



2005 ANNUAL REPORT



WE PUT ALL THE PIECES TOGETHER

TABLE OF CONTENTS

1	FINANCIAL HIGHLIGHTS
2	LETTER TO SHAREHOLDERS
8	OPERATIONS REVIEW
28	BOARD OF DIRECTORS
30	CORPORATE OFFICERS
32	FINANCIAL REVIEW
80	GLOSSARY OF TERMS
81	INVESTOR INFORMATION



ABOUT THE COVER

Sonoco has positioned itself as a total solutions provider for consumer product companies. By “putting all the pieces together” for its customers, Sonoco is able to offer beginning-to-end packaging supply chain products and services. The Company’s business model is unique in the packaging industry and is one of the reasons why 2005 produced one of the strongest operating performances in Sonoco’s history. Sonoco’s capabilities include design, development and testing of leading technology packaging; global graphics management to enhance customers’ brand image; graphics reproduction including laser engraved cylinders to ensure the highest quality packaging graphics reproduction; and service centers to provide packing, fulfillment, purchasing, inventory control and delivery capabilities. Sonoco also offers its customers a full range of packaging options, including rigid paper or plastic containers, flexible packaging, metal or plastic ends and closures and point-of-purchase displays.

Shown on the cover: Whether choosing temporary, semipermanent or permanent displays, Sonoco CorrFlex provides design and engineering innovation and expertise in managing beginning-to-end complex promotional programs for retail-focused customers. Point-of-purchase displays and fulfillment are important pieces of Sonoco’s Total Solutions offering of packaging supply chain products and services.

FINANCIAL HIGHLIGHTS

COMPARATIVE HIGHLIGHTS UNAUDITED

(\$ AND SHARES IN THOUSANDS EXCEPT PER SHARE DATA)		
YEARS ENDED DECEMBER 31	2005	2004
Net sales	\$3,528,574	\$3,155,433
Gross profit ¹	660,951	574,790
Net income	161,877	151,229
Return on total equity	13.5%	14.2%
Return on net assets ²	7.9%	8.3%
Return on net sales	4.6%	4.8%
Approximate number of employees	17,600	17,100
Approximate number of shareholder accounts	46,000	46,000
Per common share:		
Net income – basic	\$ 1.63	\$ 1.54
– diluted	1.61	1.53
Cash dividends – common	.91	.87
Ending common stock market price	29.40	29.65
Price/earnings ratio	18.26	19.38

¹ Gross profit: Net sales minus cost of sales.

² Return on net assets: Tax-affected earnings before interest and taxes, plus equity in earnings of affiliates, divided by the net of average total assets, minus average cash, minus average current liabilities, plus average short-term debt.

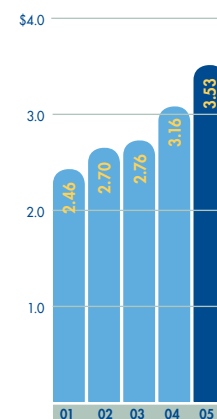
STRATEGIC MISSION STATEMENT

Sonoco intends to be the low-cost global leader in providing customer-preferred packaging solutions to selected value-added segments, where we expect to be either number one or two in market share. Shareholder return, customer and employee satisfaction, commitment to excellence, integrity, environmental stewardship and a safe workplace will be the hallmarks of our culture.

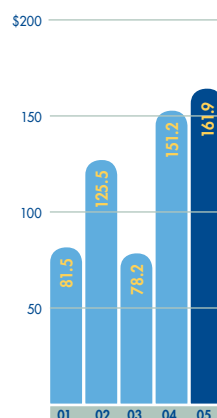
STRATEGIC OBJECTIVE

To achieve average annual double-digit total return to shareholders, with returns on capital and equity in the top quartile of the Standard & Poor's (S&P) 500 Index.

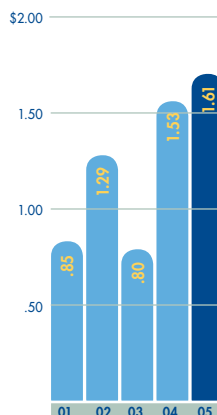
NET SALES (BILLIONS OF DOLLARS)



NET INCOME FROM CONTINUING OPERATIONS (MILLIONS OF DOLLARS)



NET INCOME FROM CONTINUING OPERATIONS PER DILUTED SHARE (DOLLARS)



SONOCO AT A GLANCE

Founded in 1899, Sonoco today serves industrial and consumer customers in 85 nations. From our headquarters in Hartsville, S.C., and from more than 300 manufacturing and sales locations in 35 countries, our approximately 17,600 employees produce packaging for a variety of industries and for many of the world’s most recognized brands.

CONSUMER PACKAGING



RIGID PACKAGING – PAPER

The world’s largest producer of composite cans and a leader in rigid paperboard containers

Products and Services: Round and shaped composite paperboard cans, single-wrap paperboard packages, fiber cartridges

Markets: Food: Snacks, nuts, cookies and crackers, confectionery, frozen concentrate, powdered beverages and infant formula, coffee, refrigerated dough, spices/seasonings, nutritional supplements, pet food

Nonfood: Adhesives, caulks, cleansers, chemicals, lawn and garden, automotive, pet products

Locations: 34 rigid paper and plastic in North and South America, Europe, Asia and Australia with approximately 2,450 employees



RIGID PACKAGING – PLASTIC

A leader in rigid plastic containers and closures

Products and Services: Bottles, jars, tubs, cups, trays, squeeze tubes

Markets: Food: Liquid beverage (noncarbonated), including functional beverage and ready-to-drink coffee, processed foods, sauces and pet foods, powdered beverages, including coffee, snacks and nuts

Nonfood: Household chemicals, industrial chemicals, adhesives and sealants, personal care

Locations: Information included in Rigid Packaging – Paper



ENDS AND CLOSURES – PLASTIC AND METAL

A world leader in convenience closure technology and manufacturing

Products and Services: Aluminum, steel and peelable membrane easy-open closures for composite, metal and plastic containers

Markets: Canned processed foods, coffee, beverage, powdered beverages and infant formula, snacks, nuts, nutritional supplements, spices/seasonings, pet food and treats and nonfood products

Locations: Seven in the United States and South America with approximately 750 employees



PRINTED FLEXIBLE PACKAGING

A provider of printed high-barrier, high-performance innovative flexible packaging solutions

Products and Services: Flexible packaging made from thin-gauge, high value-added rotogravure, flexographic and combination printed film, including high-performance laminations and rotogravure cylinder engraving

Markets: Confectionery and gum, hard-baked goods, coffee, retort, beverages, snack foods, pet food, home and personal care

Locations: Six converting and two cylinder engraving in North America with approximately 1,030 employees

TUBES AND CORES/PAPER



TUBES AND CORES

The world’s largest producer of tubes and cores (engineered carriers)

Products and Services: Paperboard tubes, cores, roll packaging, molded plugs, supply chain packaging services

Markets: Construction, film, flowable products, metal, paper mill, shipping and storage, tape and label, textiles, converters

Locations: 119 in North and South America, Asia, Australia and Europe with approximately 5,750 employees



PAPER

A global manufacturer of uncoated recycled paperboard for Sonoco’s fiber-based packaging divisions and the external converting industry

Products and Services: Recycled paperboard, chipboard, tubeboard, lightweight corestock, boxboard, linerboard, specialty grades, recovered paper

Markets: Converted paper products, spiral winders, beverage insulators, displays, gaming, paper manufacturing

Locations: 26 paper mills with 37 machines in 11 countries; 45 recovered paper collection sites in nine countries; one forest operation in the United States, approximately 3,130 employees

PACKAGING SERVICES



PACKAGING SERVICES

A leading provider of strategic packaging, display and service solutions for retail-focused customers

Products and Services: Designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase (P-O-P) displays; providing brand artwork management and supply chain management services including: contract packing, fulfillment and scalable service centers

Markets: Consumer packaged goods, including: personal care, beauty, healthcare, electronics, hosiery, confectionery, home and garden, sporting goods, office supplies, pharmaceuticals

Locations: 17 locations including service centers, point-of-purchase manufacturing facilities, sales and design offices and an artwork management center, approximately 2,560 employees

ALL OTHER SONOCO



PROTECTIVE PACKAGING

A leading provider of custom-designed and engineered protective packaging solutions

Products and Services: Proprietary SonoPost® technology, SonoBase™ Carrier System and a partnership with Sonoco CorrFlex to provide the SonoPop™ display system. Services include an ISTA-certified lab for engineering and testing solutions, on-site engineering and just-in-time fulfillment of multiple packaging materials

Markets: Household appliances, heating and air conditioning, lawn and garden, including outdoor grills, furniture and office furnishings, automotive, and promotional display and palletized distribution solutions

Locations: One engineering and testing center, four SonoPost corner post manufacturing facilities, approximately 340 employees



WIRE AND CABLE REELS

The leading producer of wooden, composite and metal reels in North America for the wire and cable industry

Products and Services: Baker™ steel, nailed wooden, plywood, recycled and poly-fiber reels

Markets: Wire and cable manufacturers

Locations: Five in the United States, 30 distribution centers and nine recycling centers in the United States and Canada with approximately 420 employees



MOLDED AND EXTRUDED PLASTICS

A leading innovative solutions provider of engineered plastic products

Products and Services: Complete offering of product design, tool design and fabrication; manufacturing in both injection molding and extrusion technologies

Markets: Consumer and industrial packaging, food services, textiles, wire and cable, fiber optics, plumbing, filtration, automotive, medical, healthcare

Locations: 15 in North America and Europe with approximately 660 employees



PAPERBOARD SPECIALTIES

A leading supplier of paper amenities in North America

Products and Services: Custom-printed Rixie™ coasters, Stancap® glass covers, other paper amenities

Markets: Hotels and resorts, casinos, country clubs, catering services, cruise lines, airlines, healthcare facilities, restaurants

Locations: Two in the United States, with manufacturer’s representatives across the United States with approximately 50 employees

TO OUR SHAREHOLDERS

Sonoco achieved one of its strongest operating performances during 2005. We realized double-digit sales growth, including increased revenues from new products; strong operating profits; and substantial cash flow generation. Furthermore, we improved margins, increased Companywide volumes and realized a positive price/cost relationship. At year end, the accumulated benefit obligation of our United States defined benefit pension plan was fully funded, and our debt-to-total capital ratio had been reduced to 35.7%.



Harris E. DeLoach, Jr.
Chairman, President
and Chief Executive
Officer

These accomplishments were attained despite rapidly rising raw material, energy, freight and labor costs, and continued weak general economic conditions in Europe. However, the Company responded to these issues by implementing timely surcharges for steel and energy plus general price increases for the majority of its products serving consumer and industrial markets. Additionally, we continued to aggressively improve productivity to help offset inflationary costs, reduced our global cost structure with selective plant consolidation and hedged much of our natural gas requirements to provide more certainty of costs. Perhaps most gratifying, our Sonoco family achieved another record year for improved safety performance.

While we accomplished much in 2005, including further improving the Company's ability to sustain sales and earnings growth, there remain significant opportunities to improve the Company's overall performance going forward. These include reducing working capital, particularly related to inventories; reducing the number of underperforming plants that adversely impact our margins; providing adequate capacity to continue growing our flexible packaging business, such as the February 2006 acquisition of a Texas rotogravure printing facility; adding more market differentiating rigid plastic technologies; seeking additional geographic expansion opportunities for our tubes and cores; and, of course, continuing to focus on execution and people.

SUMMARY OF 2005 RESULTS

Earnings per diluted share for 2005 were \$1.61, compared with \$1.53 for 2004. Base earnings per diluted share for 2005, a non-GAAP measure that excludes certain unusual items, were \$1.92, versus \$1.65 for 2004. (A reconciliation of base earnings per share to reported earnings per share is provided on page 31.)

Net income for 2005 was \$161.9 million, compared with \$151.2 million in 2004. The 2005 results included the following unusual expenses: \$10.1 million in additional tax expense associated with the repatriation of \$124.7 million in foreign earnings under the American Jobs Creation Act of

2004, \$7.6 million (after tax) to increase an environmental reserve and \$13 million (after tax) in previously announced restructuring costs. Net income for 2004 was negatively impacted by restructuring charges of approximately \$14.4 million (after tax), a \$3.6 million (after tax) charge related to the cost of replacing certain executive life insurance policies and a \$2.9 million (after tax) charge for claims against the Company as a result of a legal judgment. 2004 net income was positively impacted by \$9.3 million as a result of the recognition of certain tax benefits.

Base earnings for 2005 totaled \$192.6 million, compared with \$162.8 million for 2004. (A reconciliation of base earnings per share to reported earnings per share is provided on page 31.) The increase in base earnings for 2005 was primarily due to increased volume in the Consumer Packaging segment, higher service revenues in the Packaging Services segment, reduced costs resulting from ongoing productivity and purchasing initiatives and a favorable price/cost relationship, as well as the full-year impact of the second quarter 2004 acquisition of CorrFlex Graphics, LLC (CorrFlex), one of the largest point-of-purchase and fulfillment companies in North America. These increases were partially offset by costs associated with the integration of the Sonoco-Alcore joint venture, consisting of the European tube, core and paper operations of Sonoco and Ahlstrom Corporation of Finland; weaker demand for tubes and cores/paper in Europe and the Americas; continued weak general economic conditions in Europe; higher energy, freight and labor costs; and startup costs associated with the Company's new rigid plastic container plant in Wisconsin.

Net sales for 2005 were \$3.5 billion, up about 12%, versus \$3.2 billion for 2004. This increase resulted primarily from higher average prices Company-wide, foreign currency exchange and increased volume, principally in the Consumer Packaging and the Packaging Services segments, which included the CorrFlex acquisition. Volume also benefited from the formation of the Sonoco-Alcore joint venture in Europe.

Sonoco generated \$227.4 million in cash from operations during 2005, versus \$252.2 million in 2004. The cash generated from operations for 2005 was used to fund capital expenditures of \$129.1 million and to pay dividends of \$90.1 million. Debt was reduced by \$117.8 million as a result of cash generated from operations and the use of accumulated cash balances. Cash generated from operations in 2005 included the impact of \$77 million for funding defined benefit pension plans during 2005, compared with \$33.4 million during 2004.

GENERAL GROWTH STRATEGY

To help meet our objective of achieving average annual double-digit total returns, we are employing a three-pronged growth strategy. First, we will



continue to effectively manage our capital based on a foundation of significant strengths. Our balance sheet is one of the most substantial in the packaging industry. It is buttressed by our historical generation of strong cash flow which has allowed us to reinvest in our businesses, make acquisitions, fund our pension plans and to pay consecutive dividends since 1925. Sonoco's dividends currently have a yield of about double that of the S&P 500 Index. We will continue to focus on effective capital management, with particular emphasis on working capital during 2006.

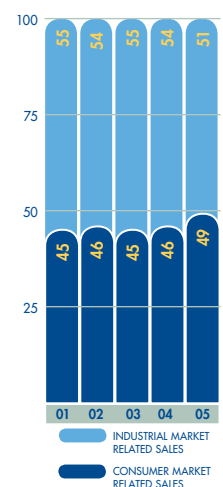
A second component of our growth strategy is to aggressively manage the fundamentals of our business, ranging from operating costs to productivity improvement. In 2005, the Company initiated the final plant closings associated with restructuring programs that have yielded approximately \$115 million in cost reductions since 2001. In today's environment of frequent market and customer migration from country to country, we will continue to vigilantly review our global plant structure and alter it as needed to ensure a low-cost position. We will also continue to emphasize annual productivity improvement with an objective of offsetting general inflationary factors, such as wage and medical benefit increases.

Another important component of managing the fundamentals is our initiative to reverse the historical ratio of sales generated by businesses serving the industrial and consumer markets of about 55% and 45%, respectively. Our strong results for 2005 reflect, in part, the progress made to date by this initiative, with sales from businesses serving the consumer markets already reaching virtual parity with those from the industrial sector. While we will certainly continue to grow our market-leading businesses serving the industrial sector, we expect to grow those serving the faster growing and less cyclical consumer markets more rapidly.

We believe that by successfully managing the fundamentals, Sonoco can continue to improve its operating profit margins toward their more historic levels. We are progressing toward that objective with such actions as structural cost reductions; price micromanagement to ensure that pricing truly reflects the market; swift implementation of price increases to cover higher costs; and through continuous improvement in operating execution, with such actions as Six Sigma, Lean Manufacturing and scrap reduction.

The third prong of our strategy is focused on sustainable and profitable top-line growth, which has received increased emphasis since 2000. Excluding divested businesses, our compound average sales growth over the last five years was 6.7%, compared with just over 4.6% for the prior five years. This growth has been driven principally by acquisitions and by new product and market development. (This non-GAAP financial measure is reconciled to reported sales on page 31.)

CHANGING
REVENUE MIX
(PERCENT)



SALES GROWTH INITIATIVES

We are driving sales with three primary and equally weighted growth initiatives. One is acquisitions and joint ventures. Additional acquisitions will most likely be predominately in our flexible packaging and rigid plastics operations, though not exclusively. Another is continued geographic expansion in response to customer requirements and as the primary growth driver for our more mature businesses. The third is providing total solutions to consumer product companies' packaging supply chain requirements, including new products and services.

ACQUISITIONS/JOINT VENTURES

We have three criteria for acquisitions: they must not be dilutive to earnings in their first year, they must meet Sonoco's cost of capital within three to four years after completion and they have to be complementary to our existing businesses. For example, the CorrFlex acquisition, which has exceeded expectations, was not only accretive in its first year but was also one of the primary reasons why Sonoco achieved strong operating profits in 2005.

We also view joint ventures as potential growth vehicles. For example, in November 2004, we completed the Sonoco-Alcore joint venture, the largest tube and core operation in Europe. Sonoco owns a 64.5% interest. The joint venture carries put/call provisions that could result in Sonoco acquiring 100% of the operation. A similar arrangement exists with Demolli, the largest tube and core manufacturer in Italy.

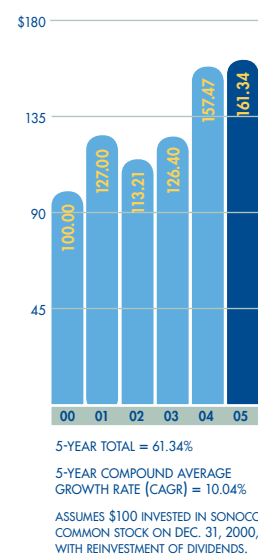
GEOGRAPHIC EXPANSION

Another important growth tool is geographic expansion in response to changing customer and market needs. During 2004, we opened a steel easy-open closures operation in Brazil for export and to serve the Brazilian market. Sonoco is also the largest producer of tubes and cores in Brazil. During late 2004 and 2005, we added three additional tube and core facilities in China, where we are the largest producer of tubes and cores; acquired a tube and core plant in New Zealand; and a second tube and core plant commenced operation in Turkey. New packaging Service Centers were opened in Germany, England and Poland. In February 2006, we acquired a small tube and core converting operation in western Canada. And, we are currently reviewing entry opportunities for tubes, cores and composite cans in India.

TOTAL PACKAGING SOLUTIONS FOR THE CONSUMER MARKET

The third leg to our top-line strategy is unique to Sonoco. We have positioned ourselves as a total packaging solutions provider for consumer product companies, offering a full range of packaging supply chain products and services.

CUMULATIVE
TOTAL
SHAREHOLDER
RETURN
(DOLLARS)



A major component of our Total Solutions strategy is the development of new products and services. Since 2000, we have significantly increased new product and market development, including having doubled the number of new patent applications and invention disclosures. In 2000, we had no significant sales from new products. In 2005, we generated sales from new products alone of about \$75 million. Our goal over the next few years is annual sales from new products in the \$100 million to \$125 million range. We define new products as those that have been commercial for two years or less.

CONCLUSIONS AND OUTLOOK

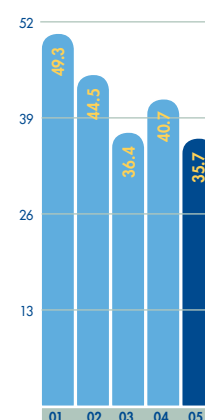
Sonoco delivered on its key performance initiatives in 2005. The Company sustained year-over-year quarterly base earnings increases, coupled with margin improvement and double-digit sales growth. We again generated strong cash flow and aggressively protected it through productivity improvement, cost control and price management. For example, we continued to effectively hedge the majority of our natural gas needs in the United States to provide more certainty of energy costs, and we achieved a positive price/cost relationship during a highly volatile period of rising raw material costs. Furthermore, during 2005, our balance sheet was bolstered by debt reduction, thus helping us maintain ample flexibility to take advantage of growth opportunities.

We believe the Company's 2005 results validate our overall growth strategy and specifically our unique Total Solutions initiative for consumer product companies. The year 2005 may well prove to have been a "breakout" year for Sonoco's Consumer Packaging and Packaging Services segments, reflecting the addition of CorrFlex and volume growth, particularly in flexible packaging and ends and closures. Furthermore, our Consumer Packaging segment has now achieved six consecutive quarters of year-over-year earnings and margin improvement.

Looking ahead, we expect our Consumer Packaging and Packaging Services segments to provide a strong foundation for continued growth. And, we expect our Tubes and Cores/Paper segment to continue leading our strong cash flow from operations, which should be in the \$300 million range annually, before any discretionary pension funding, over the next several years. We plan to use available cash in 2006 to fund capital spending, to reduce debt, to continue paying dividends as we have done without interruption since 1925 and to repurchase stock as a means of offsetting options dilution, when appropriate.

During 2006, we will remain focused on growing our top line and improving margins by managing productivity and costs within our businesses. The Company expects base earnings per diluted share for the full-year 2006 to

DEBT TO TOTAL
CAPITAL RATIO
(PERCENT)



be at the upper end of the \$1.90 to \$1.94 range, which includes approximately \$.03 per diluted share related to expensing of stock options; excludes any restructuring charges, which cannot be estimated at this time; and assumes no significant changes in volume or pricing.

I have never been more confident in our ability to achieve sustainable and profitable growth. Sonoco has the appropriate strategy and financial strength to achieve its objective of average annual double-digit total returns. The key to our success in 2006 and beyond will be our ability to execute our strategy. That requires us to have the right people in the right jobs. I believe we have such a team in place today, and we are committed to continuing to do so.

Sincerely,

A handwritten signature in black ink, reading "Harris E. DeLoach, Jr." with a stylized flourish at the end.

HARRIS E. DELOACH, JR.

Chairman, President and Chief Executive Officer

March 10, 2006



^ Sonoco's businesses work together to meet the changing market needs of its customers. In response to consumer demand for a sturdier shortening can, Sonoco's molded plastics team developed a cost-effective alternative to the traditional composite can.

Sonoco's operations consist of three segments, Consumer Packaging, Tubes and Cores/Paper and Packaging Services. Several smaller businesses are discussed as All Other Sonoco. While Sonoco's businesses provide a variety of products and services, these businesses coordinate their offerings and leverage synergies to provide customers beginning-to-end packaging and services to meet their supply chain needs. This Total Solutions strategy is unique in the packaging industry and is one of the reasons why 2005 produced one of the strongest operating performances in Sonoco's history.

EXPANDING "ONE SONOCO FACE"

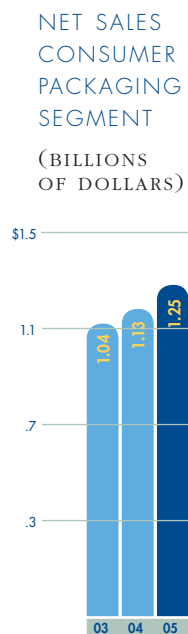
To complement the Company's Total Solutions strategy, Sonoco has developed and implemented an initiative to build better relationships with its large global consumer product company customers who are looking for fewer, larger suppliers to whom they can outsource a greater amount of their packaging supply chain needs. This "One Sonoco Face" initiative was expanded in 2005 by offering major consumer product companies the added benefit of having a seasoned senior Sonoco executive assigned to manage their relationship with Sonoco. This centralized account leadership has the authority to bring to bear all the necessary solutions, along with expedited decision making, to meet the customer's packaging requirements.

IMPROVING PRODUCTIVITY

To protect cash flow and improve margins, Sonoco initiated five plant closings in the Tubes and Cores/Paper segment and two plant closings in the Consumer Packaging segment in 2005. The Company's 2005 restructuring activities were part of a program that began in 2003. These actions have been focused on reducing the Company's operating costs and sizing the business to changing markets. The Company is currently conducting an in-depth review of its global Tubes and Cores/Paper operations. This review, expected to be completed by mid-2006, is intended to examine markets served by the Company (principally textiles, paper and film) and address issues such as market growth and migration, capacity, technology and competition. Depending upon the conclusions reached, a further restructuring of operations may result. In December 2005, the Company divested its single-plant folding cartons business since it was not core to the Company's growth strategy. Sonoco achieved approximately \$77 million in total productivity improvements in 2005. The Company is also focusing on price micromanagement to improve price recovery in light of rising energy and raw material costs.

CONSUMER PACKAGING SEGMENT





◀ Nothing says fresh like cookies, snacks and candy presented in Sonoco packaging. Throw in some cold drinks with Sonoco shrink wrap and you have a formula for fun. Featuring bright colors, metallic inks and a choice of barrier options, Sonoco packages are easy-to-handle, carry and reseal.

The Consumer Packaging segment represents approximately 35% of Sonoco's 2005 consolidated net sales. The operations in this segment consist of 49 plants throughout the world. This segment develops and produces the packaging for many of the food and nonfood brands that consumers around the world use daily. Packaging in this segment includes round and shaped composite paperboard cans, for which Sonoco is the global market leader; single-wrap paperboard containers; fiber and plastic cartridges; rigid plastic containers; and squeeze tubes. In addition, this segment includes printed flexible packaging made from thin-gauge, high value-added rotogravure, flexographic and combination printed film, including laminations, and rotogravure cylinder engraving. This segment also includes ends and closures, including aluminum, steel, plastic and peelable membrane easy-open closures for composite, metal and plastic containers.

Net sales for the Consumer Packaging segment increased approximately 10% in 2005 to \$1.25 billion, compared with \$1.13 billion in 2004. Sales in the segment increased due to higher selling prices of closures, composite cans and plastic packaging. Greater volumes throughout the segment, particularly in flexible packaging, also contributed significantly to the sales increases. In addition, favorable exchange rates helped sales as the dollar weakened against foreign currencies. Overall, volumes were up nearly 5% in the segment. Domestic sales for the segment were approximately \$894 million, up 7% from 2004, and international sales were approximately \$353 million, up 21% from 2004.

Operating profits for the Consumer Packaging segment were \$103.5 million, compared with \$83.1 million in 2004. Operating profits in this segment were favorably impacted by increased volumes as well as productivity and purchasing initiatives, partially offset by increased costs of energy, freight and labor. Continued high startup costs at the Company's rigid plastics container plant in Wisconsin also negatively impacted operating profits in the segment. Higher raw material costs, primarily steel and aluminum, were largely offset by increased selling prices.

RIGID PAPER PACKAGING

Volume in the Company's rigid paper packaging business increased year-over-year due to global customer demand for new single-wrap tapered canisters and increased preference for composite cans as a cost-effective alternative to all-metal packaging, due to higher steel and aluminum prices.



▲ Add life to your next party with snacks and nuts in Sonoco packaging. From the newly introduced extra clear thermoformed plastic containers to rigid paper packages, Sonoco offers a variety of sizes, shapes, colors and opening features designed to meet consumers' demand for convenience.

SONOCO'S TOTAL SOLUTIONS OFFERING

Sonoco has positioned itself as a total packaging solutions provider for consumer product companies, offering a full range of packaging supply chain products and services. Sonoco's Total Solutions strategy incorporates:



Design, Development and Testing — Sonoco scientists, engineers and designers use leading-edge technology at the Company's Packaging Development Center, in Hartsville, S.C., to take concepts and turn them into prototype packaging that is thoroughly tested before it goes to market.

Global Graphics Management — Through Sonoco's proprietary global graphics management system, the Company uses technology to manage and enhance the reproduction of its customers' brand image, regardless of medium.

Graphics Reproduction — Sonoco offers its customers laser engraved cylinders to ensure the highest quality packaging graphics reproduction.

Full-range Packaging Options — Whether a customer's packaging needs are for rigid paper or plastic containers, flexible packaging, metal or plastic closures or point-of-purchase displays, Sonoco has the capability of providing customers with innovative, market-differentiating products.

Custom Packing and Inventory Control — In addition to developing custom packaging, Sonoco provides "speed to market" by offering packing, fulfillment, purchasing and inventory control.

Delivery to Marketplace — Sonoco completes its beginning-to-end, Total Solutions offering by providing just-in-time delivery of customers' packaged products to their distribution centers or directly to retail outlets.

NEW RIGID PAPER PRODUCTS. Sonoco introduced several market-differentiating applications of its unique SonoWrap® single-wrap package design for cookies and snack foods in the United States and Europe in 2005. Targeting the growing health food market, Sonoco produced a new oval-shaped, single-wrap canister for the launch of Readifoods' new fruit and nut snack mixes—Tesco Temptations—in the United Kingdom.

Sonoco also teamed with Kimberly-Clark de Mexico to develop a new

concept composite cup for Kleenex® tissues. This low-cost package, which is available in six distinct colors, provides a clear market differentiation on the store shelf from traditional folding cartons. In Brazil, Sonoco developed a new composite can with the Company's Sealed Safe® end for a customer's powdered milk product. This new packaging provides a cost-saving application when compared with the previous steel can.



◀ For the ultimate in on-the-go convenience, Sonoco blow-molded plastic retort bottles are ideal for coffees, dairy and soy-based nutritional beverages, supplements or other drinks. Engineered to meet advanced barrier requirements, the multilayer bottles can withstand high processing temperatures and are manufactured in custom shapes and sizes.



RIGID PLASTIC PACKAGING

Sonoco's new technology driven rigid plastics products continued to show volume growth in 2005 enhanced by the opening of a new production facility in Wisconsin. The Company offers a complete line of rigid plastic products, including injection molding, blow molding, thermoforming, tube extrusion and sheet extrusion designs to meet customers changing needs for high-performance packaging.

NEW RIGID PLASTIC PRODUCTS. Sonoco's material scientists developed North America's first round retort bottle, suitable for shelf-stable dairy-based beverages and ready-to-drink coffees. This new packaging permitted Kan-Pack, LLC to convert its Cool Java™ brand ready-to-drink coffee beverage

^ Hot or cold, coffee hits the spot. In Europe, Nestle® brand Coffee-Mate® nondairy creamer, along with copackers of coffee, turn to Sonoco for innovative rigid paper canisters with a choice of barriers, closures and shapes.

from glass to a transparent plastic container that is able to withstand the high temperatures and pressure of the retort process to provide for shelf stability. The curved structure provides for the application of an attractive, shrink-sleeve label.

Sonoco also worked with Hampton Farms to launch a line of gourmet roasted nuts in a new multilayer, thermoformed oval-tapered plastic tub. The unique package is new to the nut segment and offers a 12-month shelf life, an easy-to-open re-sealable top and compact size for on-the-go snacking. The container's high-clarity polypropylene design features eye-catching graphics and allows consumers to view the product before opening.

FLEXIBLE PACKAGING

Sales, earnings and margins improved year-over-year in Sonoco's flexible packaging business due to new product introductions and improved productivity following the realignment of North American production assets. Further growth in flexible packaging volumes and sales are targeted in 2006 as Sonoco expands its rotogravure printing production capability with the acquisition of the flexible packaging assets of Waco, Texas-based Wycon Corporation. This acquisition is a strategic fit for Sonoco as it provides an existing business with two 12-color rotogravure presses and the capability of expanding its state-of-the-art 135,000-square-foot facility to meet the growing flexible packaging needs of customers in the southwest U.S. and Mexico. The Company also added a new eight-color flexographic printing press at its Terrebonne, Canada, operation, primarily to serve the confectionery market.

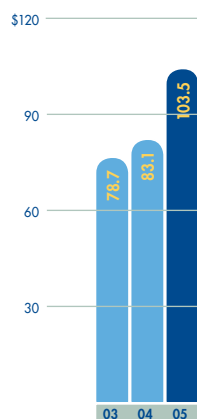
NEW FLEXIBLE PRODUCTS. One of Sonoco's most revolutionary and successful new packaging launches in 2005 was the Snack 'n Seal™ easy opening and closing flexible package that was jointly developed with Kraft for its Nabisco® brand Chewy Chips Ahoy!® cookies. This unique patent-pending technology with a peel-back flap in the top of the flexible package is designed to keep cookies fresh and to make opening and closing the package easier. Follow-up designs, utilizing new technology that is proprietary to Sonoco, will be available in other food lines in the future.

As consumers become more conscious of healthy lifestyles, Sonoco has been working with its customers in developing reduced portion packaging to promote sensible snacking for reduced calorie diets. A new flexible packaging

Sonoco introduced a number of innovations to the market during 2005. Featured are, (l-r) the special paper used by Hallmark for its line of paper plates; the Snack 'n Seal™ closure for Nabisco® Chips Ahoy!® cookies; a plastic can for shortening; a retort flexible pouch; Sonomet, a metallic ink look without the expense, and the laser score seal for Cadbury Adams' Trident® gum. ✓



OPERATING
PROFIT
CONSUMER
PACKAGING
SEGMENT
(MILLIONS
OF DOLLARS)



solution for Kraft's 100 calorie Nabisco brand snack packs is an example.

Working with powdered beverage companies, Sonoco developed a single-serve, foil-barrier pouch, called a stick pack, which is used for flavoring bottled water. This unique flexible packaging can be imprinted with multicolor graphics and has a notch near one corner for easy opening. This new packaging is expanding consumption of water-flavoring mixes by moving use from the home pitcher to on-the-go use.

Sonoco's Edinburgh, Ind., and Mississauga, Canada, plants worked together to produce a new gum package that has a unique flip-top opening using Sonoco's laser-scoring technology. Laser scoring makes packaging easier to open without compromising the package's barrier.

As one of the largest producers of retail retort pouches in North America, Sonoco is continuing to expand retort pouch packaging technology in 2006 with the introduction of new fill and seal systems that provide significant cost savings to customers.

CLOSURES

Despite higher steel and aluminum costs, Sonoco's ends and closures business produced year-over-year improvements in sales, earnings and volumes, stemming primarily from added production capacity at the Company's Resende, Brazil, operations. As one of the world's largest manufacturers of easy-opening ends, Sonoco provides global distribution of a full range of convenience closures for processed and nonprocessed foods.

NEW TECHNOLOGY OFFERING. Sonoco has developed a new retortable membrane closure system that delivers convenience and safety for processed foods. The smooth-opening system will be introduced in 2006 and is designed for today's "heat and eat" packages, especially with microwave applications.

Tea is the world's most popular beverage, and Sonoco's new stick pack flexible packaging is helping make the drink more accessible than ever. Unilever's single-serve Lipton® Iced Tea To Go is especially popular with consumers with active, on-the-go lifestyles.

TUBES AND CORES/PAPER SEGMENT



^ With sales on the rise, the plasma television market represents a growth opportunity for Sonoco. The high-performance film that gives these televisions their crystal-clear picture is wound on Sonoco's most sophisticated paper and plastic cores.

The Tubes and Cores/Paper segment, formerly known as Engineered Carriers and Paper, was renamed to better reflect the nature of its products. This segment accounted for 42% of the Company's consolidated net sales in 2005. The products and services of the Tubes and Cores/Paper segment include paperboard tubes, cores, roll packaging, supply chain packaging services, molded plugs, recycled paperboard and recovered paper.

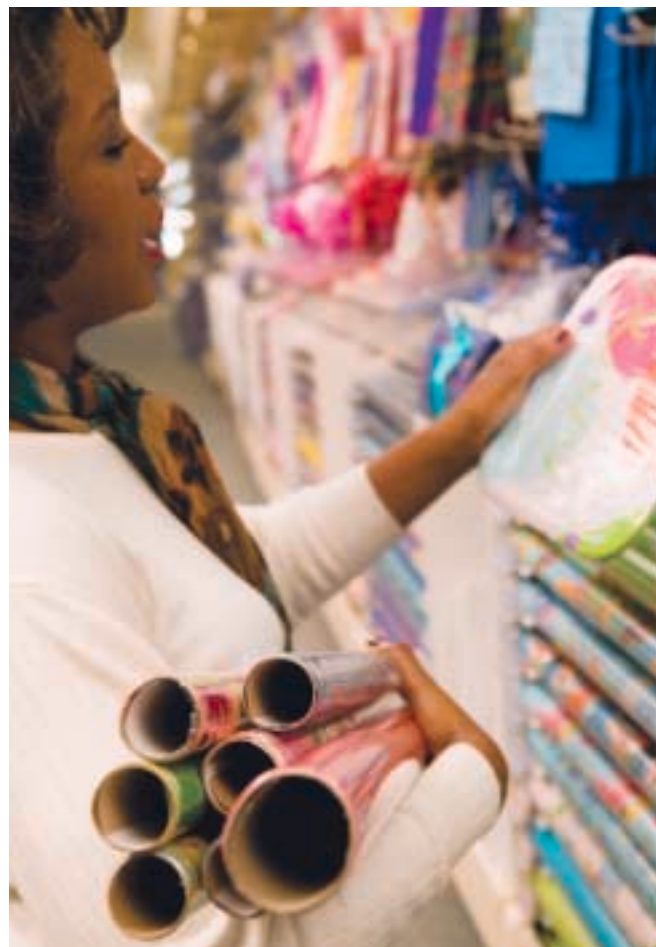
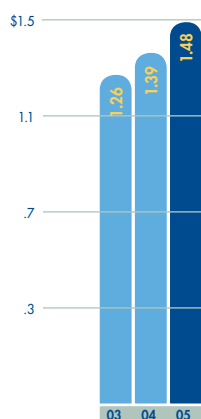
Net sales for the Tubes and Cores/Paper segment were \$1.48 billion in 2005, about a 7% increase from \$1.39 billion reported in 2004. The increase in sales was due primarily to the recognition of a full-year's impact of the Sonoco-Alcore joint venture, which resulted in \$86.6 million of higher sales. The impact of favorable exchange rates as the dollar weakened against foreign currencies, along with increased selling prices, was partially offset by lower volume in North American and European tubes and cores. Volume, excluding the impact of the joint venture, decreased approximately 2%, due primarily to declines in the textile and newsprint industries. Domestic sales decreased approximately \$4 million, about 1%, to \$758 million, and international sales increased approximately \$98 million, or 16%, to \$724.1 million.

Operating profit in this segment was \$107.1 million, compared with \$113 million in 2004. Operating profit was unfavorably impacted by a charge of \$12.5 million related to an increase in the environmental reserve at a Company subsidiary's paper operations in Wisconsin; decreased volume, primarily in the textile and newsprint markets; and increased costs of energy, freight and labor. These increased costs were partially offset by year-over-year savings from productivity and purchasing initiatives and a favorable price/cost relationship. A \$5.6 million charge associated with an accounting adjustment from a wholly owned subsidiary in Spain, which was related to prior years, was recorded in 2004, while 2005 results were impacted by a \$3 million asset impairment charge related to operations in Asia.

Hallmark selected Sonoco as the sole supplier for its Party Express line of paper plates. With more than 150 everyday and 30 seasonal paper partyware designs, the paper plates must be strong and durable. Complementary gift wrap is also wound on Sonoco cores. ✓

NET SALES TUBES AND CORES/PAPER SEGMENT

(BILLIONS
OF DOLLARS)



TUBES AND CORES

Sonoco is the world's leading producer of tubes and cores from 119 converting facilities located on five continents. Sonoco's tubes and cores



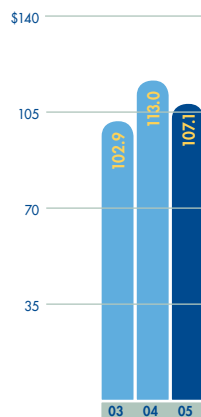
business primarily serves industrial customers, including those in the paper, film, textile, tape and label and construction industries. Examples of products include the core around which newsprint is rolled, the tubes used to wind thread and cloth textiles, the high-performance cores used to wind specialized films used for audio, video and industrial packaging industries, and paperboard tubes used in construction. This segment also manufactures products for customers that produce consumer products. An example is the tubes for rolls of film used to make plasma televisions. While overall tube and core volume declined year-over-year, the Company did experience volume growth in a number of subsegments that have retail or consumer applications, including nonwoven pulp, construction, household wraps, tape and label, carpet and cloth.

GEOGRAPHIC EXPANSION. Sonoco continued its expansion in China by adding three converting operations in late 2004 and 2005, bringing the Company's total to five facilities. This expansion is primarily focused on meeting the needs of China's growing textile industry. Sonoco is the largest

▲ Sonoco's introduction of RainGuard™ technology for its Sonotube® line of concrete forming tubes enables contractors to set forms in wet weather. These strong, rain-resistant concrete forms provide flexibility on the job site as well as reduce material and labor costs.

OPERATING PROFIT TUBES AND CORES/PAPER SEGMENT

(MILLIONS
OF DOLLARS)



Purolator® air filters with pleated media trap pollen, dust and pet dander to meet the needs of the do-it-yourself residential market. Sturdy paper from Sonoco holds the pleated media in place. ➤

tube and core producer in China, and the Company expects to add a sixth facility in 2006. The Company also acquired a tube and core manufacturer in New Zealand in 2005 and is exploring entry opportunities for tubes and cores and composite cans production in India. Original consolidation plans for the Sonoco-Alcore joint venture were completed ahead of schedule as seven of the joint venture's 47 facilities were closed in 2005.

NEW TUBES AND CORES

PRODUCT EXTENSION. Sonoco expanded its market leadership in fiber-based concrete column forms with the North American launch of a new water-resistant Sonotube® concrete form with RainGuard™ technology. The new Sonotube forms incorporate a proprietary, high-strength, water-resistant paper that allows contractors to set the concrete forms in wet weather and pour concrete the next day, thus providing flexibility and material and labor cost savings. The new Sonotube forms with RainGuard technology are available in a number of sizes in round and square forms through the Company's North American distributor network. In addition, the new technology is available in the Company's Finish Free® forms that, when stripped, require no manual finishing, thus further reducing costs. Sonoco is exploring opportunities to expand international markets with the new concrete forms.

PAPER

VERTICALLY INTEGRATED OPERATIONS. One of Sonoco's competitive strengths is its vertical integration strategy. With 26 paper mills and 37 paper machines around the world, Sonoco's paper operations provide the primary raw material for the Company's fiber-based packaging. The Company's paper operations serve such markets as converted paper products, spiral winders, beverage insulators, displays, gaming and paper manufacturing. In 2005, Sonoco recycled paperboard manufacturing capacity was approximately two million tons. Of that production, the Company sells approximately 550,000 tons annually of various grades of paper to outside customers. Completing the vertical integration strategy is the Company's worldwide recovered paper operations which provide the raw material for the Company's paper manufacturing. With 45 primary collection facilities worldwide, Sonoco's recovered paper operations sell approximately 70% of its collections to outside customers. In the fourth quarter of 2005, Sonoco's North American paperboard mills operated at approximately 99% capacity, compared with about 93% in the same period in 2004.



➤ Hengli Textile Co. Ltd., uses Sonoco textile tubes at its Shaoxing, China, operation. Sonoco tubes are enhanced with proprietary notches, scores and grooves to improve string-up efficiency. Color coding identification systems add an extra dimension to quality assurance.





The Packaging Services segment represents approximately 13% of the Company's consolidated net sales in 2005. This segment consists of packaging supply chain management services, such as scalable Service Centers operated by Sonoco for major consumer product companies. In addition, this segment includes design, manufacture and fulfillment services for point-of-purchase (P-O-P) displays; brand artwork management; and on-line and off-line prepress management services.

The Packaging Services segment reported a 42% increase in net sales of \$455.9 million, compared with \$321 million reported in 2004. Sales in this segment increased primarily due to the recognition of a full-year's impact of the May 2004 acquisition of CorrFlex. In addition, higher volume contributed \$56.5 million to the increase in sales. Domestic sales increased to \$356.7 million, a 44% increase, while international sales increased to \$99.2 million, or 36%.

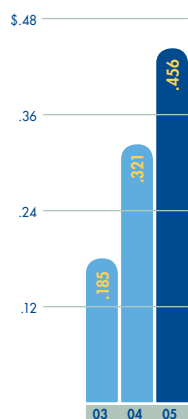
Operating profits for this segment increased 48% to \$44.8 million in 2005, compared with \$30.3 million in 2004. Although the increase in operating profits in this segment is largely attributable to the full-year's impact of the acquisition of CorrFlex, productivity and purchasing initiatives in the service centers also contributed to the improvement.

SERVICE CENTERS

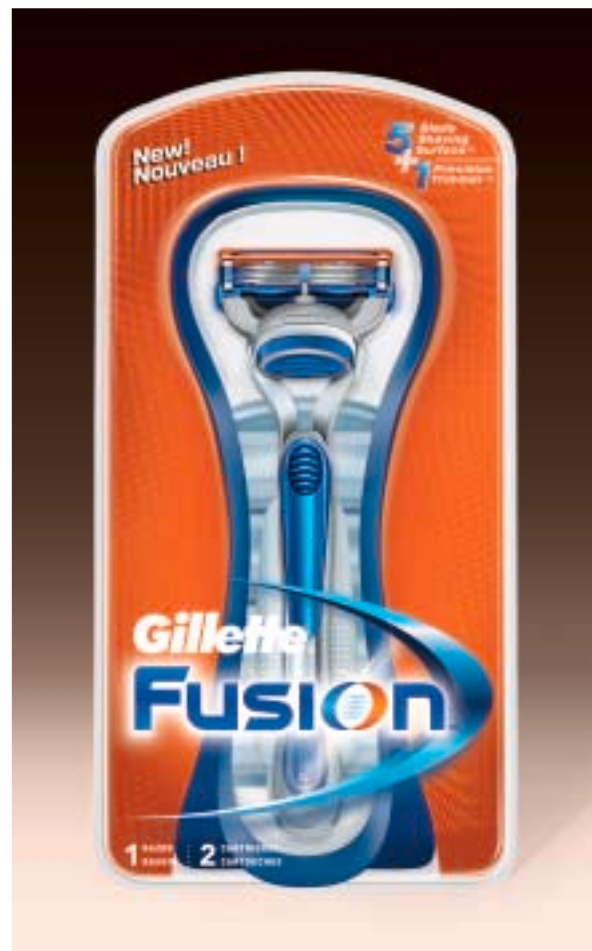
Sonoco's Service Centers provide supply chain management services on a global basis to some of the largest consumer product companies. For Procter & Gamble (P&G), Sonoco packages all Gillette® brand razors and blades for North America at facilities in Devens, Mass., under an extended contract. In addition to managing multiple stockkeeping units (SKUs), Sonoco handles inventory control and all logistical requirements for incoming materials and Gillette razors and blades. Sonoco worked with P&G in fulfilling the introduction of the new Gillette brand Fusion™ razor that was launched with a major marketing campaign tied to the Super Bowl. Sonoco also provides Service Center management for Gillette razors and blades in Europe. In 2005, the Company transitioned Service Center operations from England to a new facility in Lodz, Poland. In addition, Sonoco operates a Service Center for P&G in Euskirchen, Germany, where it fulfills P-O-P displays for its European Babycare Division and a Service Center in Dunstable, England, for promotional razors and blades products. Sonoco also operates a Service Center for Hewlett-Packard (HP) in Virginia, where the Company packs ink cartridges for inkjet printers serving HP's markets in the Americas.

NET SALES PACKAGING SERVICES SEGMENT

(BILLIONS
OF DOLLARS)



◀ Market-differentiating displays drive impulse-driven purchases. That is why Cadbury Adams USA relied upon Sonoco CorrFlex to develop a unique floorstanding wing display to introduce its new Trident Splash™ sugar-free, center-filled gum.



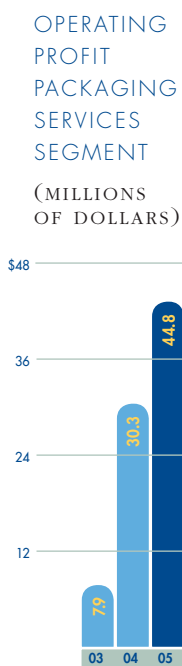
▶ Procter & Gamble's successful launch of its new Gillette brand Fusion™ razor was supported by Sonoco's packaging supply chain management services.

A joint effort between Sonoco's protective packaging and packaging services businesses resulted in the development of SonoPop™, a proprietary, pallet-based system that is durable and dramatically reduces protective materials and labor. ➤



POINT-OF-PURCHASE DISPLAYS AND FULFILLMENT

Sonoco CorrFlex's unique design-to-delivery promotional and P-O-P services make the Company one of the largest providers of retail displays and packing services. A key driver of Sonoco's Total Solutions strategy, Sonoco CorrFlex designs, manufactures, assembles, packs and distributes temporary, semipermanent and permanent displays and provides supply chain management services, including contract packaging, fulfillment and scalable Service Centers for major retail-focused customers. Sonoco CorrFlex



operates a national network of nine regional sales and design offices, four in-house manufacturing operations and five Service Centers.

Sonoco CorrFlex markets the Company's SonoPop™ modular palletized display system using Sonoco's proprietary Sonopost® technology. This system incorporates Sonoco engineered corrugated components produced by its protective packaging business to create a cost-effective custom display system that safely delivers consumer products to grocery, club and mass merchandising retail stores. Sonoco CorrFlex introduced SonoPop displays to

P&G for the first time in 2005 with the launch of a custom-designed "Brand Savers Event" floor display. The displays were placed in a large grocery super-store chain featuring seven P&G brand health and beauty products with 498 SKUs.

Because gum is an extremely impulse-driven purchase, market-differentiating, in-store displays are critical to drive sales. Sonoco CorrFlex developed a unique floorstanding wing display to introduce Cadbury Adams USA's Trident Splash™ sugar-free, center-filled pellet gum. The display was designed with vibrant graphics that complemented the product by drawing upon the bright colors of the gum's packaging. Trays containing the blister packaged gum cascade down and across the front of the display simulating the "splash." Developed to accommodate flexible off-shelf placement, the display worked well across all retail sectors and arrived prepacked at retail outlets to ensure ease of implementation and eliminate stocking costs.

POPAI, an international trade association for the marketing of the at-retail industry, recognized Sonoco CorrFlex in 2005 with four Outstanding Merchandizing Achievement Awards for unique design and functionality. The Company received a gold award for its Elizabeth Arden skinsimple end-cap display, a silver award for its Cadbury Adams fruit gum trio floorstand and counter display, and bronze awards for Pride Golf Tee – Softspikes® floorstand display and Costa Del Mar sunglasses permanent floor display.



Point-of-purchase displays from Sonoco CorrFlex capture the attention of consumers and industry experts. In 2005, the Company earned one gold, one silver and two bronze outstanding achievement awards from the Point-of-Purchase Advertising Institute (POPAI) for its creative, eye-catching displays.

GRAPHICS MANAGEMENT

Sonoco's United Kingdom-based Sonoco-Trident offers global brand graphics management. Through the use of proprietary systems, the Company helps ensure quality packaging graphics reproduction for all media to enhance the brands of its customers. Sonoco-Trident will expand its services in 2006 by establishing a location in the United States.



In addition to the products and services provided by Sonoco in its Consumer Packaging, Tubes and Cores/Paper and Packaging Services segments, Sonoco produces wire and cable reels, protective packaging, molded and extruded plastics, and glass covers and coasters. The results of these operations are reflected as All Other Sonoco. In 2005, these businesses accounted for approximately 10% of the Company's consolidated net sales.

All Other Sonoco net sales increased about 9% in 2005 to \$343.2 million, compared with \$313.8 million in 2004. Sales in these businesses increased due to higher prices for molded and extruded plastics, wire and cable reels and protective packaging along with increased volume in wire and cable reels and protective packaging. Domestic sales for these businesses were approximately \$283 million, up about 12% from 2004, and international sales were approximately \$60 million, essentially flat with 2004.

Operating profits for All Other Sonoco were \$40.6 million in 2005, up 27%, from \$32 million in 2004. Operating profits for these businesses increased due primarily to manufacturing productivity and purchasing

^ Retailers know Whirlpool® washers and dryers will arrive in tip-top condition thanks to protective packaging from Sonoco. Sturdy, impact-resistant Sonopost® corner posts protect the home appliances from damage during shipping, storing and stacking.

Whirlpool® is a registered trademark of Whirlpool USA.

initiatives and a favorable price/cost relationship, as the Company was able to recover increases in raw material costs, including lumber, resin and paper. Although higher volume was a significant reason for increased sales, operating profits were not impacted materially as changes in the mix of products resulted in lower profit margins.

PROTECTIVE PACKAGING

Sonoco provides engineered protective packaging solutions, including Sonopost® corner posts, Sonobase™ transport base and Sonoview™ clear view packaging for a total systems approach to product protection. This business also contributes to the Company's vertical integration strategy by being one of Sonoco's internal consumers of paper. Sonoco has established strong relationships with companies in the large appliance industry, where it provides protective packaging for such products as washers, dryers, ranges and refrigerators to global companies such as Whirlpool Corporation, Bosch and Electrolux Home Products (Frigidaire).



WIRE AND CABLE REELS

Sonoco is the leading producer of wooden, composite and metal reels for North America's wire and cable industry. Sales and volume improved in 2005, driven by coastal utility reconstruction and replacement efforts following two severe hurricane seasons, along with an overall strong U.S. housing market.

MOLDED AND EXTRUDED PLASTICS

Sonoco's molded and extruded plastics operations supply customers in the textile, fiber optic, wire and cable, automotive, plumbing, filtration, food services, medical, healthcare and packaging markets.

CROSS-SELLING SOLUTIONS. This business works closely with Sonoco's Consumer Packaging segment in North America and Europe to provide "One Sonoco Face" to consumer product companies in meeting their packaging supply chain needs. As an example, a molded plastics' materials scientist worked to develop a new injection-molded plastic container for an existing Sonoco rigid paper customer who was planning to move its product from an existing composite can. The coordinated efforts resulted in Sonoco obtaining a new five-year contract to supply plastic containers to the food service supplier. In addition to expanding its relationship with the customer, Sonoco is working to leverage the new plastic container with other food service companies.

▲ Alcoa uses an injection molded plastic spool designed and manufactured by Sonoco to wind and dispense its zipper closure into the final manufacturing stage of the rapidly growing zippered bag market.

GLASS COVERS AND COASTERS

Sonoco is the North American market leader in supplying paper coasters and glass covers to the hospitality, restaurant and healthcare industries.



Through its actions, Sonoco is proving that building a successful global packaging company is compatible with making a significant contribution to the economic, social and environmental well-being of the communities in which it operates. Together with business partners, employees, shareholders, customers, community leaders and governmental and regulatory authorities, Sonoco is pursuing business opportunities in an ethical and responsible manner that will enable the Company to grow in ways that ensure a sustainable future for generations to come.

BENEFITING FROM DIVERSITY

Sonoco believes that valuing and supporting diversity in its workforce and with suppliers is good business. Sonoco purchases a variety of products and services through well-qualified, customer-focused suppliers, including those that are minority- and women-owned. In 2005, Sonoco was recognized by one of its customers for its supplier diversity efforts as it increased its annual spending with identified minority- and women-owned suppliers by nearly 35%.

▲ Sonoco's sustainability efforts are best reflected in its stewardship approach to packaging. The Company supports recycling efforts with customers around the world by taking back used product, such as tubes and cores and using the recaptured products as raw materials for its papermaking operations.

Working with a diversity supplier in 2005, Sonoco expanded a distribution channel to supply tubes and cores to a major consumer product company that the Company would not have achieved without the diversity association.

COMMUNITY OUTREACH

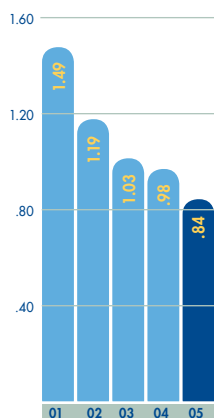
In 2005, Sonoco made contributions to benefit victims of natural disasters in areas where Sonoco has operations. This effort included donations to the Salvation Army and American Red Cross for providing relief effort to Hurricane Katrina victims in the Gulf Coast region of the United States. Sonoco also contributed to relief agencies in Indonesia and Thailand that provided assistance to tsunami victims.

Overall, Sonoco budgets approximately 1% of its consolidated pretax income annually for contributions to nonprofits representing education, health and welfare, arts and the environment. All philanthropic, community, employee and general citizenship activities and policies are reviewed by the Employee and Public Responsibility Committee of Sonoco's Board of Directors.

In addition to Sonoco's financial support, individual employees contribute in countless ways to make the communities where the Company operates better places in which to live by donating their personal resources, time and expertise to worthwhile organizations and projects. As an example, many employees give generously to United Way, participate in education and mentoring programs in local schools and provide support during the holidays for low-income families by purchasing clothing and gifts.

SAFETY RECORD

(TOTAL INCIDENT RATE PER 100 EMPLOYEES)



A SAFETY RECORD

In 2005, Sonoco employees around the world produced the Company's safest year ever, with a total incident rate (TIR) of .84 (annualized number of reportable injuries per 100 full-time employees), significantly surpassing the 2004 national average of 6.6 for all of U.S. manufacturing. Sonoco is recognized worldwide as a leader in employing safe work practices as illustrated by 210 Sonoco operations receiving the Company's President's Safety Award in recognition for achieving 200,000 hours or more of injury-free work in 2005.

EXPANDING ENVIRONMENTAL LEADERSHIP

Long known for its leadership in reclaiming and recycling packaging materials, Sonoco is also committed to helping its customers reduce disposal costs and meet their recycling goals. The Company operates a global reclamation system that annually collects approximately three million tons of recovered paper and packaging for recycling into new packaging products. In addition, the Company collects used wooden reels from utility companies and contractors throughout the United States so that they can be refurbished and delivered to wire and cable manufacturers for reuse. Since its inception, this initiative has saved more than 300,000 trees. Sonoco also recycles used and obsolete cell phones, laser and inkjet printer cartridges, rechargeable batteries, and computers and computer components, helping prevent potentially harmful materials from entering landfills.



Sonoco is listed in KLD Indexes' Domini 400 Social IndexSM (DSI). DSI consists of 400 U.S. companies that demonstrate leadership in corporate and social responsibility. Sonoco was listed in the index following an evaluation of the Company's positive performance on the environment, community relations, diversity, employee relations, human rights, product quality, safety and corporate governance.

BOARD OF DIRECTORS



^ First row, left to right, Charlie Bradshaw, Bob Brown, Paul Fulton, James Micali, John Mullin, Marc Oken. Second row, Tom Whiddon, Ed Lawton, Pamela Davies, Caleb Fort and James Coker. Third row, Jack Linville, Fitz Coker, Bernard Kasriel and Harris DeLoach.

HARRIS E. DELOACH, JR., 61
Chairman of the Board since 2005, President and Chief Executive Officer since 2000. Served on the Board since 1998. Member of the Executive Committee.

CHARLES J. BRADSHAW, 69
President and director of Bradshaw Investments, Inc. (private investments), Georgetown, S.C., since 1986. Formerly President and Chief Operating Officer of Transworld Corporation 1984-1986; Chairman and Chief Executive Officer of Spartan Food Systems, Inc. 1961-1986. Served on the Board since 1986. Member of the Corporate Governance and Nominating, Financial Policy and Executive Compensation Committees.

ROBERT J. BROWN, 71
Founder, Chairman and Chief Executive Officer, B&C Associates (management consulting, marketing research and public relations firm), High Point, N.C., since 1973. Served on the Board since 1993. Member of the Corporate Governance and Nominating and Employee and Public Responsibility Committees.

FITZ L.H. COKER, 70
Retired. Formerly President and a director of Sea Corporation of Myrtle Beach, Inc. (private investments), Myrtle Beach, S.C. 1983-1989; Sr. Vice President at Sonoco 1976-1979. Served on Board since 1964. Member of the Employee and Public Responsibility Committee.

JAMES L. COKER, 65

President, JLC Enterprises (private investments), Stonington, Conn., since 1979. Formerly Secretary of the Company 1969-1995; President of Sonoco Limited, Canada 1972-1979. Served on the Board since 1969. Member of the Audit and Financial Policy Committees.

DR. PAMELA L. DAVIES, 49

President of Queens University of Charlotte (institute of higher learning), Charlotte, N.C., since 2002. Formerly Dean of the McColl School of Business at Queens University of Charlotte 2000-2002; Professor of Management and Dean of the LeBow College of Business at Drexel University 1997-2000. Served on the Board since 2004. Member of the Audit and Employee and Public Responsibility Committees.

CALEB C. FORT, 44

Co-Chairman, The Merit Group, Inc. (distributors of residential and commercial paint-related products and various industrial supplies), Spartanburg, S.C., since 1998. Formerly a principal of Lancaster Distributing Company 1990-1998. Served on the Board since 2001. Member of the Audit, Employee and Public Responsibility and Corporate Governance and Nominating Committees.

PAUL FULTON, 71

Chairman since 2000 and director since 1997, Bassett Furniture Industries, Inc. (furniture maker), Bassett, Va. Formerly Chief Executive Officer of Bassett Furniture Industries, Inc. 1997-2000; Dean of The Kenan-Flagler Business School, The University of North Carolina 1994-1997; President of Sara Lee Corporation 1988-1993. Served on the Board since 1989. Member of the Executive, Corporate Governance and Nominating and Executive Compensation Committees.

BERNARD L.M. KASRIEL, 59

Vice Chairman of the Board, Lafarge (construction materials group), Paris, France, since January 2006. Formerly Chief Executive Officer of Lafarge 2003-2006; Vice Chairman and Chief Operating Officer of Lafarge 1995-2003; Vice Chairman and Chief Operating Officer of Lafarge 1995-2003; Managing Director of Lafarge 1989-1995; Sr. Executive Vice President 1987-1989; Executive Vice President 1982-1987. Served on the Board since 1995. Member of the Executive Compensation and Financial Policy Committees.

EDGAR H. LAWTON, III, 45

President and Treasurer, Hartsville Oil Mill (vegetable oil processor), Darlington, S.C., since 2000, and a director since 1991. Formerly Vice President of Hartsville Oil Mill 1991-2000. Served on the Board since 2001. Member of the Audit and Employee and Public Responsibility Committees.

JOHN E. (JACK) LINVILLE, 60

Attorney in private practice in New York, N.Y., since 2004. Formerly counsel with Manatt, Phelps & Phillips, LLP 2003-2004, joining the firm through its merger with his prior firm, Kalkines, Arky, Zall & Bernstein, LLP 1990-2003; General Counsel and then Acting President of the New York Health & Hospitals Corporation prior to 1990. Served on the Board since 2004. Member of the Executive Compensation and Financial Policy Committees.

JAMES M. MICALI, 58

Chairman and President, Michelin North America, Inc. (tire manufacturer), Greenville, S.C., since 1996 and a member of Michelin Group's Executive Council since 2001. Formerly Executive Vice President, Legal and Finance of Michelin North America 1990-1996; General Counsel and Secretary 1985-1990. Served on the Board since 2003. Member of the Audit and Financial Policy Committees.

JOHN H. MULLIN, III, 64

Chairman, Ridgeway Farm LLC, Brookneal, Va. (privately held timber and farming business), since 1989. Formerly Managing Director of Dillon, Read & Co. Inc., 1969-1989. Served on the Board since 2002. Member of the Corporate Governance and Nominating, Financial Policy, Executive and Executive Compensation Committees.

MARC D. OKEN, 59

Managing Partner of Falfurrias Capital Partners (private equity firm), Charlotte, N.C., since January 2006. Formerly held executive officer positions at Bank of America Corporation 1989-2006, most recently as Chief Financial Officer; partner at Price Waterhouse LLP for 13 years; a Fellow with the Securities and Exchange Commission 1981-1983. Joined the Board in February 2006. Member of the Audit and Executive Compensation Committees.

THOMAS E. WHIDDON, 53

Advisory Director of Berkshire Partners, LLC (private equity firm), Boston, Mass., since October 2005; and acting Chief Operating Officer of Waterworks, Inc. (luxury bath retailer), Danbury, Conn., a Berkshire portfolio company, since January 2006. Formerly Executive Vice President-Logistics and Technology of Lowe's Companies, Inc. 2000-2003; Executive Vice President and Chief Financial Officer of Lowe's 1996-2000; also held senior financial positions at Zale Corporation and Eckerd Corporation. Served on the Board since 2001. Member of the Audit Committee.

CORPORATE OFFICERS

EXECUTIVE COMMITTEE

HARRIS E. DELOACH, JR., 61

Chairman of the Board, President and Chief Executive Officer since April 2005. Previously President and Chief Executive Officer July 2000-2005; Chief Operating Officer April-July 2000; Sr. Executive Vice President 1999-2000; Sr. Executive Vice President, Global Industrial Products/Paper/Molded Plastics 2000; Executive Vice President, High Density Film, Industrial Container, Fibre Partitions, Protective Packaging, Sonoco Crellin and Baker Reels 1996-1998. Joined Sonoco in 1985.

JIM C. BOWEN, 55

Sr. Vice President since 2002. Previously Sr. Vice President, Global Paper Operations 2000-2002; Vice President/General Manager-Paper 1997-2000; Vice President, Manufacturing N.A., Paper 1994-1997; Director of Manufacturing 1993-1994. Joined Sonoco in 1972.

ALLAN V. CECIL, 64

Vice President, Investor Relations and Corporate Affairs since 1998. Previously Vice President, Investor Relations and Corporate Communications 1996-1998. Prior experience: Vice President, Corporate Communications and Investor Relations, National Gypsum Company and Mesa Petroleum Co. Joined Sonoco in 1996.

CYNTHIA A. HARTLEY, 57

Sr. Vice President, Human Resources since 2002. Previously Vice President, Human Resources 1995-2002. Prior experience: Vice President, Human Resources, Dames & Moore and National Gypsum Company. Joined Sonoco in 1995.

CHARLES J. HUPFER, 59

Sr. Vice President and Chief Financial Officer and Corporate Secretary since April 2005. Previously Vice President and Chief Financial Officer and Corporate Secretary 2002-2005; Vice President, Treasurer and Corporate Secretary 1995-2002; Treasurer 1988-1995. Joined Sonoco in 1975.



▲ Front row, left to right, Charlie Hupfer, Harris DeLoach, Cindy Hartley and Charles Sullivan. Back row, Allan Cecil, Jim Bowen, Jack Sanders and Eddie Smith.

M. JACK SANDERS, 52

Vice President, Global Industrial Products since January 2006. Previously Vice President, Industrial Products N.A. 2001-2006; Division Vice President/General Manager, Protective Packaging 1998-2001; General Manager, Protective Packaging 1991-1998. Joined Sonoco in 1987.

EDDIE L. SMITH, 54

Vice President, Customer and Business Development since 2002. Previously Vice President/General Manager, Flexible Packaging 1998-2002; Division Vice President/General Manager, Flexible Packaging 1996-1998; Division Vice President, Consumer Products Europe 1994-1996. Joined Sonoco in 1971.

CHARLES L. SULLIVAN, JR., 62

Executive Vice President since April 2005. Previously Sr. Vice President 2000-2005; Regional Director, Cargill Asia/Pacific in 2000 and President, Cargill's Salt Division 1995-2000. Joined Sonoco in 2000.

OTHER CORPORATE OFFICERS

RITCHIE L. BOND, 50

Staff Vice President, Treasurer since November 2005. Prior experience: Sr. Vice President and Treasurer of Alliance One International. Joined Sonoco in 2005.

BERNARD W. CAMPBELL, 56

Vice President and Chief Information Officer since 1996. Previously Staff Vice President, Information Services 1991-1996; Director, Corporate Information Services 1990-1991. Joined Sonoco in 1988.

RODGER D. FULLER, 44

Vice President, Rigid Paper and Plastics N.A. since January 2006. Previously Vice President, Rigid Paper and Plastics N.A. and Sonoco Phoenix February 2005-January 2006; Vice President and General Manager, Consumer Products N.A. 1997-2005. Joined Sonoco in 1985.

KEVIN P. MAHONEY, 50

Vice President, Corporate Planning since 2002. Previously Staff Vice President, Corporate Planning 1996-2000. Joined Sonoco in 1987.

MARTY F. PIGNONE, 48

Vice President, Paper N.A. since February 2005. Previously Division Vice President and General Manager, Paper N.A. 2000-2005. Joined Sonoco in 1997.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP financial measures discussed in the Company's 2005 Annual Report to Shareholders together with the most directly comparable financial measures calculated in accordance with Generally Accepted Accounting Principles (GAAP), and a reconciliation of the differences between the non-GAAP financial measures disclosed and the most directly comparable financial measures calculated in accordance with GAAP:

BASE EARNINGS AND BASE EARNINGS PER SHARE

Base earnings is a non-GAAP financial measure of net income and base EPS is a non-GAAP financial measure of earnings per share, which exclude the impact of restructuring charges and of non-recurring or infrequent and unusual items. The following table sets forth the reconciliation of quarterly and annual GAAP net income to base earnings and the reconciliation of annual GAAP diluted earnings per share to base earnings per share:

2005	FIRST QUARTER (\$ IN MILLIONS)	SECOND QUARTER (\$ IN MILLIONS)	THIRD QUARTER (\$ IN MILLIONS)	FOURTH QUARTER (\$ IN MILLIONS)	YEAR ENDED 12/31/2005 (\$ IN MILLIONS)	ANNUAL EPS (IN DOLLARS)
Net income, as reported (GAAP)	\$ 37.0	\$ 40.2	\$ 45.9	\$38.8	\$161.9	\$1.61
Adjusted for:						
Restructuring charges, net of tax	3.1	5.6	2.5	1.8	13.0	.13
Environmental reserve, net of tax				7.6	7.6	.08
Taxes on repatriation of foreign earnings				10.1	10.1	.10
Base earnings (NON-GAAP)	\$ 40.1	\$ 45.8	\$48.4	\$58.3	\$192.6	\$1.92

2004	FIRST QUARTER (\$ IN MILLIONS)	SECOND QUARTER (\$ IN MILLIONS)	THIRD QUARTER (\$ IN MILLIONS)	FOURTH QUARTER (\$ IN MILLIONS)	YEAR ENDED 12/31/2004 (\$ IN MILLIONS)	ANNUAL EPS (IN DOLLARS)
Net income, as reported (GAAP)	\$ 38.6	\$ 36.7	\$40.9	\$35.0	\$151.2	\$1.53
Adjusted for:						
Restructuring charges, net of tax	1.0	4.6	1.0	7.8	14.4	.14
Legal judgment, net of tax	3.6			(0.7)	2.9	.03
Executive life insurance, net of tax			3.6		3.6	.04
Recognition of tax benefits	(9.3)				(9.3)	(.09)
Base earnings (NON-GAAP)	\$ 33.9	\$ 41.3	\$ 45.5	\$42.1	\$162.8	\$1.65

NET SALES, EXCLUDING DIVESTED BUSINESSES

Net sales, excluding divested businesses is a non-GAAP financial measure of revenue, which retroactively excludes the net sales of all subsequently divested businesses and is used in the calculation of the compound annual growth rate of sales. The following table sets forth the reconciliation of GAAP net sales to net sales, excluding divested businesses:

YEAR ENDED DECEMBER 31 (DOLLARS IN MILLIONS)	1995	2000	2005
Net sales, as reported (GAAP)	\$2,556,248	\$2,570,708	\$3,528,574
Adjusted for:			
Net sales from businesses subsequently divested	(522,429)	(25,206)	
Net sales, excluding divested businesses (NON-GAAP)	\$2,033,819	\$2,545,502	\$3,528,574
Five-year compound annual growth rate		4.6%	6.7%

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

OVERVIEW

Sonoco achieved a number of key performance goals in 2005 despite a challenging operating and market environment. The Company experienced sustained year-over-year quarterly earnings increases, margin improvement and double-digit sales growth, driven principally by acquisitions, improved Companywide volume coming from significant new consumer product and market development and geographic expansion. Integration of the CorrFlex acquisition was successfully completed. In addition, the Company's businesses continued to produce significant cost savings from manufacturing and purchasing improvements and a positive price/cost relationship was attained, despite rising costs in most raw materials.

Effective December 31, 2005, the Company changed the name of the Engineered Carriers and Paper segment to Tubes and Cores/Paper, because the term "tubes and cores" is more generally understood than "engineered carriers" in the marketplace for the primary products offered by the businesses in this segment. There has been no change in the businesses included in this segment.

Net sales for the Company in 2005 were \$3.53 billion, versus \$3.16 billion in 2004, primarily due to higher volume, including the impact of having a full-year of the CorrFlex Graphics, LLC ("CorrFlex") acquisition and the joint venture between Sonoco and Ahlstrom Corporation ("Ahlstrom") of Helsinki, Finland ("Sonoco-Alcore"). In addition to the impact of acquisitions, the Companywide volume increase during the year was driven by higher sales in the Consumer Packaging and Packaging Services segments, partially offset by volume declines for the Tubes and Cores/Paper (formerly called Engineered Carriers and Paper) segment. Also contributing to the sales gain were higher selling prices for rigid paper and plastic packaging, wire and cable reels, and molded and extruded plastics, along with the favorable impact of exchange rates as the dollar weakened against foreign currencies.

The Company reported net income of \$161.9 million for 2005, compared with \$151.2 million for 2004. Earnings growth in 2005 resulted in large part from strong sales, which were driven by the full-year impact of acquisitions completed in 2004, and from higher productivity improvement in virtually all of the Company's

businesses. Volume and mix had a disproportionately lower impact on operating profits than implied by the increase in sales, as the change in the mix of products sold had an unfavorable effect on operating profits. In addition, approximately \$24.8 million of the increased sales in the Packaging Services segment were on a pass-through basis and had very little impact on profits. Rising inflation and escalating energy and freight prices negatively impacted operating profits. The Company was able to maintain a favorable selling price/material cost ("price/cost") relationship during the year, most notably in the Tubes and Cores/Paper segment. Net income for 2005 and 2004 included after-tax restructuring charges of approximately \$13.1 million and \$14.4 million, respectively. Net income for 2005 was also negatively impacted by an after-tax charge of \$7.6 million related to an increase in the environmental reserve at a Company subsidiary's paper operations in Wisconsin, and additional tax expense totaling \$10.1 million associated with the repatriation of \$124.7 million in foreign earnings under the American Jobs Creation Act of 2004 ("AJCA").

Cash flow remained strong, with cash generated from operations totaling \$227.4 million in 2005, which includes global pension funding totaling \$77 million. Cash flow was used to fund capital expenditures, pay dividends and decrease debt by \$117.8 million. To sustain strong cash flow, the Company remains focused on growing sales by developing new products and markets, expanding geographically and making appropriate acquisitions. At the same time, the Company is committed to aggressively controlling costs and effectively employing its capital by paying close attention to working capital management and capital expenditures.

RESTRUCTURING CHARGES, UNUSUAL ITEMS AND OTHER ACTIVITIES

RESTRUCTURING CHARGES

During 2005, the Company recognized restructuring charges, net of adjustments, of \$21.2 million (\$14.3 million after tax), primarily related to eleven plant closings in the Tubes and Cores/Paper segment and three plant closings in the Consumer Packaging segment. Restructuring charges recognized during 2005 consisted of severance and termination benefits of \$6.2 million, asset impairment charges of \$6.5 million and other exit costs

of \$8.5 million, consisting of building lease termination charges and other miscellaneous exit costs. These costs are associated with the Company's general plans, announced in August 2003, to reduce its overall cost structure by approximately \$54 million pretax. The Company expects to recognize, in the future, an additional cost of approximately \$6.8 million pretax associated with these actions. The objectives of these restructuring actions are to realign and centralize a number of staff functions and eliminate excess plant capacity. With the exception of ongoing pension subsidies and certain building lease termination expenses, costs associated with the 2005 restructuring actions are expected to be paid by the end of the third quarter 2006 using cash generated from operations.

Of the \$6.5 million previously mentioned asset impairment charges (related to the writeoff/down of assets associated with eleven plant closings), the Company recognized writeoffs/downs of impaired equipment of \$5.9 million and writeoffs/downs related to facilities held for sale of \$.6 million. Impaired assets are valued at the lower of carrying amount or fair value, less estimated costs to sell, if applicable. During 2005, the Company also recorded noncash income of \$1.3 million after tax to reflect Ahlstrom's portion of restructuring costs that were charged to expense. This income, which resulted from the closure of certain plants that the Company contributed to Sonoco-Alcore S.a.r.l. ("Sonoco-Alcore"), is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

During the fourth quarter of 2005, the Company began an in-depth review of its global Tubes and Cores/Paper operations. This review, expected to be completed by mid-2006, is intended to examine the Company's served markets in this segment (principally textiles, paper and film) and address issues such as market growth, capacity, technology and competition. Depending upon the conclusions reached, a further restructuring of operations may result.

During 2004, the Company recognized restructuring charges, net of adjustments, of \$19 million (\$16.2 million after tax), primarily related to 10 plant closings in the Tubes and Cores/Paper segment, five plant closings in the Consumer Packaging segment and one plant closing in All Other Sonoco. Included in this amount is \$2.2 mil-

lion in restructuring charges, which resulted from a correction to previously reported financial statements at the Company's wholly owned subsidiary in Spain.

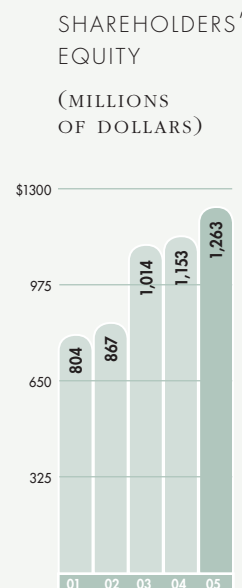
Restructuring charges recognized during 2004 consisted of severance and termination benefits of \$6.5 million, asset impairment charges of \$6.2 million and other exit costs of \$6.3 million, consisting of building lease termination charges and other miscellaneous exit costs.

During 2004, the Company also recorded noncash income in the amount of \$1.8 million after tax to reflect Ahlstrom's portion of restructuring costs that were charged to expense. This income, which resulted from the closure of certain plants that the Company contributed to Sonoco-Alcore, is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

During 2003, the Company recognized restructuring charges, net of adjustments, of \$50.1 million pretax (\$35.3 million after tax). Additionally, the Company's High Density Film business, which was divested in 2003, incurred restructuring charges of \$.2 million pretax (\$.1 million after tax) in 2003. The 2003

restructuring charges were primarily related to six plant closings in the Tubes and Cores/Paper segment, three plant closings in the Consumer Packaging segment, three plant closings in All Other Sonoco and a global reduction in salaried positions. These restructuring charges consisted of severance and termination benefits of \$37.7 million, asset impairment charges of \$8.4 million and other exit costs of \$4 million, consisting of building lease termination charges and other miscellaneous exit costs.

During 2003, the Company also recorded restructuring charges of \$1.5 million after tax related to expenses at a non-consolidated affiliate. The restructuring charges are included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.



ACQUISITIONS/JOINT VENTURES

The Company completed three acquisitions during 2005, with an aggregate cost of approximately \$3.6 million, all of which was paid in cash. Acquisitions in the Company's Tubes and Cores/Paper segment included a tube and core manufacturer in New Zealand and a small molded plug recycler in the United States.

Additionally, the Company purchased the remaining ownership interest in a Chilean tubes and cores business. The Company also acquired certain assets of a rigid plastic packaging manufacturer in Brazil, which is reported in the Consumer Packaging segment.

The Company completed nine acquisitions during 2004, with an aggregate cost of approximately \$367 million, of which \$267 million was paid in cash. During 2004, the Company acquired CorrFlex, one of the nation's largest point-of-purchase display companies. The acquired business, which is known as Sonoco CorrFlex, LLC, is reflected in the Packaging Services segment. Acquisitions in the Company's Consumer Packaging segment included a composite can manufacturer in Australia, a manufacturer of rotogravure cylinders in Canada and the remaining ownership interest in a manufacturer of rotogravure cylinders in Charlotte, N.C. Acquisitions in the Company's Tubes and Cores/Paper segment included tube and core manufacturers in Australia, China and the United States. The Company also completed a business combination with Ahlstrom to combine each of the companies' respective European paper-based tube/core and coreboard operations into a joint venture that operates under the name Sonoco-Alcore, and is reflected in the Company's Tubes and Cores/Paper segment. The Company contributed ownership positions in 25 tube and core plants, and five paper mills to Sonoco-Alcore and holds a 64.5% interest in the joint venture. Ahlstrom, a leader in high-performance fiber-based materials serving niche markets worldwide, contributed 14 tube and core plants and one paper mill to Sonoco-Alcore and holds a 35.5% interest in the joint venture. The Company has accounted for this transaction as an acquisition and, therefore, consolidates the results of the joint venture and reports Ahlstrom's minority interest as such in its financial statements. The recognition of minority interest is included in "Income before equity in earnings of affiliates/minority interest in subsidiaries" on the Company's Consolidated Statements of Income. The Company also acquired certain assets of a wooden reel refurbisher in Alabama, which are classified as components of All Other Sonoco.

The Company completed four acquisitions during

2003, with an aggregate cost of approximately \$11.1 million. Acquisitions in the Company's Tubes and Cores/Paper segment included a tube and core manufacturer in Australia and a recovered paper operation in Savannah, Ga. The Company also acquired certain assets of a wooden reel manufacturer in Canada and the United States, which were classified as components of All Other Sonoco. In addition, the Company increased its ownership interest in a manufacturer of rotogravure cylinders in Charlotte, N.C., that is included in the Company's Consumer Packaging segment.

DISPOSITIONS

In December 2005, the Company divested its single-plant folding cartons business for a note receivable of approximately \$11 million, which was collected in early 2006. This transaction resulted in a gain of \$2.4 million (\$1.6 million after tax). The results of this business unit were immaterial to the Company's consolidated net income for all periods presented.

In December 2003, the Company divested its High Density Film business to Hilex Poly Co., LLC, of Los Angeles, Calif., at a price of approximately \$81 million in cash and the balance in subordinated notes, and preferred nonvoting membership interests, resulting in a gain of approximately \$63.1 million pretax (\$49.4 million after tax). Operating results of this business are presented as "Income from discontinued operations, net of income taxes" in the Company's Consolidated Statements of Income for 2003. After-tax income contributed by the High Density Film business was approximately \$60.8 million in 2003.

OTHER SPECIAL CHARGES AND INCOME ITEMS

During the fourth quarter of 2005, the United States Environmental Protection Agency ("EPA") notified Sonoco U.S. Mills, Inc. ("U.S. Mills"), a wholly owned subsidiary of the Company, that U.S. Mills and another party would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin. U.S. Mills and the other party have reached agreement that each would fund 50% of the costs of remediation, which is currently estimated to be between \$25 million and \$30 million for the project as a whole. Project implementation will begin shortly, with most of the project costs expected to be incurred in 2007. Although the agreement reached does not acknowledge responsibility or prevent the other party from seeking reimbursement from any other parties

(including each other), the Company has accrued \$12.5 million as an estimate of the portion of costs that U.S. Mills expects to fund under the current agreement. The charges recognized for this environmental reserve are included in “Selling, general and administrative expenses” in the Company’s Consolidated Statements of Income. The actual costs associated with cleanup of this particular site are dependent upon many factors, and it is reasonably possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition. Based on information currently known to the Company, it does not appear that U.S. Mills is responsible for the alleged contamination. Some or all of any costs incurred may be covered by insurance or be subject to recoupment from third parties, but no amounts have been recognized in the financial statements for such recovery.

During 2005, the Company repatriated \$124.7 million from foreign subsidiaries under the provisions of AJCA. Under this temporary incentive, a portion of the repatriated funds qualified for an 85% dividends-received deduction. The Company recorded an additional tax expense of \$10.1 million for the U.S. federal and state taxes due on the repatriated funds, which will ultimately be used to fund investment in plant and equipment and U.S.-based research and development costs, as permitted by AJCA.

In 2004, the Company recognized charges of approximately \$5.6 million, which the Company incurred to recognize vested commitments to pay future costs associated with new executive life insurance benefits that replaced split-dollar life agreements made with key executives since 1995. Due to regulatory changes, the Company was not able to maintain those split-dollar agreements, and the replacement benefits for the affected employees have been provided by the Company to meet the intent and commitments of the previous plan. Also in 2004, the U.S. District Court for the Southern District of Ohio entered a judgment against the Company’s subsidiary, Sonoco-U.S. Mills, and the Company. The Company accrued approximately \$4.5 million related to this legal proceeding. The charges recognized for the new executive life insurance benefits and the legal proceeding are included in “Selling, general and administrative expenses” in the Company’s Consolidated Statements of Income. Additionally, 2004 net income was positively affected by approximately \$9.3 million due to the recognition of

certain tax benefits as a result of the Internal Revenue Service (“IRS”) closing its examination of the Company’s tax returns for years 1999 through 2001.

During the fourth quarter of 2004, the Company determined that misstatements were made in the financial statements of its wholly owned subsidiary in Spain, which consists of two tube and core plants. The primary impact of these misstatements was an underreporting of expenses over a six-year period totaling approximately \$9.4 million, before and after tax, of which \$2.2 million was related to restructuring charges as previously discussed. Of the remaining \$7.2 million, approximately \$1.6 million was associated with the first three quarters of 2004, approximately \$1.3 million was associated with 2003, approximately \$.3 million was associated with 2002, approximately \$1.9 million was associated with 2001 and the remaining amount of approximately \$2.1 million was associated with 2000 and prior. As the impact of these misstatements was not material to the reported results of any of the prior periods affected or to the period in which it was recorded, the Company recorded the charge in the fourth quarter.

RESULTS OF OPERATIONS 2005 VERSUS 2004

OPERATING REVENUE

Consolidated net sales for 2005 were \$3.53 billion, versus \$3.16 billion in 2004, resulting in an increase of approximately \$373 million.

The components of the sales change were approximately:

(\$ IN MILLIONS)	
Volume	\$100
Selling price	60
Currency exchange rate	43
Acquisitions	167
Other	3
Total sales increase	<u>\$373</u>

Sales increased primarily due to the full year of the CorrFlex acquisition and the Sonoco-Alcore joint venture, which increased sales by \$80 million and \$87 million, respectively. Companywide volume, excluding the increased service revenue in the Service Centers, which was on a pass-through basis, was approximately 2.4% higher than 2004 levels, driven by increases in the Consumer Packaging and Packaging Services segments. Higher selling prices for rigid paper and plastic packaging, closures, North American tubes and cores, paper-

board, wire and cable reels, and molded and extruded plastics, along with the favorable impact of exchange rates as the dollar weakened against foreign currencies, also contributed to the sales gain. Domestic sales were \$2.3 billion, up 9.1% from 2004, and international sales were \$1.2 billion, up 17.4% over 2004, driven primarily by the impact of a full year of sales from Sonoco-Alcore and the impact of currency translation discussed above.

OPERATING PROFITS

Consolidated operating profits, which represent "Income before income taxes" on the Consolidated Statements of Income for 2005 and 2004, are comprised of the following:

(\$ IN MILLIONS)	2005	2004	% CHANGE
Consumer Packaging Segment	\$103.5	\$83.1	24.5%
Tubes and Cores/Paper Segment	107.0	113.0	(5.3)%
Packaging Services Segment	44.8	30.3	47.9%
All Other Sonoco	40.6	32.0	26.9%
Restructuring and Related			
Impairment charges	(21.2)	(19.0)	(11.6)%
Interest expense, net	(43.6)	(42.1)	(3.6)%
Consolidated operating profits	<u>\$231.1</u>	<u>\$197.3</u>	<u>17.1%</u>

Operating profits for 2005 increased primarily due to savings resulting from ongoing productivity and purchasing initiatives. The Company experienced a favorable price/cost relationship as sales price increases more than offset higher material costs, most notably in the Tubes and Cores/Paper segment. The full-year impact of acquisitions also contributed to earnings growth. Operating profits for 2005 were negatively impacted by higher energy, labor and freight costs, as well as startup costs associated with the Company's new rigid plastic container plant in Wisconsin. Volume, excluding acquisitions, while contributing favorably to the sales growth, had a negligible impact on profits, as the change in the mix of products sold had an unfavorable effect on operating profits. In addition, approximately \$24.8 million of the increased sales in the Service Centers were on a pass-through basis, with no gross margin, and therefore had very little impact on profits. Gross profit as a percentage of net sales was 18.7% in 2005, compared with 18.2% in 2004. As previously discussed, operating profits included \$21.2 million and \$19 million of restructuring charges in 2005 and 2004, respectively.

Selling, general and administrative expenses as a percentage of sales increased slightly during the year to 10.3% from 9.8% in 2004. Included in 2005 expenses

was the \$12.5 million expense of establishing an environmental reserve at the Company's subsidiary in Wisconsin, while 2004 costs included charges of approximately \$5.6 million pretax, which the Company incurred to recognize commitments to pay future costs associated with new executive life insurance benefits and a charge of approximately \$4.5 million pretax associated with an unfavorable legal judgment that was entered against the Company. All of these unusual charges are discussed under the section above titled, "Restructuring Charges, Unusual Items and Other Activities – Other Special Charges and Income Items."

In 2006, as part of selling, general and administrative expenses, the Company will recognize stock-based compensation expense as required by the revision to Statement of Financial Accounting Standards No. 123, 'Share-Based Payment' (FAS 123R). These costs are estimated to be approximately \$5.5 million pretax, of which approximately 50% will be recognized in the first quarter.

During 2005, the Company experienced postretirement and defined-benefit pension expense of approximately \$43 million, versus \$45.8 million in 2004, a decrease of approximately \$2.3 million pretax. The market value of U.S.-defined benefit pension plan assets increased approximately 7% and 13% in 2005 and 2004, respectively. Investment returns earned on assets held by the Company's benefit plans are used to lower the Company's cost of providing pension and postretirement benefits. Although there were no requirements under the Employee Retirement Income Security Act of 1974 ("ERISA") to fund the U.S. defined benefit pension plan, the Company contributed \$68 million to the plan during the year to maintain its fully funded status. Other pension plans in the Company were not fully funded as of December 31, 2005. These plans, including the Supplemental Executive Retirement Plan, and several international plans had accrued liabilities associated with their plans of \$82.3 million and \$51.3 million as of December 31, 2005, respectively. For 2005, the Company used 8.5% as its expected long-term rate of return for U.S. pension and postretirement benefit plan assumptions. The Company will continue to use this 8.5% assumption rate in 2006. A new mortality table assumption was adopted by the Company in 2005, moving from the 1983 GAM mortality table to the RP-2000 CH table. This mortality table change increased pension liabilities by approximately 2%.

In the fourth quarter of 2005, the Company announced changes in eligibility for retiree medical

benefits effective January 1, 2006. These changes included the elimination of a Company subsidy toward the cost of retiree medical benefits if certain age and service criteria were not met, as well as the elimination

of Company-provided prescription drug benefits for the majority of its retired and active employees. These changes, which will be amortized over a period of approximately five years, will not have a notable impact on year-over-year expense in 2006 as previous favorable plan changes that had lowered expense were fully amortized by the end of 2005.

Research and development costs, all of which were charged to expense, totaled \$14.7 million and \$15.4 million in 2005 and 2004, respectively. Significant projects in Sonoco's Tubes and Cores/Paper segment during 2005 included efforts to design and develop a new

generation of products for the construction industry, and to enhance performance characteristics of the Company's tubes and cores in the textile, film and paper packaging areas, as well as projects aimed at enhancing productivity. The Consumer Packaging segment continued to invest in new materials technology and new process technology for a range of packaging options.

Net interest expense increased by approximately \$15 million from \$42.1 million in 2004 to \$43.6 million in 2005. The increase in net interest expense resulted primarily from higher average interest rates, partially offset by decreased debt levels and increased interest income.

The effective tax rate for continuing operations in 2005 was 36.4%, compared with 29.8% in 2004. Included in the effective tax rate for 2005 was the impact of an additional \$10.1 million expense associated with the repatriation of \$124.7 million in foreign earnings under the AJCA. Included in the effective tax rate for 2004 was the impact of the recognition of tax benefits totaling approximately \$9.3 million, resulting from the IRS closing its examination of the Company's tax returns for years 1999 through 2001.

Net income for 2005 was \$161.9 million, compared with \$151.2 million in 2004. This year-over-year increase in net income is largely attributable to higher operating profits, as previously discussed. In addition to the

unusual items impacting operating profits discussed above and restructuring charges of approximately \$13.1 million, net income in 2005 was negatively impacted by \$10.1 million in additional tax expense associated with the repatriation of foreign earnings. Income for 2004 was positively impacted by \$9.3 million as a result of the recognition of certain tax benefits, and was negatively impacted by after-tax charges for restructuring of approximately \$14.4 million along with other unusual items previously discussed.

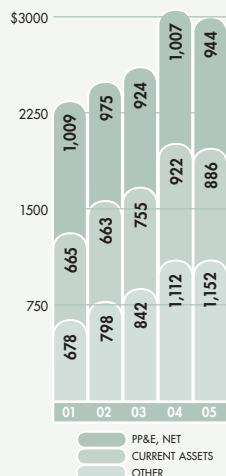
OPERATING SEGMENTS

In 2004, in conjunction with its acquisition of CorrFlex, the Company reviewed the appropriateness of disclosures about its reportable segments in accordance with Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information' (FAS 131). As a result of this review, the Company revised its reportable segments on a prospective basis beginning with the third quarter of 2004. Prior period information related to the Company's reportable segments in this report has been restated to conform to the current presentation.

Prior to the third quarter of 2004, the Company reported its results in two segments, Industrial Packaging and Consumer Packaging. Beginning with the third quarter of 2004, the Company began reporting results in three segments – Tubes and Cores/Paper (formerly known as Engineered Carriers and Paper), Consumer Packaging and Packaging Services. Certain smaller operations are reported as All Other Sonoco.

As part of the segment reporting changes in 2004, certain businesses previously reported in the Industrial Packaging reportable segment have been reclassified as components of All Other Sonoco. Upon the removal of these businesses from the Industrial Packaging reportable segment, the remaining operating segments are those specifically related to the production of tubes and cores, paper and recovered paper and, therefore, the name of this reportable segment was changed to Engineered Carriers and Paper. The Company's specialty paperboard business, which was previously a component of the Consumer Packaging reportable segment, has been reclassified as a component of All Other Sonoco. In conjunction with the acquisition of CorrFlex in May 2004, the Company's existing packaging services operations, which were previously included in the Consumer Packaging reportable segment, were combined with those of CorrFlex, which resulted in a newly created reportable segment – Packaging Services.

ASSETS BY
CATEGORY
(MILLIONS
OF DOLLARS)



Effective December 31, 2005, the Company changed the name of the Engineered Carriers and Paper segment to Tubes and Cores/Paper because the term “tubes and cores” is more generally understood than “engineered carriers” in the marketplace for the primary products offered by the businesses in this segment. There has been

no change to the businesses included in the segment.

Operating profits at the segmental level is defined as the segments’ portion of “Income before income taxes” on the Company’s Consolidated Statements of Income, adjusted for restructuring charges and net interest expense. Because segmental results are computed based on the manner in which the Company’s management reviews financial results, restructuring and net interest charges are not considered in the calculation of operating profits at the segmental level. General corporate expenses, with the exception of restructuring charges, interest and income taxes, have been allocated as operating

costs to each of the Company’s reportable segments and All Other Sonoco.

See Note 16 to the Company’s Consolidated Financial Statements for more information on reportable segments.

Consumer Packaging Segment – Results for this segment are presented below:

(\$ IN MILLIONS)	2005	2004	% CHANGE
Trade sales	\$1,247.5	\$1,132.1	10.2%
Operating profits	103.5	83.1	24.5%
Depreciation, depletion and amortization	56.3	59.4	(5.2)%
Capital spending	50.8	50.7	0.2%

Sales in this segment increased due to increased selling prices of closures, composite cans and plastic packaging. Higher volumes throughout the segment, but specifically in flexible packaging, also contributed significantly to the sales increases, as did the impact of favorable exchange rates, as the dollar weakened against foreign currencies. Overall, volumes were up nearly 5% in the segment. Domestic sales were approximately \$894 million, up 6.6% from 2004, and international sales

were approximately \$353 million, up 20.6% from 2004.

Operating profits in this segment were favorably impacted by increased volumes, as well as productivity and purchasing initiatives, partially offset by increased costs of energy, freight and labor. Continued high startup costs at the Company’s rigid plastics container plant in Wisconsin also reduced operating profits in the segment. Higher raw material costs, primarily steel and aluminum, were largely offset by increased selling prices.

Significant spending included numerous productivity and customer development projects in the United States and Europe. The closures business continued to invest in new capacity in Brazil to support increasing global demand.

Tubes and Cores/Paper Segment – Results for this segment are presented below:

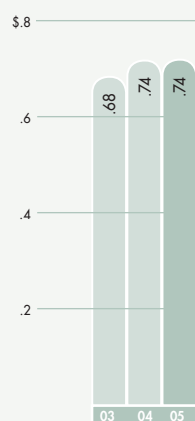
(\$ IN MILLIONS)	2005	2004	% CHANGE
Trade sales	\$1,482.1	\$1,388.5	6.7%
Operating profits	107.1	113.0	(5.2)%
Depreciation, depletion and amortization	83.7	85.2	(1.8)%
Capital spending	62.3	59.4	4.9%

The increase in sales was due primarily to the recognition of a full-year’s impact of the Sonoco-Alcore joint venture, which resulted in \$86.6 million of higher sales. The impact of favorable exchange rates as the dollar weakened against foreign currencies along with increased selling prices, was partially offset by lower volume in North American and European tubes and cores.

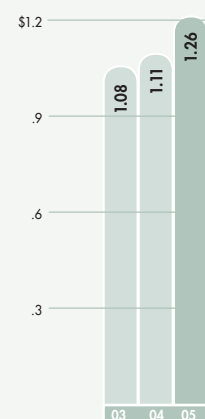
Volume, excluding the impact of the joint venture, declined approximately 2%, due primarily to declines in the textile and newsprint industries. Domestic sales decreased approximately \$4 million, or .5%, to \$758 million and international sales increased approximately \$98 million, or 15.6% to \$724.1 million.

Operating profits in this segment was unfavorably impacted by a charge of \$12.5 million related to an increase in the environmental reserve at a Company subsidiary’s paper operations in Wisconsin; decreased volume, pri-

IDENTIFIABLE
ASSETS
CONSUMER
PACKAGING
SEGMENT
(BILLIONS
OF DOLLARS)

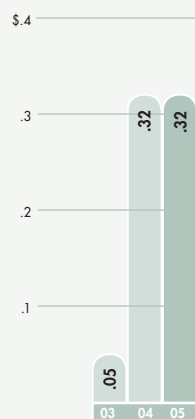


IDENTIFIABLE
ASSETS
TUBES AND
CORES/PAPER
SEGMENT
(BILLIONS
OF DOLLARS)



marily in the textile and newsprint markets; and increased costs of energy, freight and labor. These increased costs were partially offset by year-over-year savings from productivity and purchasing initiatives, and a favorable price/cost relationship. A \$5.6 million charge associated with an accounting adjustment from a wholly

IDENTIFIABLE
ASSETS
PACKAGING
SERVICES
SEGMENT
(BILLIONS
OF DOLLARS)



owned subsidiary in Spain, which was related to prior years, was recorded in 2004, as discussed above under "Other Special Charges and Income Items," while 2005 results were impacted by a \$3 million asset impairment charge related to operations in Asia.

This segment benefited by approximately \$8.9 million by having energy hedges in place during the period. However, the nature of hedges is such that no assurances can be made concerning future benefits that may be realized from these hedges.

Significant capital spending included the rebuilding and modification of several paper mills, primarily in the United States, Mexico and Europe, and building new tube

and core plants in Asia.

Packaging Services Segment – Results for this segment are presented below:

(\$ IN MILLIONS)	2005	2004	% CHANGE
Trade sales	\$455.9	\$321.0	42.0%
Operating profits	44.8	30.3	47.9%
Depreciation, depletion and amortization	12.0	8.2	46.3%
Capital spending	4.9	3.3	48.5%

Sales in this segment increased primarily due to the recognition of a full-year's impact of the May 2004 acquisition of CorrFlex. In addition, higher volumes contributed \$56.5 million to the increase in sales. Domestic sales increased to \$356.7 million, a 43.9% increase, while international sales increased to \$99.2 million, or 35.5%.

Although the increase in operating profits in this segment is largely attributable to the full-year's impact of the acquisition of CorrFlex, productivity and purchasing initiatives in the Service Centers also contributed to the improvement. Approximately \$25 million of increased

sales in the Company's Service Centers were on a pass-through basis and, therefore, had very little impact on profits. The impact of inflation partially offset the favorable variances discussed above.

Significant spending included numerous productivity and customer development projects in the United States and Europe.

All Other Sonoco – Results for all other businesses not included in the segments above are presented below:

(\$ IN MILLIONS)	2005	2004	% CHANGE
Trade sales	\$343.2	\$313.8	9.3%
Operating profits	40.6	32.0	26.9%
Depreciation, depletion and amortization	11.1	11.1	0.0%
Capital spending	11.1	6.4	73.4%

Sales for All Other Sonoco increased due to price increases for molded and extruded plastics, wire and cable reels, and protective packaging, along with higher volumes in wire and cable reels and protective packaging. Domestic sales were approximately \$283 million, up 11.5% from 2004, and international sales were approximately \$60 million, basically flat compared with the prior year.

Operating profits in All Other Sonoco increased due primarily to manufacturing productivity and purchasing initiatives and a favorable price/cost relationship, as the Company was able to recover increases in raw material costs, including lumber, resin and paper, via price increases to the customers. Although higher volume was a significant reason for the increased sales, operating profits were not impacted materially as changes in the mix of products resulted in lower profit margins.

Significant spending included investing in customer development projects in the United States and Europe for molded and extruded plastics, protective packaging and wire and cable reels.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

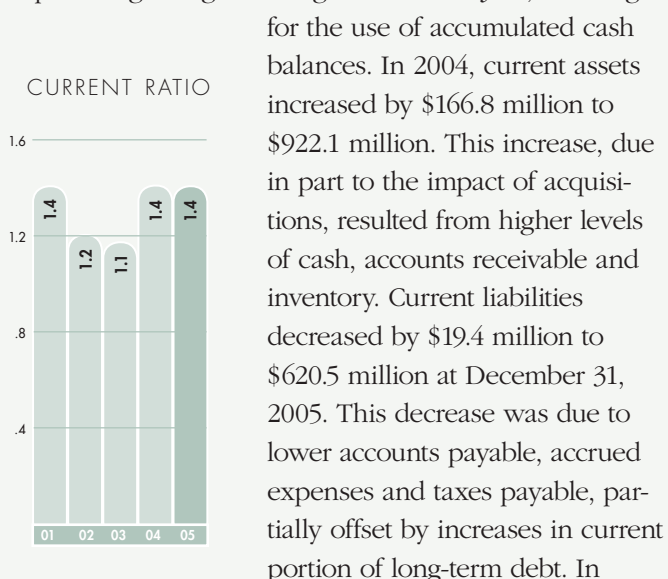
Cash flow from operations totaled \$227.4 million in 2005, compared with \$252.2 million in 2004. This decrease is primarily attributed to higher contributions to the Company's pension plans, as \$77 million was contributed in 2005, versus \$33.4 million in 2004. These higher contributions were partially offset by increased earnings, along with slightly lower inventory levels. The U.S. Defined Benefit Pension Plan was fully funded as of December 31, 2005, and the Company froze partici-

pation for newly hired salaried and non-union hourly U.S. employees effective December 31, 2003. Based on the current actuarial estimates and as a result of a \$68 million contribution, the Company anticipates that only minimal contributions to this plan will be required in 2006. The nature of pension plans, however, is that estimates are made regarding investment returns and actuarial assumptions and no assurances can be made about the future funding requirements.

Cash flows used by investing activities decreased from \$378.2 million in 2004 to \$119.3 million in 2005. In 2004, the Company invested \$267 million in eight acquisitions, the largest of which was CorrFlex. There were no significant acquisitions in 2005. Capital expenditures increased by \$9.3 million to \$129.1 million from \$119.8 million in 2004. Capital expenditures in 2006 are expected to continue to be in the \$130 million range.

Net cash used by financing activities totaled \$165.6 million in 2005, compared with net cash provided by financing activities of \$156 million in 2004. Debt was reduced by \$117.8 million as a result of cash generated from operations and use of accumulated cash balances. Cash dividends increased 6% to \$90.1 million during 2005.

Current assets decreased by \$36.6 million to \$885.5 million at December 31, 2005. This decrease is largely attributable to lower levels of cash, as a result of repatriating foreign earnings under the AJCA, allowing



for the use of accumulated cash balances. In 2004, current assets increased by \$166.8 million to \$922.1 million. This increase, due in part to the impact of acquisitions, resulted from higher levels of cash, accounts receivable and inventory. Current liabilities decreased by \$19.4 million to \$620.5 million at December 31, 2005. This decrease was due to lower accounts payable, accrued expenses and taxes payable, partially offset by increases in current portion of long-term debt. In 2004, current liabilities decreased by \$39.7 million to \$639.9 million. This decrease resulted from the repayment of \$150 million in debentures in November 2004, partially offset by increases in accounts payable and accrued expenses. The current ratio was 1.4 at the end of 2005, compared with 1.4 and 1.1 at the end of 2004 and 2003, respectively.

CONTRACTUAL OBLIGATIONS

The following table summarizes contractual obligations at December 31, 2005:

(\$ IN MILLIONS)	PAYMENTS DUE IN				
	TOTAL	2006	2007-2008	2009-2010	BEYOND 2010
Debt obligations	\$ 781.6	\$124.5	\$ 4.5	\$103.6	\$549.0
Interest payments ¹	272.3	25.0	50.0	48.2	149.1
Operating leases	132.6	31.3	45.2	26.4	29.7
Environmental remediation (U.S. Mills)	12.5	.5	12.0		
Purchase obligations ²	149.0	15.3	20.7	19.1	93.9
Total contractual obligations	\$1,348.0	\$196.6	\$132.4	\$197.3	\$821.7

¹ Includes interest payments on outstanding fixed-rate, long-term debt obligations that do not have associated fair value hedges as well as financing fees on the backstop line of credit.

² Includes only long-term contractual commitments. Does not include short-term obligations for the purchase of goods and services used in the ordinary course of business.

In December 2003, the Company entered into an agreement with the majority shareholders of Demolli Industria Cartaria S.p.A. ("Demolli"), an Italy-based manufacturer of paperboard and tubes and cores, which is currently 25% owned by the Company and reported as an equity investment. This agreement allows the majority shareholder to require (through a put option arrangement) the Company to buy the shares not currently owned by the Company at any time between the date of the agreement and December 2006. The agreement also gives the Company the right to purchase the shares (through a call option arrangement) any time after December 2006 through December 2009. The price of the share purchase will be determined by a preset formula, which the Company believes approximates fair value, based on average adjusted earnings at a predetermined multiplier at the time such shares might be put or called. The Company is in discussion with the majority shareholders of Demolli to potentially extend the terms (both the put and the call) of this agreement.

In November 2004, and in conjunction with the Sonoco-Alcore joint venture, the Company entered into an agreement with Ahlstrom, the minority shareholder of Sonoco-Alcore. This agreement states that, following a two and one-half year standstill period, subject to certain conditions, Ahlstrom shall have the right, over the next three and one-half years, to require (through a put

option arrangement) the Company to purchase its shares in Sonoco-Alcore. During the seventh year, the Company will have the right to purchase the shares (through a call option arrangement). The price of the share purchase will be determined by a preset formula, which the Company believes approximates fair value, related to an earnings multiple at the time such shares might be put or called.

CAPITAL RESOURCES

Debt decreased by \$125.4 million to \$781.6 million at December 31, 2005, primarily due to funds from operations, and use of accumulated cash balances. These items were partially offset by increased international borrowings at the Sonoco-Alcore joint venture in Europe, in Australia and Canada, in Brazil for acquisitions, and expansion at the Consumer Products joint venture, and for the startup of the Packaging Services plant in Poland.

The Company currently operates a commercial paper program totaling \$350 million and has fully committed bank lines of credit supporting the program by a like amount. In July 2004, the Company entered into a new five-year, \$350 million credit agreement that also provides the Company with the option to increase its credit line to \$450 million subject to the concurrence of its lenders. The Company intends to indefinitely maintain line of credit agreements fully supporting its commercial paper program. The five-year term on the existing line of credit allows commercial paper borrowings up to the maximum amount of the line of credit to be classified as long-term debt. In 2003, the Company's commercial paper program totaled \$450 million with a 364-day backstop line of credit of the same amount that could be extended under a term-out option. This credit line expired in July 2004 and was replaced by the five-year line of credit discussed above. At December 31, 2005, the amount of the Company's outstanding commercial paper was \$30 million, compared to \$180 million at December 31, 2004.

Interest expense totaled \$51.6 million for the year ended December 31, 2005, compared with \$47.5 million and \$52.4 million for the years ended December 31, 2004 and 2003, respectively. The increase in 2005, compared with 2004, was due to higher average interest rates in the United States, partially offset by lower U.S. debt levels, and the higher international debt levels referred to above. The increased interest expense was partially offset by an increase in interest income resulting from higher cash balances internationally (before

the repatriation dividends mentioned above).

Shareholders' equity increased \$110.4 million from December 31, 2004, to \$1.26 billion at December 31, 2005. The increase resulted mainly from net income of \$161.9 million in 2005 and stock option exercises of \$37.4 million, reduced by dividends of \$90.1 million, a foreign currency translation loss of \$12.8 million, and minimum pension liability adjustments of \$.6 million. Shareholders' equity increased \$138.7 million from December 31, 2003, to \$1.15 billion at December 31, 2004. The increase resulted mainly from net income of \$151.2 million in 2004, stock option exercises of \$34.5 million and foreign currency translation of \$36.9 million, reduced by dividends of \$85.1 million and minimum pension liability adjustments of \$.45 million. The Company did not repurchase any of its common stock in 2005, but plans to repurchase between 2 million and 2.5 million shares of its outstanding stock by the end of the first quarter of 2006. At December 31, 2005 and 2004, the Company had remaining authorizations from its Board of Directors to repurchase approximately 5,290,000 shares of common stock.

Although the ultimate determination of whether to pay dividends is within the sole discretion of the Board of Directors, the Company plans to increase dividends as earnings grow. Dividends per common share were \$.91 in 2005, \$.87 in 2004 and \$.84 in 2003.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no material off-balance sheet arrangements at December 31, 2005.

RISK MANAGEMENT

As a result of operating globally, the Company is exposed to market risk from changes in foreign exchange rates. The exposure is well diversified as the Company's facilities are spread throughout the world, and the Company generally sells in the same countries where it produces. The Company monitors these exposures and may use traditional currency swaps and forward foreign exchange contracts to hedge a portion of the forecasted transactions that are denominated in foreign currencies, foreign currency assets and liabilities or net investment in foreign subsidiaries. The Company's foreign operations are exposed to political and cultural risks, but they are mitigated by diversification and the relative stability of the countries in which the Company has significant operations.

The Company is exposed to interest-rate fluctuations as a result of using debt as a source of financing its

operations. When necessary, the Company uses traditional, unleveraged interest-rate swaps to manage its mix of fixed and variable rate debt to maintain its exposure to interest rate movements within established ranges. All interest-rate swaps qualified as fair-value hedges, whereby fixed interest rates are swapped for floating rates.

The Company is a purchaser of commodities such as recovered paper, energy, steel, aluminum and resin. The Company does not engage in material hedging of many commodities, other than energy, because there is usually a high correlation between the commodity cost and the ultimate selling price of its products. Commodities are generally purchased at market or fixed prices that are established with the vendor as part of the purchase process for quantities expected to be consumed in the ordinary course of business. On occasion, where the correlation between selling price and commodity price is less direct, the Company may enter into commodity futures or swaps to reduce the effect of price fluctuations.

At the end of 2005, the Company had commodity swaps outstanding to fix the costs of a portion of raw materials and energy for 2006 through June 2008. The swaps qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133, 'Accounting for Derivative Instruments and Hedging Activities' ("FAS 133"). As of December 31, 2005, the Company had swaps to cover approximately 4.4 million MMBTUs (million British thermal units) of natural gas at an average cost of \$5.91 per MMBTU. The use of derivatives to hedge other commodities or foreign exchange was not material as of that date.

The fair market value of commodity swaps was a net favorable position of \$17.5 million (\$11.2 million after tax) and \$3.4 million (\$2.2 million after tax) at December 31, 2005 and 2004, respectively. Commodity swaps having a favorable position are reflected as a component of "Other Assets" on the Company's Consolidated Financial Statements while those having an unfavorable position are reflected as a component of "Other Liabilities." Derivatives are marked to fair value using published market prices, if available, or estimated values based on current price quotes and a discounted cash flow model. See Note 10 to the Consolidated Financial Statements for more information on financial instruments.

Except for the impact on energy and raw material prices, inflation did not have a material effect on the Company's operations in 2005, 2004 or 2003.

The Company is subject to various federal, state and

local environmental laws and regulations concerning, among other matters, solid waste disposal, wastewater effluent and air emissions. Although the costs of compliance have not been significant due to the nature of the materials and processes used in manufacturing operations, such laws also make generators of hazardous wastes and their legal successors financially responsible for the cleanup of sites contaminated by those wastes. The Company has been named a potentially responsible party at several environmentally contaminated sites, both owned and not owned by the Company. These regulatory actions and a small number of private party lawsuits are believed to represent the Company's largest potential environmental liabilities. Accordingly, the Company has accrued approximately \$16.8 million (including \$12.5 million associated with U.S. Mills) at December 31, 2005, compared with approximately \$4.4 million at December 31, 2004, with respect to these sites. See Note 14 to the Consolidated Financial Statements for more information on environmental matters.

RESULTS OF OPERATIONS 2004 VERSUS 2003

OPERATING REVENUE

Consolidated net sales for 2004 were \$3.16 billion, versus \$2.76 billion in 2003, an increase of approximately \$397 million.

The components of the sales change were approximately:

(\$ IN MILLIONS)	
Volume	\$124
Selling price	43
Currency exchange rate	70
Acquisitions	148
Other	12
Total sales increase	<u>\$397</u>

Sales for the year were higher due to increased volumes, higher selling prices, the impact of acquisitions and the favorable impact of foreign exchange rates, as the dollar weakened against foreign currencies. Companywide volume, including the impact of acquisitions, was approximately 10% higher than 2003. Domestic sales were \$2.11 billion, up 13.6% from 2003, and international sales were \$1.05 billion, up 16.1% over 2003.

OPERATING PROFITS

Consolidated operating profits, which represent "Income before income taxes" on the Consolidated

Statements of Income for 2004 and 2003, are comprised of the following:

(\$ IN MILLIONS)	2004	2003	% CHANGE
Consumer Packaging Segment	\$ 83.1	\$ 78.7	5.6%
Tubes and Cores/Paper Segment	113.0	103.0	9.7%
Packaging Services Segment	30.3	7.9	>100%
All Other Sonoco	32.0	19.0	68.4%
Restructuring and Related			
Impairment charges	(19.0)	(50.1)	62.1%
Interest expense, net	(42.1)	(50.2)	16.1%
Consolidated operating profits	<u>\$197.3</u>	<u>\$108.3</u>	<u>82.2%</u>

Operating profits for 2004 increased due to higher volumes, the accretive impact of acquisitions and savings resulting from ongoing productivity and purchasing initiatives. Operating profits for 2004 were negatively impacted by higher energy costs, product startup costs associated with the Company's new multiline steel easy-open closure operation in Brazil and new rigid plastic container plants in California and Wisconsin, as well as the costs associated with the movement of production between plants. The Company experienced increased costs for raw materials, primarily for old corrugated containers ("OCC"), the Company's primary raw material, and steel. The higher OCC costs were nearly offset through price increases for tubes and cores and for trade sales of recovered paper, and a significant portion of the increased steel costs were offset in the first quarter of 2005, due to contractual pass through provisions. Gross profit as a percentage of net sales was 18.2% in 2004, compared with 18.1% in 2003. As previously discussed under "Restructuring Charges, Unusual Items and Other Activities," operating profits included \$19 million and \$50.1 million of restructuring charges in 2004 and 2003, respectively.

Selling, general and administrative expenses as a percentage of sales remained relatively flat at approximately 10%. In 2004, the Company continued to focus on controlling fixed cost spending, as it realized the majority of the benefits from restructuring actions started in 2003.

During 2004, income before income taxes was negatively impacted by charges of approximately \$5.6 million pretax, which the Company incurred to recognize commitments to pay future costs associated with new executive life insurance benefits as discussed above under "Restructuring Charges, Unusual Items and Other Activities – Other Special Charges and Income Items." Income before income taxes for 2004 was also negatively impacted by a charge of approximately \$4.5 mil-

lion pretax associated with an unfavorable legal judgment that was entered against the Company.

During 2004, the Company experienced lower year-over-year pension and postretirement expense of approximately \$11 million pretax, primarily related to the impact of the Company's adoption of FASB Staff Position 106-2, 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' ("FSP 106-2"). As a result of the Company's adoption of FSP 106-2, the accumulated postretirement benefit obligation was reduced by approximately \$48.9 million, and net periodic benefit costs were reduced by approximately \$9.1 million for 2004. The market value of U.S. benefit plan assets increased approximately 13% and 26% in 2004 and 2003, respectively. Investment returns earned on assets held by the Company's benefit plans are used to lower the Company's cost of providing pension and postretirement benefits. There were no requirements under ERISA to fund the plan. For 2004, the Company used 8.5% as its expected long-term rate of return for U.S. pension and postretirement benefit plan assumptions.

Research and development costs charged to expense were \$15.4 million and \$14.2 million in 2004 and 2003, respectively. Significant projects in Sonoco's Tubes and Cores/Paper segment during 2004 included efforts to design and develop a new generation of products for the construction industry, and to enhance performance characteristics of the Company's tubes and cores in the textile, film and paper packaging areas, as well as projects aimed at enhancing productivity. The Consumer Packaging segment continued to invest in new materials technology and new process technology for a range of packaging options, including composite cans and other forms of shaped packaging during 2004.

Net interest expense decreased by approximately \$8.2 million from 2003. The decrease in net-interest expense resulted primarily from lower average interest rates and increased interest income.

The effective tax rate for continuing operations in 2004 was 29.8%, compared with 34.8% in 2003. Included in the effective tax rate for 2004 was the impact of the recognition of certain tax benefits. These tax benefits totaled approximately \$9.3 million and resulted from the IRS closing its examination of the Company's tax returns for years 1999 through 2001. Also included in the effective tax rate for 2004 are tax benefits associated with the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which were partially offset by certain non-deductible foreign restructuring charges.

Included in the effective tax rate for 2003 is the impact of certain non-deductible foreign restructuring charges.

Net income for 2004 was \$151.2 million, versus \$138.9 million (including discontinued operations) in 2003. Income from continuing operations for 2004 was \$151.2 million, compared with \$78.2 million in 2003. Net income included restructuring charges of \$14.4 million after tax, compared with restructuring charges of \$36.8 million after tax in 2003. 2004 net income also included after-tax charges of \$3.6 million, which the Company incurred to recognize vested commitments to pay future costs associated with the new executive life insurance benefits that replaced split-dollar life agreements made with key executives since 1995; \$5.6 million related to prior years for an adjustment in the expenses reported for the Company's wholly owned subsidiary in Spain; and approximately \$2.9 million related to an unfavorable legal judgment against the Company. Although foreign exchange rates had an impact on sales, they did not have a significant impact on earnings in 2004.

OPERATING SEGMENTS

Consumer Packaging Segment – Results for this segment are presented below:

(\$ IN MILLIONS)	2004	2003	% CHANGE
Trade sales	\$1,132.1	\$1,044.4	8.4%
Operating profits	83.1	78.7	5.6%
Depreciation, depletion and amortization	59.4	52.5	13.1%
Capital spending	50.7	51.0	(0.6)%

Sales for the segment increased due to higher volume, price increases and the favorable impact of foreign exchange translation. Overall, volumes in this segment, excluding the impact of acquisitions, increased approximately 5%. Domestic sales were approximately \$839 million, up 4.8% from 2003, and international sales were approximately \$293 million, up 20.4% from 2003.

Earnings in this segment were favorably impacted by increased volumes, as well as productivity and purchasing initiatives, partially offset by inflation and product startup costs associated with the Company's new multi-line steel easy-open closure operation in Brazil and new rigid plastic container plants in California and Wisconsin, as well as the costs associated with the movement of production between plants. Earnings in this segment were negatively impacted by an unfavorable price/cost relationship, as material costs, primarily

steel, increased significantly. In response to those cost increases, the Company began raising prices in the second half of 2004, and continued to raise prices in 2005, as allowed by contractual pass-through provisions.

Significant spending in 2004 included building two new plants in the United States and numerous productivity and customer development projects in the United States and Europe. The closures business continued to invest in new capacity in Brazil to support increasing global demand.

Tubes and Cores/Paper Segment (formerly known as Engineered Carriers and Paper) – Results for this segment are presented below:

(\$ IN MILLIONS)	2004	2003	% CHANGE
Trade sales	\$1,388.5	\$1,259.8	10.2%
Operating profits	113.0	103.0	9.8%
Depreciation, depletion and amortization	85.2	83.6	1.9%
Capital spending	59.4	48.6	22.2%

The increase in sales was due primarily to the impact of favorable exchange rates, as the dollar weakened against foreign currencies, higher average selling prices, increased volume and the impact of two months of sales resulting from the formation of Sonoco-Alcore. Overall, volumes in this segment, excluding the impact of acquisitions and the formation of Sonoco-Alcore, increased approximately 2%. Domestic sales increased approximately \$45 million, or 6.2%, and international sales increased approximately \$84 million, or 15.5%.

Earnings in this segment were favorably impacted by increased volumes and by productivity and purchasing initiatives, partially offset by higher energy costs, the impact of inflation and an adjustment in expenses at the Company's subsidiary in Spain. This segment also experienced higher OCC costs, as the domestic price of OCC increased by an average of approximately 28% from 2003 to 2004. These increased costs were largely offset through price increases for tubes and cores and for trade sales of recovered paper.

Significant capital spending included the rebuilding and modification of several paper mills, primarily in the United States, Mexico and Europe and building new tube and core plants in Asia.

Packaging Services Segment – Results for this segment are presented in the table following:

(\$ IN MILLIONS)	2004	2003	% CHANGE
Trade sales	\$321.0	\$184.6	73.9%
Operating profits	30.3	7.9	>100%
Depreciation, depletion and amortization	8.2	3.5	>100%
Capital spending	3.3	5.1	(35.3)%

Sales in this segment increased primarily due to the acquisition of CorrFlex in May 2004. See Note 2 to the Company's Consolidated Financial Statements for further information about the impact of this acquisition. Sales in pre-existing operations in this segment increased due to volume and mix changes. Overall, volumes in this segment, excluding the impact of acquisitions, were up approximately 8%. Domestic sales were \$248 million, up over 100% from 2003, and international sales were \$73 million, up 16.7% from 2003.

Although the increase in earnings in this segment is primarily attributable to the acquisition of CorrFlex, productivity and purchasing initiatives in pre-existing operations also contributed to the improvement. A slight volume improvement was offset by the impact of inflation.

Significant spending included numerous productivity and customer development projects in the United States and Europe.

All Other Sonoco – Results for all other businesses not included in the segments above are presented below:

(\$ IN MILLIONS)	2004	2003	% CHANGE
Trade sales	\$313.8	\$269.5	16.4%
Operating profits	32.0	19.0	68.4%
Depreciation, depletion and amortization	11.1	13.0	(14.6)%
Capital spending	6.4	3.8	68.4%

Sales for All Other Sonoco increased due to volume and price increases in molded and extruded plastics, wire and cable reels, and protective packaging. In addition, the impact of favorable foreign exchange translation, along with the impact of a small acquisition, increased sales in All Other Sonoco. Domestic sales were approximately \$253 million, up 15.6% from 2003, and international sales were approximately \$60 million, up 20.2% from 2003.

Operating profits in All Other Sonoco increased due to volume improvements, along with manufacturing productivity and purchasing initiatives. All Other Sonoco also recognized a slightly positive price/cost relationship, as the Company was able to recover increases in raw material costs, including lumber, resin and paper,

via price increases to the customers as well as material purchasing initiatives.

Significant spending included investing in customer development projects in the United States and Europe for molded and extruded plastics.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's analysis and discussion of its financial condition and results of operations are based upon its Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make 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, bad debts, derivatives, income taxes, intangible assets, restructuring, pension and other postretirement benefits, environmental liabilities and 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 of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances, different from those assumed, may differ from estimates. The impact and any associated risks related to estimates, assumptions and accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where such estimates, assumptions and accounting policies affect the Company's reported and expected financial results.

The Company believes the accounting policies discussed in the Notes to the Consolidated Financial Statements on pages 53 through 75 are critical to its business operations, and the understanding of results of operations. The following represents those policies which most involve the more significant judgments and estimates used in the preparation of its Consolidated Financial Statements.

IMPAIRMENT OF LONG-LIVED AND INTANGIBLE ASSETS

The Company evaluates its long-lived assets (property, plant and equipment) and definite-lived intangible assets for impairment whenever indicators of impair-

ment exist, or when it commits to sell the asset. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible asset is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset, or in the case of assets the Company evaluates for sale, at fair value less costs to sell. A number of significant assumptions and estimates are involved in developing operating cash flow forecasts for the Company's discounted cash flow model, including markets and market share, sales volumes and prices, costs to produce, working capital changes and capital spending requirements. The Company considers historical experience, and all available information at the time the fair values of its assets are estimated. However, fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of long-lived assets and definite-lived intangible assets. Therefore, assumptions and estimates used in the determination of impairment losses may affect the carrying value of long-lived and intangible assets, and possible impairment expense in the Company's Consolidated Financial Statements.

IMPAIRMENT OF GOODWILL

In accordance with Statement of Financial Accounting Standards No. 142, 'Goodwill and Other Intangible Assets' ("FAS 142"), the Company evaluates its goodwill for impairment at least annually, and more frequently if indicators of impairment are present. FAS 142 requires that if the fair value of a reporting unit is less than its carrying value including goodwill (Step I), an impairment charge for goodwill must be recognized. The impairment charge is calculated as the difference between the implied fair value of the reporting unit goodwill and its carrying value (Step II).

The Company's reporting units are the same as its operating segments, as determined in accordance with FAS 131. Accordingly, these reporting units reflect the way the Company manages its business, and impairment testing at this reporting unit level reflects how the Company is managed overall. The components within these reporting units serve similar types of customers, provide similar services and operate in similar regulatory environments. The benefits of goodwill are shared by each component.

In performing the impairment evaluation required by

FAS 142, the Company estimates the fair value of each reporting unit and compares it to the carrying amount of that reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of that reporting unit; the Company is required to perform the second step of the impairment test. In this step, the Company compares the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized), and liabilities of the reporting unit. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

The Company uses a discounted cash flow model to estimate the fair value of each reporting unit. The Company considers historical experience and all available information at the time the fair values of its businesses are estimated. However, fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill. Therefore, assumptions and estimates used in the determination of impairment losses may affect the carrying value and possible impairment expense in the Company's Consolidated Financial Statements. The annual evaluation of goodwill impairment that was completed during 2005 used forward-looking projections, including expected improvement in results at certain reporting units, most notably, the European operations within the Tubes and Cores/Paper segment, to which \$66,900 of goodwill is attributed. The assessment of the relevant facts and circumstances is ongoing, and if actual performance in this reporting unit falls significantly short of the projected results, it is reasonably possible that a non-cash impairment charge would be required.

INCOME TAXES

The Company records an income tax valuation allowance when the realization of certain deferred tax assets, net operating losses and capital loss carryforwards is not likely. These deferred tax assets represent expenses recognized for financial reporting purposes, which will result in tax deductions over varying future periods. Certain judgments, assumptions and estimates may affect the carrying value of the valuation allowance and deferred income tax expense in the Company's Consolidated Financial Statements. Additionally, the Company periodically reviews assumptions and estimates of the Company's probable tax obligations using historical experience in tax jurisdictions and informed judgments.

STOCK COMPENSATION PLANS

As permitted by Statement of Financial Accounting Standards No. 123, 'Accounting for Stock-based Compensation' ("FAS 123"), the Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, 'Accounting for Stock Issued to Employees,' and its related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for performance stock options is recognized over the vesting period, and is recorded based on the quoted market price of the Company's stock at the end of the period.

The Company records compensation expense associated with performance-based stock compensation plans using vesting assumptions that are derived from performance measures as defined in the plans. In 2005, performance measures consisted of Earnings Per Share and Return on Net Assets Employed. Certain judgments, assumptions and estimates in connection with the future achievement of these performance measures may affect the amount of accrued compensation expense and performance-based stock compensation expense in the Company's Consolidated Financial Statements.

PENSION AND POSTRETIREMENT BENEFIT PLANS

The Company has significant pension and postretirement benefit costs that are developed from actuarial valuations. The actuarial valuations employ key assumptions, which are particularly important when determining the Company's projected liabilities for pension and other postretirement benefits. Key actuarial assumptions used in determining the projected benefit obligation, the accumulated benefit obligation, and net periodic benefit cost (income) for U.S. retirement and retiree health and life insurance plans include: a discount rate of 5.5% to determine benefit obligations, a discount rate of 5.75% to determine net periodic benefit cost (income), an expected long-term rate of return of 8.5% and a rate of compensation increase of 4.6%. These assumptions are as of December 31, 2005.

The Company adjusts its discount rate annually in relationship to movements in high-quality debt instruments. The long-term rate of return assumption is based on the Company's historical plan return performance. The rate of compensation assumption is generally based on salary and incentive increases. A key assumption for

the U.S. health and life insurance plan is a medical trend rate beginning at 13.3% and trending down to an ultimate rate of 6.0% in 2014. The ultimate trend rate of 6.0% represents the Company's best estimate of the long-term average annual medical cost increase over the duration of the plan's liabilities. It provides for real growth in medical costs in excess of the overall inflationary level.

During 2005, the Company incurred total pension and postretirement benefit expenses of approximately \$43 million, compared with \$45.8 million during 2004. The 2005 amount is net of \$75.2 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of \$67.6 million at a discount rate of 5.75%. The 2004 amount is net of \$69.5 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of \$66.4 million at a discount rate of 6.25%. During 2005, the Company made contributions to pension plans of \$77 million and postretirement plans of approximately \$8.1 million. The contribution amount varies from year to year depending on factors including market asset volatility and interest rates. Although the cash portion of these contributions reduced cash flows from operations during the year, under Statement of Financial Accounting Standards No. 87, 'Employers' Accounting for Pensions' (FAS 87), they did not have an immediate significant impact on pension expense. Unrecognized net actuarial losses were approximately \$496.8 million at December 31, 2005, and are primarily the result of poor asset performance during 2000 through 2002. The amortization period for unrecognized losses/gains is approximately 11 years for the portion outside the 10% corridor as defined by FAS 87, except for curtailments, which would result in accelerated expense.

The projected liability of these plans will be affected by assumptions regarding inflation, investment returns, market interest rates, changes in the number of plan participants and changes in the benefit obligations, and laws and regulations pertaining to benefit obligations. The Company annually reevaluates assumptions used in projecting the pension and postretirement liabilities and associated expense. These judgments, assumptions and estimates may affect the carrying value of pension and postretirement plan assets and liabilities and pension and postretirement plan expenses in the Company's Consolidated Financial Statements. The effect of lowering the selected assumptions, excluding any changes to the investment base, is shown below for the year ended December 31, 2005, for U.S. plans, assuming no changes in benefit levels in 2005:

ASSUMPTION (\$ IN MILLIONS)	DECEMBER 31, 2005		
	PERCENTAGE POINT CHANGE	PROJECTED BENEFIT OBLIGATION HIGHER (LOWER)	2005 EXPENSE HIGHER (LOWER)
Discount rate	-.25 pts	\$33.7	\$3.3
Expected return on assets	-.25 pts	N/A	\$1.8

See Note 12 to the Consolidated Financial Statements for additional information on the Company's pension and postretirement plans.

RECENT ACCOUNTING PRONOUNCEMENTS

Information regarding recent accounting pronouncements is provided in Note 18 of the Consolidated Financial Statements on page 73.

RISK FACTORS

In addition to the risks addressed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the following factors should be considered related to the Company's overall risk profile:

CONDITIONS IN FOREIGN COUNTRIES WHERE THE COMPANY OPERATES MAY REDUCE EARNINGS.

Sonoco has operations in 35 countries around the globe, with approximately 34.7% of consolidated sales coming from outside of the United States. Accordingly, revenues and income may be adversely affected by economic conditions, political situations and changing laws or regulations in those countries.

FOREIGN EXCHANGE RATE FLUCTUATIONS MAY REDUCE THE COMPANY'S EARNINGS.

As a result of operating globally, the Company is exposed to market risk from changes in foreign exchange rates. To the extent unhedged positions or hedging procedures do not work as planned, fluctuating currencies could reduce the Company's sales and net income. Financial performance is directly affected by exchange rates, because the results of operations and the assets and liabilities of the Company's foreign operations, which are recorded in local currencies, are translated into U.S. dollars for financial reporting purposes.

FORWARD-LOOKING STATEMENTS

This Annual Report includes and incorporates by reference "forward-looking statements" within the meaning of the securities laws. All statements that are not historical

facts are "forward-looking statements." The words "estimate," "project," "intend," "expect," "believe," "plan," "anticipate," "objective," "goal," "guidance" and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to statements regarding offsetting high raw material costs; improved productivity and cost containment; adequacy of income tax provisions; refinancing of debt; adequacy of cash flows; anticipated amounts and uses of cash flows; effects of acquisitions and dispositions; adequacy of provisions for environmental liabilities; financial strategies and the results expected from them; continued payments of dividends; stock repurchases; and producing improvements in earnings.

These forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to guidance and other estimates, expectations, beliefs, plans, strategies and objectives concerning our future financial and operating performance. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. Such risks and uncertainties include, without limitation availability and pricing of raw materials; success of new product development and introduction; ability to maintain or increase productivity levels and contain or reduce costs; international, national and local economic and market conditions; fluctuations in obligations and earnings of pension and postretirement benefit plans; ability to maintain market share; pricing pressures and demand for products; continued strength of our paperboard-based tubes and cores and composite can operations; anticipated results of restructuring activities; resolution of income tax contingencies; ability to successfully integrate newly acquired businesses into the Company's operations; currency stability and the rate of growth in foreign markets; use of financial instruments to hedge foreign currency, interest rate and commodity price risk; actions of government agencies; loss of consumer confidence; and economic disruptions resulting from terrorist activities.

We undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report might not occur.

CONSOLIDATED BALANCE SHEETS

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

(Dollars and shares in thousands)

AT DECEMBER 31

	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 59,608	\$ 117,725
Trade accounts receivable, net of allowances of \$8,325 in 2005 and \$8,286 in 2004	413,209	390,024
Other receivables	45,225	37,457
Inventories		
Finished and in process	124,891	123,924
Materials and supplies	193,425	191,087
Prepaid expenses	23,068	36,386
Deferred income taxes	26,074	25,509
	885,500	922,112
Property, Plant and Equipment, Net	943,951	1,007,295
Goodwill	573,903	570,508
Other Intangible Assets	73,037	88,790
Prepaid Pension Costs	281,904	237,200
Other Assets	223,445	215,414
Total Assets	\$ 2,981,740	\$ 3,041,319
Liabilities and Shareholders' Equity		
Current Liabilities		
Payable to suppliers	\$ 265,219	\$ 274,224
Accrued expenses and other	186,559	219,123
Accrued wages and other compensation	44,082	36,850
Notes payable and current portion of long-term debt	124,530	93,754
Accrued taxes	96	15,935
	620,486	639,886
Long-term Debt	657,075	813,207
Pension and Other Postretirement Benefits	173,939	148,214
Deferred Income Taxes	146,981	168,776
Other Liabilities	119,945	118,357
Commitments and Contingencies		
Shareholders' Equity		
Serial preferred stock, no par value		
Authorized 30,000 shares		
0 shares issued and outstanding as of December 31, 2005 and 2004		
Common shares, no par value		
Authorized 300,000 shares		
99,988 and 98,500 shares issued and outstanding at December 31, 2005 and 2004, respectively	7,175	7,175
Capital in excess of stated value	418,668	376,750
Accumulated other comprehensive loss	(106,389)	(103,155)
Retained earnings	943,860	872,109
Total Shareholders' Equity	1,263,314	1,152,879
Total Liabilities and Shareholders' Equity	\$ 2,981,740	\$ 3,041,319

The Notes beginning on page 53 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

(Dollars and shares in thousands except per share data)

YEARS ENDED DECEMBER 31	2005	2004	2003
Net sales	\$ 3,528,574	\$ 3,155,433	\$ 2,758,326
Cost of sales	2,867,623	2,580,643	2,259,887
Selling, general and administrative expenses	364,967	316,403	289,839
Restructuring charges	21,237	18,982	50,056
Income before interest and taxes	274,747	239,405	158,544
Interest expense	51,559	47,463	52,399
Interest income	(7,938)	(5,400)	(2,188)
Income before income taxes	231,126	197,342	108,333
Provision for income taxes	84,174	58,858	37,698
Income before equity in earnings of affiliates/minority interest in subsidiaries	146,952	138,484	70,635
Equity in earnings of affiliates/minority interest in subsidiaries	14,925	12,745	7,543
Income from continuing operations	161,877	151,229	78,178
Income from discontinued operations, net of income taxes			60,771
Net income	\$ 161,877	\$ 151,229	\$ 138,949
Average common shares outstanding:			
Basic	99,336	98,018	96,819
Assuming exercise of options	1,082	929	310
Diluted	100,418	98,947	97,129
Per common share			
Net income			
Basic:			
From continuing operations	\$ 1.63	\$ 1.54	\$.81
From discontinued operations	\$	\$	\$.63
Net income	\$ 1.63	\$ 1.54	\$ 1.44
Diluted:			
From continuing operations	\$ 1.61	\$ 1.53	\$.80
From discontinued operations	\$	\$	\$.63
Net income	\$ 1.61	\$ 1.53	\$ 1.43
Cash dividends - common	\$.91	\$.87	\$.84

The Notes beginning on page 53 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

<i>(Dollars and shares in thousands)</i>	Comprehensive Income	Common Shares		Capital in Excess of Stated Value	Accumulated Other Comprehensive Loss	Retained Earnings
		Outstanding	Amount			
January 1, 2003		96,380	\$ 7,175	\$ 324,295	\$ (212,164)	\$ 748,119
Net income	\$ 138,949					138,949
Other comprehensive income (loss):						
Translation gain	77,903					
Minimum pension liability adjustment, net of tax	(3,403)					
Derivative financial instruments, net of tax	1,573					
Other comprehensive income	76,073				76,073	
Comprehensive income	<u>\$ 215,022</u>					
Cash dividends						(81,128)
Exercise of stock options		589		8,752		
Stock-based compensation				4,089		
December 31, 2003		96,969	7,175	337,136	(136,091)	805,940
Net income	\$ 151,229					151,229
Other comprehensive income (loss):						
Translation gain	36,917					
Minimum pension liability adjustment, net of tax	(4,479)					
Derivative financial instruments, net of tax	498					
Other comprehensive income	32,936				32,936	
Comprehensive income	<u>\$ 184,165</u>					
Cash dividends						(85,060)
Exercise of stock options		1,531		34,463		
Stock-based compensation				5,151		
December 31, 2004		98,500	7,175	376,750	(103,155)	872,109
Net income	\$ 161,877					161,877
Other comprehensive income (loss):						
Translation loss	(12,844)					
Minimum pension liability adjustment, net of tax	568					
Derivative financial instruments, net of tax	9,042					
Other comprehensive loss	(3,234)				(3,234)	
Comprehensive income	<u>\$ 158,643</u>					
Cash dividends						(90,126)
Exercise of stock options		1,488		37,370		
Stock-based compensation				4,548		
December 31, 2005		99,988	\$ 7,175	\$ 418,668	\$ (106,389)	\$ 943,860

The Notes beginning on page 53 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

(Dollars in thousands)

YEARS ENDED DECEMBER 31	2005	2004	2003
Cash Flows from Operating Activities			
Net income	\$ 161,877	\$ 151,229	\$ 138,949
Adjustments to reconcile net income to net cash provided by operating activities			
Asset impairment	9,515	6,153	8,381
Depreciation, depletion and amortization	163,074	163,928	163,234
Equity in earnings of affiliates/minority interest in subsidiaries	(14,925)	(12,745)	(7,543)
Cash dividends from affiliated companies	6,758	7,114	11,327
(Gain) loss on disposition of assets	(555)	2,460	1,228
Gain on sale of High Density Film business			(49,433)
Noncash tax effect of nonqualified stock options	2,753	3,013	410
Deferred taxes	(24,722)	5,310	11,175
Change in assets and liabilities, net of effects from acquisitions, dispositions, assets held for sale and foreign currency adjustments			
Receivables	(24,026)	(23,893)	5,324
Inventories	(6,447)	(38,395)	(10,117)
Prepaid expenses	2,298	1,272	(7,955)
Payables and taxes	(10,554)	12,082	70,727
Cash contribution to pension plans	(77,024)	(33,360)	(22,946)
Other assets and liabilities	39,341	8,020	19,487
Net cash provided by operating activities	227,363	252,188	332,248
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	(129,112)	(119,800)	(113,574)
Cost of acquisitions, net of cash acquired	(3,566)	(267,016)	(6,232)
Proceeds from the sale of assets	13,377	8,638	2,709
Proceeds from sale of High Density Film business			81,177
Net cash used by investing activities	(119,301)	(378,178)	(35,920)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	43,859	206,157	20,715
Principal repayment of debt	(11,699)	(168,528)	(120,287)
Net (decrease) increase in commercial paper borrowings	(150,000)	180,000	(65,500)
Net increase (decrease) in bank overdrafts	7,765	(7,976)	(8,075)
Cash dividends – common	(90,126)	(85,060)	(81,128)
Common shares issued	34,617	31,450	8,342
Net cash (used) provided by financing activities	(165,584)	156,043	(245,933)
Effects of Exchange Rate Changes on Cash	(595)	2,818	3,054
(Decrease) Increase in Cash and Cash Equivalents	(58,117)	32,871	53,449
Cash and cash equivalents at beginning of year	117,725	84,854	31,405
Cash and cash equivalents at end of year	\$ 59,608	\$ 117,725	\$ 84,854
Supplemental Cash Flow Disclosures			
Interest paid, net of amounts capitalized	\$ 46,650	\$ 41,530	\$ 50,079
Income taxes paid, net of refunds	\$ 115,253	\$ 72,647	\$ 27,182
Value of stock issued for acquisition			\$ 2,700

Prior year data has been reclassified to conform to the current presentation.

The Notes beginning on page 53 are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

The following notes are an integral part of the Consolidated Financial Statements. The accounting principles followed by the Company appear in bold type.

1. BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Sonoco Products Company and its majority-owned subsidiaries (the “Company” or “Sonoco”) after elimination of intercompany accounts and transactions. Investments in affiliated companies in which the Company shares control over the financial and operating decisions, but in which the Company is not the primary beneficiary are accounted for as equity investments (“equity investments”). Income applicable to equity investments is reflected as “Equity in earnings of affiliates/minority interest in subsidiaries” in the Consolidated Statements of Income. Investments related to equity in affiliates are included in “Other Assets” in the Company’s Consolidated Balance Sheets and totaled \$115,276 and \$110,829 at December 31, 2005 and 2004, respectively.

Investments in affiliated companies in which the Company is not the primary beneficiary are accounted for by the equity method of accounting at December 31, 2005 and 2004, are as follows:

ENTITY	OWNERSHIP INTEREST PERCENTAGE
RTS Packaging JVCO	35.0%
Cascades Conversion, Inc.	50.0%
Cascades Sonoco, Inc.	50.0%
1191268 Ontario, Inc.	50.0%
Enstel Manufacturing Inc.	50.0%
AT-Spiral Oy	48.9%
Demolli Industria Cartaria S.p.A.	25.0%
Showa Products Company Ltd.	20.0%
Conitex Sonoco Holding BVI Ltd.	30.0%

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In accordance with US GAAP, the Company records revenue when title and risk of ownership pass to the customer, and when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price to the customer is fixed or determinable, and when collectibility is reasonably assured. Certain judgments, such as provisions for estimates of sales returns and allowances, may affect the application of the Company’s revenue policy and, therefore, the results of operations in its Consolidated Financial Statements. Shipping and handling expenses are included in “Cost of sales,” and freight charged to customers is included in “Net sales” in the Company’s Consolidated Statements of Income.

The Company’s trade accounts receivable are non-interest bearing and are recorded at the invoiced amounts. The allowance for doubtful accounts represents the Company’s best estimate of the amount of probable credit losses in existing accounts receivable. Provisions are made to the allowance for doubtful accounts at such time that collection of all or part of a trade account receivable is in question. The allowance for doubtful accounts is monitored on a regular basis and adjustments are made as needed to ensure that the account properly reflects the Company’s best estimate of uncollectible trade accounts receivable. Trade accounts receivable balances that are more than 180 days past due are generally 100% provided for in the allowance for doubtful accounts. Account balances are charged off against the allowance for doubtful accounts when the Company determines that it is probable that the receivable will not be recovered. As a result of a business combination during 2005 of two of the Company’s customers, a concentration of credit representing 10% of the consolidated trade accounts receivable exists at December 31, 2005.

The Company identifies its reportable segments in accordance with Statement of Financial Accounting Standards No. 131, ‘Disclosures about Segments of an Enterprise and Related Information’ (“FAS 131”), by reviewing the level of detail reviewed by the Chief Operating Decision Maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods to distribute product and nature of regulatory environment. While all of these factors were reviewed, the

Company feels that the most significant factors are the nature of its products, the nature of the production process and the type of customers served.

Effective December 31, 2005, the Company changed the name of the Engineered Carriers and Paper segment to Tubes and Cores/Paper, because the term “tubes and cores” is more generally understood than “engineered carriers” in the marketplace for the primary products offered by the businesses in this segment. There has been no change in the businesses included in this segment.

2. ACQUISITIONS/DISPOSITIONS/JOINT VENTURES

The Company completed three acquisitions during 2005, with an aggregate cost of approximately \$3,566 in cash. In connection with these acquisitions, the Company recorded fair value of identified intangibles of \$25, goodwill of \$1,081 and other net tangible assets of \$2,460. Acquisitions in the Company’s Tubes and Cores/Paper segment included a tube and core manufacturer in New Zealand and a small molded plug recycler in the United States. Additionally, the Company purchased the remaining ownership interest in a Chilean tubes and cores business. The Company also acquired certain assets of a rigid plastic packaging manufacturer in Brazil, which is reported in the Consumer Packaging segment.

In December 2005, the Company divested its single-plant folding cartons business for a note receivable of approximately \$11,000, which was collected in early 2006. This transaction resulted in a gain of \$2,417 (\$1,634 after tax). The results of this business unit were immaterial to the Company’s consolidated net income, for all periods presented.

The Company completed nine acquisitions during 2004, with an aggregate cost of approximately \$367,000. This amount included cash, assumption of debt and contribution of assets. In connection with these acquisitions, the Company recorded fair value of identifiable intangibles of approximately \$51,000, goodwill of approximately \$178,000 and net tangible assets of approximately \$138,000. In May 2004, the Company acquired CorrFlex Graphics, LLC (“CorrFlex”), one of the nation’s largest point-of-purchase display companies. The acquired business, which is known as Sonoco

CorrFlex, LLC, is reflected in the Packaging Services segment. Acquisitions in the Company’s Tubes and Cores/Paper segment included tube and core manufacturers in Australia, China and the United States. During the fourth quarter of 2004, the Company also completed a business combination with Ahlstrom Corporation, Helsinki, Finland (“Ahlstrom”), to combine each of the companies’ respective European paper-based tube/core and core-board operations into a joint venture that operates under the name Sonoco-Alcore S.a.r.l. (“Sonoco-Alcore”) and is reflected in the Tubes and Cores/Paper segment. The Company contributed ownership positions in 25 tube and core plants and five paper mills to Sonoco-Alcore, and holds a 64.5% interest in the joint venture. Ahlstrom, a leader in high-performance fiber-based materials serving niche markets worldwide, contributed 14 tube and core plants and one paper mill to Sonoco-Alcore, and holds a 35.5% interest in the joint venture. The Company has accounted for this transaction as an acquisition and, therefore, consolidates the results of the joint venture and reports Ahlstrom’s minority interest as such in its financial statements. The recognition of minority interest is included in “Income before equity in earnings of affiliates/minority interest in subsidiaries” on the Company’s Consolidated Statements of Income. Acquisitions in the Company’s Consumer Packaging segment included a composite can manufacturer in Australia, a manufacturer of rotogravure cylinders in Canada and the remaining ownership interest in a manufacturer of rotogravure cylinders in Charlotte, N.C. The Company also acquired certain assets of a wooden reel refurbisher in Alabama, which are classified as components of All Other Sonoco.

The Company completed four acquisitions during 2003, with an aggregate cost of approximately \$11,077 in cash, assumption of debt, relief of notes receivable and issuance of common stock. In connection with these acquisitions, the Company recorded fair value of identified intangibles of \$3,150, goodwill of \$2,897 and other net tangible assets of \$5,030. Acquisitions in the Company’s Tubes and Cores/Paper segment included a tube and core manufacturer in Australia and a recovered paper operation in Savannah, Ga. The Company also acquired certain assets of a wooden reel manufacturer in Canada and the United States, which are classified as components of All Other Sonoco. In addition, the Company increased its ownership interest in a manufac-

turer of rotogravure cylinders in Charlotte, N.C., in the Company's Consumer Packaging segment.

During 2003, the Company decided to divest itself of the High Density Film business in order to redirect the value of those assets to primary-growth vehicles, thereby enhancing the opportunity to increase total returns to shareholders and significantly reduce the Company's exposure to highly cyclical resin markets. In December 2003, the Company completed this divestiture by selling the business to Hilex Poly Co., LLC, of Los Angeles, Calif., for a price of approximately \$118,800, including approximately \$80,800 in cash; \$28,000 in subordinated notes bearing a 4.95% interest rate maturing in 10 years; and, a \$10,000 nonvoting preferred membership interest yielding 10%. This transaction resulted in a gain of \$63,112 (\$49,433 after tax). Operating results of this business have been presented for all periods as "Income from discontinued operations, net of income taxes" in the Company's Consolidated Statements of Income.

The Company has accounted for all of its acquisitions as purchases and, accordingly, has included their results of operations in consolidated net income from the date of acquisition.

3. DISCONTINUED OPERATIONS

The Company accounts for discontinued operations in accordance with Statement of Financial Accounting Standards No. 144, 'Accounting for the Impairment or Disposal of Long-lived Assets' ("FAS 144"). Accordingly, the results of operations of a material business component are reported in discontinued operations when the component has either been disposed of, or is classified as held for sale, and the operations and cash flows of the component have been or will be eliminated and the Company will not have any significant continuing involvement in the operations of the component.

Income from discontinued operations for 2003 represents the results of operations of the Company's High Density Film business, which was sold in December 2003. See Note 2 for a discussion of this disposition.

The following table sets forth the operating results for the High Density Film business, which was previously reported in the Company's Consumer Packaging segment:

	2003
Net sales	\$ 198,759
Operating income before income taxes	17,758
Gain on sale	63,112
Income tax expense	(20,099)
Income from discontinued operations	<u>\$ 60,771</u>
Income from discontinued operations – per basic share	\$.63
Income from discontinued operations – per diluted share	<u>\$.63</u>

No interest expense or income was allocated to this business unit.

The Company has no continuing involvement in the management or operations of the divested business.

4. RESTRUCTURING PROGRAMS

The Company accounts for restructuring charges in accordance with Statement of Financial Accounting Standards No. 146, 'Accounting for Costs Associated with Exit or Disposal Activities' ("FAS 146"), whereby the liability is recognized when exit costs are incurred. If, as a result of the restructuring action, assets become impaired, the assets are written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable. A number of significant estimates and assumptions are involved in the application of these techniques. The Company considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the assets to be divested may differ from the estimated fair values reflected in the Company's Consolidated Financial Statements.

In August 2003, the Company announced general plans to reduce its overall annual cost structure by approximately \$54,000 pretax by realigning and centralizing a number of staff functions and eliminating excess plant capacity. Pursuant to these plans, the Company has initiated or completed 22 plant closings and has reduced its workforce by approximately 1,000 employees. As of December 31, 2005, the Company had incurred cumulative charges, net of adjustments, of approximately \$94,536 pretax associated with these activities. The following table provides additional details of these net charges:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

	SEVERANCE AND TERMINATION BENEFITS	ASSET IMPAIRMENT/ DISPOSAL OF ASSETS	OTHER EXIT COSTS	TOTAL
Tubes and Cores/ Paper Segment	\$35,982	\$16,012	\$12,415	\$64,409
Consumer Packaging Segment	10,334	4,586	6,154	21,074
Packaging Services Segment	333			333
All Other Sonoco	2,995	326	92	3,413
Corporate	5,094		213	5,307
Cumulative restructuring charges, net of adjustments	<u>\$54,738</u>	<u>\$20,924</u>	<u>\$18,874</u>	<u>\$94,536</u>

The Company expects to recognize an additional cost of approximately \$6,810 pretax in the future associated with these activities, which is comprised of approximately \$1,334 in severance and termination benefits and \$5,476 in other exit costs. Of the additional cost, approximately \$5,585 is related to the Tubes and Cores/Paper segment and approximately \$1,225 is related to the Consumer Packaging segment.

Other exit costs consist primarily of building lease termination charges and other miscellaneous exit costs.

During 2005, the Company recognized restructuring charges, net of adjustments, of \$21,237 (\$14,343 after tax). The following table provides additional details of these net charges:

	SEVERANCE AND TERMINATION BENEFITS	ASSET IMPAIRMENT/ DISPOSAL OF ASSETS	OTHER EXIT COSTS	TOTAL
Tubes and Cores/ Paper Segment	\$4,834	\$4,999	\$6,194	\$16,027
Consumer Packaging Segment	733	1,557	2,321	4,611
All Other Sonoco	640	(41)		599
Total	<u>\$6,207</u>	<u>\$6,515</u>	<u>\$8,515</u>	<u>\$21,237</u>

The net charges for 2005 relate primarily to the closure of tube and core plants in the United States and Europe, flexible packaging plants in the United States and Canada, and a paper mill in the United States.

During 2005, the Company also recorded noncash income in the amount of \$1,260 after tax in order to reflect Ahlstrom's portion of restructuring costs that

were charged to expense. This income, which resulted from the closure of certain plants that the Company contributed to Sonoco-Alcore, is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

During 2004, the Company recognized restructuring charges, net of adjustments, of \$18,982 (\$16,154 after tax). Included in this amount, is \$2,200 in restructuring charges, which resulted from a correction to previously reported financial statements at the Company's wholly owned subsidiary in Spain. The following table provides additional details of these net charges:

	SEVERANCE AND TERMINATION BENEFITS	ASSET IMPAIRMENT/ DISPOSAL OF ASSETS	OTHER EXIT COSTS	TOTAL
Tubes and Cores/ Paper Segment	\$7,021	\$4,459	\$3,254	\$14,734
Consumer Packaging Segment	1,513	1,327	2,439	5,279
All Other Sonoco	559	367	92	1,018
Corporate	(2,548)		499	(2,049)
Total	<u>\$6,545</u>	<u>\$6,153</u>	<u>\$6,284</u>	<u>\$18,982</u>

The net charges for 2004 relate primarily to the closure of a flexible packaging plant in Canada, and a tube and core plant, a paper mill and a molded plastics plant in the United States. The consolidation of plants in the Company's European operations also contributed to the restructuring charges recognized during 2004.

Restructuring charges associated with plants contributed to Sonoco-Alcore by Ahlstrom were recorded as an increase in goodwill in accordance with Emerging Issues Task Force Issue No. 95-3, 'Recognition of Liabilities in Connection with a Business Combination' ("EITF 95-3"). The Corporate credit is an adjustment in severance relating to the restructuring plan announced in August 2003.

During 2004, the Company also recorded noncash income in the amount of \$1,778 after tax, in order to reflect Ahlstrom's portion of restructuring costs that were charged to expense. This income, which resulted from the expected closure of certain plants that the Company contributed to Sonoco-Alcore, is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

During 2003, the Company recognized restructuring

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

charges, net of adjustments, of \$50,056 (\$35,329 after tax). The following table provides additional details of these net charges:

	SEVERANCE AND TERMINATION BENEFITS	ASSET IMPAIRMENT/ DISPOSAL OF ASSETS	OTHER EXIT COSTS	TOTAL
Tubes and Cores/ Paper Segment	\$22,306	\$6,621	\$2,486	\$31,413
Consumer Packaging Segment	6,253	1,760	1,456	9,469
Packaging Services Segment	335			335
All Other Sonoco	1,806			1,806
Corporate	7,033			7,033
Total	\$37,733	\$8,381	\$3,942	\$50,056

The net charges for 2003 relate primarily to the closure of tube and core plants in the United States and France, a paper mill in the United States, a flexible packaging plant in the United States and corporate severance. Additionally, the Company's High Density Film business, which was divested in 2003, incurred restructuring charges of \$200 pretax (\$128 after tax), which are included in "Income from discontinued operations" in the Company's Consolidated Statements of Income.

During 2003, the Company also recorded restructuring charges of \$1,455 after tax related to expenses at a non-consolidated affiliate. The restructuring charges are included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

The following table sets forth the activity in the restructuring accrual included in "Accrued expenses and other" on the Company's Consolidated Balance Sheets. Restructuring charges are included in "Restructuring charges" in the Consolidated Statements of Income, except for the restructuring charges applicable to the High Density Film business and equity method investments, which are included in "Income from discontinued operations" and "Equity in earnings of affiliates/minority interest in subsidiaries," respectively. In accordance with the agreement of sale for the High Density Film business, the liability associated with the restructuring has been retained by the Company and is, therefore, included in the table following:

	SEVERANCE AND TERMINATION BENEFITS	ASSET IMPAIRMENT/ DISPOSAL OF ASSETS	OTHER EXIT COSTS	TOTAL
LIABILITY, DECEMBER 31, 2002	\$ 9,162	\$	\$ 5,214	\$ 14,376
2003 Charges	40,526	8,709	3,142	52,377
Cash payments	(21,953)		(2,970)	(24,923)
Asset impairment (noncash)		(8,381)		(8,381)
Reclassifications to pension liability	(10,234)			(10,234)
Adjustments	(2,793)	(328)	1,000	(2,121)
LIABILITY, DECEMBER 31, 2003	14,708		6,386	21,094
2004 Charges	9,815	5,894	5,970	21,679
Cash payments	(16,595)		(5,642)	(22,237)
Asset impairment/ pension curtail- ment (noncash)		(6,153)	(1,926)	(8,079)
Foreign currency translation	2,016		66	2,082
Adjustments	(3,270)	259	314	(2,697)
LIABILITY, DECEMBER 31, 2004	6,674		5,168	11,842
2005 Charges	6,232	7,099	8,992	22,323
Cash payments	(8,600)		(7,329)	(15,929)
Asset impairment (noncash)		(6,515)		(6,515)
Foreign currency translation	(859)		140	(719)
Adjustments	(538)	(584)	36	(1,086)
LIABILITY DECEMBER 31, 2005	\$ 2,909	\$	\$ 7,007	\$ 9,916

The Company expects to pay the majority of the remaining restructuring costs, with the exception of ongoing pension subsidies and certain building lease termination expenses, by the end of the third quarter of 2006, using cash generated from operations.

During 2005, the Company recognized writeoffs of impaired equipment and facilities held for disposal in the Tubes and Cores/Paper segment in the amount of \$4,312, in the Consumer Packaging segment in the amount of \$1,367 and in All Other Sonoco in the amount of \$(41). Also, during 2005, the Company recognized writeoffs of inventory in the Tubes and Cores/Paper segment in the amount of \$687, and in the Consumer Packaging segment in the amount of \$190. Writeoffs of impaired equipment, facilities and inventory in the Tubes and Cores/Paper segment related primarily to the closure of tube and core plants and a paper mill in the United States. Writeoffs of impaired equipment, facilities and inventory in the Consumer Packaging segment related primarily to the closure of two flexible

packaging plants. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2004, the Tubes and Cores/Paper segment recognized writeoffs of impaired equipment and facilities held for disposal of \$4,459, attributed to the closing of six plant locations. Additionally, the Consumer Packaging segment recognized writeoffs of impaired equipment and facilities held for disposal of \$1,327 and pension curtailment of \$1,926, related to the closing of two plant locations. Finally, during 2004, All Other Sonoco recognized writeoffs of impaired equipment and facilities held for disposal of \$367, attributed to the closing of one plant location. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2003, the Tubes and Cores/Paper segment recognized writeoffs of impaired equipment and facilities held for disposal of \$6,621, attributed to the closing of four plant locations. Additionally, the Consumer Packaging segment recognized writeoffs of impaired equipment of \$1,760 related to the closing of one plant location. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

5. CASH AND CASH EQUIVALENTS

Cash equivalents are composed of highly liquid investments with an original maturity of three months or less, and are recorded at market. At December 31, 2005 and 2004, outstanding checks totaling \$22,406 and \$14,611, respectively, were included in "Payable to suppliers" on the Company's Consolidated Balance Sheets. In addition, outstanding payroll checks of \$1,161 and \$1,192 as of December 31, 2005 and 2004, respectively, were included in "Accrued wages and other compensation" on the Company's Consolidated Balance Sheets.

6. INVENTORIES

Inventories are stated at the lower of cost or market. The last-in, first-out ("LIFO") method was used to determine costs of approximately 23% of total inventories at both December 31, 2005 and 2004. The remaining inventories are determined on the first-in, first-out ("FIFO") method.

If the FIFO method of accounting had been used for

all inventories, total inventory would have been higher by \$11,568 and \$10,701 at December 31, 2005 and 2004, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

Plant assets represent the original cost of land, buildings and equipment, less depreciation, computed under the straight-line method over the estimated useful life of the asset, and are reviewed for impairment whenever events indicate the carrying value may not be recoverable.

Equipment lives generally range from three to 11 years, and buildings from 15 to 40 years.

Timber resources are stated at cost. Depletion is charged to operations based on the estimated number of units of timber cut during the year.

Depreciation and depletion expense amounted to \$155,412 in 2005, \$158,212 in 2004 and \$148,843 in 2003. Depreciation expense amounted to \$9,696 during 2003 for the High Density Film business, which was divested in 2003 and has, therefore, been reclassified as discontinued operations. Details at December 31 are as follows:

	2005	2004
Land	\$ 46,541	\$ 51,041
Timber resources	38,224	37,695
Buildings	388,414	396,083
Machinery and equipment	1,995,737	1,981,331
Construction in progress	68,886	76,428
	2,537,802	2,542,578
Accumulated depreciation and depletion	(1,593,851)	(1,535,283)
Property, plant and equipment, net	<u>\$ 943,951</u>	<u>\$ 1,007,295</u>

During 2005, the Company recorded an impairment charge of approximately \$3,000 associated with its Tubes and Cores/Paper segment in Asia.

Estimated costs for completion of authorized capital additions under construction totaled approximately \$58,338 at December 31, 2005.

The Company has certain properties and equipment that are leased under noncancelable operating leases. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows: 2006 – \$31,300; 2007 – \$26,000; 2008 – \$19,200;

2009 – \$15,400; 2010 – \$11,000; and thereafter – \$29,700. Total rental expense under operating leases was approximately \$41,900 in 2005, \$35,600 in 2004 and \$34,000 in 2003.

Research and development costs are charged to expense as incurred and include salaries and other various expenses. Research and development costs included as “Selling, general and administrative expenses” on the Company’s Consolidated Statements of Income charged to the expense were \$14,668 in 2005, \$15,404 in 2004 and \$14,225 in 2003.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142 ‘Goodwill and Other Intangible Assets’ (“FAS 142”). Under FAS 142, purchased goodwill and intangible assets with indefinite lives are not amortized. The Company evaluates its goodwill for impairment at least annually, and more frequently if indicators of impairment are present. The Company completed its annual goodwill impairment testing required by FAS 142 during the third quarters of 2005, 2004 and 2003. In performing the impairment test, the Company uses discounted future cash flows to determine fair value of assets of each reporting unit, which is then compared to the carrying value of these assets. If, after completing this test, certain reporting units are deemed impaired, further analysis is completed to calculate the impairment charge required. Based on this impairment testing, no adjustment to the recorded goodwill balance was necessary. The evaluation of goodwill impairment that was completed during the third quarter of 2005 used forward-looking projections, which included expected improvement in results at certain reporting units, most notably, the European operations within the Tubes and Cores/Paper segment, to which \$66,900 of goodwill is attributed. The assessment of the relevant facts and circumstances is ongoing, and if actual performance in this reporting unit falls significantly short of the projected results, it is reasonably possible that a non cash impairment charge would be required.

The changes in the carrying amount of goodwill for the year ended December 31, 2005, are as follows:

	TUBES AND CORES /PAPER SEGMENT	CONSUMER PACKAGING SEGMENT	PACKAGING SERVICES SEGMENT	ALL OTHER SONOCO	TOTAL
Balance as of					
January 1, 2005	\$183,671	\$172,630	\$148,268	\$65,939	\$570,508
Goodwill					
purchase price					
adjustments	12,936	(4,015)	16		8,937
Goodwill on					
2005 acquisitions	1,022	59			1,081
Other adjustments	(2,686)				(2,686)
Foreign currency					
translation	(5,308)	1,709	(159)	(179)	(3,937)
Balance as of					
December 31, 2005	\$189,635	\$170,383	\$148,125	\$65,760	\$573,903

During 2005, the Company made adjustments to the purchase price allocation related to the Sonoco-Alcore business combination, which was consummated during the fourth quarter of 2004. In conjunction with the finalization of the valuation analysis, the Company reduced the amount of the purchase price that had been allocated to customer lists by \$6,048, identified approximately \$6,888 of additional purchase price adjustments, related primarily to closing certain plants contributed by Ahlstrom, and adjusted certain assets to fair value. Other adjustments include \$1,603 associated with the sale of a business.

OTHER INTANGIBLE ASSETS

Intangible assets are amortized, usually on a straight-line basis, over their respective useful lives, which generally range from three to 15 years. The Company evaluates its intangible assets for impairment whenever indicators of impairment exist. The Company has no intangibles with indefinite lives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

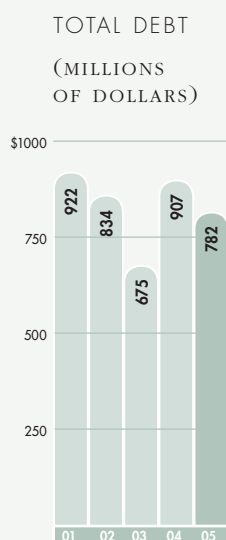
	2005	2004
Amortizable intangibles – Gross cost		
Patents	\$ 3,378	\$ 3,378
Customer lists	81,026	88,791
Land use rights	6,011	6,011
Supply agreements	5,261	5,261
Other	6,703	6,644
Total gross cost	102,379	110,085
Accumulated amortization		
Patents	(3,110)	(2,843)
Customer lists	(14,690)	(8,251)
Land use rights	(2,148)	(2,107)
Supply agreements	(4,619)	(4,444)
Other	(4,775)	(3,650)
Total accumulated amortization	(29,342)	(21,295)
Net amortizable intangibles	\$ 73,037	\$ 88,790

Aggregate amortization expense on intangible assets was \$7,662, \$5,716 and \$4,695 for the years ended December 31, 2005, 2004 and 2003, respectively.

Amortization expense on the other intangible assets identified in the table above is expected to approximate \$7,400 in 2006, \$7,100 in 2007, \$6,600 in 2008, \$6,200 in 2009 and \$6,000 in 2010.

The Company recorded an immaterial amount of identifiable intangibles mainly related to non-compete agreements in connection with 2005 acquisitions. These agreements are being amortized over a five-year period. The Company recorded \$49,800 of identifiable intangibles mainly related to customer lists in connection with 2004 acquisitions. This amount was reduced by

\$6,048 during 2005 in conjunction with the finalization of the valuation analysis for the Sonoco-Alcore business combination. The customer lists acquired in 2004 are being amortized over periods ranging from 15 to 20 years. For further information on acquisitions, see Note 2.



9. DEBT

Debt at December 31 was as follows:

	2005	2004
Commercial paper, average rate of		
3.26% in 2005 and 1.40% in 2004	\$30,000	\$180,000
6.75% debentures due November 2010	99,912	99,898
6.5% debentures due November 2013	249,092	250,879
5.625% debentures due November 2016	149,250	157,014
9.2% debentures due August 2021	41,305	41,305
6.125% IRBs due June 2025	34,674	34,650
6.0% IRBs due April 2026	34,360	34,329
Foreign denominated debt, average rate		
of 8.3% in 2005 and 8.5% in 2004	124,937	93,640
Other notes	18,075	15,246
Total debt	781,605	906,961
Less current portion and short-term		
notes	124,530	93,754
Long-term debt	\$657,075	\$813,207

The Company currently operates a commercial paper program totaling \$350,000, and has fully committed bank lines of credit supporting the program by a like amount. In July 2004, the Company entered into a new five-year, \$350,000 credit agreement that also provides the Company with the option to increase its credit line to \$450,000 subject to the concurrence of its lenders. The Company intends to indefinitely maintain line of credit agreements fully supporting its commercial paper program. The five-year term on the new line of credit allows commercial paper borrowings up to the maximum amount of the line of credit to be classified as long-term debt. The amount of the Company's outstanding commercial paper at December 31, 2005 and 2004 was \$30,000 and \$180,000, respectively.

Certain of the Company's debt agreements impose restrictions with respect to the maintenance of financial ratios and the disposition of assets. The most restrictive covenant currently requires that net worth at the end of each fiscal quarter be greater than \$883,000, increased by 25% of net income after March 28, 2004, and decreased by stock purchases after July 7, 2004. As of December 31, 2005, the Company was approximately \$312,000 above the minimum level required under this covenant. The Company's current backstop credit line excludes from the above net worth covenant any charge

to shareholders' equity arising from minimum pension liability adjustments for its U.S. defined benefit pension plan. No such charge existed for the Company's U.S. defined benefit pension plan at December 31, 2005, 2004 or 2003.

The 6.125% IRBs and the 6.0% IRBs are collateralized by property, plant and equipment at several locations.

The Company had committed availability under unused short-term lines of credit in the amount of approximately \$140,704 at December 31, 2005. These short-term lines of credit are for general Company purposes, with interest at mutually agreed-upon rates.

The approximate principal requirements of debt maturing in the next five years are: 2006 – \$124,530; 2007 – \$3,200; 2008 – \$1,300; 2009 – \$1,600 and 2010 – \$102,000.

10. FINANCIAL INSTRUMENTS

The following table sets forth the carrying amounts and fair values of the Company's significant financial instruments where the carrying amount differs from the fair value.

	DECEMBER 31, 2005		DECEMBER 31, 2004	
	CARRYING AMOUNT OF LIABILITY	FAIR VALUE OF LIABILITY ¹	CARRYING AMOUNT OF LIABILITY	FAIR VALUE OF LIABILITY ²
Long-term debt	\$657,075	\$705,989	\$813,207	\$880,223

¹ The fair value of long-term debt at December 31, 2005 does not include the impact of interest-rate swaps. The fair value of long-term debt is \$692,489, when the impact of interest rate swaps is included.

² The fair value of long-term debt at December 31, 2004 does not include the impact of interest-rate swaps. The fair value of long-term debt is \$861,430, when the impact of interest-rate swaps is included.

The carrying value of cash and cash equivalents, short-term debt and long-term variable-rate debt approximates fair value. The fair value of long-term debt is based on quoted market prices or is determined by discounting future cash flows using interest rates available to the Company for issues with similar terms and average maturities.

The Company records derivatives based on Statement of Financial Accounting Standards No. 133, 'Accounting for Derivative Instruments and Hedging Activities' ("FAS 133"), and related amendments. This

Statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives are recognized in either net income or in other comprehensive income, depending on the designated purpose of the derivative.

The Company uses derivatives from time to time to partially mitigate the effect of raw material and energy cost fluctuations, exposure to foreign currency fluctuations and exposure to interest rate movements. The Company purchases commodities such as recovered paper, metal and energy generally at market or fixed prices that are established with the vendor as part of the purchase process for quantities expected to be consumed in the ordinary course of business. The Company may enter into commodity futures or swaps to reduce the effect of price fluctuation. In addition, the Company may use foreign currency forward contracts and other risk management instruments to manage exposure to changes in foreign currency cash flows and the translation of monetary assets and liabilities on the Company's Consolidated Financial Statements. The Company is exposed to interest rate fluctuations as a result of using debt as a source of financing for its operations. When necessary, the Company uses traditional, unleveraged interest-rate swaps to manage its mix of fixed and variable-rate debt to maintain its exposure to interest rate movements within established ranges. The Company uses published market prices or estimated values based on current price quotes and a discounted cash flow model to estimate the fair market value of the derivatives.

All interest-rate swaps qualified as fair value hedges, under which fixed interest rates are swapped for floating rates. In January 2004, the Company entered into an agreement to swap the interest rate from fixed to floating on \$100,000 of its \$250,000 6.5% notes maturing in 2013. During June 2004, the Company entered into an agreement to swap the interest rates from fixed to floating on all of its newly issued \$150,000 of 5.625% notes maturing in 2016. The fair market value of these interest-rate swaps was an unfavorable position of \$1,098 and a favorable position of \$4,483, respectively, at December 31, 2005, and was reflected in "Other Liabilities" and "Other Assets," respectively, on the Company's Consolidated Balance Sheets in accordance with FAS 133.

In 2005, the Company entered into certain cash flow hedges to mitigate exposure to commodity and foreign exchange risks in 2005 through June 2008. The fair market value of these derivatives as of December 31, 2005, was \$11,181 on a tax-adjusted basis, and will be reclassified to earnings in the same periods that the forecast purchases or payments affect earnings. Based on the current amount of the derivative gain in other comprehensive income, \$6,721 after tax would be reclassified to income in 2006. As a result of the high correlation between the hedged instruments and the underlying transactions, ineffectiveness did not have a material impact on the Company's Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003.

11. STOCK PLANS

STOCK OPTION PLANS

The Company has stock option plans under which common shares are reserved for sale to certain employees and nonemployee directors. The exercise price of options granted under the plans is the market value of the shares at the date of grant. Options are generally exercisable one year after the date of grant and expire 10 years after the date of grant, although options granted in 2005 vested immediately. There were 4,476,838 shares reserved for future grants at December 31, 2005.

A summary of the status of the Company's stock option plans is presented below:

	OPTION SHARES	WEIGHTED- AVERAGE EXERCISE PRICE
2003		
Outstanding at beginning of year	10,875,626	\$25.12
Granted	1,419,694	\$21.19
Exercised	(438,470)	\$20.96
Canceled	(518,209)	\$24.59
Outstanding at end of year	11,338,641	\$24.81
Options exercisable at end of year	9,943,286	\$25.32
2004		
Granted	1,085,817	\$24.08
Exercised	(1,579,386)	\$20.95
Canceled	(1,091,928)	\$29.16
Outstanding at end of year	9,753,144	\$24.87
Options exercisable at end of year	8,700,656	\$24.97
2005		
Granted	1,140,648	\$27.26
Exercised	(1,469,431)	\$23.75
Canceled	(51,056)	\$26.41
Outstanding at end of year	9,373,305	\$25.33
Options exercisable at end of year	9,373,305	\$25.33

The weighted-average fair value of options granted was \$5.42, \$4.97 and \$4.85 in 2005, 2004 and 2003, respectively. The fair value of each option grant is estimated on the date of the grant using the binomial option-pricing model with the following assumptions:

	2005	2004	2003
Expected dividend yield	3.5%	3.6%	3.6%
Expected stock price volatility	26.2%	27.4%	31.8%
Risk-free interest rate	3.7%	3.2%	3.0%
Expected life of options	4.5 years	4.5 years	4.5 years

The following tables summarize information about stock options outstanding and stock options exercisable at December 31, 2005:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	OPTIONS OUTSTANDING	
		WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED- AVERAGE EXERCISE PRICE
\$17.25 - \$23.80	3,238,329	5.5 years	\$21.75
\$23.83 - \$26.81	2,963,137	5.2 years	\$24.51
\$27.31 - \$37.10	3,171,839	4.8 years	\$29.74
\$17.25 - \$37.10	9,373,305	5.2 years	\$25.33
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	OPTIONS EXERCISABLE	
		WEIGHTED-AVERAGE EXERCISE PRICE	
\$17.25 - \$23.80	3,238,329	\$21.75	
\$23.83 - \$26.81	2,963,137	\$24.51	
\$27.31 - \$37.10	3,171,839	\$29.74	
\$17.25 - \$37.10	9,373,305	\$25.33	

PERFORMANCE-BASED STOCK PLANS

As of December 31, 2005 and 2004, the Company had granted awards in the form of contingent-share units to certain of its executives and other members of its management team. These awards vest over five years with accelerated vesting of three years if performance targets are met. The performance vesting of the awards, which can range from 161,388 to 484,162 shares, is tied to growth in earnings and improved capital effectiveness over a three-year period. The 2004 awards are tied to performance targets through fiscal year 2006, and can range from 76,338 to 229,012 shares. The 2005 awards are tied to performance targets through fiscal year 2007, and can range from 85,050 to 255,150 shares. The

Company's 2003 performance plan completed its three-year performance cycle on December 31, 2005, and participants to whom awards had previously been granted earned 99,005 shares of common stock based on meeting performance goals set by the plan. These shares will be issued during the first quarter of 2006. Noncash stock-based compensation associated with these performance-based plans totaled \$3,198, \$4,254 and \$460 pretax for 2005, 2004 and 2003, respectively.

RESTRICTED STOCK PLAN

Since 1994, the Company has granted one-time awards of contingent shares units to certain of the Company's executives. These awards vest over a five-year period with one-third vesting on the third, fourth and fifth anniversaries of the grant. An executive must be actively employed by the Company on the vesting date for shares to be issued. Once vested, these awards do not expire. As of December 31, 2005, a total of 482,804 contingent shares granted under this plan remained outstanding, 406,995 of which are vested. Noncash stock-based compensation associated with these restricted stock plans totaled \$1,356, \$890 and \$930 pretax for 2005, 2004 and 2003, respectively.

As permitted by Statement of Financial Accounting Standards No. 123, 'Accounting for Stock-based Compensation' ("FAS 123"), the Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, 'Accounting for Stock Issued to Employees,' and its related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for performance stock options is recognized over the vesting period and is recorded based on the quoted market price of the Company's stock at the end of the period.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation.

	2005	2004	2003
Net income, as reported	\$161,877	\$151,229	\$138,949
Add: Stock-based employee compensation cost, net of related tax effects included in net income, as reported	3,078	3,430	869
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(7,647)	(6,355)	(5,889)
Pro forma net income	\$157,308	\$148,304	\$133,929
Earnings per share:			
Basic – as reported	\$ 1.63	\$ 1.54	\$ 1.44
Basic – pro forma	\$ 1.58	\$ 1.51	\$ 1.38
Diluted – as reported	\$ 1.61	\$ 1.53	\$ 1.43
Diluted – pro forma	\$ 1.57	\$ 1.50	\$ 1.38

12. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS AND RETIREE HEALTH AND LIFE INSURANCE PLANS

The Company provides non-contributory defined benefit pension plans for a majority of its employees in the United States, and certain of its employees in Mexico and Belgium. Effective December 31, 2003, the Company froze participation for newly hired salaried and non-union hourly U.S. employees in its traditional defined benefit pension plan. The Company adopted a defined contribution plan, the Sonoco Investment and Retirement Plan, which covers its U.S. employees hired on or after January 1, 2004. The Company also sponsors contributory pension plans covering the majority of its employees in the United Kingdom, Canada and the Netherlands.

The Company also provides postretirement health-care and life insurance benefits to the majority of its retirees and their eligible dependents in the United States and Canada. In the fourth quarter of 2005, the Company announced changes in eligibility for retiree medical benefits effective January 1, 2006, for its U.S. plan. These changes included the elimination of a Company subsidy toward the cost of retiree medical benefits if certain age and service criteria were not met, as well as the elimination of Company-provided prescription drug benefits for the majority of its retired and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

active employees. In 2005, these changes resulted in an overall reduction in the accumulated postretirement benefit obligation of \$38,132, which will be amortized over a period of 4.6 years.

The components of net periodic benefit cost include the following:

	2005	2004	2003
Retirement Plans			
Service cost	\$ 25,994	\$ 22,880	\$ 20,209
Interest cost	60,489	57,953	51,767
Expected return on plan assets	(72,316)	(65,967)	(55,290)
Amortization of net translation (asset) obligation	575	615	576
Amortization of prior service cost	1,770	1,558	1,665
Amortization of net actuarial loss	22,705	21,153	22,223
Special termination benefit cost	203	198	10,234
Other			70
Effect of curtailment loss			611
Net periodic benefit cost	<u>\$ 39,420</u>	<u>\$ 38,390</u>	<u>\$ 52,065</u>
	2005	2004	2003
Retiree Health and Life Insurance Plans			
Service cost	\$ 3,487	\$ 3,608	\$ 4,360
Interest cost	7,097	8,431	11,558
Expected return on plan assets	(2,881)	(3,543)	(3,650)
Amortization of prior service cost	(7,679)	(6,160)	(6,581)
Amortization of net actuarial loss	4,896	5,031	9,026
Special termination benefit gain			(1,096)
Effect of curtailment gain	(1,344)		
Net periodic benefit cost	<u>\$ 3,576</u>	<u>\$ 7,367</u>	<u>\$ 13,617</u>

The following tables set forth the Plans' obligations and assets at December 31:

	RETIREMENT PLANS		RETIREE HEALTH AND LIFE INSURANCE PLANS	
	2005	2004	2005	2004
Change in Benefit Obligation				
Benefit obligation at January 1	\$1,080,525	\$ 911,083	\$146,764	\$ 186,363
Service cost	25,994	22,880	3,487	3,608
Interest cost	60,489	57,953	7,097	8,431
Plan participant contributions	1,557	1,332	4,586	3,558
Plan amendments	4,082	715	(38,132)	
Actuarial loss (gain)	96,078	110,923	(2,396)	(36,261)
Benefits paid	(53,255)	(53,031)	(19,251)	(18,982)
Impact of foreign exchange rates	(19,869)	19,574	58	47
Special termination benefit cost	203	198		
Other	579	8,898		
Benefit obligation at December 31	<u>\$1,196,383</u>	<u>\$1,080,525</u>	<u>\$102,213</u>	<u>\$ 146,764</u>
Change in Plan Assets				
Fair value of plan assets at January 1	\$ 893,384	\$ 790,470	\$ 42,347	\$ 50,081
Actual return on plan assets	75,435	94,969	2,270	5,238
Company contributions	82,163	39,975	2,930	2,704
Plan participant contributions	1,557	1,332	4,586	3,558
Benefits paid	(53,255)	(53,031)	(19,251)	(18,982)
Impact of foreign exchange rates	(14,093)	13,721		
Expenses paid	(4,245)	(3,104)	(177)	(252)
Other	496	9,052		
Fair value of plan assets at December 31	<u>\$ 981,442</u>	<u>\$ 893,384</u>	<u>\$ 32,705</u>	<u>\$ 42,347</u>
Reconciliation of Funded Status, December 31				
Funded status of plan	\$ (214,941)	\$ (187,565)	\$ (69,508)	\$ (104,417)
Unrecognized net actuarial loss	439,287	372,669	57,560	64,127
Unrecognized prior service cost	9,356	7,048	(37,917)	(8,782)
Unrecognized net transition obligation	5,627	5,914		
Net amount recognized	<u>\$ 239,329</u>	<u>\$ 198,066</u>	<u>\$ (49,865)</u>	<u>\$ (49,072)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

	RETIREMENT PLANS	
	2005	2004
Total Recognized Amounts in the Consolidated Balance Sheets		
Prepaid benefit cost	\$281,904	\$237,200
Accrued benefit liability	(133,545)	(129,555)
Intangible asset	6,486	5,228
Accumulated other comprehensive loss	84,484	85,193
Net amount recognized	<u>\$239,329</u>	<u>\$198,066</u>

The accumulated benefit obligation for all defined benefit plans was \$1,099,747 and \$1,010,596 at December 31, 2005 and 2004, respectively.

The projected benefit obligation ("PBO"), accumulated benefit obligation ("ABO") and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$375,655, \$348,384 and \$216,841, respectively, as of December 31, 2005, and \$344,355, \$329,740 and \$200,458, respectively, as of December 31, 2004. As of December 31, 2005, the ABO of the Company's U.S. qualified pension plan was fully funded.

The following table sets forth the Company's projected benefit payments for the next ten years:

YEAR	RETIREMENT PLANS	RETIREE HEALTH AND LIFE INSURANCE PLANS
2006	\$51,214	\$10,347
2007	52,492	10,069
2008	54,459	9,561
2009	55,662	9,472
2010	58,230	9,404
2011-2015	<u>334,398</u>	<u>44,840</u>

ASSUMPTIONS

The following tables set forth the major actuarial assumptions used in determining the PBO, ABO and net periodic cost.

<i>Weighted-average assumptions used to determine benefit obligations at December 31</i>		
	U.S.	FOREIGN PLANS
Retirement Plans and Retiree Health and Life Insurance Plans:		
Discount Rate		
2005	5.50%	4.00 - 5.25%
2004	5.75%	4.50 - 6.25%
Rate of Compensation Increase		
2005	4.80%	3.00 - 5.50%
2004	<u>4.60%</u>	<u>1.50 - 4.00%</u>

<i>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31</i>		
	U.S.	FOREIGN PLANS
Retirement Plans and Retiree Health and Life Insurance Plans:		
Discount Rate		
2005	5.75%	4.25 - 6.00%
2004	6.25%	5.00 - 6.50%
2003	6.75%	5.00 - 7.00%
Expected Long-term Rate of Return		
2005	8.50%	3.75 - 8.00%
2004	8.50%	4.00 - 8.00%
2003	8.75%	5.50 - 8.50%
Rate of Compensation Increase		
2005	4.60%	3.00 - 5.50%
2004	4.60%	1.50 - 4.00%
2003	<u>4.60%</u>	<u>1.50 - 5.00%</u>

The expected long-term rate of return assumption is based on the Company's current and expected future portfolio mix by asset class, and expected nominal returns of these asset classes.

The Company sets its annual discount rate for the various Plans after analyzing the year-over-year change in published benchmark rates (e.g. Moody's AA Bond Rate). In setting these rates, the Company also uses yield curve models in order to validate the appropriateness of the discount rates selected for each of the plans.

A new mortality table assumption was adopted by the Company for the measurement of the December 31, 2005, benefit obligations, moving from the 1983 GAM mortality table to the RP-2000 CH table. This change in mortality table increased pension liabilities by approximately 2%.

MEDICAL TRENDS

The U.S. Retiree Health and Life Insurance Plan makes up 97% of the retiree health liability. Therefore, the following information relates to the U.S. plan only.

HEALTHCARE COST TREND RATE	
2005	13.30%
2004	10.0%
ULTIMATE TREND RATE	
2005	6.0%
2004	6.0%
YEAR AT WHICH THE RATE REACHES THE ULTIMATE TREND RATE	
2005	2014
2004	2008

Increasing the assumed trend rate for healthcare costs by one percentage point would increase the accumulated postretirement benefit obligation (the "APBO") and total service and interest cost component approximately \$2,369 and \$174, respectively. Decreasing the assumed trend rate for healthcare costs by one percentage point would decrease the APBO and total service and interest cost component approximately \$2,094 and \$152, respectively. Based on amendments to the U.S. plan approved in 1999, which became effective in 2003, cost increases borne by the Company are limited to the Urban CPI, as defined.

RETIREMENT PLAN ASSETS

The following table sets forth the weighted-average asset allocations of the Company's retirement plans at December 31, 2005 and 2004, by asset category.

ASSET CATEGORY	U.S.	U.K.	CANADA
Equity securities			
2005	56.0%	74.0%	62.6%
2004	66.6%	71.4%	59.9%
Debt securities			
2005	25.7%	20.7%	37.4%
2004	28.1%	22.8%	40.1%
Alternative			
2005	10.2%	4.4%	0.0%
2004	5.3%	4.4%	0.0%
Cash			
2005 ¹	8.1%	0.9%	0.0%
2004	0.0%	1.4%	0.0%
Total			
2005	100.0%	100.0%	100.0%
2004	100.0%	100.0%	100.0%

¹ A contribution of \$63,000 made to the U.S. Defined Benefit Pension Plan in late December 2005 is included in cash.

The Company employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. Alternative assets such as real estate, private equity and hedge funds may be used judiciously to enhance long-term returns while improving portfolio diversification. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies.

U.S. DEFINED BENEFIT PLAN

The equity investments are invested in U.S. and non-U.S. stocks, and further diversified in small and large capitalizations. The current target allocation for the investment portfolio is Equity Securities – 60%, Debt Securities – 30%, Alternative – 10% and Cash – 0%.

U.K. PLAN

The equity investments are diversified across domestic and international stocks of small and large capitalizations. The current target allocation (midpoint) for the investment portfolio is Equity Securities – 72%, Debt Securities – 22%, Alternative – 5% and Cash – 1%.

CANADIAN PLAN

The equity investments are diversified across domestic and international stocks of primarily large capitalizations. The current target allocation (midpoint) for the investment portfolio is Equity Securities – 50%, Debt Securities – 50%, Alternative – 0% and Cash – 0%.

RETIREE HEALTH AND LIFE INSURANCE PLAN ASSETS

The following table sets forth the weighted-average asset allocations of the Company's retiree health and life insurance plans at December 31, 2005 and 2004, by asset category. As mentioned previously, the U.S. Retiree Health and Life Insurance Plan makes up 97% of the Retiree Health liability. Therefore, the following information relates to the U.S. Plan only.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

ASSET CATEGORY	
Equity securities	
2005	54.8%
2004	63.1%
Debt securities	
2005	30.4%
2004	31.2%
Alternative	
2005	6.9%
2004	3.9%
Cash	
2005	7.9%
2004	1.8%
Total	
2005	100.0%
2004	100.0%

CONTRIBUTIONS

The Company estimates that it will make minimal voluntary contributions to its defined-benefit retirement and retiree health and life insurance plans in 2006.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT OF 2003

In May 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position 106-2, 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' ("FSP 106-2"), which requires measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit costs to reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). FSP 106-2 was effective for interim or annual reporting periods beginning after June 15, 2004. The Company adopted and retroactively applied FSP 106-2 as of the effective date. In response to the Company's reflection of the Act and the adoption of FSP 106-2, the accumulated postretirement benefit obligation was reduced by \$48,940 and net periodic benefit costs were reduced by \$9,080 in 2004. The reduction in obligation directly related to the subsidy was \$3,942 and \$28,655 in 2005 and 2004, respectively.

The projected subsidy as of December 31, 2005, was substantially less than the projected subsidy as of December 31, 2004, because the Company changed the eligibility for retiree medical benefits during 2005. As part of these changes, prescription drug benefits for Medicare-eligible retirees were eliminated for those

employees who retired after 1981 and for all future retirees, thereby significantly reducing the projected subsidy.

YEAR	PROJECTED SUBSIDY
2006	\$ 188
2007	198
2008	206
2009	213
2010	218
2011-2015	1,181

SONOCO SAVINGS PLAN

The Company sponsors the Sonoco Savings Plan for its U.S. employees, a defined contribution retirement plan. Beginning in 2002, the Company adopted the IRS "Safe Harbor" matching contributions and vesting provisions which provide 100% Company matching on the first 3% of pretax contributions, 50% Company matching on the next 2% of pretax contributions and 100% immediate vesting. The plan also provides for participant contributions of 1% to 30% of gross pay beginning in 2004. For 2003 and 2002, the plan provided that all eligible employees could contribute 1% to 20% of their gross pay. The Company's expenses related to the plan for 2005, 2004 and 2003 were approximately \$13,000, \$11,000 and \$12,000, respectively.

SONOCO INVESTMENT AND RETIREMENT PLAN

The Company also sponsors the Sonoco Investment and Retirement Plan, a defined contribution pension plan, for its salaried and non-union U.S. employees who were hired on or after January 1, 2004, the Plan's effective date. The Company makes an annual contribution of 4% of all eligible pay plus 4% of eligible pay in excess of the Social Security wage base to eligible participant accounts. The first such contribution was made in January 2005, in the amount of \$35, for those participants eligible to participate in the plan during 2004, and the 2005 expense was \$414. Participants are fully vested after five years of service or upon reaching age fifty-five, if earlier.

13. INCOME TAXES

The Company provides for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined

based on differences between financial reporting requirements and tax laws. Assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The provision for taxes on income for the years ended December 31 consists of the following:

	2005	2004	2003
Pretax income			
Domestic	\$ 185,089	\$ 151,707	\$ 157,889
Foreign	46,037	45,635	31,317
Total pretax income	\$ 231,126	\$ 197,342	\$ 189,206
Current			
Federal	\$ 85,047	\$ 30,427	\$ 26,831
State	4,311	199	2,682
Foreign	19,538	22,922	17,109
Total current	\$ 108,896	\$ 53,548	\$ 46,622
Deferred			
Federal	\$ (27,110)	\$ 5,971	\$ 9,644
State	4,116	1,995	1,813
Foreign	(1,728)	(2,656)	(282)
Total deferred	\$ (24,722)	\$ 5,310	\$ 11,175
Total taxes	\$ 84,174	\$ 58,858	\$ 57,797

Deferred tax liabilities (assets) are comprised of the following at December 31:

	2005	2004
Depreciation	\$ 100,623	\$ 123,874
Employee benefits	116,090	107,380
Other	10,516	10,524
Gross deferred tax liabilities	227,229	241,778
Retiree health benefits	(26,429)	(21,345)
Foreign loss carryforwards	(39,023)	(36,617)
Capital loss carryforwards	(4,448)	(7,176)
Employee benefits	(45,659)	(44,528)
Accrued liabilities and other	(33,785)	(32,037)
Gross deferred tax assets	(149,344)	(141,703)
Valuation allowance on deferred tax assets	43,022	43,192
Total deferred taxes, net	\$ 120,907	\$ 143,267

The net decrease in the valuation allowance in 2005 for deferred tax assets of \$170 is due to an increase of net operating and capital losses of foreign subsidiaries of

\$1,778, for which tax benefit has not been recognized, offset by a decrease of \$1,948 related to loss carryforwards and other deferred tax assets for which a valuation allowance was no longer required.

Approximately \$131,799 of foreign subsidiary loss carryforwards remain at December 31, 2005. Their use is limited to future taxable earnings of the respective foreign subsidiaries. Of these loss carryforwards, approximately \$97,756 has no expiration date. The remaining loss carryforwards expire at various dates in the future. Approximately \$5,498 of state loss carryforwards and \$3,634 of state credit carryforwards remain at December 31, 2005. The loss and credit carryforwards expire at various dates in the future.

A reconciliation of the U.S. federal statutory tax rate to the actual consolidated tax expense is as follows:

	2005	2004	2003
Statutory tax rate	\$ 80,894 35.0%	\$ 69,070 35.0%	\$ 66,222 35.0%
State income taxes, net of federal tax benefit	1,204 .5	1,425 .7	3,085 1.6
Repatriation	9,891 4.3		
Valuation allowance	5,001 2.2	7,777 3.9	(8,790) (4.6)
IRS examination		(9,261) (4.7)	
Other, net	(12,816) (5.6)	(10,153) (5.1)	(2,720) (1.5)
Total taxes	\$ 84,174 36.4%	\$ 58,858 29.8%	\$ 57,797 30.5%

Undistributed earnings of international subsidiaries totaled \$71,705 at December 31, 2005. Deferred taxes have not been provided on the undistributed earnings, as the Company considers these amounts to be indefinitely reinvested to finance international growth and expansion. If such amounts were remitted, loaned to the Company or the stock in the foreign subsidiaries sold, these earnings could become subject to tax.

During 2005, the Company repatriated \$124,658 from foreign subsidiaries under the provisions of the American Jobs Creation Act of 2004 ("AJCA"). Under this temporary incentive, a portion of the repatriated funds qualified for an 85% dividends-received deduction. The Company has accrued the U.S. federal and state taxes due on the repatriated funds of \$10,074. During 2004, the IRS closed its examination of the Company's tax

returns for years 1999 through 2001, which resulted in the reversal of previously accrued taxes totaling approximately \$9,261. The Company has resolved all issues with the IRS for all years through 2001. The Company believes that it has made adequate provision for income taxes with respect to open years.

14. COMMITMENTS AND CONTINGENCIES CONTINGENCIES

The Company is a party to various legal proceedings incidental to its business, and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. The Company also faces exposure from actual or potential claims and legal proceedings. The Company cannot currently determine the final outcome of the proceedings described below or the ultimate amount of potential losses. Pursuant to Statement of Financial Accounting Standards No. 5, 'Accounting for Contingencies' ("FAS 5"), management records accruals for estimated losses at the time that information becomes available indicating that losses are probable and that the amounts can be reasonably estimated. Accrued amounts are not discounted. Although the level of future expenditures for legal and environmental matters is impossible to determine with any degree of probability, it is management's opinion that such costs, when finally determined, will not have a material adverse effect on the consolidated financial position of the Company.

ENVIRONMENTAL MATTERS

During the fourth quarter of 2005, the United States Environmental Protection Agency ("EPA") notified Sonoco U.S. Mills, Inc. ("U.S. Mills"), a wholly owned subsidiary of the Company, that U.S. Mills and another party would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin. U.S. Mills and the other party have reached agreement that each would fund 50% of the costs of remediation, which is currently estimated to be between \$25,000 and \$30,000 for the project as a whole. Although project implementation will begin shortly, most of the project cost is expected to be incurred in 2007. Although the agreement reached does not

acknowledge responsibility or prevent the other party from seeking reimbursement from any other parties (including each other), the Company has accrued \$12,500 as an estimate of the portion of costs that U.S. Mills expects to fund under the current agreement. This charge is included in "Selling, general and administrative expenses" in the Company's Consolidated Statements of Income. The actual costs associated with cleanup of this particular site are dependent upon many factors and it is reasonably possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition. Based on information currently known to the Company, it does not appear that U.S. Mills is responsible for the alleged contamination. Some, or all, of any costs incurred may be covered by insurance, or be subject to recoupment from other parties, but no amounts have been recognized in the financial statements for such recovery.

The Company has also been named as a potentially responsible party at several other environmentally contaminated sites not owned by the Company. These regulatory actions (including those described in the prior paragraph) and a small number of private-party lawsuits represent the Company's largest potential environmental liabilities. All of the sites are also the responsibility of other parties. The Company's liability, if any, is shared with such other parties, but the Company's share has not been finally determined in most cases. In some cases, the Company has cost-sharing agreements with other potentially responsible parties with respect to a particular site. Such agreements relate to the sharing of legal defense costs or cleanup costs, or both. The Company has assumed, for purposes of estimating amounts to be accrued, that the other parties to such cost-sharing agreements will perform as agreed. It appears that final resolution of some of the sites is years away. Accordingly, the ultimate cost to the Company with respect to such sites cannot be determined.

As of December 31, 2005 and 2004, the Company had accrued \$16,789 (which includes \$12,500 for U.S. Mills) and \$4,440, respectively, related to environmental contingencies. Actual costs to be incurred for these environmental matters in future periods may vary from current estimates because of the inherent uncertainties in evaluating environmental exposures.

INCOME TAXES

The Company is subject to ongoing examinations by tax authorities of the jurisdictions in which it operates. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The Company believes that adequate provision has been made for tax adjustments that are probable as a result of any examination. While the status of the Company's ongoing tax examinations is constantly changing due to new tax law developments, statute expirations and other factors, the Company does not expect the outcome of any tax examination to have a material effect on its consolidated financial position, results of operations or cash flows.

COMMITMENTS

In December 2003, the Company entered into an agreement with the majority shareholders of Demolli Industria Cartaria S.p.A., an Italy-based manufacturer of paperboard and tubes and cores that is 25% owned by the Company and reported as an equity method investment. This agreement allows the majority shareholder to require (through a put option arrangement) the Company to buy the shares not currently owned by the Company at any time between the date of the agreement and December 2006. The agreement also gives the Company the right to purchase the shares (through a call option arrangement) any time after December 2006 through December 2009. The price of the share purchase will be determined by a preset formula, which the Company believes approximates fair value, related to an earnings multiple at the time such shares might be put or called. The Company is in discussion with the majority shareholders of Demolli Industria Cartaria S.p.A. to potentially extend the terms (both the put and the call) of this agreement.

In November 2004, and in conjunction with the Sonoco-Alcore joint venture, the Company entered into an agreement with Ahlstrom, the minority shareholder of Sonoco-Alcore. This agreement states that, following a two and one-half year standstill period, subject to certain conditions, Ahlstrom shall have the right over the following three and one-half years to require (through a put option arrangement) the Company to purchase its shares in Sonoco-Alcore. During the seventh year, the

Company will have the right to purchase the shares (through a call option arrangement). The price of the share purchase will be determined by a preset formula, which the Company believes approximates fair value, related to an earnings multiple at the time such shares might be put or called.

As of December 31, 2005, the Company had long-term obligations to purchase electricity and steam, which it uses in its production processes. The purchase contracts require the Company to make total payments of approximately \$148,432 through 2018.

15. SHAREHOLDERS' EQUITY**STOCK REPURCHASES**

In 2001, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to 5,000,000 shares of the Company's common stock, in addition to approximately 290,000 shares that were authorized for repurchase prior to 2001. Therefore, the Company had authorizations to repurchase approximately 5,290,000 shares of common stock as of December 31, 2005. In December 2005, the Company announced its intention to repurchase between 2,000,000 and 2,500,000 of its outstanding common stock during the first quarter of 2006.

EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	2005	2004	2003
Numerator:			
Net income	\$ 161,877	\$ 151,229	\$ 138,949
Denominator:			
Average common shares outstanding	99,336,000	98,018,000	96,819,000
Dilutive effect of stock based compensation	1,082,000	929,000	310,000
Diluted outstanding shares	100,418,000	98,947,000	97,129,000
Net income per common share			
Basic	\$ 1.63	\$ 1.54	\$ 1.44
Diluted	\$ 1.61	\$ 1.53	\$ 1.43

The Company declared dividends totaling \$.91 and \$.87 per share in 2005 and 2004, respectively.

Stock options to purchase approximately 1,147,000, 2,192,000 and 7,876,000 shares for 2005, 2004 and 2003, respectively, were not dilutive and, therefore, were not included in the computations of diluted income per common share amounts. These options may become dilutive in future periods if the market price of the Company's common stock appreciates. No adjustments were made to reported net income in the computation of earnings per share.

The number of prior years' common shares outstanding on the Consolidated Statements of Changes in Shareholders' Equity has been restated to exclude outstanding, vested, contingent shares units awarded pursuant to the Restricted Stock Plan. These units have, however, been included in both basic and diluted common shares outstanding, and the related calculation of net income per common share, for all periods presented. These share units totaled 406, 293, and 248 for 2005, 2004 and 2003, respectively.

16. FINANCIAL REPORTING FOR BUSINESS SEGMENTS

The Company identifies its reportable segments in accordance with Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information' ("FAS 131"), by evaluating the level of detail reviewed by the Chief Operating Decision Maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods to distribute product and nature of regulatory environment. While all of these factors were reviewed, the Company feels that the most significant factors are the nature of its products, the nature of the production process and the type of customers served.

Effective December 31, 2005, the Company changed the name of the Engineered Carriers and Paper segment to Tubes and Cores/Paper, because the term "tubes and cores" is more generally understood than "engineered carriers" in the marketplace for the primary products offered by the businesses in this segment. There has been no change in the businesses included in this segment.

The Tubes and Cores/Paper segment includes the following products and services: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; recycled paperboard; linerboard; and supply-chain packaging services.

The Consumer Packaging segment includes the following products: round and shaped rigid packaging, both composite and plastic; printed flexible packaging; and metal and plastic ends and closures.

The Packaging Services segment provides the following products and services: point-of-purchase displays; packaging fulfillment; contract packing; brand management; and supply chain management.

All Other Sonoco represents the activities and businesses of the Company's consolidated subsidiaries that do not meet the aggregation criteria outlined in FAS 131, and therefore cannot be combined with other operating segments into a reportable segment. All Other Sonoco includes the following products: wooden, metal and composite reels; molded and extruded plastics; custom-designed protective packaging; and paper amenities such as coasters and glass covers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA

Included in Corporate operating profits are restructuring charges, interest expense and interest income.

YEARS ENDED DECEMBER 31	TUBES AND CORES/PAPER	CONSUMER PACKAGING	PACKAGING SERVICES	ALL OTHER SONOCO	CORPORATE	CONSOLIDATED
Total Revenue						
2005	\$ 1,569,170	\$ 1,250,916	\$ 456,161	\$ 377,968		\$ 3,654,215
2004	1,470,213	1,134,782	321,251	343,813		3,270,059
2003	1,334,223	1,046,525	185,006	295,029		2,860,783
Intersegment Sales¹						
2005	\$ 87,113	\$ 3,465	\$ 284	\$ 34,779		\$ 125,641
2004	81,701	2,712	206	30,007		114,626
2003	74,391	2,143	386	25,537		102,457
Sales to Unaffiliated Customers						
2005	\$ 1,482,057	\$ 1,247,451	\$ 455,877	\$ 343,189		\$ 3,528,574
2004	1,388,512	1,132,070	321,045	313,806		3,155,433
2003	1,259,832	1,044,382	184,620	269,492		2,758,326
Operating Profits²						
2005	\$ 107,060	\$ 103,505	\$ 44,813	\$ 40,607	\$ (64,859)	\$ 231,126
2004	113,032	83,111	30,266	31,978	(61,045)	197,342
2003	102,938	78,733	7,935	18,995	(100,268)	108,333
Identifiable Assets³						
2005	\$ 1,258,166	\$ 738,023	\$ 321,742	\$ 189,369	\$ 474,440	\$ 2,981,740
2004	1,107,223	735,162	320,401	191,975	686,558	3,041,319
2003	1,075,707	683,284	49,191	195,799	516,652	2,520,633
Depreciation, Depletion and Amortization						
2005	\$ 83,737	\$ 56,281	\$ 11,994	\$ 11,062		\$ 163,074
2004	85,153	59,413	8,236	11,126		163,928
2003	83,647	52,549	3,453	13,040		152,689
Capital Expenditures						
2005	\$ 62,312	\$ 50,802	\$ 4,913	\$ 11,085		\$ 129,112
2004	59,410	50,686	3,279	6,425		119,800
2003	48,612	50,951	5,069	3,785		108,417

¹ Intersegment sales are recorded at a market-related transfer price.

² Corporate 2005, 2004 and 2003 include restructuring costs of \$(16,020), \$(14,752) and \$(31,413), respectively, associated with the Tubes and Cores/Paper segment; \$(4,617), \$(5,261) and \$(9,469), respectively, associated with the Consumer Packaging segment; \$0, \$0 and \$(335), respectively, associated with the Packaging Services segment; \$(600), \$(1,018) and \$(1,806), respectively, associated with All Other Sonoco; a reversal of previously recorded restructuring charges of \$2,049 in 2004 and \$(7,033) for 2003, for Corporate related restructuring. Interest expense and interest income are also shown under Corporate.

³ Identifiable assets are those assets used by each segment in its operations. Corporate assets consist primarily of cash and cash equivalents, investments in affiliates, headquarters facilities and pre-paid expenses.

GEOGRAPHIC REGIONS

Sales to unaffiliated customers and long-lived assets by geographic region are as follows:

	2005	2004	2003
Sales to Unaffiliated Customers			
United States	\$2,303,890	\$2,112,248	\$1,859,609
Europe	539,918	443,463	392,198
Canada	340,532	315,978	262,826
All other	344,234	283,744	243,693
Total	<u>\$3,528,574</u>	<u>\$3,155,433</u>	<u>\$2,758,326</u>
Long-lived Assets			
United States	\$1,054,430	\$1,090,187	\$884,863
Europe	342,601	277,088	187,588
Canada	165,243	164,550	157,587
All other	143,894	130,409	120,886
Total	<u>\$1,706,168</u>	<u>\$1,662,234</u>	<u>\$1,350,924</u>

Sales information from the United States does not include the impact of the High Density Film business, which is classified as discontinued operations.

Sales are attributed to countries/regions based upon the plant location from which products are shipped. Long-lived assets are comprised of property, plant and equipment, goodwill, intangible assets and investment in affiliates (see Notes 7 and 8).

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the components of accumulated other comprehensive loss, and the changes in accumulated comprehensive loss, net of tax as applicable, for the years ended December 31, 2005 and 2004:

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	MINIMUM PENSION LIABILITY ADJUSTMENTS	DERIVATIVE FINANCIAL INSTRUMENTS	ACCUMULATED OTHER COMPREHENSIVE LOSS
Balance at				
Dec. 31, 2003	\$ (83,906)	\$ (53,826)	\$ 1,641	\$ (136,091)
Change during				
2004	36,917	(4,479)	498	32,936
Balance at				
Dec. 31, 2004	(46,989)	(58,305)	2,139	(103,155)
Change during				
2005	(12,844)	568	9,042	(3,234)
Balance at				
Dec. 31, 2005	<u>\$ (59,833)</u>	<u>\$ (57,737)</u>	<u>\$ 11,181</u>	<u>\$ (106,389)</u>

The cumulative tax benefit of the Minimum Pension Liability Adjustments was \$26,746 and \$26,888 in 2005 and 2004, respectively. Additionally, the tax liability of Derivative Financial Instruments was \$6,289 and \$1,211 in 2005 and 2004, respectively. The 2005 tax effect on the Minimum Pension Liability Adjustments and Derivative Financial Instruments was \$(142) and \$(5,078), respectively. The 2004 tax effect on the Minimum Pension Liability Adjustments and Derivative Financial Instruments was \$1,576 and \$(271), respectively.

18. NEW ACCOUNTING PRONOUNCEMENTS

During 2005, there were no new accounting pronouncements that had a material impact on the Company.

In May 2004, the FASB issued FASB Staff Position 106-2, 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' ("FSP 106-2"), which requires measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit costs to reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. FSP 106-2 was effective for interim or annual reporting periods beginning after June 15, 2004. The Company adopted and retroactively applied FSP 106-2 as of the effective date. See Note 12 for further information about the reduction in net periodic benefit costs.

In December 2004, the FASB issued FASB Staff Position 109-1, 'Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004' ("FSP 109-1"). Under the guidance of FSP 109-1, the deduction will be treated as a "special deduction" as described in Statement of Financial Accounting Standards No. 109, 'Accounting for Income Taxes' ("FAS 109"). As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's tax return.

In December 2004, the FASB issued FASB Staff Position 109-2, 'Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the

American Jobs Creation Act of 2004¹ ("FSP 109-2"). Under the guidance of FSP 109-2, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the AJCA on its plan for reinvestment, or repatriation, of foreign earnings for purposes of applying FAS 109. The deduction is subject to a number of limitations. The Company repatriated \$124,658 of foreign earnings during 2005, resulting in a tax liability of \$10,074.

In December 2004, the FASB issued a revision to Statement of Financial Accounting Standards No. 123, 'Share-Based Payment' ("FAS 123R"), which requires companies to expense the value of employee stock options and similar awards. Under FAS 123R, share-based payment awards result in a cost that will be mea-

sured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. FAS 123R is effective for the Company on January 1, 2006. The Company is planning to use the "modified prospective" transition method, which does not require restating previous periods' results. No additional compensation expense will be recorded for any vested awards outstanding as of the effective date. The Company did not have any unvested awards outstanding that will be affected by FAS 123R as of the effective date. Based on its current expectations, the Company expects that earnings per diluted share will decrease by approximately \$.03 in 2006 and annually thereafter. The historical impact on net income and earnings per share if stock options had been expensed is set forth in Note 11.

19. SELECTED QUARTERLY FINANCIAL DATA

The following table sets forth selected quarterly financial data of the Company:

(UNAUDITED)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2005				
Net sales	\$ 814,438	\$ 878,170	\$ 881,058	\$ 954,908
Gross profit	148,316	160,744	163,392	188,499
Net income ^{1,2}	36,989	40,176	45,913	38,799
Per common share				
Net income - basic	\$.37	\$.40	\$.46	\$.39
- diluted	.37	.40	.46	.38
Cash dividends - common	.22	.23	.23	.23
Market price - high	30.24	29.13	28.84	30.64
- low	25.58	25.46	25.79	25.43
2004				
Net sales	\$ 695,416	\$ 763,902	\$ 811,117	\$ 884,998
Gross profit	121,582	143,149	153,545	156,514
Net income ^{3,4}	38,590	36,705	40,940	34,994
Per common share				
Net income - basic	\$.40	\$.37	\$.42	\$.36
- diluted	.39	.37	.41	.35
Cash dividends - common	.21	.22	.22	.22
Market price - high	25.21	25.99	26.50	29.73
- low	22.92	23.70	24.53	25.12

¹ Includes restructuring charges of \$5,042 (\$3,646 after tax), \$9,143 (\$6,126 after tax), \$4,275 (\$2,599 after tax) and \$2,777 (\$1,972 after tax) in the first, second, third and fourth quarter, respectively. The first, second, third and fourth quarters also include income of \$528, \$536, \$140 and \$56 after tax, respectively, associated with the allocation of restructuring charges to the minority interest shareholder of Sonoco-Alcore.

² The fourth quarter of 2005 includes \$10,074 for additional tax expense associated with the repatriation of \$124,658 in foreign earnings under AJCA and a charge of \$12,500 (\$7,596 after tax) related to an increase in the environmental reserve at a Company subsidiary's paper operations in Wisconsin.

³ Includes restructuring charges of \$1,328 (\$1,091 after tax), \$5,768 (\$4,604 after tax), \$1,148 (\$952 after tax) and \$10,738 (\$9,507 after tax) in the first, second, third and fourth quarter, respectively. The fourth quarter also includes income of \$1,778 (\$1,778 after tax) associated with the allocation of restructuring charges to the minority interest shareholder of Sonoco-Alcore.

⁴ The fourth quarter of 2004 includes the correction associated with the misstatement of expenses in the Company's wholly owned subsidiary in Spain. This correction totaled approximately \$9,400, before and after tax, of which \$2,200 was related to restructuring charges. Of the remaining \$7,200, approximately \$1,600 was associated with the first three quarters of 2004, approximately \$1,300 was associated with 2003, approximately \$300 was associated with 2002, approximately \$1,900 was associated with 2001 and the remaining amount of approximately \$2,100 was associated with years prior to 2001.

20. VALUATION AND QUALIFYING ACCOUNTS

	COLUMN A	COLUMN B – ADDITIONS		COLUMN C	COLUMN D
	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER	DEDUCTIONS	BALANCE AT END OF YEAR
2005					
Allowance for Doubtful Accounts	\$ 8,286	\$ 3,661 ²	\$ (162) ²	\$ 3,460 ¹	\$ 8,325
LIFO Reserve	\$ 10,701	\$ 867 ³			\$ 11,568
Valuation Allowance on Deferred Tax Assets	\$ 43,192	\$ 5,001 ⁵		\$ 5,171 ^{2,4}	\$ 43,022
2004					
Allowance for Doubtful Accounts	\$ 8,199	\$ 4,186 ²		\$ 4,099 ¹	\$ 8,286
LIFO Reserve	\$ 10,462	\$ 239 ³			\$ 10,701
Valuation Allowance on Deferred Tax Assets	\$ 26,941	\$ 7,777 ⁴	\$ 8,474 ^{2,4}		\$ 43,192
2003					
Allowance for Doubtful Accounts	\$ 8,335	\$ 5,132 ²		\$ 5,268 ¹	\$ 8,199
LIFO Reserve	\$ 10,284	\$ 178 ³			\$ 10,462
Valuation Allowance on Deferred Tax Assets	\$ 35,731	\$ 13,617 ⁴		\$ 22,407 ^{2,4}	\$ 26,941

¹ Includes amounts written off.

² Includes translation adjustments.

³ Includes adjustments based on pricing and inventory levels.

⁴ Includes utilization and expiration of domestic capital loss carryforwards and increases from foreign net operating losses for which no tax benefit can be realized.

⁵ Includes utilization of domestic capital loss carryforwards and increases from foreign net operating losses for which no tax benefit can be realized.

21. SUBSEQUENT EVENTS

STOCK APPRECIATION RIGHTS

On January 31, 2006, the Company's Board of Directors approved the issuance of 760,650 stock appreciation rights ("SARs") to certain employees and non-employee directors under its shareholder approved Key Employee Stock Plan (the "Plan").

On February 1, 2006, the Company issued SARs on 249,000 shares of its common stock to executive officers under the Plan. The SARs were granted at the prevailing market price on the date of grant, and will vest one year from the date of the grant.

PERFORMANCE-BASED STOCK PLANS

On February 1, 2006, the Company also issued performance contingent share units to executive officers and other members of management under the Plan. Key provisions of the grants are:

- 1) Awards vest in three years if performance targets are met, or in five years otherwise.
- 2) The financial performance measures used to determine the amount of share units vested are corporate earnings per share (as adjusted to exclude certain items) and average return on net assets employed ("RONAE").

In order for a recipient to receive the maximum number of share units under the plan, cumulative corporate earnings per share growth must average 10% a year over the three-year period and RONAE must average between 9.5% to 10.5%, depending on capital invested in acquisitions over the three-year period.

If less than the threshold number of share units vest during the three-year performance period, the remaining number of threshold shares will vest in five years from the date of grant, subject to a participant's continued employment.

For recipients, the threshold number of share units granted under the plan in 2006 is 72,250, and the maximum number of share units granted under the plan in 2006 is 216,750.

ACQUISITIONS

On February 24, 2006, in two separate transactions, the Company acquired a flexible packaging business in the United States and a tube and core manufacturer in Canada for an aggregate cash purchase price of approximately \$35,000. These acquisitions will become components of the Consumer Packaging segment and the Tubes and Cores/Paper segment, respectively.

SELECTED ELEVEN-YEAR FINANCIAL DATA *(unaudited)*

(DOLLARS AND SHARES IN THOUSANDS EXCEPT PER SHARE DATA)

<i>Years ended December 31</i>	2005	2004	2003	2002
Operating Results¹				
Net sales	\$ 3,528,574	\$ 3,155,433	\$ 2,758,326	\$ 2,701,419
Cost of sales and operating expenses	3,232,590	2,897,046	2,549,726	2,455,357
Other expense, net ²	21,237	18,982	50,056	10,409
Interest expense	51,559	47,463	52,399	54,196
Interest income	(7,938)	(5,400)	(2,188)	(1,649)
Income before income taxes	231,126	197,342	108,333	183,106
Provision for income taxes ³	84,174	58,858	37,698	65,075
Equity in earnings of affiliates/minority interest ⁴	14,925	12,745	7,543	7,437
Income from continuing operations	161,877	151,229	78,178	125,468
Income from discontinued operations, net of income taxes			60,771	9,848
Income before extraordinary loss	161,877	151,229	138,949	135,316
Extraordinary loss, net of income tax benefit				
Net income	161,877	151,229	138,949	135,316
Preferred dividends				
Net income available to common shareholders	\$ 161,877	\$ 151,229	\$ 138,949	\$ 135,316
Per common share				
Net income available to common shareholders:				
Basic	\$ 1.63	\$ 1.54	\$ 1.44	\$ 1.40
Diluted	1.61	1.53	1.43	1.39
Cash dividends – common	.91	.87	.84	.83
Average common shares outstanding:				
Basic	99,336	98,018	96,819	96,373
Diluted	100,418	98,947	97,129	97,178
Actual common shares outstanding at December 31	99,988	98,500	96,969	96,380
Financial Position				
Net working capital	\$ 265,014	\$ 282,226	\$ 75,671	\$ 104,671
Property, plant and equipment, net	943,951	1,007,295	923,569	975,368
Total assets	2,981,740	3,041,319	2,520,633	2,436,439
Long-term debt	657,075	813,207	473,220	699,346
Total debt	781,605	906,961	674,587	833,846
Shareholders' equity	1,263,314	1,152,879	1,014,160	867,425
Current ratio	1.4	1.4	1.1	1.2
Total debt to total capital ⁵	35.7%	40.7%	36.4%	44.5%
Other Data				
Depreciation, depletion and amortization expense ¹	\$ 163,074	\$ 163,928	\$ 153,538	\$ 145,923
Cash dividends declared – common	90,126	85,060	81,128	79,768
Market price per common share (ending)	29.40	29.65	24.62	22.93
Return on total equity (including preferred stock) ^{1,2,6}	13.5%	14.2%	15.0%	16.0%
Return on net sales ^{1,2}	5.0%	4.8%	5.0%	5.0%

¹ Operating results for 2004 and 2005 are not comparable to previous years due to the impact of the CorrFlex acquisition that occurred in May 2004, and the formation of the Sonoco-Alcore joint venture that occurred in November 2004. Operating results for 1995 through 2002 have been restated to classify the High Density Film business, which was sold in 2003, as discontinued operations.

² 2005 data reflects net charges of \$21,237 pretax, \$14,343 after tax, for restructuring cost. 2004 data reflects net charges of \$18,982 pretax, \$16,154 after tax, for restructuring costs. 2003 data reflects net charges of \$50,056 pretax, \$35,329 after tax, for restructuring costs. 2002 data reflects net charges of \$10,409 pretax, \$6,663 after tax, for restructuring costs. 2001 data reflects net charges of \$51,175 pretax, \$49,028 after tax, for the net gain from legal settlements, costs of corporate-owned life insurance (COLI) and restructuring costs. 2000 data reflects net charges of \$5,543 pretax, \$1,372 after tax, for the net gain on the sale of divested businesses, restructuring costs and executive severance charges. 1999 data reflects the gain on the sale of divested businesses of \$(3,500). 1998 data reflects the net gain on the sale of divested businesses of \$(100,354) pretax, or \$(41,554) after tax. 1997 data reflects the asset impairment charges of \$226,358 pretax, or \$174,500 after tax.

³ The provision for income taxes included \$10,074 in 2005 related to the repatriation of foreign earnings under the American Jobs Creation Act of 2004, \$(9,261) associated with the closing of previous years' examinations in 2004 and \$14,613 and \$12,000 in 2001 and 2000, respectively, related to COLI.

⁴ 2005, 2004, 2003 and 2001 data includes restructuring charges of \$(1,260), \$(1,778), \$1,455 and \$6,591, respectively.

⁵ Calculated as Total Debt divided by the sum of Total Debt, Shareholders' Equity and Long-term Deferred Tax Liability. Debt levels for 1995 through 2000 have been adjusted for cash related to the issuance of restricted-purpose bonds.

⁶ Calculated by dividing net income into the average of quarterly Total Shareholders' Equity.

2001	2000	1999	1998	1997	1996	1995
\$ 2,464,445	\$ 2,570,708	\$ 2,391,666	\$ 2,409,045	\$ 2,702,700	\$ 2,638,414	\$ 2,556,248
2,204,874	2,250,793	2,085,434	2,149,853	2,382,327	2,344,455	2,275,942
51,175	5,543	(3,500)	(100,354)	226,358		
52,217	59,604	52,466	54,779	57,194	55,481	44,004
(3,800)	(3,794)	(5,314)	(5,916)	(4,971)	(6,191)	(4,905)
159,979	258,562	262,580	310,683	41,792	244,669	241,207
77,269	107,463	98,333	142,857	51,647	93,837	94,984
(1,214)	7,702	6,830	6,387	(991)	(1,777)	369
81,496	158,801	171,077	174,213	(10,846)	149,061	146,592
10,113	7,497	16,728	17,783	13,463	21,810	17,927
91,609	166,298	187,805	191,996	2,617	170,871	164,519
			(11,753)			
91,609	166,298	187,805	180,243	2,617	170,871	164,519
				(3,061)	(7,196)	(7,763)
\$ 91,609	\$ 166,298	\$ 187,805	\$ 180,243	\$ (444)	\$ 163,675	\$ 156,756
\$.96	\$ 1.67	\$ 1.84	\$ 1.76	\$.00	\$ 1.64	\$ 1.56
.96	1.66	1.83	1.73	.00	1.58	1.49
.80	.79	.75	.704	.641	.586	.524
95,370	99,725	101,886	102,632	100,981	99,564	100,253
95,807	99,900	102,780	104,275	107,350	108,487	110,111
95,453	94,681	101,134	101,683	105,417	98,850	100,229
\$ 204,899	\$ 258,713	\$ 306,450	\$ 225,347	\$ 438,896	\$ 262,533	\$ 229,328
1,008,944	973,470	1,032,503	1,013,843	939,542	995,415	865,629
2,352,197	2,212,611	2,297,020	2,082,983	2,159,932	2,365,896	2,098,157
885,961	812,085	819,540	686,826	696,669	791,026	591,894
921,810	857,641	904,137	783,632	796,359	893,088	686,792
804,122	801,471	901,220	821,592	848,819	920,613	918,749
1.4	1.6	1.7	1.5	2.0	1.6	1.5
49.3%	48.5%	47.5%	46.7%	46.1%	47.2%	39.6%
\$ 144,709	\$ 137,041	\$ 130,945	\$ 131,103	\$ 140,166	\$ 129,825	\$ 113,774
76,080	78,718	76,434	72,028	64,639	58,480	53,145
26.58	21.63	22.75	29.63	31.54	23.53	23.86
11.5%	19.1%	21.9%	22.0%	.3%	18.3%	18.7%
3.7%	6.5%	7.9%	7.5%	.0%	6.2%	6.1%

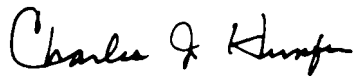
REPORT OF MANAGEMENT

The management of Sonoco Products Company is responsible for the integrity and objectivity of the financial statements and other financial information included in this annual report. These statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Sonoco's accounting systems are supported by internal control systems augmented by written policies, internal audits and the selection and training of qualified personnel.

The Board of Directors, through its Audit Committee consisting of outside directors, is responsible for reviewing and monitoring the Company's financial reporting and accounting practices. This committee meets regularly with Sonoco's management, internal auditors and independent auditors to assure each is carrying out its responsibilities.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, have audited the Company's consolidated financial statements, and their report is included herein.



Charles J. Hupfer
Chief Financial Officer

CERTIFICATIONS

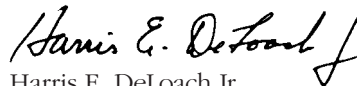
The Certification of the Company's chief executive officer required to be submitted to the New York Stock Exchange pursuant to Section 303A.12(a) of the listing standards for the year ended 2004 has been submitted to the New York Stock Exchange.

The Certifications of the Company's principal executive officer and principal financial officer required by Section 302 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 13a-14(a) have been filed as Exhibit 31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, which report has been filed with the Securities and Exchange Commission.

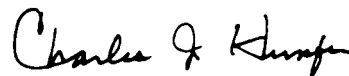
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

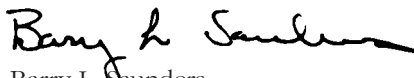
PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005, as evidenced by their attestation report, which appears on page 79 of this report.



Harris E. DeLoach Jr.
Chief Executive Officer



Charles J. Hupfer
Chief Financial Officer



Barry L. Saunders
Chief Accounting Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND DIRECTORS OF SONOCO PRODUCTS COMPANY:

We have completed integrated audits of Sonoco Products Company's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on Sonoco Products Company's 2005, 2004 and 2003 consolidated financial statements and on its internal control over financial reporting as of December 31, 2005, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements appearing on pages 49 through 75 of this report present fairly, in all material respects, the financial position of Sonoco Products Company and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 78 of this report, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the

COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PRICEWATERHOUSECOOPERS LLP

Charlotte, North Carolina
February 27, 2006

GLOSSARY OF TERMS

BLOW MOLDING

Extruded molten plastic is captured in molds that define the shape of the final part design. Air at pre-determined pressures is added forcing the plastic to take on the shape of the mold. After cooling, the mold is opened and the final plastic part, component or product is removed for trimming and packaging.

COMPOSITE CAN/PAPERBOARD CAN

The composite or paperboard package is a container comprised of a body with two ends made from a variety of materials. The package can be produced in a variety of shapes and sizes. The container body is made from paper, various liner materials to achieve barrier requirements and a printed label for package graphics.

END CLOSURE

A rigid metal, foil, plastic or paper structure that is mechanically or adhesively attached to the end of a package or a laminated plastic film, foil or paper membrane heat sealed to the end of a rigid package.

EXTRUSION

A continuous process where plastic resin is melted using a screw and cylinder combination along with heat and pressure, and forced through a die to obtain a resultant profile shape.

FLEXIBLE PACKAGING

Non-rigid packaging structures used to package and protect various food and nonfood products in the retail and industrial business forum. Snacks and confectionery, home and personal care, beverages, pet food, etc., are a sampling of products packaged in this medium.

INJECTION MOLDING

The process where plastic resin is melted and then forced into a mold containing single or multiple cavities. Once in the mold, the plastic is cooled to a shape reflecting the cavity.

LASER SCORING

Use of a high-energy narrow light beam to partially cut through a material in a straight line or shaped patterns. This process is used to provide an easy-opening feature to various types of flexible packaging materials.

MEMBRANE CLOSURE

A flexible material attached to the end of a rigid package with a heat seal. This membrane can be comprised of plastic, foil, paper or a combination of these materials.

PACKAGING SUPPLY CHAIN

The steps required to create and manufacture the packaging, package the product, distribute the packaged product and sell it in stores, through point-of-purchase (P-O-P) displays or other means.

POINT-OF-PURCHASE (P-O-P)

Displays, signs, structures and devices that are promotional and are used to identify, advertise or merchandise an outlet, service or product and serve as an aid to retail selling.

RECOVERED PAPER

Paper and paper byproducts that have been separated, removed or diverted from solid waste disposal and are intended for sale, use, reuse or recycling, whether or not such paper requires subsequent separation and processing.

RETORT

The thermal processing or cooking of packaged food or other products in a pressurized vessel for purposes of sterilizing the contents to maintain freshness for extended storage times.

RETORTABLE END

Metal or flexible closure for a rigid package that is designed to withstand the retort process.

ROTOGRAVURE PRINTING

A printing process in which letters and pictures are transferred from an etched cylinder to a web of paper, plastic, foil or similar material on a printing press.

SERVICE CENTERS (FORMERLY REFERRED TO AS PACK CENTERS)

A facility where client's product/components/packaging/display/fulfillment/logistics come together.

STICK PACKS

A narrow flexible packaging pouch commonly used to package single-serve powder beverage mixes such as fruit drinks, instant coffee and tea, and sugar and creamer products.

THERMOFORMING

A process by which plastic sheet material is heated to close the softening point, moved over a male or female mold and shaped by forcing the softened sheet by movement of plug, application of air pressure and or vacuum. The shaped article is solidified in the mold prior to ejection from the mold cavity. This process is commonly used to form blisters, trays, cups, tubs and other open containers and forms.

OTHER TERMS

BRITISH THERMAL UNIT

The amount of energy required to raise the temperature of one pound of water one degree Fahrenheit when the water is near 39.2 degrees Fahrenheit.

DEBT TO TOTAL CAPITAL RATIO

Used by the Company to access its financing leverage. Calculated by dividing total debt by the summation of total equity, total debt and deferred income taxes.

EARNINGS PER SHARE (EPS) (BASIC)

Calculated by dividing the reported earnings available to common stockholders (net income) by the weighted average number of shares outstanding.

EARNINGS PER SHARE (EPS) (DILUTED)

Calculated by dividing the reported earnings available to common stockholders (net income) by the weighted average number of shares outstanding, including the assumption of the exercise of all potentially dilutive securities such as stock options. Diluted EPS are always less than or equal to basic EPS.

PRICE/COST RELATIONSHIP

The net dollar impact to the Company, or its segments, of the year-over-year change in the selling price of its products and the purchase cost of the raw materials consumed in making the product.

RETURN ON NET ASSETS

Tax-affected earnings before interest and taxes, plus equity in earnings of affiliates, divided by the net of average total assets, minus average cash, minus average current liabilities, plus average short-term debt.

RETURN ON TOTAL EQUITY

Net income divided by average total equity.

SUSTAINABILITY

Meeting the economic, social and environmental needs of today, without damaging the ability of future generations to provide for themselves.

INVESTOR AND GENERAL INFORMATION

INVESTOR INFORMATION

Sonoco (NYSE: SON) offers its shareholders a wide range of services and several ways to access important Company information.

SONOCO ON THE INTERNET

Sonoco's Internet site, www.sonoco.com, provides a variety of information about its businesses, products and markets. The site also has a robust Media Center for news releases, financial presentations, annual reports, proxy statements, various SEC filings, events, safety performance and more.

TRANSFER AGENT AND REGISTRAR

The Bank of New York
800/524-4458
+212/815-3700 (Outside the U.S.)
888/269-5221 (Hearing impaired – TTY Phone)

Address shareholder inquiries to:

The Bank of New York
Investor Services Department
P.O. Box 11258
New York, NY 10286-1258
Email: shareowners@bankofny.com

The Bank of New York's stock transfer Web site:
www.stockbny.com

Send certificates for transfer and address changes to:

The Bank of New York
Receive and Deliver Department
P.O. Box 11002
New York, NY 10286-1002
Featuring:

- Automated voice-response system available 24/7
- Service representatives available during normal business hours
- Registered shareholder account access via the Internet at www.stockbny.com.

SHAREHOLDER SERVICES

Sonoco – B01
1 North Second Street
Hartsville, SC 29550

ELECTRONIC PAYMENT OF DIVIDENDS

Shareholders may elect to have their dividends deposited directly to their bank accounts at www.stockbny.com or by contacting Sonoco Shareholder Services.

SHAREHOLDER INVESTMENT PROGRAM

Allows participants to purchase Sonoco stock and reinvest dividends directly without contacting a broker. You do not have to be a shareholder to participate. For more information and a prospectus, go to www.sonoco.com or www.stockbny.com.

DUPLICATE ANNUAL REPORTS

To eliminate duplicate report mailings, mark your proxy card or contact Sonoco Shareholder Services (www.stockbny.com).

SONOCO PUBLICATIONS

Annual reports, current and past; annual reports on Form 10-K and the Investor News Quarterly can be found on www.sonoco.com. They are also available in paper copies without charge from:

Sonoco – A09
Corporate Communications
1 North Second Street
Hartsville, SC 29550-3305

GENERAL INFORMATION

ADDRESS

Corporate Headquarters and Investor Relations
1 North Second Street
Hartsville, SC 29550-3305
Main: +843/383-7000
Investor Relations: +843/383-7862
Tollfree: 800/377-2692
Fax: +843/383-7008
Email: corporate.communications@sonoco.com

ANNUAL MEETING

The annual meeting of shareholders' will be held at 11 a.m. Eastern time on Wednesday, April 19, at:

The Center Theater
212 North Fifth Street
Hartsville, SC 29550-4136

A live audiocast will be available, with a replay archived for six months. Instructions for listening to this audiocast will be available at www.sonoco.com approximately one week prior to the event.

LEGAL COUNSEL

Haynsworth Sinkler Boyd, P.A.
P.O. Box 11889
Columbia, SC 29211-1889

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
Hearst Tower
214 North Tryon Street, Suite 3600
Charlotte, NC 28202-2137

INTELLECTUAL CAPITAL MANAGEMENT

Sonoco Development, Inc. manages the Company's intellectual assets, including patents, licenses and agreements. Company trademarks, domain names and patents are managed by SPC Resources, Inc. The address for both companies is:

125 West Home Avenue
Hartsville, SC 29550-4123

EQUAL OPPORTUNITY EMPLOYER

Sonoco believes that a diverse workforce is required to compete successfully in today's global marketplace. The Company provides equal employment opportunities in its global operations without regard to race, color, age, gender, religion, national origin or physical disability.

REFERENCES TO WEB SITE ADDRESSES

References to Sonoco's Web site address and The Bank of New York's Web site address are for informational purposes only and are not intended to, and do not, incorporate those Web sites or their contents by reference into this annual report.



1 NORTH SECOND STREET
HARTSVILLE, SC 29550-3305 USA
843/383-7000
WWW.SONOCO.COM