

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

(in millions of Cdn dollars, except per share data)	Three months ended December 31st			Twelve months ended December 31st		
	Unaudited		% Change	Unaudited		% Change
	2005	2004		2005	2004	
Sales	\$ 282.4	\$ 221.2	27.7	\$ 1,110.1	\$ 913.9	21.5
Income before undernoted items	39.7	31.4	26.4	170.6	129.6	31.6
Depreciation and amortization	16.3	10.5		65.4	54.3	
Interest expense, net	4.9	4.5		19.9	18.3	
	18.5	16.4	12.8	85.3	57.0	49.6
Unusual items - net loss (note 5)	(2.4)	(2.3)		(17.9)	(0.9)	
Earnings before income taxes	16.1	14.1	14.2	67.4	56.1	20.1
Income taxes	2.6	4.3		17.4	12.1	
Net earnings from continuing operations	13.5	9.8	37.8	50.0	44.0	13.6
Net earnings from discontinued operations, net of tax (note 4)	-	4.1		5.3	15.2	
Gain on sale of discontinued operations, net of tax (note 4)	1.5	-		108.5	-	
Net earnings	15.0	13.9		163.8	59.2	
Retained earnings, beginning of period	401.2	262.0		272.7	227.1	
Net earnings	15.0	13.9		163.8	59.2	
Repurchase of shares	-	-		(10.7)	(1.1)	
	416.2	275.9		425.8	285.2	
Less dividends:						
Class A shares	0.3	0.2		0.9	0.8	
Class B shares	2.9	3.0		11.9	11.7	
	3.2	3.2		12.8	12.5	
Retained earnings, end of period	\$ 413.0	\$ 272.7		\$ 413.0	\$ 272.7	
Earnings per share						
Class B - Continuing operations	\$ 0.43	\$ 0.30	43.3	\$ 1.57	\$ 1.36	15.4
Discontinued operations	\$ -	\$ 0.13		\$ 0.17	\$ 0.48	
Gain on sale of discontinued operations	\$ 0.05	\$ -		\$ 3.36	\$ -	
Class B - Net earnings	\$ 0.48	\$ 0.43		\$ 5.10	\$ 1.84	
Class A *	\$ 0.47	\$ 0.42		\$ 5.05	\$ 1.79	
Diluted earnings per share						
Class B - Continuing operations	\$ 0.41	\$ 0.30	36.7	\$ 1.52	\$ 1.34	13.4
Discontinued operations	\$ -	\$ 0.13		\$ 0.16	\$ 0.47	
Gain on sale of discontinued operations	\$ 0.05	\$ -		\$ 3.29	\$ -	
Class B - Net earnings	\$ 0.46	\$ 0.43		\$ 4.97	\$ 1.81	
Class A *	\$ 0.45	\$ 0.42		\$ 4.92	\$ 1.76	

* Earnings per class A shares are \$0.01 lower than Class B shares for the fourth quarters (\$0.05 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 Fourth Quarter
Consolidated Balance Sheets

(in millions of Cdn dollars)	December 31st <u>2005</u>	December 31st <u>2004</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 120.2	\$ 71.4
Accounts receivable - trade	162.2	194.3
Other receivables and prepaid expenses	20.7	29.5
Inventories	102.1	125.3
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	405.2	420.5
Capital assets	534.7	471.8
Other assets	29.2	38.8
Intangible assets	27.9	27.5
Goodwill	371.9	315.5
Total assets	\$ 1,368.9	\$ 1,274.1
Liabilities		
Current liabilities		
Bank advances	\$ 8.8	\$ 39.4
Accounts payable and accrued liabilities	249.4	271.4
Income and other taxes payable	24.3	8.1
Current portion of long-term debt	17.3	19.3
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	299.8	338.2
Long-term debt	376.5	367.7
Other long-term items	42.3	32.3
Future income taxes	84.5	86.9
Total liabilities	803.1	825.1
Shareholders' equity		
Share capital (note 2)	188.7	188.0
Contributed surplus	2.0	0.2
Retained earnings	413.0	272.7
Foreign currency translation adjustment	(37.9)	(11.9)
Total shareholders' equity	565.8	449.0
Total liabilities and shareholders' equity	\$ 1,368.9	\$ 1,274.1

See notes to interim consolidated financial statements.

Certain 2004 figures have been restated for comparative purposes.

CCL INDUSTRIES INC.
2005 Fourth Quarter
Consolidated Statements of Cash Flows

(in millions of Cdn dollars) Cash provided by (used for)	Three months ended December 31st		Twelve months ended December 31st	
	2005	2004	2005	2004
	<i>Unaudited</i>			
Operating activities				
Net earnings	\$ 15.0	\$ 13.9	\$ 163.8	\$ 59.2
Earnings from discontinued operations	-	(4.1)	(5.3)	(15.2)
Gain on sale of discontinued operations	(1.5)	-	(108.5)	-
Items not requiring cash:				
Depreciation and amortization	16.3	10.5	65.4	54.3
Stock-based compensation	0.5	-	1.8	0.2
Future income taxes	(2.9)	4.5	(1.2)	8.1
Unusual items (note 5)	2.4	1.9	17.8	(2.0)
	29.8	26.7	133.8	104.6
Net change in non-cash working capital	13.9	27.8	(24.0)	1.1
Cash provided by continuing operations	43.7	54.5	109.8	105.7
Cash provided by (used for) discontinued operations	(0.9)	7.5	2.3	29.3
Cash provided by operating activities	42.8	62.0	112.1	135.0
Financing activities				
Proceeds on issuance of long-term debt	3.2	9.4	44.2	9.4
Retirement of long-term debt	(11.8)	(5.6)	(28.5)	(20.0)
Increase (decrease) in bank advances	(0.7)	(1.3)	(26.9)	5.0
Issue of shares	0.8	0.2	4.7	2.3
Repurchase of shares	-	-	(14.1)	(1.7)
Purchase of shares held in trust (note 2)	-	-	(5.5)	-
Dividends	(3.2)	(3.2)	(12.8)	(12.5)
Cash used for financing activities	(11.7)	(0.5)	(38.9)	(17.5)
Investing activities				
Additions to capital assets	(38.0)	(29.3)	(155.9)	(111.7)
Proceeds on disposals	-	(0.7)	272.8	17.0
Business acquisitions (note 3)	-	(2.6)	(139.4)	(26.9)
Other	7.9	(0.3)	5.7	(2.5)
Cash used for investing activities	(30.1)	(32.9)	(16.8)	(124.1)
Effect of exchange rate changes on cash	(0.1)	(2.5)	(7.6)	(3.8)
Increase (decrease) in cash	0.9	26.1	48.8	(10.4)
Cash and cash equivalents at beginning of period	119.3	45.3	71.4	81.8
Cash and cash equivalents at end of period	\$ 120.2	\$ 71.4	\$ 120.2	\$ 71.4

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

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

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 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 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 EIC 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

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Issued share capital	\$ 196.1	\$ 189.8
Less: Executive share purchase plan loans	(1.8)	(1.8)
Shares held in trust	(5.6)	-
Total	<u>\$ 188.7</u>	<u>\$ 188.0</u>

During 2005, the Company granted a restricted share 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:

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Class A	2,422,204	2,439,187
Class B	30,088,789	30,021,756
Subtotal	<u>32,510,993</u>	<u>32,460,943</u>
Less: Executive share purchase plan shares	(150,000)	(150,000)
Shares held in trust	(200,000)	-
Total	<u>32,160,993</u>	<u>32,310,943</u>

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Year-to-date weighted average number of shares	<u>32,171,433</u>	<u>32,290,097</u>
Year-to-date weighted average diluted number of shares	<u>33,010,605</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.

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2005 AND 2004

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

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.

Details of the transaction are as follows :

Current assets	\$ 10.8
Current liabilities	(8.9)
Non-current assets at assigned values	22.9
Long-term liabilities	(1.3)
Future taxes	(0.6)
Goodwill	40.5
Net assets purchased	<u>\$ 63.4</u>
Total consideration:	
Cash, less cash acquired of \$3.5 million	<u>\$ 63.4</u>

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 net of cash acquired, 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.

Details of the transaction are as follows :

Current assets	\$ 9.2
Current liabilities	(11.9)
Non-current assets at assigned values	15.2
Goodwill	11.3
Long-term liabilities	(0.4)
Net assets purchased	<u>\$ 23.4</u>
Total consideration:	
Cash, less cash acquired of \$0.4 million	\$ 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>

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2005 AND 2004

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

3. ACQUISITIONS (Cont'd)

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	\$ 1.8
Current liabilities	(4.3)
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 February 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	\$ 34.9
Current liabilities	(39.2)
Non-current assets at assigned values	44.8
Long-term liabilities	(7.6)
Future taxes	(4.6)
Intangible assets	3.7
Goodwill	32.1
Net assets purchased	<u>\$ 64.1</u>
Total consideration:	
Cash, less cash acquired of \$4.8 million	<u>\$ 64.1</u>

In July 2004, the Company entered into its joint venture with RAR - Sociedade de Controle (Holding), S.A., (RAR), based in Portugal. This transaction merged CCL's Custom Manufacturing European operations with COLEP - Embalagens, Produtos, Enchimentos e Equipamentos, S.A., a wholly owned subsidiary of RAR. CCL contributed each of its plants in the U.K. and Germany, and cash of \$22.6 million for its 40% interest in the joint venture. RAR contributed each of its plants located in Portugal and Poland, and its two in Spain for its 60% interest in the joint venture. This new European entity, ColepCCL, Embalagens e Enchimentos S.A., is a contract manufacturer servicing the personal care, cosmetic, over-the-counter medication and household care products industries. In addition, it is a manufacturer of metal packaging. As a joint venture, the investment is accounted for using proportionate consolidation and the gain on transfer of net assets to the joint venture is deferred. The cost of the acquisition includes \$3.9 million accrued in relation to the closure of one of the Spanish plants that occurred in the 2005.

Details of the transaction are as follows :

Current assets	\$ 46.9
Current liabilities	(28.0)
Non-current assets at assigned values	45.7
Future income taxes	(5.4)
Intangible assets, primarily customer contracts and relationships	10.8
Goodwill	37.5
Net assets purchased	<u>\$ 107.5</u>
Cash, including net cash disposed \$1.3 million	
Net book value of net assets contributed (60%)	\$ 23.9
Assumed debt	49.9
Total consideration	<u>\$ 107.5</u>

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2005 AND 2004

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

3. ACQUISITIONS (Cont'd)

In July 2004, the Company purchased Graphiques Apex Inc., based in Boucherville, Quebec, a manufacturer of instructional leaflets for leading companies in the pharmaceutical industry, for \$3.2 million in cash and assumed debt of \$0.8 million.

Details of the transaction are as follows :

Current assets	\$ 1.5
Current liabilities	(1.0)
Non-current assets at assigned values	1.3
Goodwill	2.2
Net assets purchased	\$ 4.0
Cash	\$ 2.9
Note payable	0.3
Assumed debt	0.8
Total consideration	\$ 4.0

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 \$131.0 million (\$108.5 million after tax). The disposition is reported as discontinued operations and the results are as follows:

	Three months ended December 31st		Twelve months ended December 31st	
	2005	2004	2005	2004
Sales from discontinued operations	\$ -	\$ 151.5	\$ 246.8	\$ 604.6
Income before undernoted items	-	10.2	14.0	39.8
Depreciation and amortization	-	3.4	5.1	14.1
Interest expense, net	-	0.7	1.0	3.2
Earnings before income taxes	\$ -	\$ 6.1	\$ 7.9	\$ 22.5
Income taxes	-	2.0	2.6	7.3
Net earnings from discontinued operations	\$ -	\$ 4.1	\$ 5.3	\$ 15.2
Gain on sale of discontinued operations	\$ 1.5	\$ -	\$ 108.5	\$ -

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. During the three months ended December 31, 2005, certain adjustments were made to these provisions resulting in additional gain of \$1.2 million (\$1.5 million net of tax benefit).

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2005 AND 2004

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

5. UNUSUAL ITEMS

	Division	Three months ended December 31		Twelve months ended December 31	
		2005	2004	2005	2004
Impairment in non-operational property	ColepCCL	\$ (1.4)	\$ -	\$ (1.4)	
Mexico Container business restructuring and asset write-down	Container	-	-	(3.8)	-
Impairment of IntraPac L.P. investment	Corporate	(1.0)	-	(12.7)	-
Repatriation of capital	Corporate	-	(1.0)	-	(1.0)
Sale of Leeds property	Label	-	(1.3)	-	7.4
Plastic Packaging business restructuring and asset write-down	Container	-	-	-	(9.6)
Label Division asset write-down	Label	-	-	-	(2.1)
Sale of Winnipeg business	Label	-	-	-	4.4
Loss		\$ (2.4)	\$ (2.3)	\$ (17.9)	\$ (0.9)
Tax recovery on unusual items		\$ -	\$ 0.4	\$ 0.1	\$ 2.9

In December 2005, the Company provided for its share of an impairment in a ColepCCL non-operational property in the amount of \$1.4 million with no tax benefit.

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 \$12.7 million (\$12.6 million after tax). The investment was sold in October 2005 and the estimated loss on disposal was adjusted.

In November 2004, the Company repatriated capital from certain foreign operations, which resulted in a net foreign exchange loss of \$1.0 million. Gains and losses arise from the difference between the exchange rate in effect on the date the capital was returned to Canada compared to the historical rate in effect when the capital was invested. These gains or losses on foreign exchange did not give rise to any tax effect.

In September 2004, the Company sold its Leeds, U.K. property for \$11.1 million cash and realized a gain of \$7.4 million (\$5.9 million after tax) net of \$1.3 million (\$0.9 million after tax) in moving costs incurred in the fourth quarter to relocate the Leeds plant.

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.

6. EMPLOYEE FUTURE BENEFITS

The expense for the defined benefit plans in the fourth quarter is \$0.3 million (2004 - \$0.4 million) and year-to-date \$1.5 million (2004 - \$1.4 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.

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2005 AND 2004

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

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 December 31st				Twelve months ended December 31st			
	Sales		Operating income		Sales		Operating income	
	2005	2004 <u>Restated</u> <u>Note 4</u>	2005	2004 <u>Restated</u> <u>Note 4</u>	2005	2004 <u>Restated</u> <u>Note 4</u>	2005	2004 <u>Restated</u> <u>Note 4</u>
Label	175.3	119.8	15.2	15.9	669.0	505.5	72.7	55.0
Container	65.2	53.3	6.4	4.2	253.5	212.7	26.6	17.2
ColepCCL / Custom Manufacturing Europe	\$ 41.9	\$ 48.1	\$ 2.8	\$ 2.6	\$ 187.6	\$ 195.7	\$ 15.9	\$ 10.6
Total operations	\$ 282.4	\$ 221.2	24.4	22.7	\$ 1,110.1	\$ 913.9	115.2	82.8
Corporate expense			(1.0)	(1.8)			(10.0)	(7.5)
			23.4	20.9			105.2	75.3
Interest expense, net			4.9	4.5			19.9	18.3
			18.5	16.4			85.3	57.0
Unusual items - net loss			(2.4)	(2.3)			(17.9)	(0.9)
Earnings before income taxes			16.1	14.1			67.4	56.1
Income taxes			2.6	4.3			17.4	12.1
Net earnings from continuing operations			13.5	9.8			50.0	44.0
Net earnings from discontinued operations, net of tax			-	4.1			5.3	15.2
Gain on sale of discontinued operations, net of tax			1.5	-			108.5	-
Net earnings	\$ 15.0	\$ 13.9	\$ 15.0	\$ 13.9	\$ 163.8	\$ 59.2	\$ 163.8	\$ 59.2

	Identifiable Assets		Goodwill		Depreciation & Amortization		Capital Expenditures	
	December 31st	December 31st	December 31st	December 31st	Twelve months ended		Twelve months ended	
	2005	2004	2005	2004	December 31st		December 31st	
					2005	2004	2005	2004
					<u>Continuing operations</u>			
Label	756.2	512.6	276.7	198.1	39.1	28.6	96.0	46.7
Container	295.2	261.7	53.1	51.5	17.8	17.7	45.8	44.9
ColepCCL / Custom Manufacturing	\$ 163.3	\$ 411.9	\$ 42.1	\$ 65.9	\$ 7.8	\$ 6.9	\$ 10.4	\$ 19.8
Corporate	154.2	87.9	-	-	0.7	1.1	3.7	0.3
Total	\$ 1,368.9	\$ 1,274.1	\$ 371.9	\$ 315.5	\$ 65.4	\$ 54.3	\$ 155.9	\$ 111.7

9. SUBSEQUENT EVENT

On January 11, 2006, the Company announced its purchase of Prodesmaq, based in Vinhedo, Brazil. Prodesmaq, through its two state-of-the-art plants, is a leading supplier in Brazil of pressure-sensitive labels for many global companies in the home and personal care, healthcare and premium food and beverage markets. The purchase price is approximately \$64 million on a debt-free basis.

On January 24, 2006, the Company announced the sale of CCL Dispensing Systems, LLC, its dispensing closure business based in Libertyville, Illinois. The sale price is approximately \$24 million cash.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fourth Quarters ended December 31, 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 twelve month periods ended December 31, 2005 and 2004 and an update to the 2004 Annual MD&A document. The information in this interim MD&A is current to February 16, 2006 and should be read in conjunction with the Company's December 31, 2005 unaudited fourth quarter financial statements released on February 16, 2006 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, the Chinese renminbi and the Polish zloty. 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 positive through the fourth quarter of 2005. CCL has experienced modest growth in most of its product categories in line with its customers' performance. Higher energy and commodity costs on consumers and the supply chain continue to have an impact but despite these forces, the economy continues to grow. The Federal Reserve continues to raise 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 somewhat weaker economy overall, although there appear to be signs of improvement, despite substantially lower and more stable interest rates while Asian markets continue to grow rapidly.

Most of CCL's international marketing customers have been benefiting from higher sales volumes than last year. As a result, CCL has experienced good growth in a number of specific product categories and regions. Overall, customer demand for CCL's products softened slightly in the fourth quarter of 2005 compared to prior quarters. The month of December was affected in particular by lengthy plant shutdowns during the holiday season in certain countries for CCL and its customers. With all of the acquisitions in the last year primarily outside of North America and in many new product categories, the seasonality of

CCL's business continues to change. However, the first quarter of 2006 appears overall to be off to a strong start.

The impact of higher material prices on our customers' products and the supply chain's ability to access raw materials continues to be a major challenge. All CCL business units are direct or indirect users of hydrocarbon-based commodities and energy. The costs of many raw materials used to manufacture CCL's products have recently reached all-time highs. Management has been able to generally control these costs and maintain profit margins with price increases to customers. Managing these record high input costs and the timing and size of negotiated customer selling price increases in response, will continue to be a cause for concern and diligence in 2006.

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. However, order backlogs have come down over the last few months due to our higher production output and some reduction in order intake in certain products and in specific sizes. This lower demand has also reduced the need to outsource certain production to other suppliers in support of our customers. The Plastic Packaging business unit of the Container Division is experiencing a steady turnaround in sales volumes with good unit volume growth 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 in most categories, although certain product lines have seen some weakness in the fourth quarter. Further details on divisional sales trends can be found later in this report.

Review of Consolidated Continuing Operations

Sales for the fourth quarter of 2005 of \$282.4 million were 28% ahead of the \$221.2 million recorded in the fourth quarter of 2004 for continuing operations, while sales for the full year 2005 of \$1,110.1 million were 22% ahead of last year's \$913.9 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, the Euro, and most other currencies. In addition, business acquisitions have impacted the comparison to prior periods. Sales increased for the quarter by 34% (year-to-date 28%) due to acquisitions and organic growth, partially offset by a decrease of 6% (year-to-date 6%) due to foreign exchange. On a comparative basis with last year's fourth quarter, sales volumes increased in all Divisions with the exception of ColepCCL where volumes were similar to the prior year level.

The following acquisitions, divestitures and merger affected financial comparisons in the fourth quarter and in the year 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 for \$4 million and divested its non-core Winnipeg label business for \$7 million.

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 unit 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 fourth quarter of 2005 of \$13.5 million were up by 38% from the \$9.8 million recorded in the fourth quarter of 2004. Net earnings were impacted by a net loss from unusual items of \$2.4 million before tax (\$2.4 million after tax) in the fourth quarter of 2005 versus a net loss from unusual items of \$2.3 million before tax (\$1.9 million after tax) in the fourth quarter of 2004. Operating income improved from last year's fourth quarter by 8% due to a substantially stronger performance in the Container Division (in both the Aluminum Container and Plastic Packaging units), and slightly higher income from the ColepCCL joint venture in 2005 than 2004 and a lower tax rate. These improvements were partly offset by the negative effect of currency translation and transactions due to the depreciation of the U.S. dollar and the Euro relative to the Canadian dollar.

Net interest expense allocated to continuing operations was \$0.4 million higher than last year in the quarter due in part to higher floating interest rates. Since the sale of the North American Custom Manufacturing Division ("Custom") in mid-May, all interest expense and the interest income received on the cash from the sale of Custom are included in continuing operations. Corporate expenses for

the quarter were \$0.8 million lower than last year. The overall effective income tax rate for continuing operations was 16% for the quarter compared to 30% in the fourth quarter of 2004 due in part to the unusual items. The tax rate is lower in this year's fourth quarter due to significant earnings improvements in countries with lower tax rates, the utilization of a previously unrecognized tax-loss carry forward, and a reduction in effective tax rates in certain jurisdictions.

For the full year 2005, net earnings from continuing operations were \$50.0 million, up 14% from the \$44.0 million in 2004. Net earnings for full year 2005 were affected by the unusual losses of \$17.9 million (\$17.8 million after tax). For 2004, net earnings were affected by a net loss from unusual items of \$0.9 million before tax (gain of \$2.0 million after tax, due to the non-taxable nature of certain gains). Operating income for the year 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 year was up \$1.6 million compared to last year, due to higher floating interest rates. The tax rate for continuing operations for the year was 26% but would have been 32% excluding the benefit (\$4.3 million) of utilizing previously unrecognized tax losses as a result of the gain on the disposition of Custom in the second quarter. The tax rate for continuing operations for 2004 was 22%. The tax rate is higher this year due primarily to the unusual items in both years. This tax rate is lower than the combined Canadian federal and provincial tax rates of 34.1% 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.

Earnings from continuing operations per Class B share were \$0.43 in the fourth quarter of 2005 compared to the \$0.30 earned in the same period last year, an increase of 43%. Unusual items in 2005 decreased the fourth quarter's earnings per Class B share by \$0.07, while in the fourth quarter of 2004 unusual items also decreased earnings per Class B share by \$0.07. For comparative purposes, if the unusual items were excluded, net earnings from continuing operations increased by 38% in the fourth quarter 2005 versus a very strong fourth quarter in 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. Diluted earnings per Class B share were \$0.02 lower than the basic earnings per Class B share in the fourth quarter of 2005 but diluted earnings and basic earnings for the fourth quarter 2004 were equivalent.

For the full year 2005, earnings from continuing operations per Class B share were \$1.57 compared to \$1.36 in 2004, a 15% increase from the previous year.

Unusual items reduced earnings per share by \$0.55 for the full year 2005 but was partially offset by the tax benefit from unrecognized tax losses that positively impacted earnings per share by \$0.13 for 2005. Unusual items in the full year 2004 increased earnings per Class B share by \$0.06. Diluted earnings per Class B share from continuing operations were \$0.05 lower than the basic earnings for 2005 and \$0.02 lower on the same comparative basis for 2004.

There were three unusual items in 2005 for a total loss of \$17.9 million (\$17.8 million after tax) as follows:

- IntraPac LP - in 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 a further unusual loss recorded on this transaction in the fourth quarter based on final settlement of \$1.0 million with no tax benefit.
- ColepCCL property held for sale - in the fourth quarter of 2005, the Company wrote down its share of the value of a property held for sale in ColepCCL by \$1.4 million with no tax benefit.
- Mexico Plastic Container - 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 \$0.55 per Class B share for the full year 2005.

The unusual items in the fourth quarter of 2004 were a loss of \$2.3 million (\$1.9 million after tax). This loss consisted of the relocation of the Leeds, U.K. facility to a new facility in Wakefield, U.K. of \$1.3 million (\$0.9 million after tax) and a foreign exchange loss on capital repatriated from foreign subsidiaries of \$1.0 million with no tax benefit.

Earnings per Class B share for the year 2005 were \$5.10 compared to \$1.84 earned in 2004, an increase of 177%. Diluted earnings per Class B share were \$4.97 in 2005 and \$1.81 in 2004.

On May 17, 2005, CCL completed the sale of Custom to KCP Income Fund for \$273 million in cash, resulting in an after-tax gain of \$107.0 million. In the fourth quarter of 2005, the resolution of certain contingency items that were originally provided for on the sale were settled with a net after tax gain of \$1.5 million, increasing the total gain on the sale to \$108.5 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.

CCL has recorded this divestiture as a Discontinued Operation and consequently, the sales and income contribution from Custom 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 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 in 2005 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)

<u>Earnings per Class B shares</u>	<u>Three Months</u>		<u>Full Year</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
From Continuing Operations	\$ 0.43	\$ 0.30	\$ 1.57	\$1.36
From Discontinued Operations	-	\$ 0.13	\$ 0.17	\$0.48
Net (loss) gain from Unusual Items and Tax Benefit included in Continuing Operations	\$(0.07)	\$(0.07)	\$(0.42)	\$0.06

The sale of Custom required a restatement of results including allocating certain costs between Continuing and Discontinued Operations. 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 eight most recently completed quarters.

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

	<u>Qtr 1</u>	<u>Qtr 2</u>	<u>Qtr 3</u>	<u>Qtr 4</u>	<u>Total</u>
Sales-Continuing Operations					
2005	\$ 265.7	\$ 280.1	\$ 281.9	\$282.4	\$1,110.1
2004	240.7	232.0	220.0	221.2	913.9
Net earnings-Continuing Operations					
2005	16.1	5.1	15.3	13.5	50.0
2004	11.5	9.1	13.6	9.8	44.0
Net earnings					
2005	19.7	113.8	15.3	15.0	163.8
2004	14.8	11.9	18.6	13.9	59.2
Net earnings per Class B share					
Continuing Operations					
Basic					
2005	\$ 0.50	\$ 0.16	\$ 0.48	\$0.43	\$ 1.57
2004	0.36	0.28	0.42	0.30	1.36
Diluted					
2005	0.49	0.16	0.46	0.41	1.52
2004	0.35	0.27	0.42	0.30	1.34
Net earnings per Class B share					
Basic					
2005	0.61	3.53	0.48	0.48	5.10
2004	0.46	0.37	0.58	0.43	1.84
Diluted					
2005	0.60	3.45	0.46	0.46	4.97
2004	0.45	0.36	0.57	0.43	1.81
Unusual items and one-time tax benefit and gains					
2005	-	2.96	-	(0.02)	2.94
2004	-	-	0.13	(0.07)	0.06

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

Nearly 90% of CCL's sales from continuing operations are generated outside of Canada in foreign currencies and are then translated into Canadian dollars for reporting purposes. The United States dollar is the functional currency for 40% of CCL's total sales from continuing operations and it depreciated 4% on average compared to the Canadian dollar in the fourth quarter 2005 versus last year's fourth quarter. In addition, European currencies are now the measurement currencies for 43% of CCL's sales and the Euro has substantially weakened by 12% compared to the Canadian dollar versus the prior year quarter. Changes in foreign exchange rates have reduced earnings per share from continuing operations due to currency translation by \$0.03 in the fourth quarter compared to 2004 and \$0.11 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\$ 2.0 million sold forward) for the fourth 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 fourth 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 fourth quarter of 2005 (\$3.1 million for the full year) and reduced comparative earnings per share by \$0.03 for the quarter (\$0.09 for the full year). 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 December 31, 2005, outstanding foreign exchange contracts for 2006 had a positive fair value of \$1.2 million.

Net interest expense for continuing operations was \$4.9 million for the fourth quarter of 2005, up from \$4.5 million from the comparable period last year due to higher floating interest rates. However, the depreciation of the U.S. dollar and the Euro partially offset this increase 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 U.S.\$ 68.5 million 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 December 31, 2005 amounted to approximately \$1.5 million. The effect of these four IRSAs and two CCIRSA's has been to reduce interest expense by \$0.8 million in the fourth quarter of 2005 compared to a reduction of \$1.3 million in the fourth quarter of 2004. For the year, the impact was a reduction of \$3.5 million in 2005 and \$6.6 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 5.5 times in 2005 compared to 4.7 times in 2004.

The Company's financial position is very solid. As of December 31, 2005, cash and cash equivalents amounted to \$120 million compared to \$71 million at December 31, 2004. Net debt amounted to \$282 million at December 31, 2005, \$73 million lower than the net debt of \$355 million at the end of 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 and capital

spending. Capital spending in the fourth quarter of \$38.0 million compared to \$29.3 million last year. The major capital expenditures in the fourth quarter were for further payments on the two production lines and the plant expansion in the Container Hermitage operation, many new presses for the Label Division, and new plant installations and equipment in Poland, Thailand and China. Working capital decreased \$13.9 million in the fourth quarter of 2005 due to the typical seasonal slowdown during the holiday season. The reduction in the fourth quarter of 2004 was \$27.8 million.

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 fourth quarters of 2005 and 2004, the Company generated cash from all operations of \$42.8 million and \$62.0 million, respectively. The reduction is primarily due to less cash provided by working capital in 2005 (\$13.9 million) compared to 2004 (\$27.8 million). In 2004, seasonal working capital reduced significantly in the discontinued Custom business. In addition, \$38.0 million was spent on capital additions in the fourth quarter versus \$29.3 million last year as described earlier. This level of capital spending was higher than the \$16.3 million of depreciation and amortization in the fourth quarter of 2005.

Net debt to total capitalization, defined as net debt divided by net debt plus shareholders' equity, at December 31, 2005 was 33.3%, down from 44.2% at the end of 2004 primarily due to the Custom sale. Book value per share, defined as shareholders' equity divided by total period end shares, was \$17.63 at the end of the fourth quarter of 2005, 27% 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 offset in part by the reduction in shareholders' equity due to the foreign currency translation adjustment.

Discussion of Divisional Business Segments

Label

Sales for the Label Division of \$175.3 million for the fourth quarter were up 46% from \$119.8 million in the same quarter last year. For the year 2005, sales were \$669.0 million in 2005, up 32% from the \$505.5 million of the comparable prior year period. Sales increased for the quarter by 46% (for the year 32%) split between acquisitions of 47% (30% for the year) and organic growth of 6% (9% for the year) partially offset by foreign exchange of 7% (7% for the year).

Sales growth in the fourth quarter was predominantly due to the Steinbeis, Inprint and Pachem acquisitions, 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 was slightly ahead of last year for the quarter, with continued improvements in Mexico. Sales to two major customers were lower than expectations as they ran down inventories in preparation for two re-launches of major brands in the first half of 2006. Specialty products in local currency were slightly ahead of last year's fourth quarter with good growth in agricultural chemical labels partially offset by a slow promotional label market. The North American healthcare business recorded strong sales growth, particularly in inserts, as the business has made good advances with customers in the pharmaceutical industry.

In Europe, sales were disappointing in personal care compared to last year, but there was good growth in food and beverage, primarily in shrink sleeves. Healthcare volume was soft but the recently acquired battery business showed strong performance. The Steinbeis, Merroc, and Inprint acquisitions along with the increased ownership of Pachem significantly improved CCL's European position in all categories. Sales in Thailand were over 20% ahead of last year with further growth expected, and the plant in Hefei, China performed well. Product is now being shipped from CCL's new plant in Poznan, Poland with new personal care volume expected, and the Guangzhou, China operation will commence trading in the first quarter of 2006. 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 fourth quarter of 2005 was \$15.2 million, down 4% from the \$15.9 million in the exceptionally profitable fourth quarter of 2004. Operating income was negatively affected by currency translation, an executive severance, and non-recurring acquisition related charges. Operating income as a percentage of sales at 8.6% continues to meet our internal targets if the non-recurring items were excluded. For the 2005 year, operating income was \$72.7 million versus \$55.0 million last year, up 32%. Operating income as a percentage of sales was 10.9% for the 2005 year, equal to the 2004 level.

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 fourth quarter for the above noted four acquisitions were \$56.3 million and \$5.1 million, respectively.

In July 2004, the Division acquired Graphiques Apex Inc. in Boucherville, Québec for \$4 million to expand its healthcare offerings. Also, in the beginning of July 2004, the non-core Winnipeg business was sold for \$7 million.

In January 2006, the Label Division acquired the label converting assets of Prodesmaq and its subsidiaries for approximately \$64 million in cash on a debt-free basis. Prodesmaq is Brazil's largest supplier of pressure-sensitive labels in the home and personal care, healthcare and premium food and beverage categories. In the 2005 year, Prodesmaq had sales of \$37 million and operated with exceptional profit margins.

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 first quarter of 2006. There is seasonality in the overall label business with the first quarter generally stronger than the other three quarters. This seasonality 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 particularly impacted by the lengthy holiday season at year-end. Raw material pricing and our ability to pass on cost increases and maintain profit margins continue to be a challenge into 2006.

The Label Division invested \$21.2 million in capital in the fourth quarter of 2005 compared to \$9.8 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 \$10.0 million for the fourth quarter of 2005 and \$5.4 million in the comparable 2004 period.

Container

Sales in the fourth quarter were \$65.2 million, up 22% from \$53.3 million last year and for the year 2005 were \$253.5 million, up 19% from the \$212.7 million last year. Sales increased for the quarter by 25% (for the year 25%) due to

internal growth and the increased ownership of CCL Dispensing offset in part by a decrease of 3% (for the year 6%) due to foreign exchange translation.

The Aluminum Container unit of the Container Division continued to benefit in the fourth quarter from the strong demand for aluminum aerosol containers and other new applications for shaped-can technology with sales up 28% over last year. Personal care volume in the aerosol format continued to grow. The impact of added internal capacity and lower demand for smaller diameter products has resulted in the Division reducing its backlogs to more acceptable levels and also reducing the outsourcing of production to overseas suppliers in support of customer requirements. The beverage business continues to be dependent on a few customers and volumes were up about 5% from a year ago despite reduced orders from a beer customer. Mexican aerosol container sales were also substantially higher in the fourth quarter compared to last year.

In the Plastic Packaging unit of the Container Division, sales were up 12% in the fourth quarter compared to last year, due primarily to the inclusion of the remaining 30% of the CCL Dispensing joint venture acquired in July 2005, offset in part by unfavourable currency translation. The demand for plastic tubes continues to show modest improvement in the quarter and new orders to be manufactured in the next few months appear to be reasonable. Plastic closure sales volumes were up over last year's performance.

Operating income for the Container Division for the fourth quarter of 2005 was \$6.4 million, up 52% from \$4.2 million in the fourth 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 a profit in the fourth quarter of 2005 with a return on sales of 4% compared to a loss in the prior year quarter, a turnaround of \$1.3 million reflecting overhead reductions and improvements in manufacturing. For the 2005 full year, operating income for the Container Division was \$26.6 million versus \$17.2 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 a portion 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 \$3.1 million for the year relative 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.

In early February 2006, the Company divested the assets of its CCL Dispensing business in Libertyville, IL for approximately \$24 million in cash to AptarGroup, Inc. This business was deemed to be non-core as it is a small player in the global closures market. Operating income contribution from this business in 2005 was approximately \$1 million. The gain or loss on the sale of this business is anticipated to be relatively immaterial.

The Container Division invested \$11.4 million in capital in the fourth quarter of 2005 compared to \$13.7 million last year, to maintain and expand its manufacturing base and reduce its production costs. Depreciation and amortization for the fourth quarters of 2005 and 2004 was \$4.1 million. The Division has successfully installed four new aluminum container lines in the last two years and has now installed a fifth new line which was operational in early February 2006. A sixth new line is to be installed in the second quarter of 2006. The seventh new line is on order for early 2007 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 fair value of these futures at December 31, 2005 was a positive \$11.3 million.

ColepCCL Joint Venture/Custom Manufacturing - Europe

The ColepCCL joint venture was created in mid-July 2004. For the fourth quarter of 2005, CCL's proportionate share of the joint venture's sales was \$41.9 million. This sales level was 13% lower than the comparative sales last year of \$48.1 million due to the 12% decline in the value of the Euro for the comparable quarter. In local currency, sales were flat compared to the same quarter a year ago. For all of 2005, CCL's share of the joint venture sales was \$187.6 million; this is 4% less than the \$195.7 million of sales from our former operations and the joint venture in 2004. Comparative sales for the year have been reduced by the 7% average decline in the value of the Euro compared to last year. Otherwise, there was modest sales growth over 2004 in local currency.

Operating income in the seasonally slower fourth quarter of 2005 for ColepCCL was \$2.8 million, indicating a return on sales of 6.7%, and in the fourth quarter of 2004, operating income was \$2.6 million, indicating a return on sales of 5.4%. Operating income for the year was \$15.9 million in 2005 versus \$10.6 million from CCL's 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 despite the impact of unfavourable currency translation.

Sales growth for the joint venture in local currency was 3% higher than the combined former operations for the year 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 Manufacturing operations benefiting from the volume increase and Metal Packaging benefiting from significant price increases that have more than offset the added tinplate costs.

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 \$6.3 million were incurred on this closure. The land and building are up for sale. This plant closure is expected to improve overall profitability in ColepCCL going forward. Direct closing costs that were expensed in the quarter were immaterial.

In the fourth quarter, ColepCCL recognized a write-down on a property held for sale contributed by CCL to the joint venture in 2004. CCL had provided a guarantee on the value of this property when the joint venture was formed. The unusual loss for this write-down was \$1.4 million with no tax benefit. Both the Madrid property and the property contributed by CCL to the joint venture continue to be for sale. Further gains or losses may be realized when the properties are sold.

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\$ 343.7 million) at December 31, 2005. The US\$ 120 million notes issued in 1996 are due to be repaid on March 15, 2006. The Company's overall average interest rate is 5.9%, after factoring in the related Interest Rate and Cross Currency Swap Agreements.

Repayment of these notes is expected to come from a new private placement totaling US\$ 170 million and expected to close on March 7, 2006, subject to final due diligence by the potential note holders. The new series of notes will have two tranches: US\$ 60 million for 5 years at 5.29% and US\$ 110 million for 10 years at 5.57%. The Company expects to convert the 5-year notes effectively into a 5-year fixed rate Euro debt by entering into a cross-currency interest rate swap agreement with a financial institution. The intent of this transaction would be to more effectively hedge CCL's assets and cash flows in Europe. This transaction is expected to reduce the effective rate on the 5-year notes to below 4%. The additional borrowed funds will be used for general corporate purposes and for funding future growth opportunities.

The summary of net debt is as follows:

<u>\$ Millions</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Total debt	\$402.6	\$426.4
Cash on hand	<u>120.2</u>	<u>71.4</u>
Net debt	<u>\$282.4</u>	<u>\$355.0</u>

Net debt has decreased from 2004 year-end, primarily due to the Custom sale, offset in part by acquisitions and our extensive capital expenditure program. For the year 2005, cash provided by operations was \$112.1 million compared to \$135.0 million in 2004. This was due to non-cash working capital increasing by \$24.0 million in 2005 versus a reduction of \$1.1 million in 2004. The major impact on working capital was due to the disposition of Custom, as it was sold in May 2005 when working capital was higher than the traditionally lower level of year-end 2004.

For the 2005 year, capital spending of \$155.9 million is substantially higher than the \$111.7 million spent in 2004. Capital spending also exceeded this year's depreciation and amortization of \$65.4 million. This major capital expenditure program was to provide for increased capacity and geographic reach, to implement cost reduction programs, and to maintain the existing business and asset base. Plans for capital spending in 2006 are expected to be about the same level as 2005, as the Company continues to expand its business base into new markets, and invest in assets to add capacity and improve its competitiveness.

Dividends declared in 2005 and 2004 were \$12.8 million and \$12.5 million, respectively. The total number of shares outstanding at December 31, 2005 of 32.5 million is at the same level as the 32.5 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 March 17, 2006 and payable on March 31, 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. 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, Latin American and Asian economies and their currencies. These non-Canadian risks were described in the 2004 Management's Discussion and Analysis.

Outlook

The Company will be more focused on the growth prospects of its specialty packaging business and the prudent management and reinvestment of the cash generated from the disposition of Custom with a view to improving shareholder value in 2006. CCL will also be integrating and reorganizing the large number of recent acquisitions it has made to improve profitability and simplify administration. The Company is continuing to investigate mid-sized potential acquisition candidates that meet its criteria of core products and customers, and the expectation of earnings accretion in the first year of ownership. The organic growth in sales and income experienced in 2005 is anticipated to continue into 2006 as the Company is focused on replacing the Custom income and growing as a specialty packaging business. There are challenges expected in 2006 associated with managing the balance between cost increases due to the significant inflation and volatility of energy and packaging components and the Company's ability to recover these cost increases by higher selling prices to its customers. The strength of the Canadian dollar relative to the currencies of CCL's foreign operations may continue to negatively impact earnings compared to 2005 performance levels.