</u></b>	<b><u>Qtr 3</u></b>	<b><u>Qtr 4</u></b>	<b><u>Total</u></b>
<b>Sales-Continuing Operations</b>					
2005	\$ 265.7	\$ 280.1	\$ 281.9	\$	\$ 827.7
2004	240.7	232.0	220.0	221.2	913.9
2003	254.2	245.7	215.0	205.9	920.8
<b>Net earnings-Continuing Operations</b>					
2005	16.1	5.1	15.3		36.5
2004	11.5	9.1	13.6	9.8	44.0
2003	7.6	9.0	1.8	11.3	29.7
<b>Net earnings</b>					
2005	19.7	113.8	15.3		148.8
2004	14.8	11.9	18.6	13.9	59.2
2003	\$ 14.1	\$ 14.7	\$ 6.8	\$ 17.4	\$ 53.0

	<u>Qtr 1</u>	<u>Qtr 2</u>	<u>Qtr 3</u>	<u>Qtr 4</u>	<u>Total</u>
<b>Net earnings per Class B share</b>					
<b>Continuing Operations</b>					
<b>Basic</b>					
2005	\$ 0.50	\$ 0.16	\$ 0.48	\$	\$ 1.14
2004	0.36	0.28	0.42	0.30	1.36
2003	0.23	0.28	0.05	0.35	0.91
<b>Diluted</b>					
2005	0.49	0.16	0.46		1.11
2004	0.35	0.27	0.42	0.30	1.34
2003	0.23	0.28	0.05	0.34	0.90
<b>Net earnings per Class B share</b>					
<b>Basic</b>					
2005	0.61	3.53	0.48		4.62
2004	0.46	0.37	0.58	0.43	1.84
2003	0.43	0.46	0.21	0.54	1.64
<b>Unusual items and one-time gains</b>					
2005	-	2.96	-		2.96
2004	-	0.00	0.13	(0.07)	0.06
2003	(0.04)	(0.03)	(0.22)	0.13	(0.16)
<b>Diluted</b>					
2005	0.60	3.45	0.46		4.51
2004	0.45	0.36	0.57	0.43	1.81
2003	\$ 0.42	\$ 0.45	\$ 0.21	\$ 0.53	\$ 1.61

Included in the above chart are the impact on net earnings per Class B share of unusual items and the gain on sale of Custom in the second quarter of 2005. Net earnings per Class B share have fluctuated significantly due to these items.

Over 85% of CCL's sales from continuing operations are generated in foreign currencies and are then translated into Canadian dollars for reporting purposes. The United States dollar is the functional currency for approximately 40% of CCL's total sales from continuing operations and it has depreciated on average by 8% compared to the Canadian dollar in the third quarter 2005 versus last year's third quarter. In addition, European currencies are now the measurement currencies for over 40% of CCL's sales and the Euro has also weakened by 8% versus the Canadian dollar. Changes in foreign exchange rates have reduced earnings per share from continuing operations due to currency translation by \$0.03 in the third quarter compared to 2004 and \$0.08 year-to-date.

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 \$1.35 (US\$ 1.0 million sold forward) for the third quarter of 2004 but, due to the decline in the U.S. dollar over the last year, the average rate on the 2005 hedges was \$1.23 (US\$ 6.8 million sold forward) for the third quarter of 2005. The change in the rates on U.S. currency transactions reduced comparative income for continuing operations by \$0.9 million in the third quarter

of 2005 (\$2.1 million year-to-date) and reduced comparative earnings per share by \$0.02 for the quarter (\$0.06 year-to-date). In addition, during the second quarter of 2005, the Company cancelled foreign exchange contracts for the Custom business at a cost of \$0.9 million, which was expensed against the gain on disposition. As at September 30, 2005, the remaining outstanding foreign exchange contracts for 2005 and 2006 had a fair value of \$1.6 million.

Net interest expense for continuing operations was \$4.4 million for the third quarter of 2005, down from \$4.7 million from the comparable period last year due to the impact of interest income from higher levels of cash on hand. The depreciation of the U.S. dollar and the Euro has also had the effect of reducing reported interest expense as CCL's borrowings are primarily 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 also amortizing a gain realized on the sale of an IRSA in 2001. In addition, the Company entered into two Cross Currency Interest Rate Swap Agreements ("CCIRSA") in June 2005 that had the effect of converting \$68.5 million U.S. dollar fixed rate debt into Euro floating rate debt for a notional amount of 56.6 million Euros. These two CCIRSA's reflect the terms of the Company's existing U.S. dollar borrowings and are a hedge against CCL's European investments and cash flow. The CCIRSA's expire in 2010 and 2012.

The unrealized loss on all of the above agreements as at September 30, 2005 amounted to approximately \$2.1 million. The effect of these four IRSAs and two CCIRSA's has been to reduce interest expense by \$1.0 million in the third quarter of 2005 compared to a reduction of \$1.6 million in the third quarter of 2004. For the first nine months, the impact was a reduction of \$2.9 million in 2005 and \$5.3 million in 2004. Interest coverage (defined as operating income before unusual items and net interest expense divided by net interest expense calculated on a 12-month rolling basis) improved to 5.58 times in 2005 compared to 4.40 times in 2004.

The income tax rate for continuing operations, excluding unusual items, and the tax benefit from previously unrecognized tax losses was 31% in the third quarter of this year (year-to-date 29%), compared to 20% in last year's third quarter (year-to-date 25%). The tax rate is higher this year due to significant earnings improvements in countries with higher tax rates and the inability to recover income tax in certain operations with operating losses. This effective tax rate is lower than the combined Canadian federal and provincial tax rates of 34.2% for the year 2005 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.

The Company's financial position is very solid. At the end of September 30, 2005, cash and cash equivalents amounted to \$119 million compared to \$45 million as at September 30, 2004 and \$71 million at December 31, 2004. Net debt amounted to \$293 million at September 30, 2005, \$62 million lower than the

net debt of \$355 million at the end of 2004 and \$103 million lower than the \$396 million on September 30, 2004. The decrease in net debt since December 31, 2004 is primarily due to the Custom divestiture offset in part by the previously noted acquisitions, capital spending and the seasonal working capital increase. The decrease in net debt from a year ago is due primarily to the Custom sale offset in part by the acquisitions and capital spending initiatives. Capital spending in the third quarter of \$33.2 million compared to \$33.4 million last year. The major capital expenditures in the third quarter were the production line down payments and the plant expansion in the Container Hermitage operation, printing equipment for the Plastic tube business, new presses for the Label Division, and new plant installations in Poland and China. As is usual in CCL's business, working capital increased in its traditional seasonal pattern in the first nine months of both 2005 and 2004 after the typically lower levels at the end of each year.

In June 2005, the Company announced its intention to acquire, via a Normal Course Issuer Bid ("Bid"), up to 10,000 Class A voting shares and 2,100,000 of its issued and outstanding Class B non-voting shares between June 16, 2005 and June 15, 2006. This Bid represents 0.4% of the issued and outstanding Class A shares and 9.8% of the public float of the Class B shares. As of today's date, no shares have been acquired under this Bid. Under its previous Bid that expired on May 24, 2005, the Company repurchased 2,200 Class A shares and 658,500 Class B shares at an average price of \$23.91 per share in the 12-month period. During the second quarter of 2005, the Company repurchased 560,000 Class B shares under the previous Bid at an average price of \$25.16.

During the third quarters of 2005 and 2004, the Company generated cash from all operations of \$22.7 million and \$23.8 million, respectively. Working capital consumed \$9.7 million of cash in the third quarter of 2005 while consuming \$12.0 million in last year's third quarter. In addition, \$33.2 million was spent on capital additions in the third quarter as CCL continues to reinvest in its businesses to take advantage of current and future expected organic growth. This level of capital spending was higher than the \$17.4 million of depreciation and amortization in the third quarter of 2005. Plans for capital spending in 2005 are expected to be about \$140 million as the Company continues to expand its business base into new markets, and invest in assets to add capacity and improve its competitiveness.

Net debt to total capitalization, defined as net debt divided by net debt plus shareholders' equity, at September 30, 2005 was 34.8%, down from 44.2% at the end of 2004 and 47.1% a year ago due primarily to the Custom sale. Book value per share, defined as shareholders' equity divided by total period end shares, was \$17.18 at the end of the third quarter of 2005, 25% higher than the year ago level of \$13.77 and 24% above \$13.89 at year-end 2004. The increase is primarily the result of earnings retained in the Company including the significant gain on the sale of Custom.

## **Discussion of Divisional Business Segments**

### **ColepCCL Joint Venture/Custom Manufacturing - Europe**

The ColepCCL joint venture was created in mid-July 2004. For the third quarter of 2005, CCL's proportionate share of the joint venture's sales was \$46.5 million. This sales level was 1% lower than the comparative sales last year of CCL's two former European operations and the joint venture itself of \$46.8 million due to the 8% decline in the value of the Euro for the comparable quarter. However, in local currency, sales were up modestly. On a year-to-date basis, CCL's share of the joint venture sales was \$145.7 million; this is 1% less than the \$147.6 million of sales from our former operations and the joint venture in 2004. Comparative sales have been reduced by the 5% decline in the value of the Euro since last year.

Operating income in the third quarter of 2005 for ColepCCL was \$3.6 million indicating a return on sales of 7.7%. CCL's former operations and the joint venture in the third quarter of 2004 had operating income of \$3.5 million and a return on sales of 7.5%. Operating income on a year-to-date basis was \$13.1 million in 2005 versus \$8.0 million from our former operations and the joint venture in 2004 reflecting the synergies of the merger and CCL's share of the income derived from Colep's more profitable operations.

Sales growth for the joint venture in local currency was 9% higher than the combined former operations for the first nine months of 2005 versus 2004 with higher volumes in the Contract Manufacturing Operations due to the synergies of this business combination. Metal Packaging sales were ahead of last year but have been impacted by conversions from steel to aluminum aerosols by its customers due to the high cost of tinplate. Profitability from these operations has been strong, with Contract Operations benefiting from the volume increase and Metal Packaging from significant price increases that have more than offset the added tinplate costs. However, temporary indirect costs were incurred due to a plant closure described below which reduced the level of improved profitability over last year in the third quarter.

In June 2005, ColepCCL completed the closure of its plant in Madrid, Spain. Some of its production lines were moved to the U.K., Poland and Portugal. Significant closing costs that were accrued as part of the formation of the joint venture of \$5.5 million were incurred on this closure. The land and building are up for sale. During the third quarter, temporary indirect costs were incurred to effectively service the business transferred from Madrid to the other operations. This plant closure is expected to improve overall profitability in ColepCCL going forward and certain qualifying costs associated with its closure were accounted for as part of the formation of the joint venture in 2004. Direct closing costs that were expensed in the quarter were immaterial.

## **Container**

Sales in the third quarter were \$66.2 million, up 23% from \$54.0 million last year and for the first nine months of 2005 were \$188.3 million, up 18% from the \$159.4 million last year. Sales increased for the quarter by 29% (year-to-date 25%) due to internal growth and the increased ownership of CCL Dispensing offset in part by a decrease of 6% (year-to-date 7%) due to foreign exchange translation.

The Container Division continued to benefit in the third quarter from the strong demand for aluminum aerosol containers, the growth in usage of aluminum bottles, and other new applications for this technology with sales up 42% over last year. Personal care volume in the aerosol format continued to be very strong as our customers are ramping up many new products. This demand required the Division to outsource significant amounts of production to overseas suppliers to support customer requirements. The outsourcing had a negative effect on profit margins. The beverage business continues to benefit from the new aluminum beer bottle. Beverage container sales were down slightly from a year ago. Mexican aerosol container sales were also strong in the third quarter. The backlog for aluminum container products remains very high even as new capacity continues to be added to meet this demand and to improve service levels.

In the Plastic Packaging unit of the Container Division, sales were down 6% in the third quarter compared to last year, due to unfavourable currency translation and slightly lower volume that was partially offset by the increase in ownership of the CCL Dispensing business. The demand for plastic tubes continues to show improvement in the quarter and new orders to be manufactured in the next few months appear to be reasonable. New management, improved operational performance and new equipment installations have improved credibility with the customer base. Plastic closure sales volumes were up over last year's performance.

Operating income for the Container Division for the third quarter of 2005 was \$6.9 million, up 73% from \$4.0 million in the third quarter of 2004 despite the unfavourable foreign exchange impact. The improvement in operating income is due to the higher aluminum container volumes and improved operational performance in the Plastic Packaging business. Plastic Packaging operated at profit in the third quarter of 2005 with a return on sales of 7% compared to a small loss in the prior year quarter, a turnaround of \$1.6 million reflecting overhead reductions and improvements in manufacturing. For the nine months to date, operating income for the Container Division was \$20.2 million versus \$13.0 million last year, up 55%.

The aluminum container plant in Penetanguishene, Ontario sells a large part of its production to the United States market. During 2004, this operation hedged some of its sales by selling forward the U.S. dollar into Canadian dollars at the rate of \$1.35. However, as the U.S. dollar has weakened, the contracts for 2005 were transacted at only \$1.23, which further reduced the Division's comparable

income by \$0.9 million for the quarter and \$2.1 million for the first nine months compared to last year.

After a review of the Mexican Container plant's profitability and its investment base, the operation was restructured to concentrate on profitable product lines only and, consequently, certain machinery and inventory, primarily in the plastic tube side of the business, were written off in the second quarter. The Mexican operation's metal container business is now profitable and plans for significant investment in this business are under consideration.

The Container Division has invested \$14.7 million in capital in the third quarter of 2005 compared to \$14.1 million last year, to maintain and expand its manufacturing base and reduce its production costs. Depreciation and amortization amounted to \$5.0 million in the third quarter of 2005 compared to \$4.7 million in the third quarter of 2004. The Division has successfully installed three new aluminum container lines in the last two years and has now installed a fourth new line which was operational in early third quarter 2005. The fifth and sixth lines are on order for installation during early 2006 and are destined for the expanded Hermitage, Pennsylvania plant. The seventh new line is on order for later in 2006 although its destination has not yet been determined.

The Container Division continues to hedge some of its anticipated future aluminum purchases through futures contracts. The value of these futures at September 30, 2005 was \$8.2 million.

### **Label**

Sales for the Label Division of \$169.2 million for the third quarter were up 42% from \$119.2 million in the same quarter last year. For the nine months to date, sales were \$493.7 million in 2005, up 28% from the \$385.7 million of the comparable prior year period. Sales increased for the quarter by 50% (year-to-date 37%) split between acquisitions of 37% (27% year-to-date) and organic growth of 13% (10% year-to-date) partially offset by foreign exchange and a disposition of 8% (year-to-date 9%).

Sales growth in the third quarter was predominantly due to the Steinbeis acquisition but the business also experienced a continuation of the positive volume trends in its other businesses seen since late last year. North American personal care volume, particularly with its largest international customers was well ahead of last year for the quarter, with continued improvements in Mexico. Specialty products were also ahead of last year's third quarter in both agricultural chemical labels, where CCL increased market share, and promotional labels, which has enjoyed new business. The North American healthcare business recorded sales volumes that were up modestly over last year with growth in the insert business and in Canada. European sales were ahead of last year generally across the board, including personal care, healthcare, batteries and food and beverage, all of which enjoyed good organic growth. The Steinbeis, Merroc, Inprint (for half of one month only) acquisitions along with the increased ownership of Pachem significantly improved our European position in all

categories. Sales in Thailand were over 30% ahead of last year with further growth expected and the existing plant in Hefei, China performed well. Product is now being shipped from our new plant in Poznan, Poland and the Guangzhou, China operation will commence trading around year-end. The business continues to benefit from its international presence dealing with large multinational customers. There are many new opportunities for growth in the developing countries and from new product introductions.

Operating income for the third quarter of 2005 was an exceptional \$19.1 million, up 82% from \$10.5 million in the third quarter of 2004 and as a percentage of sales at 11.3% continues to exceed internal targets. This improvement was driven primarily by higher volumes and operating margins in most of the Division's operations and the incremental effect of acquisitions completed in the last three years. Year-to-date operating income was \$57.5 million versus \$39.1 million last year, up 47%. Operating income as a percentage of sales was 11.6% for the first nine months of 2005.

CCL acquired Inprint Systems on September 13, 2005 for approximately \$63 million in cash. Inprint, based in Ashford, England, primarily produces specialty healthcare labels and rounds out CCL's European presence in this business with plants in England, the Netherlands, Italy and the USA. At the beginning of August 2005, the Label Division acquired the 49% of the Austrian-based CCL-Pachem joint venture it did not already own for \$23 million paid in a combination of cash, 200,000 CCL Class B shares and debt assumed. At the same time, CCL also acquired the assets of Merroc Ltd. located in Cumbernauld, Scotland for \$2 million in cash. Merroc provides leading European paint manufacturers with pressure-sensitive colour chip labels.

The Steinbeis Packaging business was acquired by CCL on January 31, 2005 for approximately \$64 million in cash. The transaction was paid for with cash on hand and a bridge bank line of credit. Steinbeis Packaging, based in Germany, supplies battery labels on a global basis and provides premium product decorating solutions for the European consumer products market. Steinbeis' plants are located in Germany, France, the United States and China.

Incremental sales and operating income in the third quarter for the above noted four acquisitions were \$44.7 million and \$5.4 million, respectively.

In July 2004, the Division acquired Graphiques Apex Inc. in Boucherville, Québec to expand its healthcare offerings. Also, in the beginning of July 2004, the non-core Winnipeg business was sold.

Sales backlogs for the label business are generally low due to short customer lead times but indications are that customers' orders will be firm through the end of 2005. However, it is important to note that there is seasonality in the overall label business with the first and fourth quarters being generally stronger than the second and third quarters. This seasonality slowdown is a result of summer vacations primarily in Europe, strong agchem label production before the spring

planting season, and then increased battery label production in the late summer and fall for the Christmas season. Certain locations are impacted by the lengthy holiday season at year-end. Raw material pricing and supply are of potential concern going into next year.

The Label Division invested \$16.8 million in capital in the third quarter of 2005 compared to \$13.1 million in the same period last year. The capital was spent throughout the Division to maintain and expand its manufacturing base by adding presses in strategic locations including the construction of new plants in Poland and China and the beginning of the plant construction for the new relocated Robbinsville, NJ operation. The Division expects to continue to spend capital to increase its capabilities, expand geographically, and replace or upgrade existing plants and equipment to improve efficiencies over the next few years. Depreciation and amortization for the Label Division were \$10.6 million for the third quarter of 2005 and \$8.3 million in the comparable 2004 period.

### **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\$ 295.5 million (Cdn\$ 343.6 million) at September 30, 2005, with an average interest rate of 5.9%, factoring in the related Interest Rate and Cross Currency Swap Agreements. The US\$ 120 million notes issued in 1996 are due to be repaid in March 2006. Repayment of these notes is expected to come primarily from cash on hand and a further potential debt financing to support the Company's future growth plans. Net debt has decreased from year-end 2004 and from the year ago period due primarily to the Custom sale offset in part by acquisitions and our extensive capital spending program. The net debt analysis is as follows:

<b><u>\$ Millions</u></b>	<b><u>September 30, 2005</u></b>	<b><u>December 31, 2004</u></b>	<b><u>September 30, 2004</u></b>
Total debt	\$412.4	\$426.4	\$441.6
Cash on hand	<u>119.3</u>	<u>71.4</u>	<u>45.3</u>
<b>Net debt</b>	<b><u>\$293.1</u></b>	<b><u>\$355.0</u></b>	<b><u>\$396.3</u></b>

Non-cash working capital traditionally increases during the first part 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. This increase in working capital in the first nine months of \$37.9 million in 2005 compared to an increase of \$26.7 million in the comparable 2004 period.

Capital spending was \$33.2 million in the third quarter of 2005; \$0.2 million lower than the \$33.4 million spent in the same quarter last year. Year-to-date capital spending of \$117.9 million is substantially higher than the \$82.4 million spent in the first three quarters of 2004. Overall, the level of capital spending exceeded last year's level and this year's depreciation and amortization to provide for increased capacity and geographic reach, to implement cost reduction programs, and to maintain the existing business and asset base. It is expected that capital spending will continue at a strong pace for the balance of 2005 and is expected to be about \$140 million for the year. Plans for 2006 are not finalized but it is

anticipated that capital spending will again exceed the \$100 million level, well above expected depreciation for the year.

Dividends declared in the first nine months of 2005 and 2004, were \$9.6 million and \$9.3 million, respectively. The total number of shares outstanding at September 30, 2005 of 32.4 million is at the same level as the 32.4 million outstanding a year ago due to the exercise of stock options and the issuance of shares for the Pachem acquisition offsetting the shares repurchased under Normal Course Issuer Bids. The current annualized dividend rate is \$0.35 per Class A share and \$0.40 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, the Board approved a continuation of the quarterly dividend rate of \$0.0875 per Class A share and \$0.10 per Class B share to shareholders as of December 13, 2005 and payable on January 3, 2006.

Effective January 1, 2005, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to the Emerging Issues Committee rules with respect to the recording of vendor rebates by a purchaser. The adoption of this change did not have a material impact on the Company. A new CICA guideline on the consolidation of variable interest entities had no impact on the Company since it is not a party to any variable interest entities.

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 14 of the December 31, 2004 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**

The 2004 Management's Discussion and Analysis in the Annual Report detailed the risks to the Company's business and the strategies that were planned for 2005 and beyond. The disposition of the North American Custom Manufacturing business has eliminated or reduced certain risks applicable to that business segment. CCL will have less dependence on the international competitiveness of North American manufacturing; less reliance on the long-term currency effects of the U.S. dollar relative to the Canadian dollar and less overall dependence on a concentrated number of consumer products companies. CCL will now be more dependent on the inherent risks associated with running a more internationally diverse specialty packaging business without the diversification effect of the divested business. The Company will also have more dependence on the European and Asian economies and their currencies. These non-Canadian risks were described in the 2004 Management's Discussion and Analysis.

## **Outlook**

Through the balance of 2005 and into 2006, the Company will be more focused on the growth prospects of its specialty packaging business and the prudent management of the cash generated from the disposition of Custom with a view to improving shareholder value. The Company is investigating a number of mid-sized potential acquisition candidates that meet its criteria of core products and customers, and the expectation of immediate earnings accretion. The organic growth in sales and income experienced in the first nine months of 2005 is anticipated to continue through the balance of the year into 2006 as the Company is focused on replacing the Custom income and growing as a specialty packaging business. There are potential concerns that the volatility of energy and oil-based commodity prices and the availability of supply for CCL and our customers may be problematic as a result of the recent hurricanes in the Gulf of Mexico.