

CCL Industries Inc.



105 Gordon Baker Road, Suite 800, Willowdale, Ontario, Canada M2H 3P8
Telephone: (416) 756-8500 Fax: (416) 756-8555 Web site: www.cclind.com

February 22, 2007

Dear Shareholder:

Please find enclosed the Fourth Quarter and Full Year 2006 financial results and related public disclosures for CCL Industries Inc. This shareholder package provides detailed information about your Company's business activities and financial performance.

Your Company continues to enjoy improved profitability and growth in its specialty packaging niches. We are particularly pleased to have acquired in January 2007 the shrink sleeve and stretch sleeve label business from Illinois Tool Works located in the United Kingdom, Austria, Brazil and the United States. This acquisition provides further breadth in our label offerings and ties into the product lines of many of our existing customers, particularly in the beverage industry.

After experiencing a slowdown in some of our businesses in the third quarter and concerns about a continuation of that trend, we are pleased to report that demand for our products and our profitability bounced back significantly in the fourth quarter. CCL is very well positioned to enjoy further growth in 2007.

In light of the improved financial performance in 2006 and strong operating cash flow, your Board of Directors is very pleased to approve another increase in the quarterly dividend payable on March 30, 2007. This 9% dividend increase is the second in nine months and the fourth in the last five years and amounts to a 50% increase in that time period. The quarterly dividend is now \$0.12 per Class B non-voting share and \$0.1075 per Class A voting share.

Conference calls with our stakeholders are held following the release of our quarterly results and when significant events require additional communication. These calls are made to ensure that all stakeholders are kept current with our business developments and to support our good corporate governance practices. Presentation materials used during conference calls and formal investor meetings are posted on our website along with audio recordings of the meetings. Instructions for accessing these services are set out at the end of this earnings release.

We encourage all shareholders to access our website www.cclind.com on a regular basis for investor and company news. If you would like to have future Press Releases e-mailed to you at the time they are issued, please write to us at CCL to the attention of Christene Duncan.

Yours truly,

Jon K. Grant
Chairman of the Board

Investor Update

1. Fourth Quarter and Total Year 2006 Results and Dividend Release
2. 2006 Consolidated Financial Statements
3. Total Year 2006 Management's Discussion and Analysis
4. Press Release - Purchase of ITW's Sleeve Label Business



105 Gordon Baker Road, Willowdale, Ontario M2H 3P8
 Telephone: (416) 756-8500 Fax: 756-8555 www.cclind.com

News Release

Stock Symbol: TSX – CCL.A and CCL.B

For Immediate Release – Thursday, February 22, 2007

CCL Releases Record Fourth Quarter Results and Increases Dividend

Results Summary

(in millions of Cdn dollars, except per share data)	For Periods Ended December 31 st					
	Three months			Twelve months		
	<u>2006</u>	<u>2005</u>	<u>% Change</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Sales	\$ <u>308.9</u>	\$ <u>282.4</u>	9.4	\$ <u>1,212.2</u>	\$ <u>1,110.1</u>	9.2
Restructuring and other items - net loss	\$ <u>(7.2)</u>	\$ <u>(2.4)</u>		\$ <u>(11.5)</u>	\$ <u>(17.9)</u>	
Net earnings from continuing operations	\$ <u>25.1</u>	\$ <u>13.5</u>	85.9	\$ <u>77.4</u>	\$ <u>50.0</u>	54.8
Net earnings from discontinued operations, net of tax	-	-		-	5.3	
Gain on sale of discontinued operations, net of tax	-	<u>1.5</u>		-	<u>108.5</u>	
Net earnings	\$ <u>25.1</u>	\$ <u>15.0</u>		\$ <u>77.4</u>	\$ <u>163.8</u>	
Per Class B shares						
Continuing operations	\$ <u>0.78</u>	\$ <u>0.43</u>	81.4	\$ <u>2.41</u>	\$ <u>1.57</u>	53.5
Discontinued operations	-	-		-	0.17	
Gain on sale of discontinued operations	-	<u>0.05</u>		-	<u>3.36</u>	
Class B - net earnings	\$ <u>0.78</u>	\$ <u>0.48</u>		\$ <u>2.41</u>	\$ <u>5.10</u>	
Diluted earnings per Class B	\$ <u>0.75</u>	\$ <u>0.46</u>		\$ <u>2.33</u>	\$ <u>4.97</u>	
Restructuring and other items and favourable tax adjustments - net gain (loss)	\$ <u>0.20</u>	\$ <u>(0.07)</u>		\$ <u>0.04</u>	\$ <u>(0.42)</u>	
Number of outstanding shares (in 000s)						
Weighted average for the period	32,240	32,171				
Actual at period end	32,602	32,511				

Toronto, February 22, 2007 - CCL Industries Inc., a world leader in the development of manufacturing, packaging and labelling solutions for the consumer products and healthcare industries, announced today its financial results for the fourth quarter and fiscal year ended December 31, 2006 and the declaration of its quarterly dividend.

Sales from continuing operations for the fiscal year 2006 of \$1,212.2 million were a strong 9% ahead of last year's \$1,110.1 million. Sales from continuing operations for the fourth quarter of 2006 of \$308.9 million were 9% ahead of \$282.4 million recorded in the fourth quarter of 2005. Financial comparisons to the full year's results in all divisions were negatively affected by the appreciation of the Canadian dollar relative to the U.S. dollar, the euro and most other currencies. The acquisition of Prodesmaq in January 2006 positively impacted comparisons to prior

year's results. Sales have also grown organically in the Label Division and both the Container and Tube Divisions have exceeded prior year's levels as CCL continues to benefit from strong demand, particularly in the personal care and healthcare markets with its multinational customers and with new product offerings. The performance of many of CCL's recent acquisitions and expansion into new markets has also been positive. Sales volumes in the ColepCCL joint venture were similar to last year's level.

Net earnings from continuing operations for the year 2006 were \$77.4 million, up 55% from \$50.0 million earned in 2005. Net earnings in 2006 were negatively impacted by restructuring and other items of \$11.5 million (\$10.2 million after tax), offset in part by a favourable tax settlement with a foreign jurisdiction and other tax matters of \$11.5 million. Net earnings for 2005 were negatively affected by restructuring and other items of \$17.9 million (\$17.8 million after tax), but were partially offset by a tax benefit from previously unrecognized tax losses of \$4.3 million.

Net earnings from continuing operations for the fourth quarter of 2006 of \$25.1 million were up by 86% from \$13.5 million recorded in the fourth quarter of 2005. Net earnings in the fourth quarter of 2006 were impacted by a net loss from restructuring and other items of \$7.2 million (\$3.6 million after tax), but were more than offset by a favourable tax settlement with a foreign jurisdiction and other tax matters for a gain of \$10.1 million. In the fourth quarter of 2005, the net loss from restructuring and other items was \$2.4 million (\$2.4 million after tax).

Net earnings in 2005 of \$163.8 million included results of the discontinued North American Custom Manufacturing Division ("Custom") consisting of the gain on its disposal of \$108.5 million and its operating net earnings of \$5.3 million. In the fourth quarter of 2005, the resolution of certain contingency items provided for on the sale was settled with a net gain of \$1.5 million after tax.

Earnings per Class B share for the year 2006 from continuing operations were \$2.41 compared to \$1.57 earned in 2005, an increase of 54%. Included in earnings per share for 2006 were losses on restructuring and other items of \$0.32 per share, offset in part by the favourable tax matters of \$0.36 per share. Earnings per Class B share in 2005 from discontinued operations were \$3.53 per share, which included the gain on sale of \$3.36 per share. Included in earnings per share from continuing operations for 2005 were restructuring and other items and a tax benefit for a net loss of \$0.42 per share. Diluted earnings per Class B share were \$2.33 in 2006 and \$4.97 in 2005.

Earnings per Class B share from continuing operations were \$0.78 in the fourth quarter of 2006 compared to \$0.43 earned in the same period last year, an increase of 81%. Restructuring and other items in the fourth quarter 2006 and 2005 decreased earnings per Class B share by \$0.12 and \$0.07, respectively, in each quarter. The favourable tax matters in fourth quarter 2006 contributed \$0.32 per Class B share in earnings. Earnings per share from discontinued operations were \$0.05 in the fourth quarter of 2005. Diluted earnings per Class B share were \$0.75 in the fourth quarter of 2006 and \$0.46 in last year's fourth quarter.

On May 17, 2005, CCL completed the sale of Custom for proceeds of \$273 million. This Division is recorded as a Discontinued Operation and consequently, its sales and income contributions are excluded from Continuing Operations.

Donald G. Lang, Vice Chairman and Chief Executive Officer said, "We are extremely pleased by the performance of our business in the fourth quarter, completing another record year in operational earnings for CCL. Our earnings per share from continuing operations, excluding restructuring and other items and a favourable tax recovery in the fourth quarter, were 16% higher than last year's comparable period despite continued unfavourable currency effects. We are gratified by the results of our strategy as we have more than replaced the earnings from our disposed North American Custom Manufacturing business with organic and acquisition growth in our specialty packaging core.

"The results in the Label Division continue to be strong as our strategy to invest in high-end equipment and plants, new markets and accretive acquisitions such as Prodesmaq in Brazil, are continuing to generate significant earnings momentum. To further the development of the business, we are particularly pleased with the January 2007 acquisition of the sleeve business from Illinois Tool Works. This addition expands our product lines into a growing label market where we have previously had only small participation. It also adds further substance to our European and Brazilian presence. The Container Division continues to be affected by stubbornly high aluminum costs and the associated challenges of maintaining profit margins in conjunction with reduced demand for higher margin beverage containers. The Tube Division is continuing to improve its product quality and operating effectiveness and as a result, its performance has turned around from the loss recorded in 2004. Another good news story is our ColepCCL joint venture, which was created a couple of years ago, as it finished the year strongly and achieved good growth over its 2005 performance."

Mr. Lang concluded, "Overall, 2006 was a great year and has positioned us well for further growth in our global specialty packaging business. Our outlook for 2007 is quite positive as we appear to be off to a strong start to the year, augmented by the ITW acquisition and the recent weakness in the Canadian dollar despite some short-term challenges in the Container Division. We are in a strong financial position and our financial leverage is conservative even after the ITW acquisition. As a result of our strong cash flow, your Board of Directors has declared another increase in the dividend, after a similar increase last June. The dividend of \$0.12 on the Class B non-voting shares and \$0.1075 on the Class A voting shares represents a 9% annualized increase and will be payable to shareholders of record at the close of business on March 16, 2007 to be paid on March 30, 2007. CCL has now increased the dividend by 50% over the last five years and continues its record of paying quarterly dividends without reduction or omission for over 25 years."

The Company's financial position is solid. At the end of December 2006, cash and cash equivalents amounted to \$125 million compared to \$120 million at December 31, 2005. Net debt (a non-GAAP measure, defined as current debt plus long-term debt less cash and cash equivalents) amounted to \$317 million at the end of 2006,

which is \$35 million higher than the \$282 million level from a year ago. Net debt to total book capitalization at year-end 2006 was 32.7%, down marginally from 33.3% at the end of 2005. Book value per share (a non-GAAP measure, defined as shareholders' equity divided by the combined outstanding Class A and Class B shares excluding amounts and shares related to shares held in trust and the executive share purchase plan) is now up over \$20.00 for the first time at \$20.24 at December 31, 2006, up 15% from \$17.63 a year earlier.

CCL Industries Inc. manufactures pressure-sensitive, shrink sleeve and in-mould labels, aluminum containers and plastic tubes for leading global companies in the home and personal care, healthcare and specialty food and beverage sectors. With headquarters in Toronto, Canada, CCL Industries employs approximately 4,900 people and operates 49 production facilities in North America, Europe, Latin America and Asia. CCL's joint venture, ColepCCL operates five plants in Europe and employs approximately 1,900 people.

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

For more information, contact:

Steve Lancaster Executive Vice President and Chief Financial Officer 416-756-8517

Note: CCL will hold a conference call at 10:00 a.m. EST on Friday, February 23, 2007 to discuss these results.

To access this call, please dial Toll-Free North America - 1-877-871-4107 or Domestic and International - 416-641-6210.

Post-View service will be available from Friday, February 23, 2007 at 12:00 Noon EST until Friday, March 23, 2007 at 11:59 p.m. EST.

Dial: Toll-Free - 1-800-558-5253 - Access Code: 21325116.

For more details on CCL, visit our web site - www.cclind.com

Financial Tables follow ...

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CCL Industries Inc. as at December 31, 2006 and 2005 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature "KPMG LLP" in black ink. The letters are bold and slanted to the right. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Toronto, Canada

February 21, 2007

CCL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(in thousands of Canadian dollars except per share data)

	<u>2006</u>	<u>2005</u>
Sales	\$ 1,212,229	\$ 1,110,144
Income from operations before undernoted items	201,594	170,730
Depreciation and amortization	74,605	65,424
	126,989	105,306
Interest <i>(note 10)</i>	21,403	19,981
	105,586	85,325
Restructuring and other items - net loss <i>(note 5)</i>	11,502	17,919
Earnings before income taxes	94,084	67,406
Income taxes <i>(notes 5, 12)</i>	16,664	17,454
Net earnings from continuing operations	77,420	49,952
Net earnings from discontinued operations, net of tax <i>(note 4)</i>	-	5,338
Gain on sale of discontinued operations, net of tax <i>(note 4)</i>	-	108,546
Net earnings	<u>\$ 77,420</u>	<u>\$ 163,836</u>
Basic earnings per Class B share <i>(note 13)</i>		
Continuing operations	\$ 2.41	\$ 1.57
Discontinued operations	-	0.17
Gain on sale of discontinued operations	-	3.36
Net earnings	<u>\$ 2.41</u>	<u>\$ 5.10</u>
Diluted earnings per Class B share <i>(note 13)</i>		
Continuing operations	\$ 2.33	\$ 1.52
Discontinued operations	-	0.16
Gain on sale of discontinued operations	-	3.29
Diluted earnings	<u>\$ 2.33</u>	<u>\$ 4.97</u>

See accompanying Notes to Consolidated Financial Statements.

CCL INDUSTRIES INC.

**CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2006 AND 2005**
(in thousands of Canadian dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 125,000	\$ 120,193
Accounts receivable - trade	178,819	162,195
Other receivables and prepaid expenses	23,115	20,720
Inventories (note 6)	97,963	102,105
	424,897	405,213
Property, plant and equipment (note 7)	628,019	534,705
Other assets (note 8)	28,914	29,170
Future income tax assets (note 12)	32,261	29,846
Intangible assets (note 9)	39,499	27,901
Goodwill	389,000	371,861
	\$ 1,542,590	\$ 1,398,696
LIABILITIES		
Current liabilities		
Bank advances (note 10)	\$ 12,428	\$ 8,797
Accounts payable and accrued liabilities	280,752	240,345
Income and other taxes payable	13,697	24,265
Current portion of long-term debt (note 10)	16,119	17,330
	322,996	290,737
Long-term debt (note 10)	413,552	376,458
Other long-term items (note 11)	52,332	51,380
Future income tax liability (note 12)	101,109	114,303
	889,989	832,878
SHAREHOLDERS' EQUITY		
Share capital (note 13)	190,251	188,736
Contributed surplus (note 13)	4,226	2,005
Retained earnings	476,670	413,025
Foreign currency translation adjustment	(18,546)	(37,948)
	652,601	565,818
	\$ 1,542,590	\$ 1,398,696
Commitments and contingencies (note 14)		
Subsequent event (note 21)		

Approved by the Board
D.G. Lang, Director

J.K. Grant, Director

See accompanying Notes to Consolidated Financial Statements.
Certain 2005 figures have been restated for comparative purposes.

CCL INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS YEARS ENDED DECEMBER 31, 2006 AND 2005 (in thousands of Canadian dollars)

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 413,025	\$ 272,742
Net earnings	77,420	163,836
Repurchase of shares <i>(note 13)</i>	-	(10,749)
	<hr/> 490,445	<hr/> 425,829
Dividends		
Class A shares	908	851
Class B shares	12,867	11,953
	<hr/> 13,775	<hr/> 12,804
Balance at end of year	<hr/> <u>\$ 476,670</u>	<hr/> <u>\$ 413,025</u>

See accompanying Notes to Consolidated Financial Statements.

CCL INDUSTRIES INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

(in thousands of Canadian dollars)

	<u>2006</u>	<u>2005</u>
Cash provided by (used for)		
Operating activities		
Net earnings	\$ 77,420	\$ 163,836
Earnings from discontinued operations	-	(5,338)
Gain on sale of discontinued operations	-	(108,546)
Items not requiring cash		
Depreciation and amortization	74,605	65,424
Executive compensation	2,102	1,812
Future income taxes	(8,220)	(1,229)
Restructuring and other items, net of tax	10,228	17,784
	<hr/>	<hr/>
	156,135	133,743
Net change in non-cash working capital	6,321	(23,972)
Cash provided by continuing operations	162,456	109,771
Cash provided by discontinued operations	-	2,291
Cash provided by operating activities	<hr/>	<hr/>
	162,456	112,062
Financing activities		
Proceeds on issuance of long-term debt	202,623	44,204
Retirement of long-term debt	(183,690)	(28,499)
Increase (decrease) in bank advances	2,844	(26,803)
Issue of shares	1,270	4,682
Purchase of shares held in trust	-	(5,532)
Repurchase of shares	-	(14,087)
Dividends	(13,775)	(12,804)
Cash provided by (used for) financing activities	<hr/>	<hr/>
	9,272	(38,839)
Investing activities		
Additions to property, plant and equipment	(150,423)	(155,947)
Proceeds on disposal of property plant and equipment	13,122	1,076
Proceeds on business dispositions	27,122	272,781
Business acquisitions	(62,170)	(139,499)
Other	93	4,742
Cash used for investing activities	<hr/>	<hr/>
	(172,256)	(16,847)
Effect of exchange rates on cash	<hr/>	<hr/>
	5,335	(7,558)
Increase in cash	4,807	48,818
Cash and cash equivalents at beginning of year	<hr/>	<hr/>
	120,193	71,375
Cash and cash equivalents at end of year	<hr/>	<hr/>
	\$ 125,000	\$ 120,193

See accompanying Notes to Consolidated Financial Statements.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

1. Summary of Significant Accounting Policies

(a) Basis of accounting

The consolidated financial statements include the accounts of CCL Industries Inc. (the "Company") and all subsidiary companies since dates of acquisition. Investments subject to significant influence are accounted for using the equity method. Investments that are jointly controlled are accounted for using proportionate consolidation.

(b) Foreign currency translation

The Company records foreign currency-denominated transactions at the Canadian dollar equivalent at the date of the transaction and translates foreign currency-denominated monetary assets and liabilities at year-end exchange rates. Exchange gains and losses are included in earnings.

The Company's foreign subsidiaries are defined as self-sustaining. Revenue and expense items, including depreciation and amortization, are translated at the average rate for the year. All assets and liabilities are translated at year-end exchange rates and any resulting exchange gains or losses are included in shareholders' equity and described as foreign currency translation adjustment. The revaluation of foreign currency debt, net of related tax, that hedges the net investment in foreign operations is also charged to the foreign currency translation adjustment. Foreign exchange gains and losses on the reduction of net investments in foreign subsidiaries are included in net earnings for the year.

Movement in the foreign currency translation adjustment during the year results from changes in the value of the Canadian dollar in comparison primarily to the U.S. dollar, the U.K. pound sterling, the euro, the Danish krone, the Mexican peso, the Thailand baht, the Chinese renminbi, the Brazilian real, the Polish zloty and from changes in foreign currency-denominated net assets.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash in bank and short-term investments with original maturity dates on acquisition of 90 days or less.

(d) Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost, which includes interest and certain start-up costs during the construction of major projects. Depreciation is provided over the assets' estimated useful lives, primarily on the straight-line basis, using rates varying from 2% to 30% on buildings, and from 7% to 33% on machinery and equipment.

Impairment losses for assets held-for-use where the carrying value is not recoverable are measured based on fair value, which is measured by discounted cash flows. Impairment losses on any assets held for sale are measured based on expected proceeds less direct costs to sell.

(f) Long-term investments

Long-term investments are carried at the lower of cost or market.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (Contd.)

(g) Intangible assets

Intangible assets, consisting primarily of the value of acquired customer contracts and relationships, are amortized over the expected life and any impairment is charged against earnings. The amortization period ranges from ten to twelve years straight-line. Impairment losses for intangible assets where the carrying value is not recoverable, are measured based on fair value. Fair value is calculated by using discounted cash flows.

(h) Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in the businesses acquired over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. No amortization is recorded for years ended after December 31, 2001. The Company determines, at least once annually, whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings. During the current year, the Company assessed the fair value of reporting units to which the underlying goodwill is attributable and determined that no charge for impairment of goodwill is required for the year ended December 31, 2006.

(i) Revenue recognition

Revenue is recorded and related costs transferred to cost of sales at the time the product is shipped and ownership transfers to the customers. At that time, persuasive evidence of an arrangement exists, the price to the customer is fixed and ultimate collection is reasonably assured.

(j) Employee future benefits

The Company accrues its obligation under employee benefit plans and related costs net of plan assets. Pension costs are determined periodically by independent actuaries. The actuarial determination of the accrued benefit obligations for the plans use the projected benefit method prorated on service and incorporates management's best estimate of future salary escalation, retirement age, inflation and other actuarial factors. The cost is then charged to expense as services are rendered. Past service costs arising from plan amendments are amortized on a straight-line basis over the expected average remaining service lives of the employees who are members of the plan. Net actuarial gains and losses that exceed 10% of the greater of the benefit obligation and the value of plan assets are amortized over the expected average remaining service lives of the employees who are members of the plan.

(k) Stock-based compensation plan

The Company applied the intrinsic value method of accounting for employee stock options granted prior to January 1, 2003 as permitted by CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under the intrinsic value method, consideration paid by employees on the exercise of stock options was credited to share capital and no compensation expense was recognized.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (Contd.)

(k) Stock-based compensation plan (Contd.)

The Company adopted the fair value based method prescribed by CICA Handbook Section 3870 to account for employee stock options granted after December 31, 2002. Under the fair value based method, compensation cost is measured as fair value at the date of grant and is expensed over the award's vesting periods. In accordance with one of the transitional options permitted under the amended Section 3870, the new recommendations were applied to all stock-based compensation granted on or after January 1, 2003. Stock-based compensation granted prior to January 1, 2003 continues to be accounted for using the intrinsic value method. The description of the plan and the pro-forma effect of using this method are described in note 13.

(l) Income taxes

The Company is following the liability method of accounting for future income taxes. Under the liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

(m) Exit and disposal costs

The Company recognizes costs associated with exit or disposal activities at fair value in the period in which the liability is incurred. Special termination benefits are recognized at fair value at the communication date.

(n) Derivative instruments

As of January 1, 2004, the Company formally documented all relationships between hedging instruments and hedged items, as well as its risk and management objective for undertaking various hedge transactions. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are effective in offsetting changes in the fair values or cash flows of hedged items.

Realized and unrealized gains and losses associated with derivative instruments used in a hedging relationship, that have been terminated or cease to be effective prior to maturity, are deferred and recognized in income in the period in which the underlying hedged transaction is recognized.

Derivative financial instruments that do not qualify for hedge accounting are recognized in the balance sheet and measured at fair value, with changes in the fair value recognized in earnings.

The Company's interest rate swaps are designated as hedges of the fixed interest rate risk on long-term debt. Periodic interest payments under the swaps are recorded as an adjustment to interest expense on the related debt. Gains and losses from early termination of interest rate swaps are deferred on the balance sheet and amortized as an adjustment to interest expense on the related debt over the original contract life of the terminated swap agreement.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (Contd.)

(n) Derivative instruments (Contd.)

The Company entered into Cross Currency Interest Rate Swap Agreements that converted U.S. dollar fixed rate debt into Canadian fixed rate debt and Canadian dollar floating rate debt in order to reduce the Company's exposure to the U.S. dollar debt, currency and interest rate exposures.

The Company entered into Cross Currency Interest Rate Swap Agreements that converted Canadian dollar fixed rate debt and floating rate debt into euro fixed rate debt and euro floating rate debt in order to hedge the Company's exposure to the euro with a view to reducing foreign exchange fluctuations and interest expense.

The Company had entered into Cross Currency Interest Rate Swap Agreements that swapped U.S. dollar fixed rate debt into euro floating rate debt in order to redistribute the Company's exposure to the U.S. dollar, the euro, fixed and floating interest rates with a view to reducing foreign exchange fluctuations and interest rate costs. Due to changes in Canadian GAAP, these arrangements were discontinued (see note 10d).

The Company's U.S. dollar debt and euro debt are designated as hedges against the net investments in foreign operations. Gains and losses from the translation of these debts are shown in the foreign exchange translation account.

The Company's forward foreign exchange contracts are designated as hedges of anticipated future sales in foreign currencies. Gains or losses on maturity of the contracts are recorded as an adjustment to the related revenues.

The Company's forward contracts to purchase aluminum are designated as hedges of anticipated future aluminum purchases. Gains or losses on maturity of the contracts are recorded as an adjustment to the related purchase.

(o) Use of estimates

The presentation of financial statements requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. In particular, the amounts recorded for inventories, redundant assets, bad debts, derivatives, income taxes, restructuring, pension and other post-retirement benefits, contingencies and litigation, environmental matters, outstanding self-insured claims, depreciation and amortization of capital assets, and the valuation of goodwill are based on estimates. Actual results could differ from these estimates.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

2. Future change in Accounting Policies

In January 2005, the CICA issued three new Handbook Sections: Section 3855, "Financial Instruments-Recognition and Measurement"; Section 3865, "Hedges" and Section 1530, "Comprehensive Income". These standards provide guidance on the recognition, measurement and classification of financial assets and financial liabilities. The new standards establish new accounting requirements for hedges. Any ineffectiveness of designated hedges will be recognized immediately in income. These standards provide guidance for reporting items in other comprehensive income, which will be included on the Consolidated Balance Sheets as a separate component of shareholders' equity. These accounting standards are to be applied no later than the fiscal years beginning on or after October 1, 2006 (that is, the Company's 2007 fiscal year). Management is currently evaluating the potential impact of these new standards on CCL's Consolidated Financial Statements for 2007 and adjusting systems and processes to comply with the new standards effective January 1, 2007.

3. Acquisitions

In January 2006, the Company purchased Prodesmaq, based in Vinhedo, Brazil. Prodesmaq operates two state-of-the-art plants and is Brazil's largest supplier of pressure-sensitive labels for many global companies in the home and personal care, healthcare and premium food and beverage markets. The purchase price was \$62.2 million, net of cash acquired.

Details of the transaction are as follows :

Current assets	\$	9,824
Current liabilities		(2,120)
Non-current assets at assigned values		9,272
Future income taxes		(24)
Intangible assets		14,794
Goodwill		30,424
Net assets purchased	\$	<u>62,170</u>
Total consideration:		
Cash, less cash acquired of \$1.7 million	\$	<u>62,170</u>

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

3. Acquisitions (Contd.)

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 United States, manufactures specialty label products.

Details of the transaction are as follows :

Current assets	\$ 10,801
Current liabilities	(9,342)
Non-current assets at assigned values	22,883
Long-term liabilities	(1,269)
Future income taxes	(985)
Intangibles	1,741
Goodwill	39,546
Net assets purchased	<u>\$ 63,375</u>
Total consideration:	
Cash, less cash acquired of \$3.5 million	<u>\$ 63,375</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 (see note 13b).

Details of the transaction are as follows :

Current assets	\$ 9,227
Current liabilities	(11,907)
Non-current assets at assigned values	15,205
Goodwill	11,307
Long-term liabilities	(369)
Net assets purchased	<u>\$ 23,463</u>
Total consideration:	
Cash, less cash acquired of \$0.4 million	\$ 6,333
Restricted shares	5,000
Assumed debt	12,130
	<u>\$ 23,463</u>

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

3. Acquisitions (Contd.)

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

Details of the transaction are as follows :

Current assets	\$	246
Non-current assets at assigned values		1,973
Net assets purchased	\$	<u>2,219</u>
Total consideration:		
Cash	\$	<u>2,219</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	\$	1,848
Current liabilities		(4,257)
Non-current assets at assigned values		3,083
Long-term liabilities		(67)
Goodwill		2,833
Net assets purchased	\$	<u>3,440</u>
Total consideration:		
Cash	\$	<u>3,440</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. 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	\$	34,903
Current liabilities		(39,202)
Non-current assets at assigned values		44,783
Long-term liabilities		(7,605)
Future income taxes		(4,603)
Intangible assets		3,685
Goodwill		32,171
Net assets purchased	\$	<u>64,132</u>
Total consideration:		
Cash, less cash acquired of \$4.8 million	\$	<u>64,132</u>

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per 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 \$131.0 million (\$108.5 million after tax). The disposition is reported as discontinued operations and the results are as follows:

	2005
Sales from discontinued operations	\$ 246,759
Income before undernoted items	13,965
Depreciation and amortization	(5,098)
Interest expense, net	(957)
Earnings before income taxes	7,910
Income taxes	(2,572)
Net earnings from discontinued operations	5,338
Gain on sale of discontinued operations, net of tax of \$22.5 million	\$ 108,546

A portion of the Company's total interest expense has been allocated to discontinued operations 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. Restructuring and Other Items

	Segment	2006	2005
Container segment restructuring	Container	\$ (11,354)	\$ -
Recovery related to a disposed operation	Corporate	1,250	
Gain on sale of CCL Label B.V., net of restructuring costs	Label	498	-
Repatriation of capital	Corporate	(3,531)	-
Gain on sale of CCL Dispensing Systems, LLC	Tube	1,635	
Impairment of non-operational property	ColepCCL	-	(1,435)
Mexico Container business restructuring and asset write-down	Container	-	(3,838)
Loss on disposal of IntraPac L.P. investment	Container	-	(12,646)
Loss		\$ (11,502)	\$ (17,919)
Tax recovery on restructuring and other items		\$ 1,274	\$ 135

In early 2006, the Company commenced a senior management restructuring of the Container segment and throughout the year, recorded provisions related to severance costs and obsolete equipment and spare parts totalling \$11.4 million (\$7.2 million after tax).

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

5. Restructuring and Other Items (Contd.)

In December 2006, the Company recovered \$1.3 million related to a loan amount previously provided for on a disposed operation with no tax effect.

In October 2006, the Company restructured its European label operations which included the sale of its CCL Label B.V. operation in the Netherlands for \$2.8 million cash. The Company realized a gain of \$1.0 million on the sale and incurred restructuring costs of \$0.5 million (net gain of \$0.7 million after tax).

In July 2006, the Company repatriated capital from a foreign subsidiary, which resulted in a net foreign exchange loss of \$3.5 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 do not give rise to any tax effect.

In February 2006, the Company sold its CCL Dispensing Systems, LLC net assets for \$24.4 million cash and realized a gain of \$1.6 million (net loss of \$1.5 million after tax).

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 the disposal was adjusted.

6. Inventories

	<u>2006</u>	<u>2005</u>
Raw materials and supplies	\$ 45,675	\$ 49,960
Work in process and finished goods	52,288	52,145
	\$ 97,963	\$ 102,105

7. Property, plant and equipment

	<u>2006</u>		
	Cost	Accumulated depreciation	Net book value
Land	\$ 22,605	\$ -	\$ 22,605
Buildings	178,094	52,837	125,257
Machinery and equipment	767,579	287,422	480,157
Total	\$ 968,278	\$ 340,259	\$ 628,019

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

7. Property, plant and equipment (Contd.)

	<u>2005</u>	
Cost	Accumulated depreciation	Net book value
Land	\$ 27,613	\$ 27,613
Buildings	160,123	116,326
Machinery and equipment	643,073	390,766
Total	\$ 830,809	\$ 534,705

Construction in progress assets of \$61.9 million (2005 - \$23.5 million) are included in machinery and equipment and represent assets constructed or developed over time. Depreciation commences when these assets become available for commercial use.

8. Other Assets

	<u>2006</u>	<u>2005</u>
Long-term investments	\$ 19,551	\$ 22,654
Deferred charges and other	9,363	6,516
	\$ 28,914	\$ 29,170

9. Intangible Assets

	<u>2006</u>	<u>2005</u>
Intangible assets, primarily customer contracts and relationships	\$ 50,153	\$ 33,618
Amortization	(10,654)	(5,717)
	\$ 39,499	\$ 27,901

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

10. Total Debt

	<u>2006</u>	<u>2005</u>
Bank advances	\$ 12,428	\$ 8,797
Current portion of long-term debt	16,119	17,330
Long-term debt due after one year	413,552	376,458
Total debt outstanding	\$ 442,099	\$ 402,585

(a) The total borrowings at December 31, 2006 are denominated in the following currencies:

	<u>Local Currency</u>	<u>Canadian Equivalent</u>
U.S. dollars	USD 277,200	323,040
Euros	EUR 67,814	104,278
Chinese renminbi	RMB 55,968	8,356
Thai baht	THB 195,347	6,298
U.K. pound sterling	GBP 56	127
		\$ 442,099

(b) The short-term operating lines of credit provided to the Company, and amounts used included in bank advances, at December 31 are:

	<u>2006</u>	<u>2005</u>
Credit lines available	\$ 67,688	\$ 51,342
Credit lines used	\$ 12,428	\$ 8,797

Operating facilities amounting to \$1.4 million (2005 - \$5.4 million) are secured by parent guaranties and receivables with the balance being unsecured. All are at interest rates varying with LIBOR (London Interbank Offered Rate), the prime rate and similar market rates for other currencies.

(c) Total long-term debt is comprised of:

	<u>2006</u>	<u>2005</u>
Unsecured senior notes issued March 1996, 6.66%, repaid on March 15, 2006 (US\$120.0 million)	\$ -	\$ 139,567
Unsecured senior notes issued March 2006, 5.29%, repayable on March 2011 (US\$60.0 million)	69,922	-
Unsecured senior notes issued March 2006, 5.57%, repayable on March 2016 (US\$110.0 million)	128,190	-
Unsecured senior notes issued September 1997, 6.97%, repayable in equal instalments starting September 2002 and finishing September 2012 (2006 - US\$56.2 million; 2005 - US\$65.5 million)	65,472	76,233
Unsecured senior notes issued July 1998, 6.90% weighted-average, repayable in three tranches with repayments after 12, 15 and 20 years (US\$110.0 million)	128,190	127,937
Other loans	37,897	50,051
	429,671	393,788
Less: current portion	16,119	17,330
	\$ 413,552	\$ 376,458

Other loans include commercial paper loans, term bank loans, Industrial Revenue Bonds and capital leases at various rates and repayment terms.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

10. Total Debt (Contd.)

(d) Interest Rate Swap Agreements

During 2006, the Company entered into Cross Currency Interest Rate Swap Agreements that converted U.S. dollar fixed rate debt into Canadian dollar fixed rate debt and Canadian dollar floating rate debt in order to reduce the Company's exposure to the U.S. dollar debt, currency and interest rate exposures.

Notional Principal Amount (Fixed Rate)	Notional Principal Amount (Fixed Rate)	Interest Rate		Maturity	Effective Date
		Paid (CAD)	Received (USD)		
US\$60.0 million	C\$70.4 million	4.50%	5.29%	March 8, 2011	March 29, 2006

Notional Principal Amount (Fixed Rate)	Notional Principal Amount (Floating Rate)	Interest Rate		Maturity	Effective Date
		Paid (CAD)	Received (USD)		
US\$31.0 million	C\$36.0 million	3-month BA + 1.67%	6.67%	July 8, 2010	December 29, 2006
US\$28.1 million	C\$32.6 million	3-month BA + 2.01%	6.97%	September 16, 2012	December 29, 2006

During 2006, the Company entered into Cross Currency Interest Rate Swap Agreements that converted Canadian dollar fixed rate and floating rate debt into euro fixed rate debt and euro floating rate debt in order to hedge the Company's exposure to the euro with a view to reducing foreign exchange fluctuations and interest expense.

Notional Principal Amount (Fixed Rate)	Notional Principal Amount (Fixed Rate)	Interest Rate		Maturity	Effective Date
		Paid (EUR)	Received (CAD)		
C\$70.4 million	EUR50.0 million	3.82%	4.50%	March 8, 2011	March 29, 2006

Notional Principal Amount (Floating Rate)	Notional Principal Amount (Floating Rate)	Interest Rate		Maturity	Effective Date
		Paid (EUR)	Received (CAD)		
C\$36.0 million	EUR23.6 million	6-month EURIBOR + 1.64%	3-month BA + 1.67%	July 8, 2010	December 29, 2006
C\$32.6 million	EUR21.3 million	6-month EURIBOR + 1.99%	3-month BA + 2.01%	September 16, 2012	December 29, 2006

During 2005, the Company entered into Cross Currency Interest Rate Swap Agreements that converted U.S. dollar fixed rate debt into euro floating rate debt in order to redistribute the Company's exposure to the U.S. dollar, the euro, and fixed and floating interest rates with a view to reducing foreign exchange fluctuations and interest rate costs. Due to changes in Canadian GAAP effective January 1, 2007, these swaps did not meet the new requirements to be considered as hedges and were consequently terminated on December 29, 2006. The termination resulted in a loss of \$2.1 million which has been deferred as other assets for the current year and will be recognized in opening retained earnings in 2007.

Notional Principal Amount (Fixed Rate)	Notional Principal Amount (Floating Rate)	Interest Rate		Maturity	Effective Date
		Paid (EUR)	Received (USD)		
US\$31.0 million	EUR25.6 million	6-month EURIBOR + 2.32%	6.67%	July 8, 2010	June 20, 2005
US\$28.1 million	EUR27.1 million	6-month EURIBOR + 2.67%	6.97%	September 16, 2012	June 20, 2005

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

10. Total Debt (Contd.)

(d) Interest Rate Swap Agreements (Contd.)

During 2002 and 2003, the Company entered into Interest Rate Swap Agreements in order to redistribute the Company's exposure to fixed and floating interest rates with a view to reducing interest costs over the long term.

Notional Principal Amount	Currency	Interest Rate		Maturity	Effective Date
		Paid (EUR)	Received (USD)		
\$60.0 million	U.S.	90-day LIBOR + 2.18%	6.66%	March 15, 2006	June 14, 2002
\$60.0 million	U.S.	90-day LIBOR + 3.49%	6.66%	March 15, 2006	December 13, 2002
\$28.1 million	U.S.	90-day LIBOR + 2.97%	6.97%	September 16, 2012	December 16, 2003

(e) The overall weighted average interest rate on total long-term debt factoring in the Interest Rate Swap Agreements at December 31, 2006 was 5.9% (2005 - 5.9%).

(f) Interest expense incurred is as follows:

	<u>2006</u>	<u>2005</u>
Current	\$ 1,656	\$ 2,068
Long-term	23,953	22,552
	<u>25,609</u>	<u>24,620</u>
Interest income	(4,206)	(3,682)
	<u>21,403</u>	<u>20,938</u>
Less interest allocated to discontinued operations	-	(957)
	<u>\$ 21,403</u>	<u>\$ 19,981</u>

Interest paid during the year was \$ 25.0 million (2005 - \$26.6 million).

(g) Long-term debt repayments are as follows:

2007	\$ 16,119
2008	23,400
2009	13,043
2010	57,615
2011	88,175
2012 and beyond	231,319
	<u>\$ 429,671</u>

11. Other Long-Term Items

	<u>2006</u>	<u>2005</u>
Environmental reserves, less current portion of \$2,069 (2005 - \$593)	\$ 6,712	\$ 8,376
Outstanding self-insured claims and reserves	6,901	8,357
Employee future benefits and deferred compensation	34,076	31,084
Deferred revenue and other	4,643	3,563
	<u>\$ 52,332</u>	<u>\$ 51,380</u>

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

11. Other Long-Term Items (Contd.)

Environmental reserves represent management's best estimate for site restoration costs. Outstanding self-insured claims and reserves are actuarially determined. The actual timing of payments against these liabilities is unknown. Employee future benefits is discussed in note 16.

12. Income Taxes

(a) Effective tax rate	<u>2006</u>	<u>2005</u>
Combined Canadian federal and provincial income tax rate	34.1 %	34.1 %
Total earnings before income taxes	<u>\$ 94,084</u>	<u>\$ 206,337</u>
Expected income taxes	\$ 32,102	\$ 70,360
Increase (decrease) resulting from:		
Realized benefit of foreign tax rate	(5,965)	(6,323)
Recognized income tax benefit of losses	-	(4,390)
Non-taxable portion of goodwill	2,367	(20,025)
Non-taxable portion of capital gain	(296)	(544)
Impact of favourable tax settlement from prior years	(11,500)	-
Losses on restructuring and other items for which no tax benefit has been recognized	192	1,270
Capital loss on unusual items not benefited for tax	-	3,490
Restructuring and other items not recognized for tax	-	1,125
Impact of tax rate reduction	(1,088)	(568)
Other	852	(1,894)
Income taxes	<u>\$ 16,664</u>	<u>\$ 42,501</u>
Income taxes paid	<u>\$ 42,040</u>	<u>\$ 34,549</u>

Future taxes impacted earnings in the current year by a recovery of \$13,311 (expense in 2005 - \$1,309).

Income taxes includes tax recovery on restructuring and other items of \$1,274 (2005 - \$135) as discussed in note 5.

The 2005 income tax expense of \$17,454 from the Consolidated Statement of Earnings consists of income taxes in the table above of \$42,501 less income taxes appearing in note 4 on discontinued operations of \$2,572 and gain on sale of discontinued operations of \$22,475.

Summary is as follows:

	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>Earnings</u>	<u>Tax</u>	<u>Earnings</u>	<u>Tax</u>
Total earnings before income taxes	\$ 94,084	\$ 16,664	\$ 206,337	\$ 42,501
Earnings from discontinued operations	-	-	(7,910)	(2,572)
Gain on sale of discontinued operations	-	-	(131,021)	(22,475)
	<u>\$ 94,084</u>	<u>\$ 16,664</u>	<u>\$ 67,406</u>	<u>\$ 17,454</u>

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

12. Income Taxes (Contd.)

- (b) The tax effects of the significant components of temporary differences giving rise to the Company's net income tax assets and liabilities are as follows:

	<u>2006</u>	<u>2005</u>
Future income tax assets:		
Non-deductible reserves	\$ 35,635	\$ 26,407
Alternative minimum tax credit carryforward	2,415	1,042
Amount related to tax losses carried forward	24,673	28,885
Future income tax assets before valuation allowance	62,723	56,334
Valuation allowance	(30,462)	(26,488)
Future income tax assets net of valuation allowance	32,261	29,846
 Future income tax liabilities:		
Property, plant and equipment, goodwill and other assets	73,185	79,676
Unrealized foreign exchange gains	6,996	13,362
Other	20,928	21,265
Future income tax liabilities	101,109	114,303
 Net future income tax liabilities	\$ 68,848	\$ 84,457

13. Share Capital

Issued and outstanding

	<u>2006</u>	<u>2005</u>
Issued share capital	197,502	196,149
Less: Executive share purchase plan loans	(1,599)	(1,841)
Shares held in trust	(5,652)	(5,572)
Total	190,251	188,736

- (a) Shares held in trust

During 2005, the Company granted an award of 200,000 Class B shares of the Company. These shares are restricted in nature; 120,000 shares will vest in 2007 dependent on performance conditions and 80,000 shares will vest in 2009 dependent on continuing employment. The Company purchased these 200,000 shares in the open market and has placed them in trust until they are fully vested. The fair value of this stock award is being amortized over the vesting period and recognized as compensation expense (see note 13e(i)).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

13. Share Capital (Contd.)

(b) Issued

	Class A		Class B		Total
	Shares	Amount	Shares	Amount	Amount
Balance at January 1, 2005	2,439	\$ 4,641	30,022	\$ 185,110	\$ 189,751
Issued for cash under					
employee share plans	-	-	410	4,736	4,736
Restricted shares	-	-	200	5,000	5,000
Conversions from Class A to					
Class B shares	(17)	(33)	17	33	-
Repurchase of shares	-	-	(560)	(3,338)	(3,338)
Balance at December 31, 2005	2,422	4,608	30,089	191,541	196,149
Issued for cash under					
employee share plans	-	-	91	1,353	1,353
Conversions from Class A to					
Class B shares	(43)	(83)	43	83	-
Repurchase of shares	-	-	-	-	-
Balance at December 31, 2006	2,379	\$ 4,525	30,223	\$ 192,977	\$ 197,502

During the year no shares were repurchased (2005 - 0.6 million shares for \$14.1 million). In 2005, the excess of the purchase price over the paid-up capital of \$10.7 million was charged to retained earnings.

In 2005, the Company issued 200,000 restricted shares as part of the consideration for the purchase of the remaining 49% of its European joint venture, CCL-Pachem. These restricted shares are price protected and cannot be sold until December 31, 2008.

(c) Share attributes

The Company's authorized capital consists of an unlimited number of Class A voting shares and an unlimited number of Class B non-voting shares.

Class A

Class A shares carry full voting rights and are convertible at any time into Class B shares. Dividends are currently set at \$0.05 per share per annum less than Class B shares.

Class B

Class B shares rank equally in all material respects with the Class A shares, except as follows:

- (i) Holders of Class B shares are entitled to receive material and attend, but not to vote at, regular shareholder meetings.
- (ii) Holders of Class B shares are entitled to voting privileges when consideration for the Class A shares, under a takeover bid when voting control has been acquired, exceeds 115% of the market price of the Class B shares.
- (iii) Holders of Class B shares are entitled to receive, or have set aside for payment, dividends declared by the Board of Directors from time to time.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

13. Share Capital (Contd.)

(d) Earnings per share

	<u>2006</u>		<u>2005</u>	
	Class A	Class B	Class A	Class B
Net earnings	\$ 2.36	\$ 2.41	\$ 5.05	\$ 5.10
Diluted earnings	\$ 2.28	\$ 2.33	\$ 4.92	\$ 4.97
Year-to-date weighted average number of shares			<u>32,240,324</u>	<u>32,171,433</u>
Year-to-date weighted average diluted number of shares			<u>33,259,055</u>	<u>33,010,605</u>

Fully diluted earnings per Class B share computed using the treasury stock method reflects the dilutive effect, if any, of the exercise of share options, shares held as security for executive share purchase plan loans outstanding, shares held in trust and deferred share units at December 31, assuming they had been exercised at the beginning of the year.

e) Stock-based compensation plans

At December 31, 2006, the Company has two stock-based compensation plans, which are described below:

(i) Employee Stock Option Plan

Under the Employee Stock Option Plan, the Company may grant options to employees, officers and inside directors of the Company up to 3,000,000 Class B non-voting shares. The Company does not grant options to outside directors. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is ten years. Before December 2003, options vested 20% on the grant date and 20% each year following the grant date. The term of these options was generally 10 years. Beginning December 2003, options granted begin to vest a year from grant date, with 25% vesting one year from grant date and 25% each subsequent year. The term of these options is five years from the grant date. Exceptions to this vesting schedule were grants in 2005 to certain employees totalling 50,000 shares upon the acquisition of the employees' business by CCL. These options vest only at the end of five years and expire after 10 years to facilitate employee retention.

The Company accounts for employee stock-based compensation granted prior to January 1, 2003 using the intrinsic value method. If the fair value method had been applied to stock options granted between January 1, 2002 and December 31, 2002, additional compensation costs of \$0.3 million (2005 - \$0.3 million) would have been recorded. Pro-forma net income would have been \$77.1 million (2005 - \$163.5 million) and pro-forma earnings per share would have been \$2.40 (2005 - \$5.09) for the year. For options granted after December 31, 2002 and shares held in trust for executive compensation, the fair value method has been recognized in the financial statements resulting in an expense of \$2.1 million (2005 - \$1.8 million) with a corresponding offset to contributed surplus. The fair value of options granted has been estimated using the Black-Scholes model using the following assumptions:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.09%	3.50%
Expected life	4.5 years	4.5 years
Expected volatility	21%	25%
Expected dividends	\$ 0.44	\$ 0.40

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

13. Share Capital (Contd.)

(e) Stock-based compensation plans (Contd.)

(i) Employee Stock Option Plan (Contd.)

A summary of the status of the Company's Employee Stock Option Plan as of December 31, 2006 and 2005, and changes during the years ending on those dates is presented below:

	<u>2006</u>		<u>2005</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,734	\$16.55	2,156	\$14.08
Granted	170	28.45	245	27.51
Exercised	(91)	14.03	(410)	11.42
Exercised for cash	-	-	(256)	14.47
Forfeited	(14)	17.95	(1)	18.85
Outstanding at end of year	<u>1,799</u>	<u>\$17.79</u>	<u>1,734</u>	<u>\$16.55</u>
Options exercisable at end of year	<u>1,295</u>	<u>\$14.91</u>	<u>1,203</u>	<u>\$14.00</u>

The following table summarizes information about the employee stock options outstanding at December 31, 2006:

Range of Exercisable Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$8.35 - 12.00	167	3.9 years	\$8.41	167	\$8.41
\$12.01 - 14.00	427	4.3 years	12.53	427	12.53
\$14.01 - 16.00	130	2.5 years	14.73	130	14.73
\$16.01 - 20.00	660	3.3 years	17.82	522	17.82
\$20.01 - 28.45	415	4.9 years	27.89	49	27.34
<u>\$8.35 - 28.45</u>	<u>1,799</u>	<u>3.9 years</u>	<u>\$17.79</u>	<u>1,295</u>	<u>\$14.91</u>

(ii) Executive Share Purchase Plan

Under the Executive Share Purchase Plan, which was discontinued in December 2001, the Company provided assistance to senior officers and executives of the Company to invest in Class B shares of the Company in the open market by providing interest-free loans. The loans have a ten-year term and are repayable only when the shares are sold or upon completion of employment. The Executive Share Purchase Plan loans have been deducted from shareholders' equity. These loans are secured by 125,000 (2005 - 150,000) Class B shares of the Company with a quoted value at December 31, 2006 of \$28.37 (2005 - \$28.75) per Class B shares, totalling \$3.5 million (2005 - \$4.3 million).

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

13. Share Capital (Contd.)

(f) Deferred share units

The Company maintains a deferred share unit ("DSU") plan. Under this plan, non-employee members of the Company's Board of Directors may elect to receive, in lieu of cash remuneration for director fees which would otherwise be payable to such directors or any portion thereof, DSUs. The number of units received is equivalent to the fees earned and is based on the fair market value of a Class B non-voting share of the Company's capital stock on the date of issue of the DSU. They cannot be redeemed or paid out until such time as the director ceases to be a director. A DSU entitles the holder to receive, on a deferred payment basis, either the number of Class B non-voting shares of the Company equating to the number of his or her DSUs, or, alternatively, at the election of the Company, a cash amount equal to the fair market value of an equal number of Class B non-voting shares of the Company on the redemption date. The Company had 8,588 deferred share units outstanding as at December 31, 2006. The amount expensed in 2006 totalled \$0.2 million (2005 - \$0.1 million).

14. Commitments and Contingencies

The Company has commitments under various long-term operating lease agreements. Future minimum payments under such lease obligations are due as follows:

2007	\$	8,674
2008		6,529
2009		4,763
2010		3,308
2011		3,422
2012 and beyond		2,047
	\$	<u>28,743</u>

The Company and its consolidated subsidiaries are defendants in actions brought against them from time to time in connection with their operations. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe they will have a material impact on its financial position or results of operations.

15. Guarantees

In connection with the divestitures of certain operations, the Company has indemnified the purchasers against defined claims from the past conduct of the business and also provided certain guarantees in relation to the obligations assumed by the purchasers. It is not possible to quantify the maximum potential liability in relation to the indemnities. Guarantees related to indemnities incurred from disposed operations and other guarantees amounted to \$1.9 million (2005 - \$1.9 million). Certain indemnities for environmental matters have been accrued for in other liabilities (see note 11).

Standby letters of credit amounted to \$11.6 million (2005 - \$8.6 million) and are secured with existing operating lines of credit.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

16. Employee Future Benefits

The Company maintains two defined benefit pension plans, several defined contribution pension plans and supplemental retirement plans.

The expense for the defined contribution plans was \$4.5 million (2005 - \$4.1 million).

Information on the defined benefit plans and the supplemental retirement plans is as follows:

Accrued benefit obligation:	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 59,904	\$ 50,425
Opening balance from current year acquisitions	-	7,233
Current service cost	663	1,565
Interest cost	2,892	2,830
Benefits paid	(1,717)	(3,539)
Actuarial loss	32	7,014
Reinstatements and transfers	2,722	(249)
Effect of curtailment from transfer of U.K. employees to ColepCCL	-	(101)
Effect of settlement	-	966
Foreign exchange rate changes	5,894	(6,240)
Balance at end of year	<u>\$ 70,390</u>	<u>\$ 59,904</u>
Plan assets:		
Fair value at beginning of year	\$ 26,826	\$ 25,509
Actual return on plan assets	2,904	4,704
Employer contributions	1,763	3,766
Benefits paid	(1,717)	(3,539)
Reinstatements and transfers	1,216	(249)
Foreign exchange rate changes	3,519	(3,365)
Fair value at end of year	<u>\$ 34,511</u>	<u>\$ 26,826</u>
Funded status - net deficit of plans	\$ (35,879)	\$ (33,078)
Unamortized past service cost	169	-
Unamortized net actuarial loss	14,773	14,544
Accrued benefit liability	<u>(20,937)</u>	<u>(18,534)</u>

The amount of accrued benefit liability is included in the Company's balance sheets under other long-term liabilities.

Included in the above accrued benefit liability for 2006 is \$19.1 million (2005 - \$17.0 million) for the unfunded supplemental retirement plans.

The most recent actuarial valuation of the UK defined benefit pension plan for funding purposes was as of January 1, 2005 and the next valuation will be no later than January 1, 2008.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

16. Employee Future Benefits (Contd.)

The Company is in the process of converting a portion of a Canadian executive defined contribution pension plan to an existing defined benefit pension plan pending regulatory approval. The assets and obligations to be transferred to the defined benefit plan will be \$1.9 million. Once approval has been received, the conversion and an actuarial valuation will be completed effective January 1, 2006. The most recent actuarial valuation for funding purposes of the plan was as of January 1, 2004. The next actuarial evaluation for this plan will be as of January 1, 2009.

Plan assets consist of equity securities 72% (2005 - 70%), debt securities 20% (2005 - 18%), real estate 5% (2005 - 4%), and other 3% (2005 - 8%).

The significant actuarial assumptions adopted in measuring the Company's accrued benefit liability are as follows:

	<u>2006</u>	<u>2005</u>
Discount rate	4.97 %	4.73 %
Expected long-term rate of return on plan assets	7.00 %	6.62 %
Rate of compensation increase	3.39 %	3.74 %

The Company's net benefit plan expense is as follows:

Current service cost	\$ 663	\$ 1,565
Past service cost	21	-
Interest cost	2,892	2,830
Expected return on plan assets	(1,908)	(1,724)
Amortization of net actuarial loss	710	444
Settlement loss	-	1,296
Net benefit plan expense	<u>\$ 2,378</u>	<u>\$ 4,411</u>

The average remaining service period of active members covered by the defined benefit plans is 16 years for 2006 (2005 - 18 years).

17. Segmented Information

The Company's reportable segments are generally managed independently of each other, primarily because of product diversity. Each segment retains its own management team and is responsible for compiling its own financial information.

The Company has four reportable segments: Label, Container, Tube and ColepCCL. In 2006, the Company separated the Container segment into Container and Tube, to more closely represent the current management structure and provide more relevant information to the Company's stakeholders. The Label segment produces pressure sensitive self-adhesive labels, and designs and prints a wide range of high-quality paper and film, expanded content, promotional, coupon and in-mould labels. The Container segment manufactures aluminum aerosol containers and the Tube segment manufactures plastic tubes. The ColepCCL segment produces aerosol, liquid and solid stick products and manufactures steel aerosol, food and general line cans and plastic containers.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

17. Segmented Information (Contd.)

Transactions with one significant customer in 2006 accounted for approximately \$155 million (2005 - one customer for \$137 million) of the Company's total revenue.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. The Company evaluates performance based on income from operations before interest, restructuring and other items and income taxes, and on return on operating assets.

(a) Industry segments

	<u>Sales</u>		<u>Income</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Label	\$ 784,134	\$ 669,007	\$ 100,605	\$ 72,731
Container	176,311	170,739	16,677	22,389
Tube	69,124	82,746	4,482	4,273
ColepCCL	182,660	187,652	17,982	15,867
Total segments	<u>\$ 1,212,229</u>	<u>\$ 1,110,144</u>	139,746	115,260
Corporate expense			(12,757)	(9,954)
Interest expense (net)			(21,403)	(19,981)
Restructuring and other items (net) (note 5)			(11,502)	(17,919)
Income taxes			(16,664)	(17,454)
Net earnings from continuing operations			77,420	49,952
Net earnings from discontinued operations, net of tax			-	5,338
Gain on sale of discontinued operations, net of tax			-	108,546
Net earnings			<u>\$ 77,420</u>	<u>\$ 163,836</u>

	<u>Identifiable assets</u>		<u>Goodwill</u>		<u>Depreciation & amortization from continuing operations</u>		<u>Capital expenditures</u>	
	2006	2005	2006	2005	2006	2005	2006	2005
Label	\$ 909,264	\$ 765,192	\$ 303,579	\$ 276,655	\$ 48,712	\$ 39,018	\$ 100,413	\$ 95,993
Container	194,438	178,328	12,759	12,759	10,604	9,217	34,408	36,248
Tube	96,923	120,831	30,026	40,359	7,091	8,597	9,724	9,520
ColepCCL	172,429	168,300	42,636	42,088	7,558	7,844	5,522	10,423
Corporate	169,536	166,045	-	-	640	748	356	3,763
	<u>\$ 1,542,590</u>	<u>\$ 1,398,696</u>	<u>\$ 389,000</u>	<u>\$ 371,861</u>	<u>\$ 74,605</u>	<u>\$ 65,424</u>	<u>\$ 150,423</u>	<u>\$ 155,947</u>

(b) Geographic segments

	<u>Sales</u>		<u>Capital assets & goodwill</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Canada	\$ 135,875	\$ 136,060	\$ 120,569	\$ 113,787
United States and Puerto Rico	449,269	439,110	436,912	391,075
Mexico and Brazil	79,996	46,790	55,387	10,916
Europe	528,221	475,978	369,804	363,087
Asia	18,868	12,206	34,347	27,701
	<u>\$ 1,212,229</u>	<u>\$ 1,110,144</u>	<u>\$ 1,017,019</u>	<u>\$ 906,566</u>

The geographical segment is determined by the location of the Company's country of operation.

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

18. Financial Instruments

(a) Risk management activities

The Company has entered into forward foreign exchange contracts to hedge its foreign currency exposure on certain anticipated U.S. sales. The contracts oblige the Company to sell U.S. dollars in the future at predetermined rates. As at December 31, 2006, the Company had purchased contracts to sell US\$6.0 million in 2007 at an average exchange rate of \$1.13.

The Company has also entered into a non-deliverable forward foreign exchange contract in July 2006 to hedge its investment and cash flow from its Brazilian subsidiaries. The contract requires the Company to receive or pay the Canadian dollar change in value of the hedge in the future. As at December 31, 2006, the contract was to sell BRL20.8 million in 2007 at an exchange rate of \$0.48.

The Company enters into futures contracts to hedge the cost of aluminum used in its container manufacturing process against specific customer requirements. As at December 31, 2006, futures contracts for US\$4.4 million of aluminum purchase commitments at an average price of US\$1,584 per metric ton, extending to 2007, were outstanding.

(b) Credit risk

Certain financial assets of the Company, including cash and cash equivalents, are exposed to credit risk. The Company may, from time to time, invest in debt obligations and commercial paper of governments and corporations. Such investments are limited to those issuers carrying an investment grade credit rating. In addition, the Company limits the amount that is invested in issues of any one government or corporation.

(c) Fair values

The carrying value of cash and cash equivalents, accounts receivable, other receivables, self-insurance assets, bank advances, and accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments.

The fair value of long-term debt is \$439.1 million (2005 - \$414.7 million). Fair value of long-term debt is determined as the present value of contractual future payments of principal and interest discounted at the current market rates of interest available to the Company for the same or similar debt instruments.

The U.S. dollar forward foreign exchange contract rates, which have become unfavourable based on the forward exchange rates as of December 31, 2006, constitute unrecognized financial liabilities, which have a fair value loss of \$0.2 million (2005 - gain of \$1.2 million).

The non-deliverable Brazilian real forward contract, which has become unfavourable based on the forward exchange rates as of December 31, 2006, constitutes an unrecognized financial liability, which has a fair value loss of \$1.1 million.

The unrealized loss on the Interest Rate Swap Agreements and the Cross Currency Interest Rate Swap Agreements as at December 31, 2006 amounts to \$14.8 million (2005 - \$1.5 million).

Future aluminum contracts, which have become favourable constitute unrecognized financial assets and have a fair value of \$4.5 million (2005 - \$11.3 million) .

CCL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

(tabular amounts in thousands except per share data)

18. Financial Instruments (Contd.)

(d) Foreign exchange gains and losses

Included in income from operations for the year ended December 31, 2006 are foreign exchange gains totalling \$1.2 million (2005 - \$1.1 million).

19. Joint Ventures

The Company participates in a joint venture with an unrelated party and accounts for its interests using the proportionate consolidation method.

The following is a summary of the Company's proportionate share of the financial position and operating results of the joint venture included in the Consolidated Financial Statements.

	<u>2006</u>	<u>2005</u>
ColepCCL Portugal-Embalagens e Enchimentos S.A.	40%	40%
	<u>2006</u>	<u>2005</u>
Current assets	\$ 75,227	\$ 62,214
Long-term assets	99,519	105,535
Current liabilities	50,179	36,394
Long-term liabilities	14,185	27,407
	<hr/>	<hr/>
Sales	\$ 182,660	\$ 217,657
Expenses including income taxes	(170,108)	(208,354)
Net earnings	<u>\$ 12,552</u>	<u>\$ 9,303</u>
	<hr/>	<hr/>
Cash provided by (used in):		
Operating activities	\$ 20,410	\$ 19,948
Financing activities	\$ 3,188	\$ (13,986)
Investing activities	\$ (28,706)	\$ (5,847)

20. Comparative Figures

Comparative figures have been restated where necessary to correspond with current year's presentation.

21. Subsequent Events

On January 26, 2007, the Company completed its purchase of the sleeve label business of Illinois Tool Works Inc. (ITW). ITW's sleeve label business, through its five locations in Austria, Brazil, United States and two in the United Kingdom, is a leading supplier of shrink sleeve and stretch sleeve labels for markets in Europe and the Americas. The purchase price is approximately \$107 million. The Company established a \$95.0 million line of credit, of which \$75.0 million was drawn to facilitate the purchase.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(TABULAR AMOUNTS IN MILLIONS OF CANADIAN DOLLARS EXCEPT PER SHARE
DATA)

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 years ended December 31, 2006 and 2005. The information in this MD&A is current to February 15, 2007, unless otherwise noted. This MD&A should be read in conjunction with the Company's December 31, 2006 year-end financial statements, which form part of the CCL Industries Inc. 2006 Annual Report dated February 15, 2007. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and unless otherwise noted, both the financial statements and this MD&A are expressed in Canadian dollars as the reporting currency. The measurement currencies of CCL's operations are 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, the Brazilian real and the Polish zloty. CCL's Audit Committee and its Board of Directors have reviewed this MD&A to ensure consistency with the approved strategy of the Company and the results of the Company.

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6. Outlook

Management's Discussion and Analysis contains forward-looking information, as defined in the Securities Act (Ontario) (hereinafter referred to as '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 and geo-political conditions; currency exchange rates; and CCL's ability to attract and retain qualified employees and, accordingly, the Company's results could differ materially from those anticipated in these forward-looking statements. Further details on key risks can be found throughout this report, particularly in the Risks and Uncertainties section.

1. CORPORATE OVERVIEW

A) Our Company

CCL Industries Inc. is a leading provider of state-of-the-art specialty packaging solutions to global producers of consumer brands in the home and personal care, healthcare, and specialty food and beverage sectors. Founded in 1951, the Company has been public under its current name since 1980. CCL's corporate office is located in Toronto, Canada with its operational leadership centred in Framingham, MA, USA. The corporate office provides executive and centralized services such as finance, accounting, internal audit, treasury, risk management, legal, tax, human resources, information technology and environmental, health and safety. The Framingham office provides operational direction and oversees the activities of CCL's divisions: Label, Container and Tube. As of February 2007, CCL employs approximately 4,900 people and operates 49 production facilities in North America, Latin America, Europe and Asia, including the shrink sleeve and stretch sleeve acquisition of a division of Illinois Tool Works ("ITW") completed in January 2007. CCL also owns 40% of the ColepCCL joint venture formed in July 2004. ColepCCL has operations in Portugal, Spain and Poland, and two former CCL plants in Germany and the United Kingdom, with approximately 1,900 employees.

B) Our Customers and Markets

CCL's customer base is characterized by a significant number of non-durable consumer product and healthcare companies. A strategy of many of our customers is to create ever-growing global market positions. Recent trends include increased customer consolidation amongst the larger players and the formation of a growing number of smaller niche players. The current strategy of many of our major consumer products customers is to promote fewer global brands and to discontinue or sell off many of their non-core brands to smaller marketers. The risks and opportunities of this industry trend are more fully discussed within the "Business Segment Review" in Section 2 below. Another recent trend is for major marketers to take their brand-name products to market on a global basis. As a result, our customers are becoming more reliant on global suppliers such as CCL to consistently introduce their new products to the world marketplace.

Total demand for non-durable personal care, healthcare and household products is fairly stable as consumers use them on a regular, often daily, basis. There tends to be less relative volatility in demand for CCL's products and services compared to many other industries due to this more predictable and routine consumer usage.

The state of the global economy and geo-political events affect consumer demand and ultimately our customers' plans. Our customers react to these issues and competitive activity in their industries as they develop marketing strategies including the introduction and promotion of new and existing products. These factors directly influence the demand for CCL's packaging components of our customers' products. The Company's growth expectations generally mirror industry trends and the growth of gross domestic product in each market. CCL also anticipates improving its market share in each market and category over time.

There is no single competitor in the world that provides the full range of label and container products and services as CCL. Also, no single competitor of the CCL Label Division has as great an operating breadth or geographic range as CCL Label.

C) Our Strategy and Financial Targets

CCL's vision is to increase shareholder value by providing the best total value to our customers as a successful, growing market leader in specialty packaging and by building on the strengths of our people, manufacturing skills and strong international customer relationships. The Company anticipates increasing its market share in most categories by capitalizing on our customers' growth, by following market trends such as globalization, by new product innovation and by further developing existing products.

A key driver in CCL's strategy is "focus". We aspire to be the market leader and the highest value-added producer for each product line and region that we choose to cover. CCL does not intend to move into radically different segments of the packaging industry but rather to expand in existing categories or in other adjacent areas closely aligned with our existing business strengths.

The Company's overall strategic focus in this decade has been to maximize earnings and cash flow from our current operations while developing growth opportunities through investment in equipment and by innovation in new types of labelling solutions, containers and tubes. This approach is intended to allow us to increase market share and to grow internationally with our customers. The strategy also includes seeking attractively priced acquisitions. These acquisitions should be within CCL's core competencies and manufacturing capabilities, enhance geographic expansion, provide new technologies and products and be immediately accretive to earnings.

In addition, CCL has a continuous focus on maximizing cash flow by minimizing working capital investment and controlling capital spending with a view to improving divisional return on investment. Each division is responsible for developing an action plan, tailored to its specific opportunities, within this strategic framework.

A key financial target is return on equity. CCL continues to execute its strategy with a goal of achieving the level of its leading peers in specialty packaging, currently in the

12-14% range. Return on equity (a non-GAAP measure; see “Key Performance Indicators and Non-GAAP Measures” in Section 5A below) has grown from 11.5% in 2002 to 12.5% in 2006 despite the significant growth in equity as a result of the gain on sale of the North American Custom Manufacturing (“Custom”) in 2005 and the cumulative negative effect of the stronger Canadian dollar. Management believes that this target level of return on equity is reasonable.

Another important and related financial target is the long-term growth rate of earnings per share. Management believes that taking into account both relatively stable demand for non-durable consumer products and the continuing benefits from its focused strategies and operational approach, a targeted growth rate in earnings per share excluding restructuring and other items in the range of 10% compounded annually is realistic. The Company will continue to focus on generating cash and to effectively utilize the cash flow generated by operations and from divestitures. This cash will continue to be invested in capital additions to take advantage of organic growth opportunities and in acquisitions that are accretive to earnings per share. If the cash flow periodically exceeds attractive acquisition opportunities, CCL will also repurchase its shares provided that the repurchase is accretive to earnings per share and does not increase financial leverage beyond targeted levels. Earnings per share from continuing operations, excluding restructuring and other items and favourable tax settlement and tax benefit on previously unrecognized tax losses (‘favourable tax adjustments’) have grown by 19% and 53% in 2006 and 2005, respectively, well in excess of our cumulative target despite unfavourable currency.

The framework that supports the above two targets is an appropriate level of financial leverage. Based on the dynamics within the packaging industry and the risks that higher leverage can bring, CCL has a comfort level of approximately 45% for its net debt to total book capitalization (a non-GAAP measure; see “Key Performance Indicators and Non-GAAP Measures” in Section 5A below). With the recent level of profitability that the Company has experienced and the current leverage, this would imply that CCL’s debt would firmly fit into the investment-grade category. As at December 31, 2006, net debt to total book capitalization was 32.7%. The January 2007 ITW transaction (see “Recent Acquisitions and Dispositions” in Section 1D below) adds approximately 7% to the net debt to total book capitalization ratio. This level is below the target range indicating that there is further room for additional debt without further equity to finance appropriate growth opportunities.

CCL has also targeted the dividend payout as an important metric. The Company plans to continue paying dividends equal to 20-25% of earnings excluding restructuring and other items. Based on 2006 actual results, the dividend payout ratio was 18%. Consequently, after a review of the 2006 results and considering the cash flow and income budgeted for 2007, the CCL Board of Directors has declared an increase in the dividend of one cent per share per quarter from \$0.11 to \$0.12 per quarter (or \$0.48 annualized). If the new dividend rate were applied to 2006 earnings, excluding restructuring and other items and favourable tax adjustments, the dividend payout ratio would be 20%.

The Company believes that the above targets are compatible with each other and consequently should drive significant shareholder value.

CCL's strategy and its ability to grow and achieve attractive returns for its shareholders are shaped by key internal and external factors, which are common to specialty packaging. The key performance driver is our continuous drive to satisfy our customers, founded on a reputation of quality manufacturing, competitive cost, innovation, dependability, ethical business practices and financial stability. CCL believes that it is the highest value-added producer in most of its businesses and that it is continuing to foster new product innovations to support customer satisfaction.

D) Recent Acquisitions and Dispositions

In early 2005, the Company recognized that the opportunities for growth in its specialty packaging businesses were substantial. At that time, CCL was offered what it considered to be a premium cash price for its Custom business. The sale of Custom for \$273 million in cash had a number of strategic elements. CCL's focus was further narrowed by its transformation into a pure specialty packaging company. The proceeds from the sale were to be invested in the Company's higher growth specialty packaging businesses. These investments would include accretive acquisitions and capital spending for organic internal growth and technology enhancements. The sale of Custom also reduced CCL's financial leverage, the financial risk associated with its dependence on the U.S. dollar and the international competitive risk of the North American economy. CCL is now a more internationally positioned company with increased diversification across the global economy and with exposure to many different currencies. For financial reporting purposes, Custom is treated as a discontinued operation.

CCL has been redeploying the proceeds of the sale of Custom into its specialty packaging business internally and by way of the following acquisitions:

- In 2005, CCL completed three European-based label acquisitions (Steinbeis Packaging, Merroc Ltd. and Inprint Systems) and acquired the remaining 49% of the CCL-Pachem joint venture.
- In January 2006, the Prodesmaq label business in Brazil was acquired as CCL's first venture into South America.
- In January 2007, CCL acquired the shrink sleeve and stretch sleeve business of ITW located in Europe, Brazil and the USA.

All of these developments, including building new plants in Thailand, Poland and China, have positioned the Label Division as the global leader for pressure sensitive labels in the personal care, healthcare, battery, food, beverage, promotional and specialty categories.

In February 2006, the Company divested the assets of the CCL Dispensing business in Libertyville, IL as it was deemed to be a non-core minor player in the global closures market. In October 2006, the label business in Houten, the Netherlands, was sold, as it was relatively small and serviced primarily local customers outside of the Label Division's target markets.

E) Consolidated Annual Financial Results

Selected Financial Information

<u>Results of Consolidated Operations</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Sales	\$ <u>1,212.2</u>	\$ <u>1,110.1</u>	\$ <u>913.9</u>
Income from operations before undernoted items	\$ 201.6	\$ 170.6	\$ 129.6
Depreciation and amortization	74.6	65.4	54.3
Interest expense (net)	<u>21.4</u>	<u>19.9</u>	<u>18.3</u>
	105.6	85.3	57.0
Restructuring and other items - net loss	(11.5)	(17.9)	(0.9)
Earnings before income taxes	94.1	67.4	56.1
Income taxes	<u>16.7</u>	<u>17.4</u>	<u>12.1</u>
Net earnings from continuing operations	<u>77.4</u>	<u>50.0</u>	<u>44.0</u>
Net earnings from discontinued operations, net of tax	-	5.3	15.2
Gain on sale of discontinued operations, net of tax	-	<u>108.5</u>	-
Net earnings	<u>77.4</u>	<u>163.8</u>	<u>59.2</u>
Per Class B share			
Continuing operations	2.41	1.57	1.36
Discontinued operations	-	0.17	0.48
Gain on sale of discontinued operations	-	<u>3.36</u>	-
Net earnings	\$ <u>2.41</u>	\$ <u>5.10</u>	\$ <u>1.84</u>
Restructuring and other items and favourable tax adjustment - net gain (loss)	\$ <u>0.04</u>	\$ <u>(0.42)</u>	\$ <u>0.06</u>
Diluted earnings	\$ <u>2.33</u>	\$ <u>4.97</u>	\$ <u>1.81</u>

All "per Class B share" amounts in this document are expressed on an undiluted basis, unless otherwise indicated. Amounts would not be materially different on a diluted basis.

Comments on Consolidated Results

Sales of \$1,212.2 million in 2006 compared to \$1,110.1 million in 2005, up a healthy 9%. This comes off a strong year in 2005, with growth of 21% over the 2004 sales level. Organic growth was a major contributor to the sales improvement in 2006 in all businesses despite the continued negative influence of currency translation. In addition, the annualized impact of the 2005 acquisitions and the Prodesmaq acquisition in 2006 also provided a significant part of the sales growth, offset in part by the two small divestitures in 2006. The sales growth in 2006 of \$102.1 million was derived from the following divisions: Label (\$115.1 million), Container (\$5.6 million) and Tube (up \$2.9 million in the tube business but more than offset by the disposition of the dispensing closure business and its 2005 sales of \$16.6 million). ColepCCL's sales were down \$4.9 million due to currency translation. In local currency, sales of ColepCCL were up 3%.

Almost 90% of CCL's sales are from manufacturing operations outside Canada and then translated into Canadian dollars. During 2006, a number of important currencies changed value relative to the Canadian dollar. The United States dollar, the base

currency of 37% of CCL's total sales, depreciated by 6% on average for the year 2006 compared to last year. In addition, Europe, accountable for 44% of CCL's total sales, has seen its primary currency, the euro, also depreciate against the Canadian dollar in 2006 by 6% on average versus last year. This trend has carried on from 2005, when both the U.S. dollar and the euro depreciated 7% against the Canadian dollar. The overall net depreciation of these currencies in 2006 and 2005 has had a negative effect on reported sales and net earnings. If the effect of foreign currency translation and the sales from divestitures were excluded, total sales increased by 17% in 2006 compared to 2005, including acquisitions.

Divisional operating income in 2006 was \$139.7 million, up a very strong 21% from the \$115.2 million reported in 2005 and the \$82.8 million earned in 2004. This income growth was derived from both existing and acquired operations despite negative currency influences. The growth in divisional operating income in 2006 of \$24.5 million was generated in Label (\$27.9 million), Tube (\$1.3 million excluding the dispensing closure disposition with its \$1.0 million income reduction) and ColepCCL (\$2.1 million), offset in part by reduced Container operating income of \$5.8 million. All divisions were negatively impacted by currency translation. In addition, Container was affected by unfavourable currency transactions on its Canadian operations year-over-year of \$2.1 million. Further details on the divisions follow later in this report.

Corporate expenses in 2006 at \$12.7 million were up from \$10.0 million in 2005 and \$7.5 million in 2004. Certain corporate expenses had been previously allocated to the disposed Custom business. Major areas of increased corporate costs in 2006, in addition to the eliminated Custom allocation, were higher legal, audit, performance-based compensation and other public company costs.

EBITDA before restructuring and other items (a non-GAPP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below) in 2006 was \$201.6 million, up a strong 18% from the \$170.6 million recorded in 2005. The growth in 2005 was up a substantial 32% from the 2004 level of \$129.7 million.

Net interest expense was \$21.4 million in 2006, up \$1.5 million from the \$19.9 million recorded in 2005 and the \$18.3 million of 2004. In 2005 and 2004, interest expense was allocated to discontinued operations, which accounts for some of the increase in 2006. The other factors in the increase in net interest costs are higher U.S. floating interest rates and higher average net debt. The depreciation of the U.S. dollar and the euro over this period has had the effect of reducing reported interest expense since CCL's borrowings are primarily impacted by these currencies. Interest expense is net of interest earned on both short-term investments, and Interest Rate Swap Agreements ("IRSA") and Cross Currency Interest Rate Swap Agreements ("CCIRSA"). The Company amortized a gain realized on the sale of an IRSA in 2001 until March 2006.

There were a number of restructuring and other items in 2006 for a total loss of \$11.5 million (\$10.2 million after tax) as follows:

- Container Division restructuring - In early 2006, the Company commenced a senior management restructuring in the Container Division and incurred severance costs. With new management in place and in light of changes in the

business environment, the Division's capital assets and spare parts inventory were reviewed and it was determined that certain of these assets had no future value in the restructured operations and should not have a carrying value. The total cost of the Container restructuring was \$11.4 million (\$7.2 million after tax).

- In February, the Company sold net assets of its CCL Dispensing Systems, LLC for \$24.4 million in cash and realized a gain of \$1.6 million (net loss of \$1.5 million after tax).
- In July, the Company repatriated capital from a foreign subsidiary. The change in exchange rates from the time the capital was historically invested until it was returned to Canada gave rise to a loss of \$3.5 million.
- In October, the Company restructured its European label operations, which included the sale of its label operation in Houten, the Netherlands, for \$2.8 million cash and incurred certain severances within the Label Division. The gain on sale, net of restructuring costs, was \$0.5 million (\$0.7 million after tax).
- In December, the Company recovered \$1.3 million related to a loan amount previously provided for on a disposed operation with no tax effect.

The negative earnings impact of these restructuring and other items was \$0.32 per Class B share for the full year 2006. In addition, in December, the Company recorded favourable tax adjustment of \$11.5 million or \$0.36 per share. The net gain of the restructuring and other items and favourable tax adjustments in 2006 was \$0.04 per share.

There were three restructuring and other items in 2005 for a total loss of \$17.9 million (\$17.8 million after tax). The Company sold its equity interest in IntraPac L.P. in exchange for certain real estate of the business and recorded a loss of \$12.7 million (\$12.6 million after tax), recorded an impairment of a ColepCCL property held for sale of \$1.4 million and restructured its Mexican Container business by recording an impairment on certain equipment and inventory of \$3.8 million. Also in 2005, there was a favourable tax adjustment from previously unrecognized tax losses of \$4.3 million.

The negative earnings impact of the restructuring and other items in 2005 was \$0.55 per Class B share. In addition, the favourable tax adjustments in 2005 positively impacted earnings per share by \$0.13.

Restructuring and other items amounted to a net loss in 2004 of \$0.9 million before tax but generated a gain of \$0.06 per Class B share due to the favourable income tax effect on certain gains and losses. The restructuring and other items in 2004 were gains on the sale of the Winnipeg label business of \$4.4 million and the sale of the Leeds, U.K. property, net of moving costs, of \$7.4 million, partially offset by restructuring costs in the Plastic Packaging business of \$9.6 million, and the Label business of \$2.1 million, and the foreign exchange loss on the repatriation of capital from foreign subsidiaries of \$1.0 million.

In 2006, the tax rate was 17.7% compared to 25.8% and 21.6%, respectively, in 2005 and 2004. These effective rates are lower than the combined Canadian federal and provincial tax rate of 34.1% in 2006, 2005 and 2004. The actual tax rate has been lower in these years due to the benefit of lower tax rates in foreign subsidiaries net of income and expense items not subject to tax. In addition, in the fourth quarter of 2006, CCL successfully settled a significant tax reassessment with a foreign tax authority and recorded a net reduction in tax of \$11.5 million or \$0.36 cents per share. The tax rate would have been 29.9% if the above tax reduction were excluded. The 2005 tax rate would have been 32.3% if the one-time benefit of a previously unrecognized tax loss due to the sale of Custom were excluded. Nearly 90% of CCL's sales are manufactured in plants outside of Canada, and the income from these foreign operations is subject to varying rates of taxation. The Company has benefited from lower tax rates in these jurisdictions compared to the combined Canadian federal and provincial rates. The Company's effective tax rate varies from year to year as a result of the level of income in the various countries, tax losses not previously recognized, tax reassessments and income and expense items not subject to tax.

Net earnings for 2006 of \$77.4 million compares to \$163.8 million in 2005 and \$59.2 million in 2004. Net earnings per Class B share amounted to \$2.41 in 2006 versus the \$5.10 recorded in 2005 and \$1.84 in 2004. The fluctuation in earnings and earnings per Class B share over the three years was due to the sequential improvement in operational performance and the restructuring and other items in each year. In particular, 2005 had the benefit of the significant gain on the sale of Custom of \$108.5 million or \$3.36 per share.

The negative effect of foreign currency translation, including the benefit of lower interest costs, has reduced CCL's earnings per share by \$0.15 for the year 2006 compared to 2005, and by \$0.11 per share in 2005 compared to 2004.

The following table is presented to provide context to the change in the Company's financial performance including the sale of Custom in 2005. CCL's strategy was to replace the ongoing income previously generated by Custom and to continue to grow the income in our existing businesses. The plan to replace this income by the end of 2006 included 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. There have been no share repurchases since early 2005.

The progress of our earnings growth including the replacement of the Custom income is of primary importance to our shareholders, lenders, investors 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 restructuring and other items and the favourable tax adjustments indicated above were excluded from these results, there is meaningful performance improvement over this time frame.

<u>Earnings per Class B shares</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
From continuing operations	\$ 2.41	\$ 1.57	\$1.36
From discontinued operations	\$ -	\$ 0.17	\$0.48
Net gain (loss) from restructuring and other items and favourable tax adjustments included in continuing operations *	\$0.04	\$(0.42)	\$0.06

* Note: this is a non-GAAP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below.

The sale of Custom required a restatement of results including the allocation of 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 United States, and incurring income tax at the appropriate federal, provincial and state tax rates.

F) Seasonality and Fourth Quarter Financial Results

<u>2006</u>	<u>Qtr 1</u>	<u>Qtr 2</u>	<u>Qtr 3</u>	<u>Qtr 4</u>	<u>Year</u>
Sales					
Label	\$ 205.1	\$ 191.5	\$ 188.1	\$ 199.4	\$ 784.1
Container	44.4	48.3	41.5	42.1	176.3
Tube	19.1	17.7	17.0	15.3	69.1
ColepCCL	<u>44.6</u>	<u>39.1</u>	<u>46.9</u>	<u>52.1</u>	<u>182.7</u>
Total sales	<u>\$313.2</u>	<u>\$ 296.6</u>	<u>\$293.5</u>	<u>\$ 308.9</u>	<u>\$1,212.2</u>
Divisional operating income					
Label	\$ 29.2	\$ 23.2	\$ 21.7	\$ 26.5	\$ 100.6
Container	6.2	5.7	1.9	2.8	16.6
Tube	1.0	1.5	1.4	0.6	4.5
ColepCCL	<u>4.1</u>	<u>3.9</u>	<u>5.0</u>	<u>5.0</u>	<u>18.0</u>
Contribution from continuing operations	40.5	34.3	30.0	34.9	139.7
Corporate expenses	<u>3.5</u>	<u>3.2</u>	<u>1.5</u>	<u>4.5</u>	<u>12.7</u>
	37.0	31.1	28.5	30.4	127.0
Interest expense, net	<u>5.6</u>	<u>5.3</u>	<u>5.3</u>	<u>5.2</u>	<u>21.4</u>
	31.4	25.8	23.2	25.2	105.6
Restructuring and other items - net gain (loss)	<u>0.4</u>	<u>(1.0)</u>	<u>(3.7)</u>	<u>(7.2)</u>	<u>(11.5)</u>
Earnings before income taxes	31.8	24.8	19.5	18.0	94.1
Income taxes (recovery)	<u>10.7</u>	<u>7.2</u>	<u>5.9</u>	<u>(7.1)</u>	<u>16.7</u>
Net earnings	\$ <u>21.1</u>	\$ <u>17.6</u>	\$ <u>13.6</u>	\$ <u>25.1</u>	\$ <u>77.4</u>
<u>Per Class B share</u>					
Net earnings	\$ <u>0.66</u>	\$ <u>0.54</u>	\$ <u>0.43</u>	\$ <u>0.78</u>	\$ <u>2.41</u>
Restructuring and other items and favourable tax adjustments included in net earnings - net gain (loss)	\$ <u>(0.03)</u>	\$ <u>(0.03)</u>	\$ <u>(0.10)</u>	\$ <u>0.20</u>	\$ <u>0.04</u>

2005	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year
Sales					
Label	\$ 157.3	\$ 167.2	\$ 169.2	\$ 175.3	\$ 669.0
Container	36.1	44.8	45.4	44.4	170.7
Tube	21.0	20.2	20.8	20.8	82.8
ColepCCL/Custom Manufacturing	<u>51.3</u>	<u>47.9</u>	<u>46.5</u>	<u>41.9</u>	<u>187.6</u>
Total sales	\$ <u>265.7</u>	\$ <u>280.1</u>	\$ <u>281.9</u>	\$ <u>282.4</u>	\$ <u>1,110.1</u>
Divisional operating income					
Label	\$ 19.1	\$ 19.3	\$ 19.1	\$ 15.2	\$ 72.7
Container	5.3	6.0	5.4	5.7	22.4
Tube	0.9	1.1	1.5	0.7	4.2
ColepCCL/Custom Manufacturing	<u>5.4</u>	<u>4.1</u>	<u>3.6</u>	<u>2.8</u>	<u>15.9</u>
Contribution from continuing operations	30.7	30.5	29.6	24.4	115.2
Corporate expense	<u>2.8</u>	<u>3.0</u>	<u>3.2</u>	<u>1.0</u>	<u>10.0</u>
	27.9	27.5	26.4	23.4	105.2
Interest expense - net	<u>5.3</u>	<u>5.3</u>	<u>4.4</u>	<u>4.9</u>	<u>19.9</u>
	22.6	22.2	22.0	18.5	85.3
Restructuring and other items - net loss	<u>-</u>	<u>(15.5)</u>	<u>-</u>	<u>(2.4)</u>	<u>(17.9)</u>
Earnings before income taxes	22.6	6.7	22.0	16.1	67.4
Income taxes	<u>6.5</u>	<u>1.6</u>	<u>6.7</u>	<u>2.6</u>	<u>17.4</u>
Net earnings from continuing operations	16.1	5.1	15.3	13.5	50.0
Net earnings from discontinued operations, net of tax	<u>3.6</u>	<u>108.7</u>	<u>-</u>	<u>1.5</u>	<u>113.8</u>
Net earnings	\$ <u>19.7</u>	\$ <u>113.8</u>	\$ <u>15.3</u>	\$ <u>15.0</u>	\$ <u>163.8</u>

Per Class B share

Net earnings - continuing operations	\$ 0.50	\$ 0.16	\$ 0.48	\$ 0.43	\$ 1.57
Net earnings- discontinued operations	0.11	0.06	-	-	0.17
Gain on sale of discontinued operations	<u>-</u>	<u>3.31</u>	<u>-</u>	<u>0.05</u>	<u>3.36</u>
Net earnings	\$ <u>0.61</u>	\$ <u>3.53</u>	\$ <u>0.48</u>	\$ <u>0.48</u>	\$ <u>5.10</u>
Restructuring and other items and favourable tax adjustments included in net earnings - net loss	\$ <u>-</u>	\$ <u>(0.35)</u>	\$ <u>-</u>	\$ <u>(0.07)</u>	\$ <u>(0.42)</u>

Fourth Quarter Results

Sales for the fourth quarter of 2006 were \$308.9 million, up \$26.5 million or 9% from the \$282.4 million recorded in last year's fourth quarter. This strong sales performance was primarily due to organic growth. Acquisitions and favourable comparative currency translation, primarily the euro, were also positive factors offset in part by dispositions.

The growth in sales came from the Label Division (\$24.1 million) and ColepCCL (\$10.2 million), which were partly offset by the Container Division (\$2.3 million) and the Tube Division (\$5.5 million of which \$4.8 million was due to the sale of the dispensing closure business).

In the fourth quarter results, currency translation was mixed with a 3% decline in the U.S. dollar compared to last year but with a 5% improvement in the euro based on the quarterly average. The year-over-year decline in Container and Tube was partly due to the decline in the U.S. dollar while both Label and ColepCCL benefited from currency translation overall.

Divisional operating income in the fourth quarter of 2006 was \$34.9 million, up \$10.5 million or a substantial 43% over the fourth quarter of 2005. This income growth was derived from acquisitions and existing operations with only a modest net currency influence. This growth came from Label (\$11.2 million) and ColepCCL (\$2.2 million), which were offset in part by Container (\$2.8 million) and Tube (\$0.1 million due in part to the sale of the dispensing closure business). Currency transactions negatively impacted Container by \$0.3 million for the fourth quarter of 2006.

Corporate expenses were up by \$3.5 million due to higher performance-related bonuses, higher legal, audit and other public company costs in 2006, and due to risk management expense recoveries recorded in 2005.

EBITDA before restructuring and other items (a non-GAAP measure; see “Key Performance Indicators and Non-GAAP Measures” in Section 5A below) in the fourth quarter was \$50.3 million, up \$10.6 million or 27% from the \$39.7 million recorded last year.

Net interest expense of \$5.2 million in this year’s fourth quarter was up by \$0.3 million from last year due primarily to higher U.S. short-term interest rates.

Restructuring and other items in the fourth quarter of 2006 totalled a net loss of \$7.2 million (\$3.6 million after tax). The restructuring and other items, the details of which were explained earlier under the annual financial results, consisted of Container restructuring of \$9.0 million (\$5.6 million after tax), offset in part by a \$1.3 million recovery related to a loan amount previously provided for on a disposed operation with no tax effect and the gain on the sale of Houten, the Netherlands operation of \$0.5 million (\$0.7 million after tax).

Restructuring and other items in the fourth quarter of 2005 were a loss of \$2.4 million (\$2.4 million after tax) due to a loss on sale of a ColepCCL property of \$1.4 million and an adjustment in the loss on sale of a container business to IntraPac of \$1.0 million.

Tax expense in the fourth quarter of 2006 was a net recovery of \$7.1 million due primarily to the favourable settlement with a foreign tax authority for a net of \$10.1 million. Excluding the favourable tax adjustment of \$10.1 million for the quarter, the tax rate for the fourth quarter of 2006 would have been 17%. This is lower than the average year’s rate due primarily to the non-taxable nature of certain restructuring and other items in the fourth quarter and higher earnings in lower taxed jurisdictions. The

tax rate in the fourth quarter of 2005 was 16% due to higher earnings in lower taxed jurisdictions and the utilization of a previously unrecognized loss carry-forward.

Net earnings in the fourth quarter of 2006 were \$25.1 million, up 67% from the \$15.0 million earned in last year's comparable quarter.

Earnings per Class B share were \$0.78, up 63% from the \$0.48 earned in fourth quarter 2005. Unfavourable currency translation reduced earnings per share compared to last year by \$0.02 per share.

Restructuring and other items in the fourth quarter of 2006 negatively affected earnings per share by \$0.12. This was more than offset by the favourable tax adjustments of \$0.32 per share. In the fourth quarter of 2005, restructuring and other items were a net loss of \$0.07 per share. Also in the fourth quarter of 2005, a \$1.5 million favourable adjustment was made to the gain on sale of Custom or \$0.05 per share.

The following table provides context to the comparative performance of the business. If the impact of restructuring and other items and the favourable tax adjustments were excluded from these results, there is good improvement over the prior year's performance.

<u>Earnings per Class B shares</u>	<u>4th Quarter</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
From continuing operations	\$ 0.78	\$ 0.43	\$ 0.30
From discontinued operations	\$ -	\$ 0.05	\$ 0.13
Net gain (loss) from restructuring and other items and favourable tax adjustments included in continuing operations *	\$ 0.20	\$(0.07)	\$(0.07)

* Note: this is a non-GAAP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below.

Summary of Seasonality and Quarterly Results

Sales and net earnings comparability between the quarters of 2006 and 2005 have been primarily affected by the general overall improvement in operations, the negative impact of weakening foreign currencies relative to the Canadian dollar, the dates of acquisitions and divestitures, and the effect and timing of restructuring and other items.

The Label Division has experienced strong demand since the beginning of 2004 in its existing and newly acquired operations. There was a mild downturn in the North American personal care business beginning in mid-second quarter through the third quarter of 2006, but business finished the year strongly in the fourth quarter. Return on sales for the year (a non-GAAP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below) in 2003 was 8.2% but has grown to 10.9% in 2004 and 2005 and now 12.8% for 2006. This margin improvement is due to the incremental volume, combined with the increased sales of higher margin products and improved efficiencies. This level of return combined with the volume growth, reflects the

Division's strategy of capitalizing each operation with world-class equipment and servicing our international customers on a global basis for their unique product needs.

The Container Division's sales and income had shown good growth in the last three years into the second quarter of 2006. Prior to this time, sales of aluminum aerosol and bottle products had been very strong with sales backlogs persisting despite the addition of significant and expensive new capacity. By the second quarter of 2006, the impact on the industry of meaningfully higher aluminum costs combined with significantly lower volumes of higher margin beverage containers resulted in lower order intake production volumes and subsequently profit margins in the third quarter. With less hedging in place, the Division incurred higher aluminum costs that it could not completely pass on to all of our customers. The stronger Canadian dollar also reduced the profitability of the Canadian operation. The high order backlog had created an upward income trend until June, offset in part by the cost of outsourcing production, the inefficiencies associated with the start-up of new production lines, and the negative effect of currency on the Division's Canadian operations and the translated results of its U.S. operations. In 2006, the Division also incurred restructuring costs, as described earlier, with a change of management at the beginning of the year resulting in actions to improve operations and asset utilization. A major portion of the restructuring was recorded in the fourth quarter. Return on sales for the year was reduced to 9.5% in 2006 versus 13.1% in 2005.

The Tube Division has experienced good sales and income growth throughout the last two years. With new management in place, volume was stabilized going into 2005 and the business returned to profitability and has improved its customer service performance. With improved volumes, lower operating costs and improved efficiencies, this segment is expected to continue to show profit improvement in 2007. The sale of CCL Dispensing in February 2006 has reduced operating income modestly, partially offsetting the improved profitability in the remaining tube business. Return on sales for the year for the Tube Division of 6.5% in 2006 improved from the 5.1% level in 2005.

The ColepCCL joint venture was created in mid-July 2004. The creation of this joint venture has allowed the Company to merge its relatively less profitable operations in Germany and the U.K. with our partners in Portugal, Spain and Poland. Their locations were in lower cost jurisdictions in Europe and were more profitable than the CCL operations. The merged operations have demonstrated good growth and have achieved business synergies. There was a slowdown in the Custom Manufacturing unit of the business in the first half of 2006, but volumes and profitability improved in the last half of the year. The can manufacturing business remained strong and continued to generate good profit margins. Operating income for 2006 was \$18.0 million in 2006 versus \$15.9 million in 2005. Return on sales for 2006 was 9.9% compared to 8.5% in 2005.

Total year-to-date net earnings for CCL for 2006 were down 52.7% from 2005 due primarily to the impact after tax, of the gain on sale of Custom in 2005, partially offset by improved operational performance in 2006 versus 2005. On a trend basis, the fourth quarter of 2006 was generally strong. Despite the negative impact of currency, earnings growth over the last two years from continuing operations overall has achieved management's expectations with the exception of Container.

2) BUSINESS SEGMENT REVIEW

A) General

All divisions invest significant capital and management effort in their facilities in order to develop world-class manufacturing operations with spending allocated to cost reduction projects, the development of innovative products, the maintenance and expansion of existing capacity and the continuous improvement in health and safety in the workplace, including environmental activities. In the last three years, CCL's capital spending was significantly higher than its depreciation expense in order to take advantage of new market opportunities and to improve infrastructure and operating performance. Capital spending is more fully discussed in the Divisions' sections below.

Although each division is a leader in market share or has a significant position in the markets they serve, they also operate in a mature and competitive environment. In recent years, consumer products and healthcare companies have experienced steady pressure to maintain or even reduce their prices to their major retail and distribution customers. Consumer product and healthcare customers, and their retail and distribution customers, are experiencing consolidation in their industries. This has, in turn, resulted in a discipline to reduce costs in order to maintain reasonable profit margins at each level throughout the supply chain. The acceleration in commodity cost growth, such as for aluminum, has created serious challenges to meet the pricing concerns of our customers. This dynamic has been an ongoing challenge for CCL and its competitors, requiring greater control and reductions in cost structures. Unlike some of its competitors, CCL has the financial strength to invest in the equipment and innovation necessary to constantly strive to be the highest value-added producer in the industry.

The cost of many of the key raw material inputs for CCL, such as resins, aluminum, film, paper, inks and chemicals are dependent on the economics within the petro-chemical and energy industries, and recent significant fluctuations in the cost of these inputs have affected the Company's profitability. Over the past couple of years, an increase in global demand has caused a tremendous increase and instability in the cost of these commodities to each business unit. CCL generally has the ability, due to its size and the use of long-term contracts with both our suppliers and customers, to moderate fluctuations in costs from its suppliers and to pass on price increases to our customers to recover such increases. The success of the business is dependent on each business managing the cost and price equation with suppliers and customers. The cost of aluminum has doubled over the last two years. Since it is the largest component of our Container Division's costs, the ability to fully recover these large cost increases from customers who are accustomed to more stable pricing continues to be a challenge.

Most of our facilities are located in centres with adequate skilled labour, resulting in moderate pressure on wage rates and employee benefits. CCL's labour costs are competitive in each of the geographies in which it does business. The Company uses a combination of annual and long-term incentive plans specifically designed for corporate, divisional and plant staff to focus key employees on the objectives of achieving annual business plans and creating shareholder value through growth, innovation, cost reductions and cash flow generation.

A driver common to all divisions for maximizing operating profitability is the discipline of pricing orders based on size, including consideration for fluctuations in raw materials and packaging costs, manufacturing efficiency and available capacity. This approach facilitates effective asset utilization and optimal profitability. Efficiency is generally benchmarked per production line against a target such as "throughput of quality product" and per order against scrap and output standards. Total utilization versus capacity available per production line or facility is also used to manage certain segments of the business. In most of the Company's operations, each shipment is measured based on actual production costs to calculate the amount of actual profit margin earned and return on sales. This process ensures that pricing and production performance is aligned in meeting the profit margin targets.

Performance measures used by the divisions that are critical to meeting their strategic objectives and financial targets are return on sales, cash flow, days working capital employed and return on investment. Measures used at the corporate level include operating income, return on sales, EBITDA, net debt to total capitalization, return on equity and earnings per share (non-GAAP measures; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below). Growth in earnings per share is a key metric. In addition, the Company also monitors earnings per share before restructuring and other items since the timing and extent of restructuring and other items do not reflect or relate to the Company's ongoing and future potential operating performance. Performance measures are primarily measured against a combination of prior year, budget, industry standards or other benchmarks to promote continuous improvement in each business and process.

Management believes it has both the financial and non-financial resources, and the internal control and reporting systems and processes in place to execute its strategy, manage key performance drivers and deliver targeted financial results. In addition, the Company's internal audit function provides another discipline to ensure that its disclosure controls and procedures, and internal controls over financial reporting will be assessed on a regular basis against current corporate standards of effectiveness and compliance.

CCL is not heavily dependent upon specialized manufacturing equipment. Most of the manufacturing equipment employed by the divisions can be sourced from many different suppliers. Our competitive advantage is based primarily on our customer service and process technology, the know-how of our people and the ability to develop proprietary tooling and manufacturing techniques. However, some new manufacturing lines, particularly for the Container Division, take many months for suppliers to construct, and any delays in delivery and/or commissioning can have an impact on customer expectations and plant profitability. The Company also uses strategic partnerships as a method of obtaining proprietary technology in order to support growth plans and expand its product offerings.

The expertise of our employees is a key element to achieving CCL's business plans. This know-how is broadly distributed throughout the business and its nearly 50 facilities; therefore, the Company is generally not at risk of losing its competency through the loss of any particular employee or group of employees. Employee skills are constantly being

developed through on-the-job training and external technical education, and are enhanced by our culture of considering creative alternative applications and processes for our manufactured products.

The nature of the research carried out by the divisions can best be characterized as application or process development. As a leader in specialty packaging, the Company spends meaningful resources assisting customers with product development and developing innovative containers and labels. While customers regularly come to CCL with concepts and request assistance in developing a commercial packaging solution, the Company also takes innovative packaging concepts to its customers. Company and customer information is protected through the use of confidentiality agreements and by limiting access to the manufacturing facilities.

The Company continues to invest time and capital to upgrade and expand its business systems. This investment is critical to keep pace with customer requirements and to gain or maintain a competitive edge. The Container and Tube Divisions require and have the capability for supply chain web-based integration with their customers and suppliers. While the systems of the Label Division do not require the same degree of sophistication due to the lesser requirements of its customers, the Division does communicate with many customers and suppliers through the Internet, particularly when transferring and confirming printing layouts, designs and colours.

Divisional Financial Results

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Divisional sales</u>			
Label	\$ 784.1	\$ 669.0	\$ 505.5
Container	176.3	170.7	130.3
Tube	69.1	82.8	82.4
ColepCCL / Custom Manufacturing	<u>182.7</u>	<u>187.6</u>	<u>195.7</u>
Total sales from continuing operations	\$ <u>1,212.2</u>	\$ <u>1,110.1</u>	\$ <u>913.9</u>
Sales from discontinued operations	\$ <u>-</u>	\$ <u>246.8</u>	\$ <u>604.6</u>
<u>Income from operations</u>			
Label	\$ 100.6	\$ 72.7	\$ 55.0
Container	16.6	22.4	17.9
Tube	4.5	4.2	(0.7)
ColepCCL / Custom Manufacturing	<u>18.0</u>	<u>15.9</u>	<u>10.6</u>
Divisional operating income from continuing operations	\$ <u>139.7</u>	\$ <u>115.2</u>	\$ <u>82.8</u>
Operating income from discontinued operations	\$ <u>-</u>	\$ <u>9.1</u>	\$ <u>26.6</u>

Comments on Income from Continuing Operations

The above summary includes the results of acquisitions and segregates the effect of discontinued operations on reported sales and operating income.

Divisional operating income in 2006 increased to \$139.7 million from \$115.2 million in 2005, up a strong 21%. Primary contributors to the improvement were generally stronger demand in most divisions, accretive acquisitions and improved profit margins in all divisions except Container. Return on sales has grown to 11.5% in 2006 from 10.4% in 2005 and 9.1% in 2004. These results were achieved despite the negative translation effect of the stronger Canadian dollar relative to the U.S. dollar and

European currencies in 2005, discussed previously. This comparative result was also negatively affected by the weaker U.S. dollar on currency transactions from the Canadian operation of the Container Division also described above. In 2005, divisional operating income from continuing operations increased by \$32.4 million compared to 2004. The major reason for this increase was the higher sales volumes and operating income generated by the Label Division due to acquisitions, organic growth and improved efficiencies. The Container Division contributed to this improvement on higher volumes as new lines added capacity and the Tube Division returned to profitability under new management with a cost and margin focus. The formation of the ColepCCL joint venture in July 2004 accounted for the improved performance in 2005 due to the synergies created by the merger. Prior to the merger, the profitability of the two plants in the United Kingdom and Germany formerly owned by CCL was significantly lower than the merged joint venture.

In 2006, the Company separated the Container segment into Container and Tube to more closely represent the current management structure and provide more relevant information to the Company's stakeholders. The new Container segment manufactures aluminum aerosol containers while the Tube segment manufactures plastic tubes.

B) Label Division

Overview

The Label Division is the leading North American, Latin American, European and Asian producer of innovative label solutions for consumer product marketing companies in the personal and beauty care, food and beverage, battery, household, chemical and promotional segments of the industry, and also supplies major pharmaceutical, healthcare and industrial chemical companies. The Division's product lines include pressure sensitive, shrink sleeve, stretch sleeve, in-mould and expanded content labels and pharmaceutical instructional leaflets. It currently operates from 44 facilities located in the United States, Canada, Mexico, Puerto Rico, Brazil, the United Kingdom, France, Germany, the Netherlands, Denmark, Austria, Italy, Poland, China and Thailand. Included in the above are the four plants acquired from ITW on January 26, 2007, one each in Austria and Brazil and two in the United Kingdom.

This Division operates within a sector of the packaging industry made up of a very large number of competitors who manufacture a vast array of product information and identification labels. There are many other label categories that do not fall within the Division's target market. The Company believes that the Label Division is the largest player in its global label markets. Competition mainly comes from single plant operations that compete in local markets with CCL's business. There are a few multi-plant competitors in individual countries but there is no major competitor that has plants both in Europe and North America that has the global reach of CCL Label.

CCL Label's mission is to be the global supply chain leader of innovative premium package and promotional label solutions for the world's largest consumer product, battery, food and beverage, and healthcare companies. It aspires to do this from regional facilities that focus on specific customer groups, products and manufacturing technologies in order to maximize management's expertise and manufacturing

efficiencies to enhance customer satisfaction. The Label Division is expected to continue to grow and expand its global reach through acquisitions, joint ventures and greenfield start-ups.

In 2005, the Division made three acquisitions (Steinbeis Packaging, Merroc Ltd. and Inprint Systems), acquired the remaining 49% of the CCL-Pachem joint venture, and opened new sites in Poland and China. These developments were primarily in Europe and have allowed the Division to create meaningful market share in this important region in combination with its prior acquisitions since entering this market in 2002.

The Steinbeis acquisition in January 2005 added alkaline battery labels as a key product line for the Division, with a significant manufacturing presence in Germany and smaller operations in France, the U.S and China. These acquired operations added further credibility to CCL Label with German-based global consumer product companies and with international battery marketers. CCL Label is now the world market leader in alkaline battery labels.

The purchase of the remaining portion of the CCL-Pachem joint venture in August 2005 and the acquisition of the Merroc Ltd. business in Scotland further enhanced the Division's position in the food, beverage and specialty label segments in Europe.

The acquisition of Inprint Systems in September 2005 added further critical mass in the specialty healthcare label product line primarily in Europe with plants in England, the Netherlands, Italy and the U.S.

In January 2006, the Division acquired Prodesmaq in Brazil as its first venture into South America, thereby creating, in conjunction with existing plants in Mexico and Puerto Rico, a significant presence in the Latin American pressure sensitive label market. Prodesmaq serves many of the Division's global customers in the home and personal care, healthcare and premium food and beverage categories.

As indicated above, in January 2007, CCL acquired the sleeve label business of ITW with four plants located in Europe and Brazil, and with a sales and distribution office in the U.S. The Division had previously been a small player in the sleeve market but with this acquisition, CCL will be positioned as one of the leading global players in this fast growing segment of the label industry. ITW serves many of the Division's key global customers in the food, beverage, home and personal care markets and in 2007, the Division will be focused on integrating the business into the CCL Label network.

In October 2006, the Division sold its small non-core label business in Houten, the Netherlands, as it serviced primarily local customers outside of Label's target markets.

All of the above developments have positioned the Label Division as the global leader for pressure sensitive labels within our multinational customer base in the personal care, healthcare, battery, food, beverage and specialty label categories.

The Division considers demand for traditional pressure sensitive labels, particularly in North America and Western Europe, to be reasonably mature and, as such, will continue to focus its expansion plans on innovative and higher growth product lines with

a continued view to improving overall profitability. In Eastern Europe, Asia and Latin America, there is a higher level of predicted growth including opportunities for the Division to improve market share and profitability.

The Division produces labels from polyolefin films and paper sourced from converters using raw material from the petrochemical and paper industries. CCL Label is generally able to mitigate the cost volatility of these components due to a combination of purchasing leverage, agreements with suppliers and its ability to pass on these cost increases to customers.

There is a close alignment in label demand to consumer demand for non-durable goods. Management believes that growth in excess of industry demand can be attained over the next few years through its focused strategy by capitalizing on customer trends.

Our global customers are limiting the number of suppliers, are expecting a full range of product offerings in more geographies, are requiring more integration into their supply chain at a global level, and are concerned with the integrity of their products and the protection of their brands, particularly in markets where counterfeit products are an issue. These issues negatively affect many of our competitors plus the fact that high-end premium packaging requires significant investment in innovation, printing equipment and technology. Trusted and reliable suppliers are important considerations for global consumer product companies and the major pharmaceutical companies.

Label Financial Performance

	<u>2006</u>	<u>% Growth</u>	<u>2005</u>	<u>% Growth</u>	<u>2004</u>
Sales	\$784.1	17%	\$669.0	32%	\$505.5
Operating Income	\$100.6	38%	\$ 72.7	32%	\$ 55.0
Return on Sales	12.8%		10.9%		10.9%

The 2006 results include the acquisition of Prodesmaq in January and the disposition of Houten in October. The 2005 performance includes the results of Steinbeis Packaging acquired in January, the acquisition of the remaining 49% of the CCL-Pachem joint venture in August, the results of Merroc Ltd. also acquired in August, and Inprint Systems acquired in September. The 2004 performance includes the results of Graphiques Apex Inc. acquired in July and the results of the Winnipeg Label business up until its sale in July. Sales in 2006 increased 17% to \$784.1 million from \$669.0 million in 2005 after having increased in 2005 by 32% from the \$505.5 million level recorded in 2004. As noted earlier, the significant strengthening of the Canadian dollar in 2006, 2005 and 2004 has had a negative effect on reported sales and operating income.

Sales growth in 2006 was driven primarily by acquisitions as they accounted for 16% of the increase with organic growth contributing a healthy 8% of the improvement, offset in part by negative currency translation. The Division continued to experience volume gains with global customers that are launching many new products in the personal care markets in North America, Europe and now Asia. A negative trend continues to be customer consolidation and retailer power including the pressure for cost savings throughout the supply chain. The North American personal care business had modest

growth in 2006 over 2005 after experiencing soft market conditions in the middle of the year. The North American healthcare business was much stronger in 2006 as it has taken time for our customers to direct more volume to CCL as they become more comfortable with our increased capabilities, product range and world-class plants. Developing and producing new business in healthcare takes more time than other categories due to the strict regulatory nature of the pharmaceutical industry. The North American specialty business experienced good sales growth in agricultural-chemical and promotional labels.

In Latin America, the Mexican operation continues to penetrate the market and anticipates further growth along with the region's economy. A new larger plant to replace the existing operation is underway to capitalize on these opportunities. The Brazilian Prodesmaq operation acquired in January turned in impressive sales and operating income results, particularly in the last two quarters of the year. The Mexican and Brazilian operations are working together to enhance growth in Latin America. The Brazilian business had been predominantly personal care but is expanding into beverage and healthcare as it becomes more integrated into the CCL network. In addition, with the acquisition of ITW in January 2007, management in Brazil will be responsible for integrating and growing the sleeve business in the region.

In Europe, the personal care business had modest sales growth. The healthcare and specialty businesses, generally stable in most locations while maintaining excellent profit margins, benefited from the sales growth enjoyed by the former Inprint locations. The beverage business in Western and Eastern Europe started from a small base but continues to grow significantly with new applications with large beverage customers. The battery business is now managed on a global basis including the large operation in Meerane, Germany, a smaller operation in the U.S. and an operation in Hefei, China. Sales growth in batteries worldwide was modest.

In Asia, sales growth in Thailand was very strong as there are now three global customers that are serviced from this facility. The greenfield operation in Guangzhou, China completed customer qualifications in the second quarter and is now servicing two global customers in that market.

Operating income of \$100.6 million in 2006 was 38% higher than the \$72.7 million recorded in 2005, which was 32% higher than the \$55.0 million of 2004. Return on sales was 12.8% in 2006 compared to 10.9% in each of 2005 and 2004. This growth in operating income and return on sales has been achieved due to the higher annualized contribution of the acquisitions, primarily Brazil, the shift in focus to higher margin products and markets, the global growth from the Division's relationships with international customers, and the continuing strategy to replace and upgrade existing manufacturing equipment in order to broaden product capabilities and improve operating efficiencies.

The Label Division invested \$100.4 million in capital spending in 2006 after spending \$96.0 million in 2005 and \$46.7 million in 2004 to expand its manufacturing base in current and new markets. Major expenditures include building new plants in Mexico, Robbinsville, NJ and Memphis, TN, and outfitting many of our locations, particularly recently built plants, with new label presses and associated manufacturing equipment.

Depreciation and amortization amounted to \$48.7 million in 2006 compared to \$39.0 million in 2005 and \$28.6 million in 2004. Over the last few years, the Division has been replacing and upgrading its infrastructure with new plants and modernizations. There are a few remaining facilities that require an upgrade but the majority of the modernization program is complete. A non-binding agreement to sell the valuable existing Memphis, TN property is in place and should be completed in 2007. The Division is expected to continue to grow the business by spending capital to broaden its product offerings internationally and to reduce operating costs.

In January 2007, the Label Division acquired the sleeve label business of ITW for approximately \$107 million in cash with no debt assumed. In 2006, ITW had sales of \$87 million and adjusted EBITDA of approximately \$19 million, in line with CCL's Label business.

C) Container Division

Overview

The Container Division is a leading manufacturer of specialty containers for the consumer products industry in North America and Mexico. The key product line is recyclable aluminum aerosol cans and bottles for the personal care and beverage industries. It operates from three plants located in the United States, Canada and Mexico. The Division functions in a competitive environment, which includes imports and the ability of customers, in some cases, to shift a product to an alternative package or to other manufacturers.

The strategic plan for this Division includes growing market share through manufacturing excellence, exceeding customer expectations and innovation. The Division invests significant resources in the development of innovative containers such as its highly decorated and shaped aluminum cans and bottles and the development of barrier packs. The commercialization of the aluminum beverage bottle and the shaped aerosol can were derived from this effort. As the demand for these new higher value products has grown, the Division dedicates new lines and/or adapts existing lines to their production and had been acquiring new lines in order to meet expected overall market requirements and to maximize manufacturing efficiencies.

Aluminum represents a significant variable cost for this Division. Aluminum is a commodity that is supplied by a limited number of global producers and is traded in the market by financial investors and speculators. The recent upward trajectory and volatility in aluminum prices (doubling in the last couple of years) had a significant impact on our manufacturing costs, necessitating increased selling prices to our customers.

The Division historically had used a general hedging program, since aluminum trades as a commodity on the London Metals Exchange ("LME"), in combination with fixed price contracts with a number of its significant customers, to try to moderate the fluctuations in the cost of aluminum in order to reduce the volatility of its profit margins. However, with the dramatic run-up of aluminum costs over the last two years, it has been difficult to get customers to commit to fixed cost pricing and also has been a difficult decision for

management to lock-in aluminum costs for long time periods at these historically record levels. Consequently, the Division has been attempting to pass on these dramatically higher costs to its customers with limited success and has experienced lower profit margins. A portion of its estimated requirements have been hedged with futures contracts on the LME below current market prices totalling US\$4.4 million for year 2007.

Approximately 10% of the Division's estimated 2007 aluminum requirements have been hedged. The unrealized gain on the aluminum futures contracts as at December 31, 2006 was \$4.5 million.

Management believes the market for aluminum containers has a solid foundation. In the short term, the development and roll out of new aerosol products has moderated, and beverage bottles have been cut back significantly. Although our customers and the consumer have high satisfaction levels with this package, the current high cost makes it meaningfully more expensive than some other containers in different formats and materials. The biggest risk for the Division's business base relates to customers importing similar containers or shifting their products into containers of other materials such as steel or glass, leading to a loss in market share. However, certain products and delivery systems can only be provided in an aluminum container. The relative cost of steel versus aluminum containers does impact the marketers' choice of container and may cause volume gains or losses if customers decide to change from one product form to another.

In North America, there is only one other competitor in the extruded aluminum container business. CCL believes that it is the largest supplier in its market and has in excess of 50% market share. Other competition comes from South American, European and Asian imports.

The success of new products promoted heavily in the market will have a material impact on the Division's sales and profitability. Beverage products packaged in our shaped re-sealable aluminum bottle, for example, are directly impacted by the success or failure of these new products in the market. Another growth opportunity is the possibility of acquiring market share from competitors in existing product lines.

Up until early 2006, the Division had not been able to keep up with market demand in the aluminum container business for many years. With both CCL and its major competitors adding significant manufacturing capacity and with softness in market demand, there is now excess capacity to be filled.

In early 2006, the Company commenced the reorganization of the Container business by bringing in a new management team to improve operational effectiveness and to be more responsive to its customers. During the year, overhead was downsized and severance costs were incurred. With the reduced volume levels, management reviewed its asset base and determined that certain production equipment and spare parts inventory were not required for future production and were therefore deemed obsolete and written-off. These restructuring activities were recorded as restructuring and other items.

Container Financial Performance

	<u>2006</u>	<u>% Growth</u>	<u>2005</u>	<u>% Growth</u>	<u>2004</u>
Sales	\$176.3	3%	\$170.7	31%	\$130.3
Operating Income	\$ 16.7	(25)%	\$ 22.4	25%	\$ 17.9
Return on Sales	9.5%		13.1%		13.7%

Sales increased by 3% in 2006 after a strong 31% increase in 2005 relative to 2004. Both of these comparatives were negatively impacted by currency translation. The Division had experienced strong growth in aluminum aerosol and beverage containers in 2005 as volume increases absorbed all of the added capacity installed in the last year. With the impact of higher aluminum costs and reduced demand for beverage containers in particular, the Division experienced lower overall sales volumes.

Operating income of \$16.7 million in 2006 was down a substantial 25% from the record \$22.4 million recorded in 2005 and below the \$17.9 million level of 2004. Return on sales has fallen from the 13% range in the prior two years to 9.5% in 2006. Profitability was dramatically affected in 2006 by lower margins caused by increased aluminum costs, higher depreciation and overhead costs related to the installation of new lines and the excess capacity that was created, and negative currency translation and transactions. In 2005, despite negative currency translation, additional sales volume at good margins gave rise to a 25% increase in operating income over 2004.

The Penetanguishene, Ontario plant sells more than 95% of its production to the United States market. The plant hedges some of its U.S. dollar sales by entering into forward exchange contracts. Since the U.S. dollar has continued to weaken, the negative impact of currency transactions on operating income was \$2.1 million in 2006 compared to 2005, and \$3.1 million in 2005 compared to 2004.

The outlook for aluminum container products continues to be uncertain into 2007 and is dependent on the Division's ability to secure price increases with key customers based on changes in aluminum costs and on securing new business with certain beverage accounts that could add incremental volume and thereby assist in reducing excess manufacturing capacity.

In 2006, the Division spent \$34.4 million to maintain and expand its manufacturing base compared to the \$36.2 million and \$32.8 million spent in 2005 and 2004, respectively. Over the last four years, the Division has spent a significant portion of this capital on the purchase and installation of six high-speed aluminum container production lines in Canada and the U.S. with a seventh scheduled for delivery in mid-2007. Payments have been made on this line, which is planned to be installed in the new Mexican plant. In addition, expansion of capacity for our 'bag-in-can' aerosols was undertaken to service this growing market niche. Depreciation and amortization in 2006 amounted to \$10.6 million compared to \$9.2 million in 2005 and \$8.1 million in 2004.

D) Tube Division

Overview

The Tube Division is a leading manufacturer of highly decorated extruded tubes for the personal care and cosmetics industry in North America and Mexico. It operates from two plants located in the United States and shares a facility in Mexico with the Container Division. The Division operates in a dynamic competitive environment, which includes imports and the ability of customers, in some cases, to shift a product to an alternative package or to other manufacturers. Since the business now operates under separate management from the Container Division, and because CCL wanted to provide more visibility on the development of the Tube Division, commencing at the beginning of 2006, the Tube operation has been reported as a separate business segment.

The strategic plan for the Tube Division is based on market share growth through manufacturing excellence, exceeding customer expectations and innovation. The Division has invested in equipment that improves the quality of the tube, particularly the detailed graphics that appeal to marketers of high-end products. Under new management since 2004, the Division has worked to improve its quality and delivery performance and has regained its position in the marketplace after disappointing its customers in prior years. The market growth in specialty cosmetics and other personal care and beauty products is a further opportunity for the business to continue its upward trend in sales and profitability.

There are a handful of competitors to the Tube Division in North America. CCL believes that it is the third largest supplier in its markets and has about 15-20% market share in North America.

In early February 2006, the Division sold its non-core dispensing closure business (CCL Dispensing) in Libertyville, IL to an industry leader in closures. The business was deemed to be non-core as it was a small player in the global closures market. This divestiture has allowed the Division to focus on the decorated plastic tube segment.

Polyethylene resins and polypropylene caps and closures represent significant variable costs for this Division. There is no viable hedging available for plastic resins. During 2005, prices for resins rose substantially and have been volatile in 2006. The Division relies on contracts with suppliers to control costs, and contracts with customers to control prices and to be able to pass on price increases for costs such as resin. The industry has traditionally been able to pass on these cost increases over a period of time.

Performance in the plastic tube business has improved substantially under new management in the last two years with more effective operations, new world-class decorating equipment and a return to profitability as customer confidence continues to be restored. The Division continues to believe that some North American plastic tube competitors are not well regarded by their customers, particularly in comparison to global competitors. This dynamic provides an opportunity for CCL to increase its plastic tube market share and profitability as it improves its manufacturing processes and reputation.

Tube Financial Performance

	<u>2006</u>	<u>% Growth</u>	<u>2005</u>	<u>% Growth</u>	<u>2004</u>
Sales	\$69.1	(17)%	\$82.8	0%	\$ 82.4
Operating Income	\$ 4.5	7%	\$ 4.2	Not meaningful	\$ (0.7)
Return on Sales	6.5%		5.1%		(0.8)%

Sales and operating income in 2005 and 2004 included results of the dispensing closure business sold in January 2006 as previously described. Sales in 2006 were down 17% over 2005 but excluding the sale of CCL Dispensing and currency translation, sales were up in the Tube Division by 9% and operating income was higher by \$1.6 million or 48% higher than in 2005. The Tube Division operated at a significant loss in 2004 due to lower sales and margins and operating inefficiencies.

Return on sales has grown in 2006 to 6.5% from 5.1% in 2005 and negative territory in 2004 as a result of volume gains, improved manufacturing practices and higher quality new printing equipment installations.

The outlook for 2007 sales is good, with new customers and new products expected to generate a continuation of the growth in sales and profitability.

In 2006, the Division spent \$9.7 million to maintain and expand its manufacturing base including new tube printing equipment and tube manufacturing lines compared to the \$9.5 million and \$12.1 million spent in 2005 and 2004, respectively. Depreciation and amortization in 2006 amounted to \$7.1 million compared to \$8.6 million in 2005 and \$9.6 million in 2004.

E) ColepCCL Joint Venture

Overview

The ColepCCL joint venture, 40% owned by CCL, is a leading provider of manufacturing and other value-added outsourcing services to international and national consumer product companies in Europe. It produces a wide range of personal care, cosmetic, over-the-counter medicated and household products in aerosol, liquid, cream, lotion and paste formats. In addition, ColepCCL manufactures steel aerosol, food and general line cans and plastic containers.

In 2003, the former CCL Custom Manufacturing plants in Scunthorpe, U.K. and Laupheim, Germany were well respected by international marketers but were facing competitive pressure from other contract manufacturers located in lower cost jurisdictions, such as Colep Europe. In July 2004, CCL completed the merger of its European Custom Manufacturing operations with Colep Europe to create the largest contract manufacturing company in Europe in its selected markets.

COLEP, owned by RAR - Sociedade de Controle (Holding), S.A. of Porto, Portugal ("RAR") contributed its four contract manufacturing plants to the joint venture and CCL contributed its two European plants and approximately \$23 million to acquire a 40%

investment in the ColepCCL joint venture. The Colep Europe operations consisted of plants in Portugal and Poland and two plants in Spain.

The partnership was established with provisions promoting a long-term relationship. Each partner was prohibited from selling its share, except under specified circumstances for four years. In the summer of 2008, under the terms of the agreement, RAR may purchase the shares owned by CCL at a premium based on a prescribed EBITDA formula. Also at that time, CCL may sell its shares to RAR at a discount based on the same formula. This arrangement is intended to induce both parties to maintain, grow and operate the joint venture together.

The steel aerosol cans manufactured by ColepCCL are generally consumed in the custom manufacturing side of the business, basically, backward integration. CCL is proportionately consolidating its interest in the ColepCCL joint venture. In the summer and fall of 2005, ColepCCL closed its Madrid, Spain operation and moved most of the profitable business to other ColepCCL plants. While provisions for employee redundancies were made at the time of the acquisition, moving and other relocation costs were incurred in 2005.

ColepCCL derives its revenues from the formulation and filling of consumer products based on customer specifications, the sale of steel and plastic containers and from the provision of additional services as part of its full-service manufacturing capabilities. A filling fee is received for each unit formulated and filled. The filling fee plus the charges for additional services, if applicable, are reported as revenue at the time the goods are shipped and ownership transfers to the customer. The Division produces to specific orders from its customers, which are either shipped from the facility following manufacture or, in rare cases, inventoried as finished product.

ColepCCL aspires to grow with the customer and be its first choice for contract manufacturing and other value-added outsourcing services and container packaging. The strategy is to: (a) leverage its purchasing and manufacturing economies of scale and depth of experience to expand its business with global and national marketers; (b) build on its manufacturing and technical expertise, and its competence in environmental, health and safety compliance to diversify and focus on the more complex, higher value-added product categories; (c) continue to leverage its geographic base with emphasis on manufacturing in Poland; and (d) pursue acquisition opportunities for technologies or synergies that expand or complement its growth strategy throughout Western and Eastern Europe.

ColepCCL has competitors in each country in which it operates; however, no competitor matches the size of ColepCCL in Europe. In recent years, there have been a significant number of mergers within the customer and competitor bases. At the same time, some larger customers have been selling their non-core brands to new and smaller marketers in order to concentrate on mass-market brands. Many of these new and smaller marketers do not have in-house manufacturing capabilities; instead, they outsource their requirements and many operate as virtual companies. In addition, many marketers are rationalizing their manufacturing facilities in Europe and considering outsourcing as an alternative. More and more volume is being supplied to Western Europe from the

lower-cost countries in Eastern Europe and beyond. ColepCCL is in a good position to be a logical contender for new outsourcing opportunities.

ColepCCL Financial Performance

	<u>2006</u>	<u>% Growth</u>	<u>2005</u>	<u>% Growth</u>	<u>2004</u>
Sales	\$182.7	(3)%	\$187.6	(4)%	\$ 195.7
Operating Income	\$ 18.0	13%	\$ 15.9	50%	\$ 10.6
Return on Sales	9.9%		8.5%		5.4%

The ColepCCL joint venture was created in mid-July 2004. CCL's 40% proportionate share of the joint venture's sales in 2006 was \$182.7 million. This sales level was 3% lower than the \$187.6 million in 2005 and a further 4% lower than from our former operations and the joint venture in 2004 due primarily to the 6% decline in the value of the euro year-over-year in 2006 and 7% in 2005. Otherwise, there was 3% sales growth in 2006 and also in 2005 in local currency.

Operating income of \$18.0 million was up 13% from the \$15.9 million in 2005 despite unfavourable currency translation. This followed the tremendous improvement in 2005, up 50% from the 2004 level of \$10.6 million. The improved performance in the last two years reflected improved sales and margins and the positive cost impact of the shutdown of the Madrid, Spain facility in June 2005.

When the Madrid plant was closed, some of the production lines were moved to other ColepCCL operations. Closing costs were accrued as part of the formation of the joint venture and CCL's share was \$3.9 million. The Madrid land and building were sold for \$22 million in cash; CCL's share was \$9 million. In addition, a former CCL building is for sale in Germany and CCL has indemnified RAR for their share of any loss. A further loss may be realized when the property is sold. The gains and losses from these dispositions are allocated to the goodwill of the joint venture.

ColepCCL spent \$5.5 million to purchase capital assets in 2006 and \$10.4 million in 2005 (CCL's share) to take advantage of customer and market opportunities, to reduce operating costs and to maintain the existing business. Depreciation and amortization amounted to \$7.5 million in 2006 compared to \$7.8 million in 2005. The Division continues to invest opportunistically in higher growth product lines.

3) FINANCING AND RISK MANAGEMENT

A) Liquidity and Capital Resources

The Company's financial position remains strong. As at December 31, 2006, cash and cash equivalents were \$125.0 million. This compares to \$120.2 million as at December 31, 2005 and \$71.4 million as at December 31, 2004.

Summary of Net Debt at December 31st

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current debt	\$ 28.5	\$ 26.1	\$ 58.7
Long-term debt	<u>413.6</u>	<u>376.5</u>	<u>367.7</u>
Total debt	442.1	402.6	426.4
Cash and cash equivalents	<u>(125.0)</u>	<u>(120.2)</u>	<u>(71.4)</u>
Net debt	<u>\$317.1</u>	<u>\$282.4</u>	<u>\$355.0</u>

The foundation of the Company's long-term debt for the last decade has been senior unsecured notes held by private U.S. institutions that total US\$336.2 million (Cdn\$391.8 million) at December 31, 2006, with an average interest rate on all long-term debt of 5.9%, factoring in the related Interest Rate Swap Agreements (IRSAs) and Cross Currency Interest Rate Swap Agreements (CCIRSAs). This is the same level of interest rates as at the end of 2005. The notes are denominated in U.S. dollars primarily to hedge the Company's net investment in U.S. operations but over the last few years have been effectively swapped in part into euros. The notes outstanding were US\$295.5 million (Cdn\$343.7 million) as at December 31, 2005. Scheduled annual repayments of US\$9.4 million began in September 2002 on one series of notes, ending in 2012. The reported Canadian dollar amounts outstanding for debt and cash have been reduced over the last three years due to currency translation since the majority of debt and cash are denominated in U.S. dollars.

The Company's liquidity is expected to be satisfactory for the foreseeable future due to its significant cash balances combined with the expected continuation of its high level of cash flow. With the acquisition of ITW's sleeve label business in January 2007, the Company established a line of credit with a Canadian chartered bank for \$95 million to facilitate the purchase.

Interest coverage (defined as annual operating income before restructuring and other items and annual net interest expense divided by annual net interest expense) continues to improve and was 5.9, 5.5, and 4.7 times in 2006, 2005 and 2004, respectively.

On March 15, 2006, the Company had an obligation to repay one series of the senior notes for US\$120 million. The cash to repay these notes came from a new private placement totalling US\$170 million that closed on March 7, 2006. The new series of notes has two tranches: US\$60 million for five years at 5.29% and US\$110 million for 10 years at 5.57%. The additional borrowed funds were used for general corporate purposes and are available to fund future growth opportunities.

Balance Sheet Data

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total assets	\$1,542.6	\$1,398.7	\$1,299.2
Long-term debt	\$ 413.6	\$ 376.5	\$ 367.7
Shareholders' equity	\$ 652.6	\$ 565.8	\$ 449.0
Total debt	\$ 442.1	\$ 402.6	\$ 426.4
Total debt to total book capitalization*	40.4%	41.6%	48.7%
Net debt	\$ 317.1	\$ 282.4	\$ 355.0
Net debt to total book capitalization*	32.7%	33.3%	44.2%

* (a non-GAAP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below)

Net debt as at December 31, 2006 increased to \$317.1 million compared to \$282.4 million as at December 31, 2005 due primarily to the acquisition of Prodesmaq in January 2006 for \$62 million. The reported amounts outstanding for debt and cash have been reduced due to currency translation for many years as the majority of debt and cash are denominated in U.S. dollars and the euro. However, the U.S. currency appreciated against the Canadian dollar from December 2005 to 2006 by less than 1% and the euro by 11%, thereby increasing the debt level in Canadian dollar terms.

Net debt to total book capitalization, defined as net debt divided by net debt plus shareholders' equity, was marginally lower at 32.7% as at December 31, 2006 compared 33.3% at the end of 2005 and the 44.2% reported at the end of 2004. Further information on Shareholders' Equity follows in Section D.

The Company acquired Prodesmaq in January 2006 for \$62 million in cash on a debt-free basis. Cash on hand and short-term bank debt financed the acquisition. In February 2006, the Company sold its CCL Dispensing business for \$24 million in cash and repaid short-term bank debt with a part of the proceeds and held the balance as cash.

The Company entered into a long-term financing of a new series of unsecured senior notes totalling US\$170 million on March 7, 2006. A portion of the funds from this new financing have been used to repay the US\$120 million senior notes that matured on March 15, 2006.

In January 2007, the Company acquired the sleeve label business of ITW for \$107 million. Since a large portion of the Company's cash is held in many foreign jurisdictions and may be required for growth in those locations, CCL entered into a five-year extendible revolving term credit line with a Canadian bank in January 2007 for up to \$95 million. This new credit line helped finance this transaction and is a long-term additional source of credit to manage the Company's cash flow fluctuations. The ITW transaction was funded using \$32 million in cash and \$75 million from this new credit line.

The Company's committed credit availability at December 31, 2006 was as follows:

	Total Amounts Committed
Lines of credit – committed, unused	\$19.3
Standby letters of credit outstanding	<u>11.6</u>
Total	<u>\$30.9</u>

Most of the above commitments expire in 2007 and it is anticipated that the Company will renew these commitments as necessary before expiration.

In addition, the Company had uncommitted and unused lines of credit of approximately \$36.0 million at December 31, 2006. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

B) Cash Flow – Change in Net Debt

<u>Summary of Cash Flows</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Cash inflows</u>			
Cash provided by operating activities (before change in non-cash working capital)	\$156.1	\$136.0	\$133.9
Proceeds on business dispositions	27.1	272.8	17.0
Proceeds on disposal of property, plant and equipment	13.1	1.1	4.1
<u>Cash outflows</u>			
Net decrease (increase) in non-cash working capital	6.3	(24.0)	1.1
Additions to property, plant and equipment	(150.4)	(155.9)	(111.7)
Business acquisitions including debt assumed	(62.2)	(152.9)	(61.6)
Dividends to shareholders	(13.8)	(12.8)	(12.5)
Purchase of shares held in trust	-	(5.5)	-
Issuance of shares, net of share repurchases and settlement of exercised stock options	1.3	(9.4)	0.6
Other	<u>0.1</u>	<u>4.7</u>	<u>(6.4)</u>
Net cash inflow (outflow)	(22.4)	54.1	(35.5)
Translation of foreign-denominated debt and cash	<u>(12.3)</u>	<u>18.5</u>	<u>25.5</u>
Decrease (increase) in net debt	<u>\$(34.7)</u>	<u>\$ 72.6</u>	<u>\$(10.0)</u>

Cash flow generated from operations including the decrease in non-cash working capital (\$6.3 million) was \$162.4 million in the year. In addition, cash proceeds were generated from debt financing net of repayments of \$18.9 million, sale of property, plant and equipment of \$13.1 million, and divestitures of \$27.1 million. Cash expended on major outlays included \$150.4 million for capital expenditures (as previously detailed in the "Business Segment Review" in Section 2 above), \$62.2 million on business acquisitions and \$13.8 million on dividends to shareholders.

The decrease in non-cash working capital in 2006 was due to continued management attention to this asset partly offset by organic sales growth in the business in the fourth quarter. The Company maintains a rigorous focus on its investment in non-cash working capital. Days working capital employed (a non-GAAP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below) were two at December 31, 2006 as compared to seven in 2005 and 17 in 2004.

Capital spending of \$150.4 million in 2006 versus \$155.9 million and \$111.7 million in 2005 and 2004, respectively, was incurred in all divisions with a view to increasing

capacity based on customers' requirements, expanding globally, implementing cost reduction programs and maintaining the existing asset base. In 2006 and 2005, the level of spending was significantly higher than in prior years in order to take advantage of new market opportunities, and to improve infrastructure and operating efficiencies. Capital expenditures in 2007 are expected to be below the levels spent in the last two years. Depreciation and amortization of other assets from continuing operations in 2006 amounted to \$74.6 million compared to \$65.4 million in 2005 due to the higher property, plant and equipment base.

C) Interest Rate, Foreign Exchange Management and other Hedges

The Company uses derivative financial instruments to hedge interest rates, foreign exchange and aluminum cost risks. Contracts are arranged with high quality financial institutions to minimize the counterparty risk.

CCL has traditionally hedged a portion of its expected U.S. dollar cash inflows derived by sales into the United States from the Canadian plants, principally the Container plant in Penetanguishene, ON. The balance of the U.S. dollar cash inflows not hedged is received at the spot rate. For 2006, the hedge transactions were at an average rate of \$1.22 compared to the actual average rate for the year of \$1.13. For the year 2005, these hedge transactions were at an average rate of \$1.23 compared to the actual average rate for the year of \$1.21. The negative comparative impact on earnings before tax due to these exchange rate changes was \$2.1 million or \$0.07 on earnings per share in 2006. Compared to the average rate of \$1.35 for hedged transactions in 2004, the negative comparative impact on earnings before tax for 2005 was \$3.1 million or \$0.09 on earnings per share. Hedges have been put in place to sell US\$6 million for a small portion of the expected 2007 net inflows but at rates of approximately \$1.13. With the further diversification of currencies within CCL and the relatively small exposure involved, the Company is currently not intending to hedge this risk beyond the existing hedges.

With the acquisition of Prodesmaq in Brazil, the Company anticipated receiving a significant level of cash dividends from this operation. The volatility of the Brazilian real is considered a significant risk. Consequently, the Company entered into a derivative contract with a Canadian financial institution, the effect of which was to sell forward 20.8 million Brazilian reais into Canadian dollars in April 2007 at \$0.48.

As at December 31, 2006, the unrealized loss on the above-noted forward currency contracts is \$1.3 million.

The Company uses IRSAs to allocate notional debt between fixed and floating rates since the underlying debt has been fixed rate debt with U.S. financial institutions. The Company believes that a balance of fixed and floating rate debt can reduce overall interest expense and is in line with its investment in short-term assets (such as working capital) and long-term assets (such as property, plant and equipment).

In 2002, the Company entered into two IRSAs with a Canadian financial institution, the effect of which was to convert US\$120 million of notional fixed rate debt (hedging the 1996 private placement notes) into floating rate debt, based on three-month LIBOR

(London Inter-Bank Offered Rate “LIBOR”) rates. These two IRSAs matured simultaneously with the repayment of the 1996 notes in March of 2006. In 2003, the Company entered into another IRSA to convert an additional tranche of fixed rate debt to floating rates. This IRSA converted US\$42.1 million of notional fixed rate debt (hedging 50% of the 1997 private placement notes) into floating rate debt, based on three-month LIBOR rates. The notional amount of this IRSA decreases by US\$4.7 million annually to match the decrease in the principal of the underlying notes. The notional value of this IRSA is currently US\$28.1 million.

As the Company has developed into a global business, the broad strategy has been to leverage and hedge the assets and cash flows of each major country with debt denominated in the local currency. Since the Company has been primarily borrowing from U.S. institutions in U.S. dollars, the hedging of our U.S. operations has been achieved. The Company has significantly increased its euro-based assets and consequently has used CCIRSAs as a means to convert notional U.S. dollar debt into euro debt to hedge the euro-based investment and cash flows.

In March 2006, the Company entered into two CCIRSAs with a Canadian financial institution, the effect of which was to convert US\$60 million of notional fixed rate debt (hedging the new five-year private placement notes) into 50 million euros of notional fixed rate debt at 3.82%. The expiry date is in 2011.

The Company also entered into two CCIRSAs in June 2005 that had the effect of converting US\$68.5 million fixed rate debt into euro floating rate debt for a notional amount of 56.6 million euros. These two CCIRSAs reflected the terms of the Company’s existing U.S. dollar borrowings and were a hedge against CCL’s euro-based investments and cash flow. These CCIRSAs were to expire in 2010 and 2012. With the more restrictive hedge accounting rules becoming effective on January 1, 2007, the two CCIRSAs would not have qualified as hedges and were terminated in December 2006. On the same day, a series of CCIRSAs with a Canadian financial institution were transacted that qualify for hedge accounting, the effect of which was to basically replace the terminated CCIRSAs. The termination resulted in a deferred loss of \$2.1 million for the current year, and will be recognized in opening retained earnings in 2007.

The effect of interest earned on these swap agreements has reduced gross interest expense by \$1.2 million in 2006 compared to \$3.5 million and \$6.6 million in 2005 and 2004, respectively.

The unrealized loss on these contracts is \$14.8 million due primarily to the movement of exchange rates.

The only other material hedge the Company is involved in is aluminum futures contracts for the Container Division - see Section 2C under Container Division’s review.

D) Shareholders' Equity and Dividends

Summary of Changes in Shareholders' Equity

<u>For the year ended December 31</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net earnings	\$ 77.4	\$ 163.8	\$ 59.2
Dividends	(13.8)	(12.8)	(12.5)
Repurchase of shares, net of issuance and settlement of exercised stock options and executive share loans	1.7	(4.4)	0.6
Purchase of shares held in trust	-	(5.6)	-
Contributed surplus on expensing of stock options	2.1	1.8	0.2
Increase (decrease) in unrealized foreign exchange gain on translation of net foreign assets	<u>19.4</u>	<u>(26.0)</u>	<u>(17.4)</u>
Increase in shareholders' equity	\$ <u>86.8</u>	\$ <u>116.8</u>	\$ <u>30.1</u>
Shareholders' equity	\$ 652.6	565.8	\$ 449.0
Shares outstanding at December 31 - Class A	2,379	2,422	2,439
- Class B	30,223	30,089	30,022
Book value per share (dollars)	\$ 20.24	\$ 17.63	\$ 13.89

The Company's share repurchase program under Normal Course Issuer Bids ("Bid") is utilized to enhance shareholder value when excess cash and liquidity are in place and the repurchase is accretive to earnings and the best use of funds at the time. The Company announced in June 2005 that it intended to acquire under a 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 represented 0.4% of the issued and outstanding Class A shares and 9.8% of the public float of the Class B shares. No shares were 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. There is currently no Bid outstanding.

The current annualized dividend rate before the increase in March 2007 is \$0.39 per Class A share and \$0.44 per Class B share. Including the March 2007 increase, the annualized dividend rate is \$0.43 per Class A and \$0.48 per Class B Share. The Company has historically paid out dividends at a rate of 20-25% of normalized earnings. As previously discussed, the current payout rate is below target at 18% but would have been 20% if the March 2007 increase were considered.

Book value per share (a non-GAAP measure; see "Key Performance Indicators and Non-GAAP Measures" in Section 5A below) as at December 31, 2006 was \$20.24, up 14.8% compared to \$17.63 at the end of 2005. It was \$13.89 at the end of 2004.

E) Commitments and Other Contractual Obligations

The Company's obligations relating to debt and leases at the end of 2006 were as follows:

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>						
	<u>Total</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>
Short-term lines of credit	\$ 12.4	\$ 12.4	\$ -	\$ -	\$ -	\$ -	\$ -
Unsecured senior notes issued March 2006, 5.29% repayable March 2011 (US\$ 60.0MM)	69.9	-	-	-	-	69.9	-
Unsecured senior notes issued March 2006, 5.57% repayable March 2016 (US\$110.0MM)	128.2	-	-	-	-	-	128.2
Unsecured senior notes issued September 1997, 6.97% repayable in equal installments starting September 2002 and finishing September 2012 (2006 - US\$ 56.2MM; 2005 - US\$ 65.5MM)	65.5	10.9	10.9	10.9	10.9	10.9	11.0
Unsecured senior notes issued July 1998, 6.9% weighted average, repayable in three tranches with repayments after 12, 15 and 20 years (US\$ 110.0MM)	128.2	-	-	-	36.1	-	92.1
Commercial paper	9.8	-	-	-	9.8	-	-
Capital leases	2.4	0.8	0.6	0.4	0.4	0.2	-
Other long-term obligations	25.7	4.4	11.9	1.7	0.3	7.1	0.3
Operating leases	<u>28.7</u>	<u>8.7</u>	<u>6.5</u>	<u>4.8</u>	<u>3.3</u>	<u>3.4</u>	<u>2.0</u>
Total contractual cash obligations	<u>\$470.8</u>	<u>\$ 37.2</u>	<u>\$ 29.9</u>	<u>\$ 17.8</u>	<u>\$ 60.8</u>	<u>\$ 91.5</u>	<u>\$233.6</u>

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 Consolidated Financial Statements. Additionally, a majority of the Company's post-employment obligations are defined contribution pension plans. There are no defined benefit plans funded with CCL stock. The Company has no other material commitments other than in normal course.

F) Controls and Procedures

Over the last two years, the Canadian securities regulatory authorities introduced Multilateral Instrument CSA 52-109 defining the Company's obligations to report on its Disclosure Controls and Procedures and its Internal Control Over Financial Reporting.

CCL continually reviews and enhances its systems of controls and procedures. During 2006, CCL took this additional regulatory reporting requirement as an opportunity for it to further formalize its financial reporting practices. With the significant number of recent acquisitions and the Company's entry into new regions of the world, this formalization of procedures is beneficial. The process involved scoping out the plan and rolling out to our in-scope operations the detailed control documents indicating the key financial control risks the Company considered material and the specific key controls expected to be in place at each operation to mitigate the identified risk. This process was completed during the current fiscal year. However, because of the inherent limitations in all control systems, CCL's management acknowledges that its disclosure controls and procedures will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can only provide

reasonable, not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Vice Chairman and Chief Executive Officer (CEO) and the Executive Vice President and Chief Financial Officer (CFO) on a timely basis so that appropriate decisions can be made regarding public disclosure.

At the end of 2005, the CEO and CFO evaluated the effectiveness and design and operation of our disclosure controls and procedures, including a review of the activities of the CCL Disclosure Committee formed in 2005. This committee reviews all external reports and documents of CCL. As at December 31, 2006, based on this year's evaluation of the disclosure controls and procedures, the CEO and CFO have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument CSA 52-109, are, as they had been at the end of 2005, effective to ensure that information required to be disclosed in reports and documents that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified.

Internal Control Over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management is responsible for establishing and maintaining adequate internal control over financial reporting for CCL Industries Inc.

CCL's management, including the CEO and CFO, has evaluated the design of our internal controls over financial reporting. The Company owns 40% of the ColepCCL joint venture, headquartered in Portugal. CCL does not have the ability to design internal controls over financial reporting extending into the joint venture based on its shareholders agreement with the majority owner of ColepCCL. Consequently, the CEO and CFO were not in a position to evaluate the design of internal control over financial reporting for the ColepCCL joint venture. ColepCCL represents approximately 11% of CCL's assets and 13% of our divisional operating income. Except for this exclusion, CCL's management, CEO and CFO have concluded that internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP as of December 31, 2006.

Additionally, there were no changes in internal controls over financial reporting that have occurred in the most recent interim period that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

As a result of the foregoing, the CEO and CFO have signed and filed the appropriate certificate with the securities regulators indicating compliance with the regulations regarding disclosure controls and internal controls over financial reporting.

4) RISKS AND UNCERTAINTIES

The Company is subject to the usual commercial risks and uncertainties associated with being a Canadian public company and a supplier of goods and services to the non-durable consumer packaging industry. These risks and uncertainties could result in a material adverse effect on our business and financial results. A number of these potential risks, which could have an adverse effect on the Company, are listed as follows generally in order of importance:

- CCL's dependence on the world economies and overall consumer confidence, disposable income and purchasing trends, and geo-political risks worldwide;
- Changes within the competitive environment, including offshore producers, and our ability to be cost-competitive and to offer value-added products to our customers;
- The Company's ability to control the costs of raw materials and energy including the effective negotiation of prices with suppliers and our ability to pass these costs onto our customers;
- The negative currency translation and transaction effect of a strengthening Canadian dollar against the currencies of the many countries in which CCL operates thereby reducing consolidated earnings;
- The risks associated with operating a decentralized organization in nearly 50 facilities in 15 countries around the world with a variety of different cultures and values;
- Reliance on key employees and the retention of an experienced, skilled workforce;
- The ability of management to successfully integrate acquisitions and joint ventures into its structure, control operating performance, and achieve synergies;
- The return to the historical profitability of the Container Division based on the success of passing higher aluminum costs along to our customers and to effectively utilize the recent added capacity in the business;
- Consolidation within the retail, healthcare and consumer products marketer base;
- Management of current income tax exposures and historical tax assessments in a multitude of jurisdictions;
- The continued improvement in profitability of the Company's Tube Division;
- Price expectations by our customers due to pressure from the retail chains;
- The Company's ability to continuously comply with Internal Control over Financial Reporting requirements under CSA 52-109 and Disclosure Controls in light of its global structure;
- Achievement of planned volumes through normal growth and successful renegotiation of current contracts with customers;
- Delivery of planned benefits from cost reduction programs and recent restructuring efforts;
- Continued success in developing innovative packaging solutions;
- Usage of derivatives such as interest rate swaps, forward foreign exchange contracts and aluminum futures contracts to improve financial performance

- and mitigate earnings fluctuations;
- Availability and cost of property, casualty and executive risk insurance including the ability to manage cost increases;
 - The effective management of operating hazards and product hazards due to the materials, processes and energy used to manufacture and transport the Company's products;
 - The maintenance of good labour relations with our salaried and hourly personnel, including unions and labour/management committees;
 - The maintenance of existing product regulations in each jurisdiction, allowing the manufacture of current and planned new products;
 - The satisfactory settlement of existing legal proceedings and claims, and the management of future legal proceedings and claims;
 - The effective management of legacy issues related to the disposition of prior businesses including representations and warranties, environmental and tax matters and other financial obligations.

Non-Canadian operating results are translated into Canadian dollars at the average exchange rate for the period covered. The Company has significant operating bases in both the United States and Europe. In 2006, 37% and 44% of total sales came from the United States and Europe, respectively. The contribution from foreign business units in countries other than the United States and Europe in 2006 was 8% of CCL's total sales. Since operations outside of Canada, the United States and Europe are perceived to have greater political and economic risks, the possible devaluation and new government controls on currencies in Mexico, China, Thailand and Brazil may have a material negative effect on the consolidated financial results of the Company.

The business is subject to numerous statutes, regulations, by-laws, permits and policies related to the protection of the environment and workers' health and safety. CCL maintains active health and safety, and environmental programs for the purpose of preventing injuries to employees and pollution incidents at its manufacturing sites. Continual increases in costs for healthcare, workers' compensation and general insurance may result in the Company, in some cases, self-insuring higher levels of coverage and, in all areas, focusing significant resources on the prevention of and management of claims.

The Company also carries out a program of environmental compliance audits and approvals of waste vendors. This program includes an independent third party pollution liability assessment. The plants in the United States, Canada and Europe only use approved waste vendors and these vendors are covered under CCL's extensive environmental insurance program. The Company's in-house specialists manage all remediation projects and use the above environmental audit program to assess the adequacy of ongoing compliance at the operating level and to establish provisions, as required, for site restoration plans. CCL also has environmental insurance for most of its operating sites with certain exclusions for historical matters. The Company believes it has made adequate provision in its financial statements for potential site restoration costs and other remedial obligations. These site restoration reserves amounted to \$8.8 million at December 31, 2006.

5) ACCOUNTING POLICIES AND NON-GAAP MEASURES

A) Key Performance Indicators and Non-GAAP Measures

CCL measures the success of our business using a number of key performance indicators, many of which are in accordance with Canadian GAAP as described throughout this report. The following performance indicators are not measurements in accordance with Canadian GAAP and should not be considered as an alternative or replacement of net income or any other measure of performance under Canadian GAAP. These non-GAAP measures do not have any standardized meaning and may not be comparable to similar measures presented by other issuers. In fact, these additional measures are used to provide added insight into our results and are concepts often seen in external analysts' research reports, financial covenants in our banking agreements and note agreements, in our contract with our ColepCCL joint venture partner, and in discussions and reports to and from our shareholders and the investment community. These non-GAAP measures will be found throughout this report and referenced in this disclosure and definition section.

Return on Equity before restructuring and other items and favourable tax adjustments - A measure that provides insight into the effective use of shareholder capital in generating ongoing net earnings. This return on equity is calculated by dividing annual net income before restructuring and other items and favourable tax adjustments by the average of the beginning and end of year shareholders' equity.

Return on Sales - A measure indicating relative profitability of sales to customers. It is defined as operating income divided by sales, expressed as a percentage.

Net Debt to Total Book Capitalization - A measure indicating the financial leverage of CCL. It measures the relative use of debt versus equity in the book capital of the Company. Net debt to total book capitalization is defined as current debt plus long-term debt less cash and cash equivalents, divided by gross debt including bank advances less cash and cash equivalents plus shareholders' equity, expressed as a percentage.

Days Working Capital Employed - A measure indicating the relative liquidity and asset intensity of the Company's working capital. It is calculated by multiplying the net working capital by 365 days and then dividing by the annual sales. Net working capital includes accounts receivable, inventory, other receivables and prepaid expenses, accounts payable and accruals, income and other taxes payable.

Book Value per Share - A measure indicating the book value per the combined outstanding Class A and Class B shares. It is calculated by dividing shareholders' equity by the actual Class A and Class B shares outstanding, excluding amounts and shares related to shares held in trust and the executive share purchase plan.

Restructuring and other Items and favourable tax adjustments – A measure of significant non-recurring items that are included in net earnings. The impact of the restructuring and other items and favourable tax adjustments on a per share basis is measured by dividing the after-tax income of the restructuring and other items and

favourable tax adjustments by the average number of shares outstanding in the relevant period. Management will continue to disclose the impact of significant restructuring and other items and favourable tax adjustments on its results because the timing and extent of such items do not reflect or relate to the Company's ongoing operating performance. Management generally evaluates the operating income of its divisions before the effect of restructuring and other items.

EBITDA - A measure used in the packaging and other industries to assist in understanding operating results. It is defined as earnings before interest, taxes, depreciation and amortization, excluding restructuring and other items. We believe that it is an important measure as it allows us to assess our ongoing business without the impact of depreciation and amortization expenses as well as non-operating factors. It is intended to indicate our ability to incur or service debt, to invest in property, plant and equipment and it allows us to compare our business to our peers and competitors who may have different capital or organizational structures. EBITDA is a measure tracked by financial analysts and investors and is included in our senior notes and bank covenants and our shareholder agreement with our partner in the ColepCCL joint venture.

B) Accounting Policies and New Standards

The above analysis and discussion of the Company's financial condition and results of operation are based upon its Consolidated Financial Statements that have been prepared in accordance with Canadian GAAP. A summary of the Company's significant accounting policies are set out in note 1 of the Consolidated Financial Statements. There were no changes in accounting adopted in the current year. Significant changes in accounting policies that are expected to be made in the 2007 financial year are discussed below.

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments-Recognition and Measurement"; 1530, "Comprehensive Income"; and 3865 "Hedges". The new standards are effective for the Company's interim and annual financial statements commencing on January 1, 2007. The new standards will require the presentation of a separate statement of comprehensive income. Derivative financial instruments and embedded derivatives will be recorded on the balance sheet at fair value and the changes of fair value will be recorded as earnings.

In addition, the new financial instruments standard requires that all financial assets and liabilities be classified based on their attributes. The categories determined for each of the financial assets and liabilities will determine their measurement, either at fair value or amortized cost, and how gains and losses are recognized. Based on the Company's preliminary review, CCL expects to classify its financial assets and liabilities in categories that will result in measurements that are based on amortized cost, which we do not expect to be materially different than carrying values of these items.

The standard also establishes new criteria for when hedge accounting can be applied and requires immediate expensing of hedge ineffectiveness. CCL has updated its hedge documentation to ensure that the documentation is in accordance with the new requirements. The new standard for hedges caused the Company to terminate two

long-term derivatives and enter into new hedges at the end of 2006 that complied with the new rules, as previously discussed in Section 3C on “Interest Rate, Foreign Exchange Management and Other Hedges”. The loss on this termination has been deferred in the current year and will be recognized in opening retained earnings in 2007.

The new statement of comprehensive income will be comprised of the current earnings statement but will also include other comprehensive income such as the change in value of derivatives that are cash flow hedges and currency translation adjustment changes.

Although the new standards will change the structure and format of CCL’s financial statements in 2007, the change is not expected to materially impact CCL’s profitability or financial strength.

C) Critical Accounting Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make critical estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis including, but not limited to, those related to inventories, redundant assets, bad debts, derivatives, income taxes, intangible assets, restructuring, pension and other post-retirement benefits, environmental liabilities, self-insurance reserves, contingencies and litigation. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis for the carrying value of certain assets and liabilities and may not be readily apparent from these sources. Reported results may differ from the estimates, under conditions and circumstances that have changed from those assumed in the determination of these estimates. The material impact on reported results and the potential impact and any associated risk related to these estimates are discussed throughout this Management’s Discussion and Analysis and in the notes to the Consolidated Financial Statements.

D) Inter-Company and Related Party Transactions

The Company has entered into a number of agreements with its subsidiaries that govern the management, commercial and cost-sharing arrangements with and amongst the subsidiaries. These inter-company structures are established based on terms typical to arm’s length agreements.

The Company has no material related party transactions.

6) OUTLOOK

The North American economy performed reasonably well except for a summer slowdown in consumer spending while Western Europe had good performance throughout 2006. Asia and South America continued to enjoy substantial growth. Market demand for the Company’s products (packaging components of consumer non-durable goods) was generally healthy. The Company’s outlook for 2007 is positive with

modest growth anticipated in both North America and Europe and greater growth expected in Eastern Europe, Latin America and Asia. The Company's order books are at good levels for most sectors of the business, with the exception of the Container Division, for the first quarter of 2007 and first quarter results are anticipated to be satisfactory after a record first quarter last year.

During 2007, the Company will also be integrating and reorganizing the large number of our recent acquisitions, including the sleeve label business of ITW, to improve profitability and to simplify administration. The Company is continuing to investigate mid-sized potential acquisition candidates that meet its criteria of core products and customers, and with the expectation of earnings accretion in the first year of ownership. In addition, further growth in existing emerging markets such as China, South East Asia, Eastern Europe and Latin America, and in new emerging markets for CCL such as Russia and India are potential areas of expansion that would continue to meet the demands of our global customers.

The organic growth in sales and income experienced in 2006 is anticipated to continue into 2007 as the Company is focused on growing as a specialty packaging business. There are challenges expected in 2007 associated with managing the balance between cost increases due to the significant inflation and volatility of aluminum, petrochemicals and paper, and the Company's ability to recover these costs by higher selling prices to our customers. As previously discussed, the financial performance of the Container Division will be critical. The recent weakness in the Canadian dollar relative to the currencies of CCL's foreign operations may finally spell an end to the long trend that has negatively impacted earnings in recent years on a comparative basis. In many countries, particularly in Europe, governments have announced or enacted reduced income tax rates for 2007 and later years. The timing and size of these reductions may have a positive effect on earnings performance in 2007 and beyond.