



Sonoco Reports Third Quarter and Nine Months Results

October 16, 2002

HARTSVILLE, S.C., Oct. 16 -- Sonoco (NYSE: SON) today reported earnings per diluted share, including one-time adjustments, of \$.30 for the third quarter of 2002, compared with \$.45 for the same period in 2001. In line with the Company's revised earnings announcement issued September 12, 2002, earnings per diluted share, excluding one-time items (Comparative), for the third quarter 2002 were \$.34, compared with \$.43 for the same period in 2001, it was announced by Harris E. DeLoach, Jr., president and chief executive officer. The Company's revised estimate for the third quarter, excluding one-time items, was \$.31 to \$.35, compared with its previous guidance of \$.40 to \$.44, and its fourth quarter estimate was revised to \$.35 to \$.39 from \$.45 to \$.49.

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

Sales for the third quarter of 2002 were \$717.4 million, versus \$649.3 million for the same period in 2001. Including one-time items, net income for the third quarter of 2002 was \$29.2 million, versus \$42.8 million in the third quarter of 2001. Excluding one-time items, net income for the third quarter of 2002 was \$33.3 million, versus \$41.6 million in the third quarter of 2001. In connection with the Company's previously announced restructuring actions, \$6.4 million (\$4.1 million after-tax) in charges were recorded during this year's third quarter, primarily severance costs related to plant consolidations in Europe. The third quarter of 2001 included a gain of \$6.1 million (\$3.4 million after-tax) primarily related to a net gain from legal settlements, offset partially by corporate-owned life insurance adjustments. (Comparative net income excludes goodwill amortization for 2001. See the reconciliation of comparative net income schedule following the Condensed Consolidated Statements of Income.)

Free cash flow (before funding for benefit plans of \$10 million and after capital expenditures of \$32.2 million and dividends of \$20.3 million) for the third quarter of 2002 was \$56.6 million, versus \$88.6 million in the third quarter of 2001.

For the first nine months of 2002, sales were \$2.08 billion, versus \$1.93 billion in the same period last year. Including one-time items, net income for the first nine months of 2002 was \$100.5 million, versus \$64.4 million in the same period of last year. Excluding one-time items, net income for the first nine months of 2002 was \$106.6 million, versus \$117.6 million in the same period last year.

Also for the first nine months of 2002, free cash flow (before funding benefit plans of \$41 million and after capital expenditures of \$84.1 million and dividends of \$59.6 million) was \$111.6 million, versus \$155.3 million for the same period in 2001.

"Although general economic conditions remained weak, sales for the third quarter were up 10 percent, compared with the same period last year, resulting primarily from acquisitions and increased volumes in the industrial and consumer segments. Company-wide volumes, including the impact of acquisitions, were up 11 percent, compared with the same period last year.

"The third quarter results were primarily impacted by higher costs for old corrugated containers (OCC), the Company's primary raw material, and a delay in recovering those costs," said DeLoach. "The fourth quarter will also be adversely impacted by the delay, although we expect to achieve at least a full recovery during the fourth quarter," he added.

OCC prices began increasing in April 2002 when they rose from \$35 to \$45 per ton. In May, they increased to \$60, in June to \$90 and in July to \$130, but then dropped to \$100 in August and to \$75 in September. In April, Sonoco announced a paperboard price increase in Europe. In May, the Company announced paperboard price increases in the United States and Canada and price increases for its converted products (tubes and cores) in Europe, the United States and Canada. In June, a second paperboard price increase was announced for Europe and in July, a second price increase was announced for tubes and cores in Europe and for paperboard in the United States and Canada.

Sonoco historically has fully recovered increased OCC costs through price increases for its paperboard-based converted products, principally engineered carriers (tubes and cores) serving industrial customers such as the paper, textile, film, tape and metal industries. Historically, the Company has experienced a six to eight week delay in recovery of each OCC price increase, with the Company experiencing margin expansion when OCC prices begin to fall.

"During this OCC cycle, however, we have experienced a longer than normal delay in recovering increased costs, primarily because of weak demand for our converted products which, coupled with reductions in OCC prices in August and September, is causing a delay in recovering a portion of the costs until the fourth quarter. Normally, significant increases in OCC prices are driven by strengthening demand based on underlying general economic strength. In this cycle, with a weak economy and demand, the rise in OCC prices was driven by a combination of short-term, non-sustainable factors, including historically low customer inventories of OCC; a seasonally slow period of the year for OCC collections; a temporary, inventory-driven increase in exports; and a temporary increase in demand for OCC by the linerboard industry (the largest user of OCC) that was also due to low inventories rather than sustainable market demand," explained DeLoach.

Sonoco is fully integrated in its paper-based products. The Company maintains collection centers for OCC that it uses to produce its paperboard that is then converted to engineered carriers, as well as composite cans and protective packaging. The Company is a net seller of OCC, which provides a partial offset to rising OCC prices.

DeLoach said that earnings results for the third quarter were also negatively impacted by operating costs associated primarily with the start-up of significant new equipment in Sonoco's flexible and metal ends businesses, and continued softness in volume and pricing in several businesses related to general economic conditions. He said that while the equipment start-up factors are improving, these same operating issues are expected to negatively impact results for the fourth quarter.

Results for the third quarter also were negatively impacted by approximately \$.03 per share (expected to total approximately \$.13 for the full year) in expense related primarily to the effect of stock market performance on the value of investment earnings on assets in Sonoco's pension and postretirement benefit plans.

"While the general economy remains soft with few signs of significant improvement in the near term, I am quite bullish about Sonoco's future. We have identified and are continuing to take significant costs out of our structure. We expect to realize at least \$53 million in annualized restructuring savings from actions taken from 2001 through 2003. This gives us an excellent base for earnings improvement, particularly when we begin to get some general economic wind at our back.

"Our current dividend yield is about 4 percent, versus a national average of about 2 percent. We continue to generate strong cash flow, with our free cash flow now estimated in the \$140 million to \$150 million range for 2002, before \$41 million in pension and postretirement contributions, and after an estimated \$100 million in capital expenditures. We expect to sustain similar levels of free cash flow over the next several years. In addition, our balance sheet remains strong, with an "A range" rating. Between our healthy cash flow and leveragable balance sheet, we remain well positioned to take advantage of acquisition opportunities, which we continue to actively pursue. I am bullish about our future. Despite a weak economy, we are expecting a full price-cost recovery in the fourth quarter, and the new equipment start-up issues previously discussed are of our own making and, therefore, within our control to fix-and that is now happening," he added.

Segment Review

Consumer Packaging

The consumer packaging segment includes the following products and services: round and shaped rigid packaging, both composite and plastic; printed flexible packaging; metal and plastic ends and closures; high density film products; specialty packaging; and packaging services.

Third quarter 2002 sales for the consumer segment were \$358.4 million, versus \$329.2 million in the same period for 2001. Operating profit for this segment, excluding one-time charges, was \$26.8 million, versus \$30.8 million in the third quarter of 2001.

Volumes in the consumer sector were up 11 percent, including the impact of acquisitions completed in 2001, compared with last year's third quarter.

"In the consumer sector, sales were up year-over-year in the third quarter, primarily reflecting the impact of increased flexible packaging contracts and continued growth in our steel easy-open closures business purchased in September 2001," said DeLoach. He stated that earnings for the third quarter in the consumer sector were down from last year due primarily to lower selling prices in high density film, higher costs associated with new product development, and operating issues with new equipment installation in flexible packaging and metal closures.

Industrial Packaging

The industrial packaging segment includes the following products and services: high-performance paper, plastic and composite engineered carriers; paperboard; wood, metal and composite reels for wire and cable packaging; fiber-based construction tubes and forms; custom designed protective packaging; and supply chain management capabilities.

Third quarter 2002 sales for the industrial segment were \$359 million, versus \$320 million in the same period in 2001. Operating profit for the industrial segment for the third quarter 2002 was \$36.6 million, versus \$43.9 million in the third quarter of 2001, excluding one-time transactions.

Volumes in the industrial segment were up 11 percent over last year's third quarter, including the impact of acquisitions completed in 2001.

Third quarter sales in the industrial sector increased from last year's third quarter due primarily to higher volumes in the Company's engineered carriers and paper operations, reflecting in part the impact of acquisitions. Higher OCC prices on external sales of the Company's recovered paper business and the impact of converted product price increases implemented late in the second and in the third quarters also had a modest impact on sales. Operating profits were lower primarily due to higher raw material (OCC) prices and the inherent lag time in recovering these costs through price increases and continued weakness in the Company's plastics and wire and cable reel businesses.

Corporate

Depreciation and amortization expense for the third quarter of 2002 was \$39.1 million, compared with \$39.8 million in 2001. Total debt decreased \$41.3 million to \$827.1 million at the end of the third quarter 2002 from \$868.4 million at the end of third quarter 2001. However, net interest expense increased to \$13.7 million in the third quarter of 2002 from \$10.3 million in the third quarter of 2001, primarily driven by interest rates associated with fixed rate debt securities issued in the fourth quarter of 2001 that were higher than average third quarter 2001 rates.

The effective tax rate for the three-month and nine-month periods ended September 29, 2002, was 36 percent, compared with 38.1 percent and 50.9 percent, respectively, for the same periods last year. Excluding the impact of corporate-owned life insurance charges and certain non-deductible foreign restructuring charges in 2001, the effective tax rate would have been 37.5 percent for both periods. The drop in the effective tax rate from 37.5 percent in the first nine months of 2001 to 36 percent for the same period in 2002 is partially due to nondeductible goodwill amortization no longer being reported as an expense under generally accepted accounting principles in the

United States (U.S. GAAP).

Conference Call

Sonoco will host its regular quarterly conference call concerning current earnings results on Wednesday, October 16 at 2:00 p.m. ET. The Conference call can be accessed in a "listen only" mode via internet <http://www.firstcallevnts.com/service/aiwz366232402gf12.html>. 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 \$2.6 billion manufacturer of industrial and consumer products and provider of packaging services, with more than 300 operations in 32 countries serving customers in some 85 nations. For more information on the Company, visit our Web site at www.sonoco.com.

Forward-looking 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. The words "estimate," "project," "intend," "expect," "believe," "anticipate," and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding offsetting high raw material costs, adequacy of income tax provisions, refinancing of debt, adequacy of cash flows, effects of acquisitions and dispositions, and financial strategies and the results expected from them. Such 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 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; international, national and local economic and market conditions; ability to maintain market share; pricing pressures and demand for products; continued strength of our paperboard-based engineered carrier 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; actions of government agencies; and loss of consumer confidence and economic disruptions resulting from terrorist activities.

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 website or from the Company's investor relations department.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Sales	\$717,390	\$649,265	\$2,083,980	\$1,929,692
Cost of sales	582,089	514,009	1,668,180	1,520,792
Selling, general and administrative expenses	71,946	63,495	217,401	199,201
Other expense (income)	6,446	(6,121)	9,600	46,207
Income before interest and taxes	56,909	77,882	188,799	163,492
Interest expense	(14,107)	(11,932)	(40,768)	(38,754)
Interest income	453	1,617	1,138	3,056
Income before income taxes	43,255	67,567	149,169	127,794
Provision for income taxes	15,572	25,733	53,669	65,011
Income before equity in earnings of affiliates/Minority interest in subsidiaries	27,683	41,834	95,500	62,783
Equity in earnings of affiliates/Minority interest in subsidiaries	1,521	1,343	4,913	3,303
Affiliate restructuring	--	(353)	65	(1,658)
Net income	\$ 29,204	\$ 42,824	\$100,478	\$64,428
Average shares outstanding - diluted	97,205	95,994	97,267	95,705

Diluted earnings per share	\$.30	\$.45	\$ 1.03	\$.67
Dividends per common share	\$.21	\$.20	\$.62	\$.60

Reconciliation of comparative net income to net income as reported per U.S. GAAP (Unaudited):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Comparative net income	\$33,328	\$41,587	\$106,557	\$117,631
Add (subtract) adjustments:				
Restructuring charges	(6,446)	(111)	(9,600)	(46,433)
Net gains from legal settlements and Corporate-owned life insurance adjustments	--	6,232	--	226
Goodwill amortization	--	(2,976)	--	(8,938)
Total pretax adjustments	(6,446)	3,145	(9,600)	(55,145)
Tax impact of adjustments	2,322	(1,555)	3,456	14,896
Corporate-owned life insurance tax expense	--	--	--	(11,296)
Affiliate restructuring adjustment, net of tax	--	(353)	65	(1,658)
Net income as reported	\$29,204	\$42,824	\$100,478	\$ 64,428

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

	September 29, 2002	December 31, 2001
Assets		
Current Assets:		
Cash and cash equivalents	\$36,055	\$36,130
Trade accounts receivables	346,680	289,323
Other receivables	35,564	30,828
Inventories	258,397	261,721
Prepaid expenses and deferred taxes	47,819	47,167
	724,515	665,169
Property, plant and equipment, net	977,783	1,008,944
Cost in excess of fair value of assets purchased, net	353,156	348,846
Other assets	350,278	329,238
	\$2,405,732	\$2,352,197
Liabilities and Shareholders' Equity		
Current Liabilities:		
Payable to suppliers and others	\$ 473,231	\$ 402,222
Notes payable and current portion of long-term debt	37,296	35,849
Taxes on income	22,595	22,199
	533,122	460,270
Long-term debt	789,820	885,961
Postretirement benefits other than pensions	33,079	32,231
Deferred income taxes and other	174,041	169,613
Shareholders' equity	875,670	804,122

\$2,405,732 \$2,352,197

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

FINANCIAL SEGMENT INFORMATION (Unaudited)
(Dollars in thousands)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 29, 2002	September 30, 2001	September 29, 2002	September 30, 2001
Net Sales				
Industrial Packaging	\$359,026	\$320,046	\$1,047,525	\$977,357
Consumer Packaging	358,364	329,219	1,036,455	952,335
Consolidated	\$717,390	\$649,265	\$2,083,980	\$1,929,692
Operating Profit*				
Industrial Packaging	\$ 36,561	\$ 43,922	\$115,329	\$130,770
Consumer Packaging	26,794	30,815	83,070	87,867
Restructuring charges	(6,446)	(111)	(9,600)	(46,433)
Net gains from legal settlements and Corporate-owned life insurance adjustments	--	6,232	--	226
Goodwill amortization	--	(2,976)	--	(8,938)
Interest, net	(13,654)	(10,315)	(39,630)	(35,698)
Consolidated	\$ 43,255	\$67,567	\$149,169	\$127,794

- For comparative purposes, 2001 operating profit for the industrial packaging segment and the consumer packaging segment have been restated to exclude goodwill amortization.

Source: Sonoco