Sonoco Reports Second Quarter and First Half Earnings Results

July 18, 2001

HARTSVILLE, S.C., July 18 /PRNewswire/ -- Sonoco (NYSE: SON) today reported earnings per diluted share, excluding one-time charges, of $.38 for the second quarter of 2001, compared with $.47 for the same period in 2000 and in line with previous company guidance, it was announced by Harris E. DeLoach, Jr., president and chief executive officer.

(Photo: http://www.newscom.com/cgi-bin/prnh/19991006/SNCLOGO)

As previously disclosed, the Company incurred one-time charges of $17.3 million (after-tax) related to the ultimate settlement of corporate- owned life insurance policies with the Internal Revenue in this year's second quarter. In connection with the restructuring announced in the first quarter of 2001, additional one-time restructuring charges of $3.9 million ($2.6 million after-tax), including restructuring activities at an affiliate, were recorded in the second quarter. Including these one-time charges, earnings per diluted share for the second quarter 2001 were $.18.

Sales for the second quarter of 2001 were $647.7 million, versus $688.7 million in the same period last year. Net income for the second quarter of 2001, excluding one-time transactions, was $36.8 million, versus $46.4 million in the second quarter of 2000. Including one-time transactions, net income for the second quarter 2001 was $16.9 million, versus $46.4 million in the second quarter of 2000. Cash flow from operations for the second quarter 2001, including one-time transactions, was $81.4 million, versus $73.1 million in 2000. Free cash flow (after capital expenditures of $23.7 million and dividends of $19 million) was $38.7 million, versus $28 million in the second quarter of last year.

For the first six months of 2001, sales were $1.28 billion, versus $1.36 billion in the same period last year, which included stronger volumes in the first quarter of 2000 and higher selling prices, compared with the first half of this year. Net income for the first half of 2001, excluding one-time transactions, was $72.3 million, versus $91.4 million in the same period last year. Including one-time transactions, net income for this year's first six months was $21.6 million, versus $91.4 million in the first half of 2000. Cash flow from operations for the first six months of 2001, including one-time transactions, was $158.7 million, versus $167.5 million in 2000. Free cash flow, after capital expenditures of $54 million and dividends of $38 million for this year's first half, was $66.7 million, versus $80.5 million in the same period of 2000.

"Second quarter sales and earnings were adversely affected by continued weak volume, with company-wide volume decreases averaging approximately 4%, compared with the same period last year. The volume decrease primarily resulted from an 8% decline in volume in the Company's industrial segment, principally in our North American engineered carriers/paper business, reflecting the adverse impact of continuing general economic weakness in the United States," said DeLoach. He also noted that volumes had weakened in Europe, though still stronger than in the United States.

"Soft volumes in our engineered carriers/paper business reflect continued weakness in all our industrial customer segments, with no improvement in sight. We have seen a 7% second quarter year-over-year decline in our global engineered carrier business alone, a decline driven primarily by industry weakness as we have not lost net market share," said DeLoach. The industrial segment volume decreases were partially offset by a slight increase in volume in the consumer segment driven primarily by higher service contract revenue," he added.

"Other factors that negatively impacted this year's second quarter included lower prices and demand for trade sales of recovered paper and approximately $3 million of higher energy costs. On the positive side, we saw improved sales and profits in our consumer segment and anticipate continued improvement in the second half of this year," stated DeLoach.

DeLoach also noted, as previously announced, that 2001 results include the impact of approximately $.02 per diluted share each quarter due to increased expense from lower year-over-year investment earnings in its pension plan.

"While we anticipate continuing improvement in our consumer segment throughout the second half of the year, we see no current indications of an upturn in the industrial segment of the general economy and subsequently in our industrial volumes. Therefore, we estimate third quarter earnings per diluted share, excluding one-time items, in the range of $.40 to $.44, compared with third quarter earnings in 2000 of $.42," said DeLoach.

"Despite continuing soft volume in the industrial segment, we expect a stronger second half driven by an improving consumer segment led by the initial impact of some $60 million annually of new flexible packaging business, expected improved profits from our composite can business and our high density film operations, and an increasing positive effect from about $15 million of the anticipated $30 million in annualized savings from completed restructuring actions," stated DeLoach.

"We expect continued strong free cash flow of over $100 million in 2001, including restructuring costs. The resulting financial flexibility will enable us to continue seeking additional non-dilutive consolidation opportunities in our core businesses, such as the recently announced acquisition of U.S. Paper Mills Corp. Such actions are part of our cash flow growth strategy of protecting and enhancing the cash flow producing capability of our market-leading integrated paper-based engineered carriers and composite can businesses. In turn, the resulting free cash flow, which we expect will total about $750 million over the next five years, will fuel our smaller, but higher, growth rate businesses, such as flexibles, protective packaging and packaging services; further strengthen our two cash flow generating global "franchises"; reduce debt or repurchase stock, if appropriate; and fund continued dividends, which we have paid since 1925," stated DeLoach.

"With our strong balance sheet, significant cash flow, benefits from our restructuring activities, a strengthening consumer segment, the acquisition of an additional strong cash flow generating business and an environment conducive to other consolidation opportunities, Sonoco should be well

positioned when general economic conditions improve to achieve annual average double digit returns for shareholders over subsequent economic cycles," added DeLoach.

Segment Review

Consumer Packaging

The Consumer Packaging segment includes composite cans; flexible packaging (printed flexibles, high density bags and film products); specialty products and packaging services (supply chain management/e-marketplace, graphics management, folding cartons, and paper glass covers and coasters).

Second quarter 2001 sales for the consumer segment were $322.2 million, versus $305.6 million in the same period last year, excluding divested operations. Operating profit for this segment, excluding divested operations, was $29.5 million, versus $28.9 million in the second quarter of 2000.

First half sales in the consumer segment were $623.1 million, versus $612.3 million in the same period of 2000. Operating profit in this segment was $55.1 million, versus $59.9 million in the same period last year.

The increase in second quarter sales was due primarily to higher packaging services revenue, while the increase in profits came from improvements across the consumer segment, including higher sales and prices in flexible packaging; higher prices in composite cans; and lower resin costs and productivity improvement in high density film. Even more favorable comparisons should occur in the consumer segment throughout the remainder of the year.

Industrial Packaging

The Industrial Packaging segment includes engineered carriers (paper and plastic tubes and cores, paper manufacturing and recovered paper operations) and protective packaging (designed interior packaging and protective reels).

Second quarter 2001 sales for the industrial segment were $325.5 million, versus $377.3 million in the same period last year. Operating profit for the segment, excluding one-time transactions, was $39.9 million, versus $56.4 million in the same period last year.

Sales for the first half of 2001 in this segment were $657.3 million, versus $740.7 million. Operating profit for the industrial segment in the first half of 2001 was $82.9 million, versus $109.4 million in the same period last year.

The decrease in second quarter sales and operating profits in the industrial sector was due primarily to lower volumes in the Company's engineered carriers and paper operations resulting from the malaise in the general economy and does not reflect any net loss in market share. In addition, operating profit was negatively impacted by decreased prices for outside sales of recovered paper and higher year-over-year energy and benefit costs.

Corporate

Net interest expense declined $2.8 million quarter-over-quarter due to lower average debt levels and interest rates.

Depreciation and amortization expense for the second quarter of 2001 was $37 million.

The Company incurred $17.3 million (after-tax) of additional charges related to the settlement of corporate-owned life insurance policies with the Internal Revenue Service in the second quarter of 2001.

Acquisitions

The Company recently announced that it has signed a definitive agreement to purchase for cash U.S. Paper Mills Corp., a privately-held company that produces and sells lightweight paperboard for conversion into cores, composite cans and tubes, and the production of paper cores. U.S. Paper Mills is the North American market leader in the production of lightweight tissue and towel coreboard. The purchase is expected to be slightly accretive to earnings in the first year. Completion of the purchase, which is subject to regulatory approval, is expected in this year's third quarter. U.S. Paper Mills had sales of approximately $70 million in 2000.

The Company also recently announced the third quarter 2001 purchase of Cumberland Wood Products, Inc.'s, plywood reel operation in Helenwood, Tennessee. The transaction is for equipment and inventory and does not include building and real estate. Cumberland's plywood reel operations had 2000 sales of approximately $13 million.

Conference Call

Sonoco will host its regular quarterly conference call concerning current earnings results on Wednesday, July 18 at 2:00 p.m. ET. The conference call can be accessed in a "listen only" mode via the Internet at http://www.videonewswire.com/SONOCO/071801/. A replay will be available through Sonoco's web site's (www.sonoco.com) Investor Information section for 90 days after the conference.

Sonoco, founded in 1899, is a $2.7 billion manufacturer of industrial and consumer products and provider of packaging services, with 295 operations, in 33 countries serving customers in some 85 nations.

Cautionary Statements

Statements included herein that are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are based on current expectations, estimates and projections about the company's industry, management's beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies and objectives concerning the company's 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; international, national and local economic and market conditions; ability to maintain market share; pricing pressures and demand for products; continued strength of the company's paperboard-based tube, core and composite can operations; currency stability and the rate of growth in foreign markets; and actions of government agencies. Additional information concerning some of the factors that could cause materially different results is included in the company's reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Such reports are available from the Securities and Exchange Commission's public reference facilities and its Internet web site or from the Company's investor relations department.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Dollars and shares in thousands except per share)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Sales	$647,659	$688,686	$1,280,427	$1,364,985
Cost of sales	511,302	533,804	1,006,783	1,058,442
Selling, general and administrative expenses	66,985	69,369	135,706	136,795
Other expense*	8,045	--	52,328	--
Income before interest and taxes	61,327	85,513	85,610	169,748
Interest expense	(12,596)	(15,164)	(26,822)	(30,683)
Interest income	964	735	1,439	1,498
Income before income taxes	49,695	71,084	60,227	140,563
Provision for income taxes**	32,171	26,992	39,278	53,414
Income before equity in earnings of affiliates/ Minority interest in subsidiaries	17,524	44,092	20,949	87,149
Equity in earnings of affiliates/ Minority interest in subsidiaries	726	2,308	1,961	4,268
Affiliate restructuring	(1,306)	--	(1,306)	--
Net income	$16,944	$46,400	$ 21,604	$ 91,417
Average shares outstanding - diluted	95,716	99,716	95,560	100,408
Diluted earnings per share	$.18	$.47	$.23	$.91
Dividends per common share	$.20	$.20	$.40	$.39

*Includes restructuring charges of $2,041 and $46,324 for the three months and six months ended July 1, 2001, respectively, and corporate-owned life insurance policy adjustments of $6,004 for both the three and six months ended July 1, 2001.

**Includes $11,300 tax expense related to the surrender of corporate-owned life insurance policies in 2001.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

	July 1,	Dec. 31,

	2001	2000
Assets		
Current Assets:		
Cash and cash equivalents	$ 36,160	$ 35,219
Trade accounts receivables	318,956	329,467
Other receivables	23,420	26,875
Inventories	254,429	267,604
Prepaid expenses and deferred taxes	37,119	36,628
	670,084	695,793
Property, plant and equipment, net	942,382	973,470
Cost in excess of fair value of assets purchased, net	231,537	236,733
Other assets	297,578	306,615
	$ 2,141,581	$ 2,212,611
Liabilities and Shareholders' Equity		
Current Liabilities:		
Payable to suppliers and others	$ 370,172	$ 373,259
Notes payable and current portion of long-term debt	40,454	45,556
Taxes on income	41,382	18,265
	452,008	437,080
Long-term debt	750,994	812,085
Postretirement benefits other than pensions	30,113	27,611
Deferred income taxes and other	133,292	134,364
Shareholders' equity	775,174	801,471
	$ 2,141,581	$ 2,212,611

FINANCIAL SEGMENT INFORMATION (Unaudited)
(Dollars in thousands)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Net Sales				
Industrial Packaging	$ 325,463	$ 377,289	$ 657,311	$740,651
Consumer Packaging	322,196	305,609	623,116	612,271
Other*	--	5,788	--	12,063
Consolidated	$ 647,659	$ 688,686	$1,280,427	$1,364,985
Operating Profit				
Industrial Packaging	$ 39,866	$ 56,437	$ 82,877	$ 109,436
Consumer Packaging	29,506	28,867	55,061	59,899
Other*	--	209	--	413
One-Time Non-Operational Items**	(8,045)	--	(52,328)	--
Interest, net	(11,632)	(14,429)	(25,383)	(29,185)
Consolidated	$ 49,695	$ 71,084	$ 60,227	$ 140,563

*Includes net sales and operating profits of divested businesses.

**Includes restructuring charges and corporate-owned life insurance policy adjustments in 2001.

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