

**CCL INDUSTRIES INC.**  
**2007 First Quarter**  
**Consolidated Statements of Earnings and Retained Earnings**

Unaudited

Three months ended March 31st

(in millions of Cdn dollars, except per share data)	<u>2007</u>	<u>2006</u>	<u>% Change</u>
<b>Sales</b>	<b>\$ 373.1</b>	<b>\$ 313.2</b>	<b>19.1</b>
<b>Income before undernoted items</b>	<b>67.8</b>	<b>55.1</b>	<b>23.0</b>
Depreciation and amortization	20.8	18.1	
Interest expense, net	6.6	5.6	
	<b>40.4</b>	<b>31.4</b>	<b>28.7</b>
Restructuring and other items - net gain (loss) <i>(note 5)</i>	(0.3)	0.4	
<b>Earnings before income taxes</b>	<b>40.1</b>	<b>31.8</b>	<b>26.1</b>
Income taxes	10.1	10.7	
<b>Net earnings</b>	<b>30.0</b>	<b>21.1</b>	<b>42.2</b>
<b>Retained earnings, beginning of period as reported</b>	476.6	413.0	
Transition adjustment on adoption of financial instruments standards, net of tax <i>(note 1)</i>	(3.0)	-	
<b>Retained earnings, beginning of period as restated</b>	473.6	413.0	
Net earnings	30.0	21.1	
	<b>503.6</b>	<b>434.1</b>	
Less dividends:			
Class A shares	0.3	0.2	
Class B shares	3.5	3.0	
	3.8	3.2	
<b>Retained earnings, end of period</b>	<b>\$ 499.8</b>	<b>\$ 430.9</b>	
<b>Earnings per share</b>			
Class B	<b>\$ 0.93</b>	<b>\$ 0.66</b>	<b>40.9</b>
Class A	<b>\$ 0.92</b>	<b>\$ 0.65</b>	
<b>Diluted earnings per share</b>			
Class B	<b>\$ 0.90</b>	<b>\$ 0.64</b>	<b>40.6</b>
Class A	<b>\$ 0.89</b>	<b>\$ 0.63</b>	

See notes to interim consolidated financial statements.

**CCL INDUSTRIES INC.**  
**2007 First Quarter**  
**Consolidated Statements of Comprehensive Income**

**Unaudited**

Three months ended March 31st

(in millions of Cdn dollars)	Three months ended March 31st	
	<u>2007</u>	<u>2006</u>
Net earnings	30.0	21.1
Other comprehensive income, net of tax:		
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	(4.0)	12.6
Gains (losses) on hedges of net investment in self-sustaining foreign operations, net of tax of \$0.3 million	0.9	(8.9)
Unrealized foreign currency translation, net of hedging activities	(3.1)	3.7
Loss on derivatives designated as cash flow hedges, net of tax	(0.1)	-
Losses on derivatives designated as cash flow hedges in prior periods transferred to net earnings in the current period, net of tax of \$0.2 million	(0.2)	-
Change in losses on derivatives designated as cash flow hedges	(0.3)	-
Other comprehensive income (loss)	(3.4)	3.7
<b>Comprehensive income</b> <i>(note 1)</i>	<b>\$ 26.6</b>	<b>\$ 24.8</b>

See notes to interim consolidated financial statements.

**CCL INDUSTRIES INC.**  
**2007 First Quarter**  
**Consolidated Balance Sheets**

(in millions of Cdn dollars)	March 31st <u>2007</u> (Unaudited)	December 31st <u>2006</u>	March 31st <u>2006</u> (Unaudited)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 86.6	\$ 125.0	\$ 105.8
Accounts receivable - trade	215.0	178.8	181.9
Other receivables and prepaid expenses <i>(note 1)</i>	29.4	23.1	22.4
Inventories	104.4	98.0	108.5
	<hr/> 435.4	<hr/> 424.9	<hr/> 418.6
Property, plant and equipment	675.9	628.0	564.9
Other assets	23.6	28.9	26.4
Future income tax assets	33.6	32.3	30.4
Intangible assets	38.1	39.5	28.1
Goodwill	439.4	389.0	405.6
<b>Total assets</b>	<hr/> <b>\$ 1,646.0</b>	<hr/> <b>\$ 1,542.6</b>	<hr/> <b>\$ 1,474.0</b>
<b>Liabilities</b>			
Current liabilities			
Bank advances	\$ 6.1	\$ 12.4	\$ 9.6
Accounts payable and accrued liabilities <i>(note 1)</i>	260.6	280.8	232.7
Income and other taxes payable	20.4	13.7	20.6
Current portion of long-term debt	17.4	16.1	17.8
	<hr/> 304.5	<hr/> 323.0	<hr/> 280.7
Long-term debt <i>(note 1)</i>	511.7	413.6	439.9
Other long-term items	54.4	52.3	51.9
Future income taxes	102.8	101.1	112.8
<b>Total liabilities</b>	<hr/> 973.4	<hr/> 890.0	<hr/> 885.3
<b>Shareholders' equity</b>			
Share capital <i>(note 2)</i>	186.6	190.3	189.5
Contributed surplus	5.3	4.2	2.6
Retained earnings	499.8	476.6	430.9
Accumulated other comprehensive income <i>(notes 1 &amp; 4)</i>	(19.1)	(18.5)	(34.3)
<b>Total shareholders' equity</b>	<hr/> 672.6	<hr/> 652.6	<hr/> 588.7
<b>Total liabilities and shareholders' equity</b>	<hr/> <b>\$ 1,646.0</b>	<hr/> <b>\$ 1,542.6</b>	<hr/> <b>\$ 1,474.0</b>

See notes to interim consolidated financial statements.

Certain 2006 figures have been restated for comparative purposes.

**CCL INDUSTRIES INC.**  
**2007 First Quarter**  
**Consolidated Statements of Cash Flows**

<b>Unaudited</b>	<b>Three months ended March 31st</b>	
<b>(in millions of Cdn dollars)</b>	<b>2007</b>	<b>2006</b>
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net earnings	\$ 30.0	\$ 21.1
Items not requiring cash:		
Depreciation and amortization	20.8	18.1
Stock-based compensation	1.1	0.5
Future income taxes	(0.7)	2.8
Restructuring and other items, net of tax <i>(note 5)</i>	(0.2)	1.2
	51.0	43.7
Net change in non-cash working capital	(45.8)	(39.7)
Cash provided by operating activities	5.2	4.0
<b>Financing activities</b>		
Proceeds on issuance of long-term debt	103.7	200.8
Retirement of long-term debt	(2.2)	(140.5)
Increase in bank advances	(6.3)	0.6
Issue of shares	0.7	0.7
Purchase of shares held in trust <i>(note 2)</i>	(4.4)	-
Dividends	(3.8)	(3.2)
Cash provided by financing activities	87.7	58.4
<b>Investing activities</b>		
Additions to property, plant and equipment	(31.2)	(42.5)
Proceeds on disposal of property, plant and equipment	2.9	1.2
Proceeds on business dispositions <i>(note 5)</i>	-	24.4
Business acquisitions <i>(note 3)</i>	(105.6)	(62.2)
Other	3.2	1.7
Cash used for investing activities	(130.7)	(77.4)
Effect of exchange rate changes on cash	(0.6)	0.6
Decrease in cash	(38.4)	(14.4)
Cash and cash equivalents at beginning of period	125.0	120.2
Cash and cash equivalents at end of period	\$ 86.6	\$ 105.8

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

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended March 31, 2007 AND 2006

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

(Unaudited)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The disclosures contained in these unaudited interim consolidated financial statements do not include all of the requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2006.

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated statements, except that: starting January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530, "Comprehensive Income", Section 3251, "Equity", Section 3861, "Financial Instruments - Disclosure and Presentation", Section 3865, "Hedges" and Section 3855, "Financial Instruments - Recognition and Measurement".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date are generally not reversed, therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustment as part of other comprehensive income.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated its cash and cash equivalents and long-term investments as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank advances, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost. The Company has also elected to expense, as incurred, transaction costs related to long-term debt.

Upon adoption of these new standards, the Company recorded a decrease to opening retained earnings of \$3.0 million. The decrease to opening retained earnings was a result of the write-off of previously deferred transaction costs related to issuance of long-term debt (\$1.0 million loss, net of tax of \$0.5 million), the write-off of a deferred loss on the termination of various cross currency interest rate swaps that did not meet the new requirements (\$2.1 million loss, no tax) and the ineffectiveness of cash flow hedges discussed below (\$0.1 million gain, net of tax).

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless exempted from derivative treatment as a normal purchase or sale. All changes in their fair value are recorded in net earnings unless cash flow hedge accounting is used, in which case, changes in fair value are recorded in other comprehensive income. The Company has applied this accounting treatment for all embedded derivatives in existence at transition. The impact of the change in accounting policy related to embedded derivatives is not material.

The Company uses various financial instruments to manage foreign currency exposures, fluctuation in interest rates and exposures related to the purchase of aluminum for the Container Division. These financial instruments are classified into three types of hedges: cash flow hedges, fair value hedges and hedges of net investments in self-sustaining operations.

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended March 31, 2007 AND 2006

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

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

In a cash flow hedge, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in the statement of earnings. Upon adoption of the new standards, the Company remeasured its cash flow hedge derivatives at fair value. Aluminum forward contracts with a favourable fair value of \$2.8 million are the largest component of the Company's cash flow hedges and are recorded in other receivables and prepaid expense. In addition, the Company entered into Cross Currency Interest Rate Swap Agreements (CCIRSA) that converted U.S. dollar fixed rate debt into Canadian dollar fixed rate debt in order to reduce the Company's exposure to the U.S. dollar debt and currency exposures. This CCIRSA is also designated as a cash flow hedge and has an unfavourable fair value of \$0.9 million for the current period and is recorded in long-term debt. The Company also uses forward contracts to hedge foreign exchange exposure on anticipated sales. These hedges have an unfavourable fair value of \$0.1 million as at March 31, 2007 and are recorded in accounts payable and accrued liabilities.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in net earnings. This change in fair value of the hedged item, to the extent the hedging relationship is effective, is offset by changes in the fair value of the derivative also measured at fair value on the balance sheet date, with changes in value recorded through net earnings. The Company has two CCIRSAs designated as fair value hedges, which convert U.S. dollar fixed rate debt into Canadian dollar floating rate debt in order to reduce interest rate and currency risk. In addition, the Company has an interest rate swap converting U.S. dollar fixed rate debt to U.S. dollar floating rate debt to reduce interest rate risk exposure. These fair value hedges have an unfavourable fair value of \$1.4 million and are recorded in long-term debt.

In a hedge of a net investment in a self-sustaining foreign operation, the portion of the gain or loss on the hedging item that is determined to be an effective hedge should be recognized in comprehensive income and the ineffective portion should be recognized in net earnings. During 2006, the Company entered into CCIRSAs 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. These CCIRSAs have been designated as net investment hedges and have an unfavourable fair value of \$5.6 million at the end of the current period and are recorded in long-term debt. The Company has also entered into a non-deliverable forward foreign exchange contract to hedge its investment in its Brazilian subsidiaries. This foreign exchange contract has an unfavourable fair value of \$1.6 million for the period and is recorded in accounts payable and accrued liabilities. The Company has elected to record the forward points associated with the forward contract into accumulated other comprehensive income.

2. SHARE CAPITAL

Issued and outstanding

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
Issued share capital	\$ 198.2	\$ 197.5	\$ 196.9
Less: Executive share purchase plan loans	(1.6)	(1.6)	(1.8)
Shares held in trust	(10.0)	(5.6)	(5.6)
Total	<u>\$ 186.6</u>	<u>\$ 190.3</u>	<u>\$ 189.5</u>

During 2007, the Company granted an award of 120,000 Class B shares of the Company. These shares are restricted in nature and will vest in 2009 dependent on continuing employment and company performance. The Company purchased these 120,000 shares in the open market and has placed them in trust until they vest. The fair value of this stock award is being amortized over the vesting period and recognized as executive compensation expense.

Actual number of shares:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
Class A	2,378,496	2,378,496	2,421,784
Class B	30,274,947	30,223,047	30,142,759
	<u>32,653,443</u>	<u>32,601,543</u>	<u>32,564,543</u>
Less: Executive share purchase plan shares - Class B	(125,000)	(125,000)	(150,000)
Shares held in trust - Class B	(320,000)	(200,000)	(200,000)
Total	<u>32,208,443</u>	<u>32,276,543</u>	<u>32,214,543</u>
Year-to-date weighted average number of shares	<u>32,228,526</u>	<u>32,240,324</u>	<u>32,183,601</u>
Year-to-date weighted average diluted number of shares	<u>33,437,378</u>	<u>33,259,055</u>	<u>33,250,268</u>

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended March 31, 2007 AND 2006

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

(Unaudited)

3. ACQUISITIONS

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 two locations in the United Kingdom and one location in each of Austria, Brazil and United States, is a leading supplier of shrink sleeve and stretch sleeve labels for markets in Europe and the Americas. The purchase price was \$105.6 million, net of cash acquired. The Company established a \$95.0 million line of credit, of which \$75.0 million was drawn to facilitate the purchase. The Company is reviewing the valuation of the net assets acquired, including intangible assets, therefore, certain items disclosed below may change when the review is completed in 2007.

Details of the transaction are as follows:

Current assets	\$ 24.3
Current liabilities	(8.5)
Non-current assets at assigned values	39.4
Future taxes	(0.8)
Goodwill and intangible assets	51.2
Net assets purchased	<u>\$ 105.6</u>
Total consideration:	
Cash, less cash acquired of \$2.8 million	<u>\$ 105.6</u>

In January 2006, the Company purchased Prodesmaq, based in Vinhedo, Brazil. Prodesmaq operated 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	\$ 9.8
Current liabilities	(2.1)
Non-current assets at assigned values	9.3
Intangible assets	14.8
Goodwill	30.4
Net assets purchased	<u>\$ 62.2</u>
Total consideration:	
Cash, less cash acquired of \$1.7 million	<u>\$ 62.2</u>

4. ACCUMULATED OTHER COMPREHENSIVE INCOME

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
Unrealized foreign currency translation gains and losses, net of tax of \$7.5 million	\$ (21.6)	\$ (18.5)	\$ (34.3)
Impact of new net investment hedge accounting standards on January 1, 2007, net of tax \$0.1 million	0.4	-	-
Impact of new cash flow hedge accounting standards on January 1, 2007, net of tax of \$1.3 million	2.4	-	-
Change in derivatives designated as cash flow hedges, net of tax recovery of \$0.2 million	(0.3)	-	-
	<u>\$ (19.1)</u>	<u>\$ (18.5)</u>	<u>\$ (34.3)</u>

5. RESTRUCTURING AND OTHER ITEMS

Three months ended March 31			
	<u>Segment</u>	<u>2007</u>	<u>2006</u>
Container segment restructuring	Container	\$ (1.0)	\$ (1.3)
Sale of non-operational land	Corporate	0.7	-
Gain on net assets sale of CCL Dispensing Systems, LLC	Tube	-	1.7
Net gain (loss)		<u>\$ (0.3)</u>	<u>\$ 0.4</u>
Tax recovery (expense)		\$ 0.5	\$ (2.6)

CCL INDUSTRIES INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended March 31, 2007 AND 2006

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

(Unaudited)

5. RESTRUCTURING AND OTHER ITEMS (CONT'D)

The Company commenced a senior management restructuring of the Container segment and recorded provisions related to severances of \$1.3 million (\$0.9 million after tax) in the first three months of 2006, and by year-end, additional costs related to obsolete equipment and spare parts were recorded of \$10.1 million (\$6.3 million after tax). In 2007, further costs of \$1.0 million (\$0.7 million after tax) were incurred.

In March 2007, the Company sold its non-operational land in Toronto, Canada for \$2.0 million cash and realized a gain of \$0.7 million (\$0.9 million after tax).

In February 2006, the Company sold its CCL Dispensing Systems, LLC net assets for \$24.4 million cash and realized a gain of \$1.7 million (loss of \$1.3 million after tax).

6. EMPLOYEE FUTURE BENEFITS

The expense for the defined benefit plans in the first quarter is \$0.4 million (2006 - \$0.4 million).

7. SEGMENTED INFORMATION

Industry segments

	Three months ended March 31st			
	Sales		Operating income	
	2007	2006	2007	2006
Label	\$ 245.1	\$ 205.1	\$ 37.8	\$ 29.2
Container	52.9	44.4	6.0	6.2
Tube	18.2	19.1	1.4	1.0
ColepCCL	56.9	44.6	5.3	4.1
<b>Total operations</b>	<b>\$ 373.1</b>	<b>\$ 313.2</b>	<b>50.5</b>	<b>40.5</b>
Corporate expense			(3.5)	(3.5)
			47.0	37.0
Interest expense, net			6.6	5.6
			40.4	31.4
Restructuring and other items - net gain (loss) (note 5)			(0.3)	0.4
Earnings before income taxes			40.1	31.8
Income taxes			10.1	10.7
<b>Net earnings</b>			<b>\$ 30.0</b>	<b>\$ 21.1</b>

	Identifiable Assets		Goodwill		Depreciation & Amortization		Capital Expenditures	
	March 31st	December 31st	March 31st	December 31st	Three months ended March 31st		Three months ended March 31st	
	2007	2006	2007	2006	2007	2006	2007	2006
					<u>Continuing operations</u>			
Label	\$ 1,054.7	\$ 909.3	\$ 354.3	\$ 303.6	\$ 13.7	\$ 11.7	\$ 26.9	\$ 28.8
Container	194.2	194.4	12.8	12.8	2.9	2.5	0.5	9.7
Tube	96.5	96.9	29.7	30.0	1.8	1.9	0.3	3.1
ColepCCL	174.2	172.4	42.6	42.6	2.0	1.8	3.5	0.9
Corporate	126.4	169.6	-	-	0.4	0.2	-	-
<b>Total</b>	<b>\$ 1,646.0</b>	<b>\$ 1,542.6</b>	<b>\$ 439.4</b>	<b>\$ 389.0</b>	<b>\$ 20.8</b>	<b>\$ 18.1</b>	<b>\$ 31.2</b>	<b>\$ 42.5</b>

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

### **First Quarters Ended March 31, 2007 and 2006**

This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the first quarters ended March 31, 2007 and 2006 and an update to the 2006 Annual MD&A document. The information in this interim MD&A is current to May 3, 2007 and should be read in conjunction with the Company's March 31, 2007 unaudited first quarter financial statements released on May 3, 2007 and the 2006 Annual MD&A document, which forms part of the CCL Industries Inc. 2006 Annual Report, dated February 21, 2007.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and in accordance with the requirements of section 1751, Interim Financial Statements, of the CICA Handbook. Unless otherwise noted, both the financial statements and this interim 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 interim MD&A to ensure consistency with the approved strategy and results of the Company.

Management's Discussion and Analysis contains forward-looking statements, 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.

#### **Overview**

Most of CCL's global customers continue to enjoy higher sales volumes than last year, generally reflecting the positive world economy. CCL is benefiting from this favourable environment and has experienced very good growth in most product categories and regions in the first quarter of 2007. In particular, CCL has mirrored the global results of many of its customers with strong demand in Europe, Asia and Latin America and more modest growth in North America.

Expectations are for continued strong markets in Europe, Latin America and Asia. There have been concerns about a slowdown in the U.S. economy. This has been reflected in cautionary comments from some of our customers and suppliers about future prospects for the North American region. CCL continues to see only limited growth in demand from its North American customers in 2007. It is also important to note that the first quarter has become CCL's most profitable quarter due to the seasonality of the business as discussed further in this report.

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

Sales for the first quarter of 2007 of \$373.1 million were 19% ahead of the \$313.2 million recorded in the first quarter of 2006. Financial comparisons to the prior year's results have been positively affected by the significant appreciation of

the euro and most other currencies and to a lesser degree, the U.S. dollar relative to the Canadian dollar. In addition, business acquisitions in the Label Division and dispositions have impacted the comparison to prior periods. Sales increased for the quarter by 14% due to organic growth and acquisitions, while foreign exchange net of a disposition added a further 5%. On a comparative basis with last year's first quarter, sales increased significantly in all reporting segments with the exception of a slight decline in the Tube Division.

The following acquisitions and divestitures affected financial comparisons in the first quarter. Further details on these transactions follow later in the Business Segment Review section:

- In January 2006, the Label Division acquired the label converting assets of Prodesmaq in Brazil for \$62 million.
- In February 2006, the Company divested the assets of its CCL Dispensing business in Libertyville, IL for \$24 million. It is included in the Tube Division for comparative purposes.
- In October 2006, the non-core label business in Houten, the Netherlands was sold for \$3 million.
- On January 26, 2007, CCL acquired the shrink sleeve and stretch sleeve business of Illinois Tool Works ("ITW") located in the United Kingdom, Austria, Brazil and the United States for approximately \$106 million.

Net earnings for the first quarter of 2007 were \$30.0 million, up 42% from the \$21.1 million recorded in the first quarter of 2006 due primarily to the substantial sales and operating income increases in the business and favourable currency translation. Operating income improved by \$10.0 million or 25% from last year's first quarter due to substantially stronger performances in the Label and Tube Divisions and higher income from the ColepCCL joint venture. Operating income in the Container Division was slightly below the prior year's level. These improvements were partly due to the positive effect of currency translation as a result of the appreciation of the euro, U.S. dollar and other currencies relative to the Canadian dollar. In the first quarter of 2007, a gain on the sale of a redundant property and favourable tax adjustments (a tax settlement in a subsidiary) were partially offset by restructuring and other items and increased net earnings by \$1.6 million. In the first quarter of 2006, net earnings were impacted by a net gain from restructuring costs and other items and favourable tax adjustments of \$0.4 million before tax (but a loss of \$1.2 million after tax).

Net interest expense was \$6.6 million, \$1.0 million higher than last year's corresponding quarter due primarily to higher net debt levels and the impact of currency translation. Corporate expenses for the quarter of \$3.5 million were the same as last year's first quarter. The overall effective income tax rate was 25% for the first quarter of 2007 compared to 34% in the first quarter of 2006. If the impact of restructuring and other items and favourable tax adjustments were

excluded, the effective tax rate in the first quarter of 2007 would have been 30% compared to 29% in last year's first quarter.

Earnings per Class B share were \$0.93 in the first quarter of 2007 compared to \$0.66 earned in the same period last year, an increase of 41%. Restructuring and other items and favourable tax adjustments had a positive effect on earnings per share in the first quarter of 2007 of \$0.05. Restructuring and other items net of favourable tax adjustments in the first quarter of 2006 decreased earnings per Class B share by \$0.03. The impact of restructuring and other items and favourable tax adjustments on a per share basis is measured by dividing the after-tax income of these items by the average number of shares outstanding in the relevant period. Management will continue to disclose the impact of these items on its results because the timing and extent of such items do not reflect or relate to the Company's ongoing performance. Management evaluates the operating income of its divisions before the effect of these items.

Diluted earnings per Class B share were \$0.03 lower than basic earnings per Class B share in the first quarter of 2007 and \$0.02 lower in the first quarter of 2006.

In the first quarter of 2007, restructuring and other costs were incurred in the Container Division consisting primarily of severance costs as new management continues to take action to improve efficiency and profitability. Costs incurred were \$1.0 million (\$0.7 million after tax). In addition, a redundant operating property was sold for a gain of \$0.7 million (\$0.9 million after tax). A favourable tax settlement was also reached in a subsidiary resulting in a decrease in income tax expense of \$1.4 million in the quarter. The total increase in net income for the above items was \$1.6 million.

There were three restructuring and other items and a favourable tax adjustment in the first quarter of 2006 for a total gain of \$0.4 million (but a loss of \$1.2 million after tax), as follows:

- Sale of CCL Dispensing – This business was part of the Tube Division. Its net assets were sold for a pre-tax gain of \$1.7 million. Tax of \$3.0 million was incurred on the sale, resulting in an after-tax loss of \$1.3 million.
- Container Division Restructuring – During the latter part of the first quarter of 2006, the Company reorganized the management of this business and incurred severance and other related costs on this restructuring. The new management continues to review all aspects of the business. This restructuring cost was \$1.3 million (\$0.9 million after tax) for the first quarter of 2006.
- Favourable Tax Recovery – In March 2006, with the repayment of US\$ 120 million notes, certain foreign exchange gains were realized for tax purposes only. Tax payments are not required due to the ability of the Company to utilize previously unrecognized capital losses generated from

a 2002 unusual item write-down. The utilization of these capital losses gave rise to a reduction in tax expense of \$1.0 million.

The following table is presented to provide context to the change in the Company's financial performance. There is a major improvement over the prior year's earnings performance.

**(in Canadian dollars)**

<b><u>Earnings per Class B shares</u></b>	<b><u>Three Months Ended March 31</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
From operations	\$ 0.93	\$ 0.66
Net gain (loss) from restructuring and other items and favourable tax adjustments	\$0.05	\$(0.03)

The following is selected financial information for the nine most recently completed quarters. In May 2005, the North American Custom Manufacturing business was sold and was treated as Discontinued Operations.

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

	<b><u>Qtr 1</u></b>	<b><u>Qtr 2</u></b>	<b><u>Qtr 3</u></b>	<b><u>Qtr 4</u></b>	<b><u>Total</u></b>
<b>Sales-continuing operations</b>					
2007	\$373.1				
2006	313.2	\$296.6	\$293.5	\$308.9	\$1,212.2
2005	265.7	280.1	281.9	282.4	1,110.1
<b>Net earnings-continuing operations</b>					
2007	30.0				
2006	21.1	17.6	13.6	25.1	77.4
2005	16.1	5.1	15.3	13.5	50.0
<b>Net earnings</b>					
2007	30.0				
2006	21.1	17.6	13.6	25.1	77.4
2005	19.7	113.8	15.3	15.0	163.8

	<u>Qtr 1</u>	<u>Qtr 2</u>	<u>Qtr 3</u>	<u>Qtr 4</u>	<u>Total</u>
<b>Net earnings per Class B share- continuing operations</b>					
<b>Basic</b>					
2007	\$0.93				
2006	0.66	\$0.54	\$0.43	\$0.78	\$2.41
2005	0.50	0.16	0.48	0.43	1.57
<b>Diluted</b>					
2007	0.90				
2006	0.64	0.53	0.41	0.75	2.33
2005	0.49	0.16	0.46	0.41	1.52
<b>Net earnings per Class B share</b>					
<b>Basic</b>					
2007	0.93				
2006	0.66	0.54	0.43	0.78	2.41
2005	0.61	3.53	0.48	0.48	5.10
<b>Diluted</b>					
2007	0.90				
2006	0.64	0.53	0.41	0.75	2.33
2005	0.60	3.45	0.46	0.46	4.97
<b>Restructuring and other items and favourable tax adjustments and gain on discontinued operations per Class B share</b>					
2007	0.05				
2006	(0.03)	(0.03)	(0.10)	0.20	0.04
2005	-	2.96	-	(0.02)	2.94

The impact on net earnings per Class B share of the gain on the sale of Custom in 2005 is included in the table above. Net earnings per Class B share have generally increased over time but have also fluctuated significantly due to changes in foreign exchange rates, restructuring costs and other items and favourable tax adjustments.

In addition, the seasonality of the business has evolved over the last few years with the first quarter generally being the strongest due to the aggressive marketing plans of many customers at the beginning of the year. Also, there are many products that have a spring-summer bias in North America and Europe such as agricultural chemicals and certain beverage products, which generate additional sales volumes for CCL in the first half of the year. The last two quarters of the year are negatively affected from a sales perspective by summer vacation in the Northern Hemisphere, Thanksgiving, and the Christmas season shutdowns in the fourth quarter.

## **Business Segment Review**

### **Label Division (\$ Millions)**

	<b><u>Q1 2007</u></b>	<b><u>Q1 2006</u></b>	<b><u>+/- %</u></b>
Sales	\$245.1	\$205.1	+20%
Operating Income	\$ 37.8	\$ 29.2	+29%
Return on Sales <sup>(1)</sup>	15.4%	14.2%	
Capital Spending	\$ 26.9	\$ 28.8	
Depreciation and Amortization	\$ 13.7	\$ 11.7	

(1) Return on sales is a non-GAAP measure indicating relative profitability of sales to customers. It is defined as operating income divided by sales expressed as a percentage.

Sales for the Label Division were very strong at \$245.1 million for the first quarter, up 20% from \$205.1 million in the same quarter last year. The sales increase was a result of acquisitions and organic growth contributing 14% and foreign exchange adding a further 6%.

Sales growth in the first quarter was due in part to the ITW acquisition (owned by CCL for just over two months in 2007). However, the base business also generally experienced a continuation of very positive sales and operating income trends.

North America had the weakest sales growth in the Label Division. Personal care volume was flat for the quarter compared to last year, as our customers experienced a softer market. Healthcare sales were also flat due in part to a slow insert business, because of label design changes driven by the FDA. Insert sales are expected to pick up later in the year when the new designs are finalized. Specialty products sales were well ahead of last year's first quarter with good growth in agricultural chemical labels, a strong promotional label market, and modest growth in battery labels. Overall, profitability was up on higher sales, better mix, and improved efficiencies.

Latin America continued to show strong sales growth in Brazil and Mexico with improvements in operating income due to the volume growth and operating efficiencies. Profitability is well above average in both of these operations.

In Europe, sales showed steady growth in personal care, particularly in Germany compared to last year, but there was considerable growth in beverage applications. Healthcare and specialty sales were strong and the business remains very profitable. The battery business had lower sales in local currency due to the expiration of patents and the move of a key customer to China. This reduction plus the movement of significant beverage volume into this operation had the effect of reducing overall margins on increased sales. The ITW acquisition generated strong sales in shrink and stretch sleeves and operating income was well above expectations.

Asia continued to generate exciting sales growth. Sales in Thailand were over 20% ahead of last year with further growth expected, and the plant in Hefei, China continued to progress with growth in the battery business. In addition, the Guangzhou, China operation that opened only a year ago, was very busy in personal care and made a small profit. The label business continues to benefit from its international presence when dealing with large global customers.

Operating income for the first quarter of 2007 was \$37.8 million, up 29% from the \$29.2 million in the first quarter of 2006. Positive currency translation contributed to this improvement. Drivers of this improvement were the performance of all the recent acquisitions and higher sales in most product categories in each region. Operating income as a percentage of sales at 15.4% exceeded our internal targets and the 14.2% return generated in last year's first quarter. The first quarter has become the strongest quarter for the Label Division due to the aggressive marketing plans of many customers at the beginning of the year, seasonal products such as agricultural chemicals, and minimal vacation and holiday shutdowns.

Incremental sales and operating income in the first quarter of 2007 compared to 2006 for the ITW and Prodesmaq acquisitions noted earlier in this report were \$18.8 million and \$4.2 million, respectively. The Houten, Netherlands operation disposed of in the fall of 2006 generated sales of \$1.7 million and nominal operating income in the first quarter of 2006.

Sales backlogs for the label business are generally low due to short customer lead times, but indications are that customers' orders continue to be firm through the second quarter of 2007. Raw material pricing has stabilized compared to a year ago.

The Label Division invested \$26.9 million in capital in the first quarter of 2007 compared to \$28.8 million in the same period last year. The capital was spent throughout the Division to maintain and expand its manufacturing base by adding presses in strategic locations, including the plant construction for the soon to be relocated Memphis, Tennessee operation and a plant extension in Brazil. The Division expects to continue to spend capital to increase its capabilities, expand geographically, and replace or upgrade existing plants and equipment to improve efficiencies over the next few years. Depreciation and amortization for the Label Division were \$13.7 million for the first quarter of 2007 and \$11.7 million in the comparable 2006 period.

**Container Division (\$ Millions)**

	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>+/- %</u>
Sales	\$52.9	\$44.4	+19%
Operating Income	\$ 6.0	\$ 6.2	-3%
Return on Sales <sup>(1)</sup>	11.3%	14.0%	
Capital Spending	\$ 0.5	\$ 9.7	
Depreciation and Amortization	\$ 2.9	\$ 2.5	

<sup>(1)</sup> A non-GAAP measure. See definition in earlier Label Division section.

Sales in the first quarter were \$52.9 million, up 19% from \$44.4 million last year. Sales increased for the quarter due to volume growth and price increases. Foreign currency translation was a small positive factor in the sales growth.

The Container Division experienced an improvement in sales volume as management has been able to attract new volumes and has benefited from the strong demand for aluminum aerosol containers and other applications for shaped-can and bag-in-can technologies. Despite significant price increases in the last year, the aluminum container continues to flourish and capacity for these products in North America and Europe could become tighter in later quarters. Personal care volume in the aerosol format continues to grow modestly. Although beverage volume has been light, there are many interesting opportunities under discussion with potential customers for this niche product. Mexican aerosol container sales volumes were also substantially higher in the first quarter compared to last year.

Operating income for the Container Division before restructuring and other costs for the first quarter of 2007 were \$6.0 million, down 3% from \$6.2 million in the first quarter of 2006. The key issues continue to be the significant increase in aluminum costs, the reduction of aluminum hedges and related income and our ability to pass on price increases to customers. Return on sales for the first quarter of 2007 was 11.3% compared to 14.0% in last year's first quarter but the trend has improved significantly over the last two quarters of 2006 due to volume improvement and price increases.

The aluminum container plant in Penetanguishene, Ontario sells a large part of its production to the United States market in U.S. dollars. The business hedges a part of the Canadian dollar value of these U.S. dollar sales by way of forward contracts. The change in the exchange rates on U.S. currency transactions reduced comparative income for the Container Division by \$0.5 million in the first quarter of 2007. The Division is not planning to hedge the U.S. dollar in the future due to materiality and the reduction in the risk of further weakening of the U.S. dollar.

The Container Division invested \$0.5 million in capital in the first quarter of 2007 compared to \$9.7 million in the same quarter last year. Only modest maintenance capital was expended in the first quarter of 2007 compared to the

acquisition and installation of production lines last year. Depreciation and amortization for the first quarters of 2007 and 2006 were \$2.9 million and \$2.5 million, respectively. The Division has successfully installed six new aluminum container lines in the last four years. A seventh new line is ready to be shipped and will be installed at a new plant under construction in Guanajuato, Mexico. The new plant will come on line in the first half of 2008.

The Container Division continues to hedge some of its anticipated future aluminum purchases through futures contracts. The cost of aluminum persists in remaining at near record levels and the Division continues to be challenged to recover these higher costs by increasing prices to its customers. Also, most of the aluminum hedges acquired at much lower prices in prior years have been realized and there will be less benefit from aluminum hedging going forward.

**Tube Division (\$ Millions)**

	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>+/- %</u>
Sales	\$18.2	\$19.1	-5%
Operating Income	\$ 1.4	\$ 1.0	+40%
Return on Sales <sup>(1)</sup>	7.7%	5.2%	
Capital Spending	\$ 0.3	\$ 3.1	
Depreciation and Amortization	\$ 1.8	\$ 1.9	

<sup>(1)</sup> A non-GAAP measure. See definition in earlier Label Division section.

Sales in the first quarter for the Tube Division were \$18.2 million, down 5% from \$19.1 million last year. Sales decreased for the quarter due to the divestiture of CCL Dispensing Systems early last year and slower order intake at the end of 2006. The demand for plastic tubes slowed down in the last couple of quarters due in part to the weak consumer economy in the U.S. However, there are expectations for modest improvement into the second quarter.

Operating income for the Tube Division for the first quarter of 2007 was \$1.4 million, up 40% from \$1.0 million in the first quarter of 2006. The increase was due to improved margins, manufacturing efficiency, and a small loss incurred in CCL Dispensing in its last month of operation in the first quarter of 2006. The return on sales continues to rise towards acceptable levels at 7.7% in the first quarter compared to a 5.2% return in the prior year's first quarter.

The Tube Division invested \$0.3 million in maintenance capital in the first quarter of 2007 compared to \$3.1 million in the same quarter last year, which included new decorating equipment. Depreciation and amortization for the first quarters of 2007 and 2006 were \$1.8 million and \$1.9 million, respectively.

**ColepCCL Joint Venture (\$ Millions)**

	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>+/- %</u>
Sales	\$56.9	\$44.6	+28%
Operating Income	\$ 5.3	\$ 4.1	+29%
Return on Sales <sup>(1)</sup>	9.3%	9.2%	
Capital Spending	\$ 3.5	\$ 0.9	
Depreciation and Amortization	\$ 2.0	\$ 1.8	

<sup>(1)</sup> A non-GAAP measure. See earlier Label Division section.

The ColepCCL joint venture was created in mid-July 2004. For the first quarter of 2007, CCL's 40% proportionate share of the joint venture's sales was \$56.9 million. This sales level was 28% higher than the comparative sales last year of \$44.6 million due primarily to robust markets in Europe and Eastern Europe for ColepCCL's products and also the 11% increase in the value of the euro versus the comparable quarter. New order levels continue to be strong and it is anticipated that sales will grow in the second half of the year.

Operating income in the first quarter of 2007 for ColepCCL was \$5.3 million, indicating a return on sales of 9.3%, and in the first quarter of 2006, operating income was \$4.1 million, with a return on sales of 9.2%. Operating income was 29% ahead of last year's level due to higher margins, improved manufacturing performance and currency translation.

**Currency Translation and Currency Transaction Hedging**

As only about 10% of CCL's sales are generated from Canadian manufacturing locations, 90% of sales from international operations are recorded in foreign currencies and then translated into Canadian dollars for reporting purposes. The U.S. dollar is the functional currency for approximately 35% of the Company's total sales and it appreciated 1% on average compared to the Canadian dollar in the first quarter of 2007 versus last year's first quarter. In addition, European currencies are now the measurement currencies for over 40% of CCL's sales and the primary European currency, the euro, has also strengthened by a substantial 11% compared to the Canadian dollar versus the prior year's quarter. Changes in foreign exchange rates have increased earnings per share due to currency translation by \$0.05 in the first quarter compared to 2006.

Additionally, CCL has utilized a hedging program to lock in a portion of its expected U.S. dollar revenues earned in Canada by the Container Division. These hedge transactions were at an average rate of \$1.24 (US\$ 6.0 million sold forward) for the first quarter of 2006 and were \$1.13 (US\$ 3.0 million sold forward) for the first quarter of 2007. The Container Division also took in an additional US\$ 6.6 million at this year's average rate; 1% above the prior year's rate. This change in the exchange rates on U.S. currency transactions reduced comparative income for continuing operations by \$0.5 million in the first quarter of 2007 and reduced comparative earnings per share by \$0.01 for the quarter. As at March 31, 2007, outstanding foreign exchange contracts were for only

US\$ 3 million and covered only the second quarter of 2007. Due to the overall materiality and reduced net risk, the Company has discontinued currency hedging for the Container business.

After the acquisition of Prodesmaq early last year, the Company hedged a portion of its expected cash flow from Brazil. The hedge involved locking in 20.8 million reais at \$0.48 per Canadian dollar (\$10.0 million in total) matured in April 2007 at \$0.55. The Company is not anticipating further hedges against the Brazilian currency on the basis of its diversified foreign exchange exposure in many currencies.

### **Liquidity and Capital Resources**

The Company's capital structure is as follows:

<b><u>\$ Millions</u></b>	<b><u>March 31, 2007</u></b>	<b><u>December 31, 2006</u></b>	<b><u>March 31, 2006</u></b>
Total debt	\$535.2	\$442.1	\$467.3
Cash and cash equivalents	<u>86.6</u>	<u>125.0</u>	<u>105.8</u>
Net debt <sup>(1)</sup>	<u>\$448.6</u>	<u>\$317.1</u>	<u>\$361.5</u>
Shareholders' equity	<u>\$672.6</u>	<u>\$652.6</u>	<u>\$588.7</u>
Net debt: total capitalization <sup>(2)</sup>	40.0%	32.7%	38.0%
Book value per Class B share	\$20.95	\$20.24	\$18.30

(1) Net debt is a non-GAAP measure and is defined as total debt less cash and cash equivalents.

(2) A non-GAAP 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 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.

The Company's financial position is solid. As of March 31, 2007, cash and cash equivalents amounted to \$87 million compared to \$106 million at March 31, 2006. Net debt amounted to \$449 million at March 31, 2007, \$87 million higher than the net debt of \$362 million at the end of March 2006. The increase in net debt in this time frame is primarily due to the ITW sleeve business acquisition in the first quarter of 2007.

Net debt to total capitalization, defined as net debt divided by net debt plus shareholders' equity, at March 31, 2007 was 40%, up from 38% at the end of March 2006 and 33% at the end of 2006 primarily due to the ITW sleeve business acquisition. Book value per share, defined as shareholders' equity divided by total period end shares, was \$20.95 at the end of the first quarter of 2007, 14% above \$18.30 a year ago. The increase is primarily the result of earnings retained in the Company and the increase in shareholders' equity due

to the changes in accumulated other comprehensive income (mainly due to currency translation).

The Company's debt structure is comprised of three private debt placements completed in 1997, 1998 and 2006 for a total of US\$ 336.2 million (Cdn.\$ 388.2 million) and a 5-year revolving line of credit of \$95 million at March 31, 2007. The Company's overall average interest rate is 5.6% after factoring in the related Interest Rate Swap Agreements ("IRSAs") and Cross Currency Swap Agreements ("CCIRSAs"). The IRSAs and CCIRSAs are discussed later in this report.

In January 2007, the Company established a line of credit with a Canadian chartered bank for \$95 million to facilitate the \$106 million purchase of the ITW sleeve label business. As at the end of March 2007, \$90 million of this line was used to acquire the business.

In March 2006, the Company completed a private placement financing of Senior Unsecured Notes with U.S. institutional investors. The amount of the borrowing was US\$ 170 million with US\$ 60 million to be repaid in five years and US\$ 110 million to be repaid in ten years. Interest rates for the five-year and ten-year financing are 5.29% and 5.57%, respectively. The five-year component was effectively swapped into euro fixed rate debt at an interest rate of 3.82%. The proceeds from this financing were used to repay the US\$ 120 million Senior Unsecured Notes that matured later in March 2006 that had a ten-year term with the balance of the proceeds to be used for future business opportunities.

The Company believes that it has sufficient cash on hand and the ability to generate cash flow from operations to fund its expected financial obligations during the balance of 2007.

### **Cash Flow**

During the first quarters of 2007 and 2006, the Company generated cash from operating activities of \$5.2 million and \$4.0 million, respectively. The increase in cash flow compared to last year's first quarter was due to higher net earnings. The reduction in cash flow compared to other quarters of the year is primarily due to the seasonal build-up of working capital during the first quarter of both years.

Working capital grew in its typical seasonal fashion including the impact of acquisitions and higher sales volumes in the first quarter by \$45.8 million compared to \$39.7 million last year.

Capital spending in the first quarter of \$31.2 million compared to \$42.5 million last year. The major capital expenditures in the first quarter were for many new presses for the Label Division. This level of capital spending was higher than the \$20.8 million of depreciation and amortization in the first quarter of 2007 and the \$18.1 million in the first quarter of 2006. Plans for capital spending in 2007 are expected to be below the \$150 million spent in 2006. The Company is continuing

to expand its business base into new markets, and invest in assets to add capacity and improve its competitiveness.

Dividends declared in each of the first quarters of 2007 and 2006 were \$3.8 million and \$3.2 million, respectively. The total number of shares outstanding as at March 31, 2007 and 2006 was 32.7 million and 32.6 million, respectively. The Company has historically paid out dividends at a rate of 20-25% of net earnings. Since the Company's cash flow and financial position are strong, the Board of Directors approved a continuation of the higher dividend declared last quarter of \$0.1075 per Class A share and \$0.12 per Class B share to shareholders of record as of June 15, 2007 and payable on June 29, 2007. The annualized dividend rate is \$0.43 per Class A share and \$0.48 per Class B share.

### **Interest Rate and Foreign Exchange Management**

The Company has utilized Interest Rate Swap Agreements to allocate notional debt between fixed and floating rates by converting the underlying U.S. dollar fixed rate private placement debt into U.S. dollar floating rate debt. The Company has developed into a global business with a significant asset base in Europe over the last few years. It has utilized Cross Currency Interest Rate Swap Agreements to effectively convert notional U.S. dollar fixed rate debt into fixed and floating euro debt in order to hedge its euro-based assets and cash flows.

The Company has utilized IRSAs to allocate notional debt between fixed and floating rates since the underlying debt is fixed rate debt with U.S. financial institutions. Since the Company has developed into a global business with a significant asset base in Europe in the last few years, it has utilized CCIRSAs to effectively convert notional U.S. dollar debt into euro debt to hedge its euro-based assets and cash flows.

The effect of the IRSAs and CCIRSAs has been to reduce interest expense by \$0.3 million in the first quarter of 2007 compared to a reduction of \$0.5 million in the first quarter of 2006. Interest coverage (defined as operating income before restructuring and other items and net interest expense divided by net interest expense calculated on a 12-month rolling basis) improved to 6.1 times in 2007 compared to 5.7 times in 2006 as at March 31.

### **New Accounting Standards**

Starting on January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530, "Comprehensive Income", Section 3251, "Equity", Section 3861, "Financial Instruments - Disclosure and Presentation", Section 3865, "Hedges" and Section 3855, "Financial Instruments - Recognition and Measurement".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items

recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date are generally not reversed, therefore, the comparative figures have not been restated except for the requirement to restate the currency translation adjustment as part of other comprehensive income.

Section 3865 prescribes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Upon adoption of these new standards, the Company designated its cash and cash equivalents and long-term investments as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank advances, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost. The Company has also elected to expense, as incurred, transaction costs related to long-term debt.

Under adoption of the new standard, the Company recorded a decrease to opening retained earnings of \$3.0 million. The decrease to opening retained earnings was a result of the write-off of previously deferred transaction costs related to issuance of long-term debt (\$1.0 million loss net of tax), the write-off of a deferred loss on the termination of various cross currency interest rate swaps that did not meet the new requirements (\$2.1 million loss, no tax), and the ineffectiveness of cash flow hedges discussed below (\$0.1 million gain, net of tax).

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless exempted from derivative treatment as a normal purchase or sale. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company has applied this accounting treatment for all embedded derivatives in existence at transition. The impact of the change in accounting policy related to embedded derivatives is not material.

The Company uses various financial instruments to manage foreign currency exposures, fluctuation in interest rates, and exposures related to the purchase of aluminum for the Container Division. These financial instruments are classified into three types of hedges: cash flow hedges, fair value hedges and hedges of net investments in self-sustaining operations.

In a cash flow hedge, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in the statement of earnings. Upon adoption of the new standards, the Company remeasured its cash flow hedge derivatives at fair value. Aluminum forward contracts with a favourable fair value of \$2.8 million are the largest component of the Company's cash flow hedges and are recorded in other receivables and prepaid expenses. In addition, the Company entered into Cross Currency Interest Rate Swap Agreements (CCIRSAs) that converted U.S. dollar fixed rate debt into Canadian dollar fixed rate debt in order to reduce the Company's exposure to the U.S. dollar debt and currency exposures. This CCIRSA is also designated as a cash flow hedge and has an unfavourable fair value of \$0.9 million for the current period and is recorded in long-term debt. The Company also uses forward contracts to hedge foreign exchange exposure on anticipated sales. These hedges have an unfavourable fair value as at March 31, 2007 of \$0.1 million and are recorded in accounts payable and accrued liabilities.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains and losses attributable to the hedged risk and recorded in net earnings. This change in fair value of the hedged item, to the extent the hedging relationship is effective, is offset by changes in the fair value of the derivative also measured at fair value on the balance sheet date, with changes in value recorded through net earnings. The Company has two CCIRSAs designated as fair value hedges, which convert U.S. dollar fixed rate debt into Canadian dollar floating rate debt in order to reduce interest rate and currency risk. In addition, the Company has an interest rate swap converting U.S. dollar fixed rate debt to U.S. dollar floating rate debt to reduce interest rate risk exposure. These fair value hedges have an unfavourable fair value of \$1.4 million and are recorded in long-term debt.

In a hedge of a net investment in a self-sustaining foreign operation, the portion of the gain or loss on the hedging item that is determined to be an effective hedge should be recognized in comprehensive income and the ineffective portion

should be recognized in net earnings. During 2006, the Company entered into CCIRSA's 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. These CCIRSA's have been designated as net investment hedges and have an unfavourable fair value of \$5.6 million at the end of the current period and are recorded in long-term debt. The Company has also entered into a non-deliverable forward foreign exchange contract to hedge its investment in its Brazilian subsidiaries. This foreign exchange contract has an unfavourable fair value of \$1.6 million for the period and is recorded in accounts payable and accrued liabilities. The Company has elected to record the forward points associated with the forward contract into accumulated other comprehensive income.

### **Commitments and Contingencies**

The Company has no material "off-balance sheet" financing obligations except for typical long-term operating lease agreements. The nature of these commitments is described in note 14 of the December 31, 2006 Annual Consolidated Financial Statements. The Company does not have any material related party transactions. There are no defined benefit plans funded with CCL stock.

### **Risks and Strategies**

The 2006 Management's Discussion and Analysis in the Annual Report detailed risks to the Company's business and the strategies that were planned for 2007 and beyond. There have been no material changes to those risks and strategies. CCL is now more exposed to the inherent risks associated with running a more internationally diverse specialty packaging business. The Company now has more dependence on the European, Latin American and Asian economies and their currencies. These non-Canadian risks were described in the 2006 Management's Discussion and Analysis.

### **Outlook**

The Company continues to focus on the growth prospects of its specialty packaging business and the prudent management and reinvestment of its cash on hand and cash flow generation with a view to the continued improvement in shareholder value in 2007 and beyond. CCL is continuing to integrate and reorganize the large number of recent acquisitions it has made to improve profitability and simplify administration. The Company is investigating mid-sized potential acquisition and joint venture candidates that meet its criteria of core products and customers, and the expectation of earnings accretion in the first year of ownership.

The organic growth in sales and income experienced in 2006 and early 2007 are anticipated to continue into the balance of 2007 as the Company is expected to generate additional returns from its recent significant capital investments and acquisitions. However, the seasonality of the business continues to evolve, particularly in the Label Division, with the first quarter being the most profitable by

a considerable margin. There are challenges expected in the remainder of 2007 associated with the cost of aluminum in the Container division and the Company's ability to maintain margins through higher selling prices to its customers. In addition, the Label Division will be relocating its operations in Mexico, Memphis and Paris to new facilities over the remainder of 2007 and will be incurring additional costs associated with these moves. The weakness of the Canadian dollar relative to the European currencies, primarily the euro and also the Brazilian real has positively impacted earnings for the first quarter of 2007 compared to 2006 and is anticipated to do so throughout 2007. However, the recent weakness in the U.S. dollar may somewhat offset this potential upside in non-North American currency translation.