SONOCO PRODUCTS CO
Form 10-K
February 28, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 0-516

SONOCO PRODUCTS COMPANY

Incorporated under the laws		I.R.S. Employer Identification
of South Carolina		No. 57-0248420

1 N. Second St.

Hartsville, SC 29550

Telephone: 843/383-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
No par value common stock	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of voting common stock held by nonaffiliates of the registrant (based on the New York Stock Exchange closing price) on June 29, 2007, which was the last business day of the registrant s most recently completed second fiscal quarter, was $4,165,014,225. Registrant does not (and did not at June 29, 2007) have any non-voting common stock outstanding.

As of February 22, 2008, there were 99,486,369 shares of no par value common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 16, 2008, which statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference in Part III.

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SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

Forward-looking Statements

Statements included in this Annual Report on Form 10-K 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, consider, plan, anticipate, objective, goal, guidance, outlook and simila 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. 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 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. The 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 and changes in laws and regulations affecting the Company;
- liability for and anticipated costs of environmental remediation actions;
- loss of consumer confidence; and
- economic disruptions resulting from terrorist activities.

The Company undertakes 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 on Form 10-K might not occur.

References to our Web Site Address

References to our Web site address and domain names throughout this Annual Report on Form 10-K are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission s rules or the New York Stock Exchange Listing Standards. These references are not intended to, and do not, incorporate the contents of our Web sites by reference into this Annual Report on Form 10-K.

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PART I

Item 1. Business

(a) General development of business

The Company is a South Carolina corporation founded in Hartsville, South Carolina, in 1899 as the Southern Novelty Company. The name was subsequently changed to Sonoco Products Company (the Company or Sonoco). Sonoco is a manufacturer of industrial and consumer packaging products and a provider of packaging services, with 334 locations in 35 countries.

Information about the Company s acquisitions, dispositions, joint ventures and restructuring activities is provided in Notes 2 and 3 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

(b) Financial information about segments

Information about the Company s reportable segments is provided in Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

(c) Narrative description of business

Products and Services The following discussion outlines the principal products produced and services provided by the Company.

CONSUMER PACKAGING

The Consumer Packaging segment accounted for approximately 36%, 36% and 35% of the Company s net sales in 2007, 2006 and 2005, respectively. The operations in this segment consist of 63 plants throughout the world. The products, services and markets of the Consumer Packaging segment are as follows:

	Products and Services	*Markets*
Rigid Packaging Paper	Round and shaped composite paperboard cans, paperboard pails, single-wrap paperboard packages, fiber cartridges	Food: Snacks, nuts, cookies and crackers, confectionery, frozen concentrates, powdered beverages and infant formulas, coffee, refrigerated dough, spices/seasonings, nutritional supplements, pet foods Nonfood: Adhesives, caulks, cleansers, chemicals, lawn and garden, automotive, pet products
Rigid Packaging Plastic	Bottles, jars, tubs, cups, trays, squeeze tubes, monolayer and multilayer containers, specialty injection molded components, caps	Food: Liquid beverages (noncarbonated), including functional beverages 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, health and beauty, automotive, pharmaceuticals
Ends and Closures	Aluminum, steel and peelable membrane easy-open closures for composite, metal and plastic containers	Processed foods in metal and plastic containers, coffee, beverages, powdered beverages and infant formulas, snacks, nuts, nutritional supplements,

spices/ seasonings, pet foods and treats, nonfood products

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	Products and Services	*Markets*
Printed Flexible Packaging	Flexible packaging made from thin-gauge, high value-added rotogravure, flexographic and combination printed film including high-performance laminations and rotogravure cylinder engraving	Confectionery and gum, hard-baked goods, coffee, processed foods, beverages, snacks , pet food, home and personal care

Sonoco s rigid packaging paper products are the Company s second largest revenue-producing group of products and services, representing approximately 15%, 16% and 19% of consolidated net sales in 2007, 2006 and 2005, respectively.

TUBES AND CORES/PAPER

The Tubes and Cores/Paper segment accounted for approximately 42% of the Company s net sales in 2007, 2006 and 2005. This segment serves its markets through 122 plants on five continents. Sonoco s paper operations provide the primary raw material for the Company s fiber-based packaging. Sonoco uses approximately 65% of the paper it manufactures and the remainder is sold to third parties. This vertical integration strategy is supported by 24 paper mills with 35 paper machines and 49 recycling facilities throughout the world. In 2007, Sonoco had the capacity to manufacture approximately 1.9 million tons of recycled paperboard. The products, services and markets of the Tubes and Cores/Paper segment are as follows:

	Products and Services	*Markets*
Tubes and Cores	Paperboard tubes, cores, roll packaging, molded plugs, pallet components, concrete forms, void forms, rotary die boards	Construction, film, flowable products, metal, paper mill, shipping and storage, tape and label, textiles, converters
Paper	Recycled paperboard, chipboard, tubeboard, lightweight corestock, boxboard, linerboard, specialty grades, recovered paper, other recycled materials	Converted paper products, spiral winders, beverage insulators, displays, gaming, paper manufacturing

Sonoco s tubes and cores products and services are the Company s largest revenue-producing group of products and services, representing approximately 31%, 31% and 32% of consolidated net sales in 2007, 2006 and 2005, respectively.

PACKAGING SERVICES

The Packaging Services segment accounted for approximately 13%, 12% and 13% of the Company s consolidated net sales in 2007, 2006 and 2005, respectively. The products, services and markets of the Packaging Services segment are as follows:

	Products and Services	*Markets*
Service Centers	Packaging supply chain management, including custom packing, fulfillment, primary package filling, scalable service centers, global brand artwork management	Personal care, baby care, beauty, healthcare, food, electronics, hosiery, pharmaceuticals, office supplies, toys
Point-of-Purchase (P-O-P)	Designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent P-O-P displays, as well as contract packaging,	Consumer packaged goods, including automotive, beverages, confectionery, electronics, cosmetics, foods, fragrances, healthcare, home and garden, liquor, medical, office supply, over-the-counter

	co-packing and fulfillment services	drugs, personal care, sporting goods, tobacco

ALL OTHER SONOCO

All Other Sonoco accounted for approximately 9%, 10% and 10% of the Company s net sales in 2007, 2006 and 2005, respectively. In addition to the products and services outlined in each of the segments above, the Company produces the following products:

	Products and Services	*Markets*
Wire and Cable Reels	Steel, nailed wooden, plywood, recycled and poly-fiber reels	Wire and cable manufacturers
Molded and Extruded Plastics	Complete offering of product design, tool design and fabrication; manufacturing in both injection molding and extrusion technologies	Consumer and industrial packaging, food service, textiles, wire and cable, fiber optics, plumbing, filtration, automotive, medical, healthcare
Paperboard Specialties	Custom-printed Stancap® glass covers, Rixie coasters, other paper amenities	Hotels and resorts, restaurants, casinos, country clubs, catering services, cruise lines, airlines, healthcare facilities, advertising

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	Products and Services	*Markets*
Protective Packaging	Proprietary Sonopost® technology, Sonobase® carrier system and, through a partnership with Sonoco CorrFlex, the Sonopop® display system; concept, design, testing and manufacturing of multimaterial total solutions; tier 1 supplier to major manufacturers, on-site engineering, ISTA- and Sears-certified lab testing facilities and engineering	Household appliances, heating and air conditioning, office furnishings, automotive, fitness equipment, lawn and garden, promotional displays, palletized distribution

Product Distribution Each of the Company s operating units has its own sales staff, and maintains direct sales relationships with its customers. For those customers that buy from more than one business unit, the Company often assigns a single representative or team of specialists to handle that customer s needs. Some of the units have service staff at the manufacturing facility that interacts directly with customers. The Tubes and Cores/Paper segment also has a customer service center located in Hartsville, South Carolina, which is the main contact point between its North American business units and their customers. Divisional sales personnel also provide sales management, marketing and product development assistance as needed. Product distribution is normally directly from the manufacturing plant to the customer, but in some cases, product is warehoused in a mutually advantageous location to be shipped to the customer as needed.

Raw Materials The principal raw materials used by the Company are recovered paper, paperboard, steel, aluminum and plastic resins. Raw materials are purchased from a number of outside sources. The Company considers the supply and availability of raw materials to be adequate to meet its needs.

Patents, Trademarks and Related Contracts Most inventions are made by members of Sonoco s development and engineering staff, and are important to the Company s internal growth. Patents have been granted on many inventions created by Sonoco staff in the United States and other countries. These patents are managed globally by a Sonoco intellectual capital management team through one of the Company s subsidiaries, Sonoco Development, Inc. (SDI). SDI globally manages patents, trade secrets, confidentiality agreements and license agreements. Some patents have been licensed to other manufacturers. Sonoco also licenses a few patents from outside companies and universities for business unit use. U.S. patents expire after 17 or 20 years, depending on the patent issue date. New patents replace many of the abandoned or expired patents. A second intellectual capital subsidiary of Sonoco, SPC Resources, Inc., globally manages Sonoco s trademarks, service marks, copyrights and Internet domain names. Most of Sonoco s products are marketed worldwide under trademarks such as Sonoco®, Sonotube®, Safe-Top®, Sealed Safe®, Duro® and Durox®. Sonoco s registered Web domain names such as www.sonoco.com and www.sonotube.com provide information about Sonoco, its people and products. Trademarks and domain names are also licensed to outside companies where appropriate.

Seasonality The Company s operations are not seasonal to any significant degree, although the Consumer Packaging and Packaging Services segments normally report slightly higher sales and operating profits in the second half of the year, when compared to the first half.

Working Capital Practices The Company is not required to carry any significant amounts of inventory to meet customer requirements or to assure itself continuous allotment of goods, nor does it provide extended terms to customers.

Dependence on Customers On an aggregate basis, the five largest customers in the Tubes and Cores/Paper segment accounted for approximately 11% of that segment s sales and the five largest customers in the Consumer Packaging segment accounted for approximately 27% of that segment s sales. The dependence on a few customers in the Packaging Services segment is more significant as the five largest customers in this segment accounted for approximately 74% of that segment s sales.

Sales to Procter & Gamble, the Company s largest customer, represented approximately 12% of the Company s consolidated revenues in 2007. In addition, this concentration of sales volume resulted in a corresponding concentration of credit, representing approximately 10% of the Company s consolidated trade accounts receivable at December 31, 2007. No other customer comprised more than 5% of the Company s consolidated revenues in 2007 or accounts receivable at December 31, 2007.

Backlog Most customer orders are manufactured with a lead time of three weeks or less. Therefore, the amount of backlog orders at December 31, 2007, was not material. The Company expects all backlog orders at December 31, 2007, to be shipped during 2008.

Competition The Company sells its products in highly competitive markets, which include paper, textile, film, food, chemical, pharmaceutical, packaging, construction, and wire and cable. Each of these markets is primarily controlled by supply and demand. Additionally, these markets are influenced by the overall rate of economic activity. Because we operate in highly competitive markets, we regularly bid for new and continuing business. Losses and/or awards of business from our largest customers, customer changes to alternative forms of packaging, and the repricing of business, can have a significant effect on our operating results. The Company manufactures and sells many of its products globally. The Company, having operated internationally since 1923, considers its ability to serve its customers worldwide in a timely and consistent manner a competitive advantage. The Company also believes that its technological leadership, reputation for quality and vertical integration are competitive advantages. Expansion of the Company s product line and global presence reflect the rapidly changing needs of its major customers, who demand high-quality, state-of-the-art, environ-

mentally compatible packaging, wherever they choose to do business. It is important to be a low-cost producer in order to compete effectively. The Company is constantly focused on productivity improvements and other cost-reduction initiatives utilizing the latest in technology.

Research and Development Company-sponsored research and development expenses totaled approximately $15.6 million in 2007, $12.7 million in 2006 and $14.7 million in 2005. Customer-sponsored research and development expenses were not material in any of these periods. Significant projects in Sonoco s Tubes and Cores/Paper segment during 2007 included efforts to design and develop new products for the construction industry and for the film and tape industries. In addition, efforts were focused on enhancing performance characteristics of the Company s tubes and cores in the textile, film and paper packaging areas, as well as on projects aimed at enhancing productivity. During 2007, the Consumer Packaging segment continued to invest in a broad range of cost-reduction projects, high-value flexible packaging enhancements, rigid plastic containers technology and next-generation composite packaging.

Compliance with Environmental Laws Information regarding compliance with environmental laws is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Risk Management, and in Note 13 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Number of Employees Sonoco had approximately 18,600 employees worldwide as of December 31, 2007.

(d) Financial information about geographic areas

Financial information about geographic areas is provided in Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, and in the information about market risk in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Risk Management of this Annual Report on Form 10-K.

(e) Available information

The Company electronically files with the Securities and Exchange Commission (SEC) its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its periodic reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the 1934 Act), and proxy materials pursuant to Section 14 of the 1934 Act. The SEC maintains a site on the Internet, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Sonoco also makes its filings available, free of charge, through its Web site, www.sonoco.com, as soon as reasonably practical after the electronic filing of such material with the SEC.

Executive Officers of the Registrant

Name	*Age*	*Position and Business Experience for the Past Five Years*
Harris E. DeLoach Jr.	63	Chairman of the Board, President and Chief Executive Officer since 2005. Previously President and Chief Executive Officer July 2000-April 2005; Chief Operating Officer April-July 2000; Sr. Executive Vice President, Global Industrial Products/ Paper/Molded Plastics 1999-2000; Executive Vice President, High Density Film, Industrial Container, Fibre Partitions, Protective Packaging, Sonoco Crellin and Baker Reels 1996-1999. Joined Sonoco in 1985.
Jim C. Bowen	57	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. Joined Sonoco in 1972.
Cynthia A. Hartley	59	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	61	Sr. Vice President, Chief Financial Officer and Corporate Secretary since 2005. Previously Vice President, Chief Financial Officer and Corporate Secretary 2002-2005; Vice President, Treasurer

		and Corporate Secretary 1995-2002. Joined Sonoco in 1975.
M. Jack Sanders	54	Executive Vice President, Industrial since February 2008. Previously Sr. Vice President, Global Industrial Products 2006-2008; Vice President, Global Industrial Products January 2006-October 2006; Vice President, Industrial Products N.A. 2001-2006; Division Vice President/General Manager, Protective Packaging 1998-2001. Joined Sonoco in 1987.
Eddie L. Smith	56	Vice President, Industrial Products and Paper, Europe since 2006. Previously Vice President, Customer and Business Development 2002-2006; Vice President/General Manager, Flexible Packaging 1998-2002; Division Vice President/General Manager, Flexible Packaging 1996-1998. Joined Sonoco in 1971.
Charles L. Sullivan Jr.	64	Executive Vice President, Consumer since 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.

Item 1A. Risk Factors

RISK FACTORS RELATING TO SONOCO S BUSINESS

The Company is subject to environmental regulations and liabilities that could weaken operating results.

Federal, state, provincial, foreign and local environmental requirements, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and particularly those relating to air and water quality, are significant factors in the Company s business and generally increase its costs of operations. The Company may be found to have environmental liability for the costs of remediating soil or water that is, or was, contaminated by the Company or a third party at various sites that are now, or were previously, owned, used or operated by the Company. Legal proceedings may result in the imposition of fines or penalties, as well as mandated remediation programs that require substantial, and in some instances, unplanned capital expenditures.

The Company has incurred in the past, and may incur in the future, fines, penalties and legal costs relating to environmental matters, and costs relating to the damage of natural resources, lost property values and toxic tort claims. The Company has made expenditures to comply with environmental regulations and expects to make additional expenditures in the future. As of December 31, 2007, approximately $31.1 million was reserved for environmental liabilities. Such reserves are established when it is considered probable that the Company has some liability. In part because nearly all of the Company s potential environmental liabilities are joint and severally shared with others, the Company s maximum potential liability cannot be reasonably estimated. However, the Company s actual liability in such cases may be substantially higher than the reserved amount. Additional charges could be incurred due to changes in law, or the discovery of new information, and those charges could have a material adverse effect on operating results.

General economic conditions in the United States may change, having a negative impact on the Company s earnings.

Domestic sales accounted for approximately 62% of the Company s consolidated revenues. Even with the Company s diversification across various markets and customers, due to the nature of the Company s products and services, a general economic downturn could have an adverse impact on the Company s reported results.

Raw materials price increases may reduce net income.

Most of the raw materials the Company uses are purchased from third parties. Principal examples are recovered paper, steel, aluminum and resin. Prices for these raw materials are subject to substantial fluctuations that are beyond the Company s control and can adversely affect profitability. Many of the Company s long-term contracts with customers permit limited price adjustments to reflect increased raw material costs. Although these and other prices may be increased in an effort to offset increases in raw materials costs, such adjustments may not occur quickly enough, or be sufficient to prevent a materially adverse effect on net income and cash flow.

The Company may encounter difficulties integrating acquisitions, restructuring operations or closing or disposing of facilities.

The Company has made numerous acquisitions in recent years, and may actively seek new acquisitions that management believes will provide meaningful opportunities in the markets it serves. Acquired businesses may not achieve the expected levels of revenue, profit or productivity, or otherwise perform as expected.

Acquisitions also involve special risks, including, without limitation, the potential assumption of unanticipated liabilities and contingencies, and difficulties in integrating acquired businesses. While management believes that acquisitions will improve the Company s competitiveness and profitability, no assurance can be given that acquisitions will be successful or accretive to earnings.

The Company has closed higher-cost facilities, sold non-core assets and otherwise restructured operations in an effort to improve cost competitiveness and profitability. Some of these activities are ongoing, and there is no guarantee that any such activities will achieve the Company s goals and not divert the attention of management or disrupt the ordinary operations of the Company. Moreover, production capacity, or the actual amount of products produced, may be reduced as a result of these activities.

Energy price increases may reduce net income.

The Company s manufacturing operations require the use of substantial amounts of electricity and natural gas, which may be subject to significant price increases as the result of changes in overall supply and demand. Energy usage is forecasted and monitored, and the Company may, from time to time, use commodity futures or swaps in an attempt to reduce the impact of energy price increases. The Company cannot guarantee success in these efforts, and could suffer adverse effects to net income and cash flow should the Company be unable to pass higher energy costs through to its customers.

Changes in pension plan assets or liabilities may reduce net income and shareholders equity.

The Company has a projected benefit obligation for its defined benefit plans in excess of $1 billion. The calculation of this obligation is sensitive to the underlying discount rate assumption. Reductions in the expected long-term yield of high-quality debt instruments will result in a higher projected benefit obligation and higher net periodic benefit cost. A higher projected benefit obligation may result in a change in funded status that significantly reduces shareholders equity. The Company has total assets in excess of $1 billion funding a significant portion of the projected benefit obligation. Decreases in fair value of these assets may result in a higher net periodic benefit cost and a change in the funded status that significantly reduces shareholders equity.

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The Company may not be able to develop new products acceptable to the market.

The Company relies on new product development for organic growth within the markets it serves. If new products acceptable to the Company s customers are not developed in a timely fashion, growth potential may be hindered.

The Company may not be able to locate suitable acquisition candidates.

If significant acquisition candidates that meet the Company s specific criteria are not located, the Company s potential for growth may be restricted.

Conditions in foreign countries where the Company operates may reduce earnings.

The Company has operations throughout North and South America, Europe, Australia and Asia, with facilities in 35 countries. In 2007, approximately 38% of consolidated sales came from operations and sales outside of the United States. Accordingly, economic conditions, political situations, and changing laws and regulations in those countries may adversely affect revenues and income.

Foreign exchange rate fluctuations may reduce the Company s earnings.

As a result of operating globally, the Company is exposed to changes in foreign exchange rates. Generally, each of the Company s foreign operations both produces and sells in its respective local currencies. As a result, foreign-exchange transaction risk is not significant. However, the Company s reported results of operations and financial position could be negatively affected by exchange rates when the activities and balances of its foreign operations are translated into U.S. dollars for financial reporting purposes. The Company monitors its exposures and, from time to time, may use currency swaps and forward foreign exchange contracts to hedge certain forecasted transactions denominated in foreign currencies, foreign currency assets and liabilities or the net investment in foreign subsidiaries. To date, the extent to which the Company has hedged its net investments in foreign subsidiaries has been limited.

Item 1B. Unresolved Staff Comments

There are no unresolved written comments from the SEC staff regarding the Company s periodic or current 1934 Act reports.

Item 2. Properties

The Company s corporate offices are owned and operated in Hartsville, South Carolina. There are 105 owned and 71 leased facilities used by operations in the Tubes and Cores/Paper segment, 27 owned and 36 leased facilities used by operations in the Consumer Packaging segment, three owned and 18 leased facilities used by operations in the Packaging Services segment, and 18 owned and 30 leased facilities used by all other operations. Europe, the most significant foreign geographic region in which the Company operates, has 55 manufacturing locations.

Item 3. Legal Proceedings

The Company has been named as a potentially responsible party (PRP) at several environmentally contaminated sites not owned by the Company. 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 PRPs 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, and actual costs to be incurred for these environmental matters in future periods is likely to vary from current estimates because of the inherent uncertainties in evaluating environmental exposures. Accordingly, the ultimate cost to the Company with respect to such sites cannot be determined. As of December 31, 2007 and 2006, the Company had accrued $31.1 million and $15.3 million, respectively, related to environmental contingencies. The Company periodically reevaluates the assumptions used in determining the appropriate reserves for environmental matters as additional information becomes available and, when warranted, makes appropriate adjustments.

FOX RIVER

The Company believes the issues regarding the Fox River, which are discussed in some detail below, currently represent the Company s greatest loss exposure for environmental liability. The Company also believes that all of its exposure to such liability for the Fox River is contained within its wholly owned subsidiary, U.S. Paper Mills Corp. (U.S. Mills). Accordingly, regardless of the amount of liability that U.S. Mills may ultimately bear, Sonoco Products Company believes its maximum additional pre-tax loss for Fox River issues will essentially be limited to its investment in U.S. Mills, the book value of which was approximately $80 million at December 31, 2007.

The extent of U.S. Mills potential liability remains subject to many uncertainties and the Company periodically reevaluates U.S. Mills potential liability and the appropriate reserves based on information available to it. U.S. Mills eventual liability, which may be paid out over a period of several years, will depend on a number of factors. In general, the most significant factors include: (1) the total remediation costs for the sites for which U.S. Mills is found to have liability and the share of such costs U.S. Mills is required to bear; (2) the total natural resource damages for such sites and the share of such costs U.S. Mills is required to bear, and (3) U.S. Mills costs to defend itself in this matter.

U.S. Mills was originally notified by governmental entities in 2003 that it, together with a number of other companies, had been identified as a PRP for environmental claims under CERCLA and other statutes, arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the bay of Green Bay in Wisconsin. U.S. Mills was named as a PRP because scrap paper purchased by U.S. Mills as a raw material for its paper making processes more than 30 years ago allegedly included carbonless copy paper that

contained PCBs, some of which were included in wastewater from U.S. Mills manufacturing processes that was discharged into the Fox River. The Company acquired the stock of U.S. Mills in 2001, and the alleged contamination predates the acquisition. Although Sonoco was also notified that it was a PRP, its only involvement is as a subsequent shareholder of U.S. Mills. As such, the Company has responded that it has no separate responsibility apart from U.S. Mills.

The governmental entities making such claims against U.S. Mills and the other PRPs have been coordinating their actions, including the assertion of claims against the PRPs. Additionally, certain claimants have notified U.S. Mills and the other PRPs of their intent to commence a natural resource damage (NRD) lawsuit, but no such actions have been instituted.

A review of the circumstances leading to U.S. Mills being named a PRP and the current status of the remediation effort is set forth below.

In July 2003, the U.S. Environmental Protection Agency (EPA) and Wisconsin Department of Natural Resources (WDNR) issued their final cleanup plan (known as a Record of Decision, or ROD) for a portion of the Fox River. The ROD addressed the lower part of the Fox River and portions of Green Bay, where the EPA and WDNR (the Governments) estimate the bulk of the sediments that need to be remediated are located. In two portions of the lower part of the Fox River covered by the ROD Operable Units (OUs) 3 and 4 the Governments selected large-scale dredging as the cleanup approach. OU 3 is the section of the Fox River running downstream from Little Rapids to the DePere dam, and OU 4 runs from the DePere dam downstream to the mouth of the Fox River at Green Bay. U.S. Mills DePere plant is just below the DePere dam and, prior to 1972, discharged wastewater into the river downstream of the dam in OU 4. In the ROD, the Governments estimated that approximately 6.5 million cubic yards of sediment would be removed from OUs 3 and 4 at an estimated cost of approximately $284 million (approximately $26.5 million for OU 3 and approximately $257.5 million for OU 4). The Governments also identified capping the riverbed with appropriate materials as a contingent remedy to be evaluated during the remedial design process. For Green Bay (OU 5), the Governments selected monitored natural attenuation as the cleanup approach at an estimated cost of approximately $40 million. The Governments also indicated that some limited dredging near the mouth of the river might be required, which would ultimately be determined during the design stage of the project. Earlier, in January 2003, the Governments had issued their ROD for the upper portions of the Fox River OUs 1 and 2. Combining the then current cost estimates from both RODs, it appeared that the Governments expected the selected remedies for all five OUs to cost approximately $400 million, exclusive of contingencies. In March 2004, NCR Corporation (NCR) and Georgia-Pacific Corporation (G-P) entered into an Administrative Order on Consent (AOC) with the Governments to perform engineering design work for the clean up of OUs 2 5.

In the course of the ongoing design work, additional sampling and data analysis identified elevated levels of PCBs in certain areas of OU 4 near the U.S. Mills DePere plant (the OU 4 hotspot). In November 2005, the Governments notified U.S. Mills and NCR that they would be required to design and undertake a removal action that would involve dredging, dewatering and disposing of the PCB-contaminated sediments from the OU 4 hotspot. In furtherance of this notification, on April 12, 2006, the United States and the State of Wisconsin sued NCR and U.S. Mills in the U. S. District Court for the Eastern District of Wisconsin in Milwaukee (Civil Action No. 06-C-0484). NCR and U.S. Mills agreed to a Consent Decree with the United States and the State of Wisconsin pursuant to which the site is to be cleaned up on an expedited basis and NCR and U.S. Mills started removing contaminated sediment in May 2007. Although the defendants specifically did not admit liability for the allegations of the complaint, they are bound by the terms of the Consent Decree.

NCR and U.S. Mills reached agreement between themselves that each would fund 50% of the costs of remediation of the OU 4 hotspot, which the Company currently estimates to be between $30 million and $39 million for the project as a whole. Project implementation began in 2006, but most of the project cost is expected to be incurred by the end of 2008. Although the funding agreement does not acknowledge responsibility or prevent either party from seeking reimbursement from any other parties (including each other), the Company accrued $12.5 million in 2005, and an additional $5.2 million in 2007, as its estimate of the portion of costs that U.S. Mills expects to incur under the funding agreement.

At the time of the Company s acquisition of U.S. Mills in 2001, U.S. Mills and the Company estimated U.S. Mills liability for the Fox River cleanup at a nominal amount based on Government reports and conversations with the Governments about the anticipated limited extent of U.S. Mills responsibility, the belief, based on U.S. Mills prior assertions, that no significant amount of PCB-contaminated raw materials had been used at the U.S. Mills plants, and the belief that any PCB contamination in the Fox River, other than a de minimus amount, was not caused by U.S. Mills. It appeared at that time that U.S. Mills and the Governments would be able to resolve the matter and dismiss U.S. Mills as a PRP for a nominal payment. Accordingly, no significant reserve was established at the time. However, the Governments subsequently declined to enter into such a settlement. Nonetheless, U.S. Mills continued to believe that its liability exposure was very small based on its continuing beliefs that no significant amount of PCB-contaminated raw materials had been used at the U.S. Mills plants and that any significant amount of PCB contamination in the section of the Fox River located adjacent to its plant was not caused by U.S. Mills.

In May/June 2005, U.S. Mills first learned of elevated levels of PCBs (the OU 4 hotspot) in the Fox River adjacent to its DePere plant. U.S. Mills, while still not believing its DePere plant was the source of this contamination, entered into the consent decree to remediate the OU 4

hotspot as discussed above.

In June 2006, U.S. Mills first received the results of tests it initiated on the U.S. Mills property that suggest that the DePere plant may have processed as part of its furnish more

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than the de minimus amounts of PCB-contaminated paper reflected in the records available to the Company. This information seemed to contradict the Company s previous understanding of the history of the DePere plant. Based on these most recent findings, it is possible that U.S. Mills might be responsible for a larger portion of the remediation than previously anticipated. The total estimated cost set forth in the ROD for remediation of OU 4 was approximately $257.5 million and the estimated cost of monitoring OU 5 was approximately $40 million (a 2007 amendment to the ROD estimated the cost of OUs 2 5 at $390 million). There are two alleged PRPs located in OU 4 (of which the smaller is the plant owned by U.S. Mills). It is possible that U.S. Mills and the owners of the other plant, together with NCR, the original generator of the carbonless copy paper, could be required to bear a majority of the remediation costs of OU 4, and share with other PRPs the cost of monitoring OU 5. U.S. Mills has discussed possible remediation scenarios with other PRPs who have indicated that they expect U.S. Mills to bear an unspecified but meaningful share of the costs of OU 4 and OU 5.

In February 2007, the EPA and WDNR issued a general notice of potential liability under CERCLA and a request to participate in remedial action implementation negotiations relating to OUs 2 5 to eight PRPs, including U.S. Mills. The notice requested that the PRPs indicate their willingness to participate in negotiations concerning performance of the remaining elements of the remedial action for OUs 2 5 and the resolution of the government entities claims for unreimbursed costs and natural resource damages. On April 9, 2007, U.S. Mills, in conjunction with other PRPs, presented to the EPA and the WDNR a proposed schedule to mediate the allocation issues among eight PRPs, including U.S. Mills. Non-binding mediation began in May 2007. The mediation is continuing; however, no agreement among the parties has yet occurred.

On November 13, 2007, the EPA issued a unilateral Administrative Order for Remedial Action pursuant to Section 106 of CERCLA. The order requires U.S. Mills and the seven other respondents to jointly take various actions to clean up OUs 2 5. The order establishes two phases of work. The first phase consists of planning and design work as well as preparation for dredging and other remediation work and must be completed by December 31, 2008. The second phase consists primarily of dredging and disposing of contaminated sediments and the capping of dredged and less contaminated areas of the river bottom. The second phase is required to begin in 2009 when weather conditions permit and is expected to continue for several years. The order also provides for a $32,500 per day penalty for failure by a respondent to comply with its terms as well as exposing a non-complying respondent to potential treble damages. Although U.S. Mills has reserved its rights to contest liability for any portion of the work, it is cooperating with the other respondents to comply with the first phase of the order.

The mediation proceedings caused U.S. Mills to revise its estimate during 2007 of the range of loss probable to be incurred in connection with the remediation of OUs 2 5. Based on information currently available, there is no amount within the range that appears to be a better estimate than any other. Accordingly, pursuant to applicable accounting rules, U.S. Mills recorded a charge of $20 million in the second quarter of 2007 representing the minimum estimated amount of potential loss U.S. Mills believes it is likely to incur. Developments since that time, including the ongoing mediation and issuance of the Administrative Order, have not provided U.S. Mills with a reasonable basis for further revising its estimate of the range of possible loss. Because U.S. Mills has not yet been able to estimate with any certainty the portion of the total remediation costs that it might have to bear, reserves to account for the potential additional liability have not been increased at this point.

The actual costs associated with cleanup of the Fox River site are dependent upon many factors and it is reasonably possible that total remediation costs could be higher than the current estimates of project costs which range from $390 million to more than $600 million for OUs 2 5. Some, or all, of any costs incurred by U.S. Mills may be covered by insurance, or may be subject to recoupment from other parties, but no amounts have been recognized in the financial statements of the Company for any such recovery. Given the ongoing remedial design work being conducted, and the initial stages of remediation, it is possible there could be some additional changes to some elements of the reserve within the next year or thereafter, although that is difficult to predict.

Similarly, U.S. Mills does not have a basis for estimating the possible cost of any natural resource damage claims against it. Accordingly, reserves have not been increased for this potential liability. However, for the entire river remediation project, the lowest estimate in the Governments 2000 report on natural resource damages was $176 million.

In addition to its potential liability for OUs 4 and 5, U.S. Mills may have a contingent liability to Menasha Corporation to indemnify it for any amount for which it may be held liable in excess of insurance coverage for any environmental liabilities of a plant on OU 1 that U.S. Mills purchased from Menasha. Due to the uncertainty of Menasha s liability and the extent of the insurance coverage as well as any defenses that may be asserted to any such claim, U.S. Mills has not established a reserve for this contingency.

In any event, because the discharges of hazardous materials into the environment occurred before the Company acquired U.S. Mills, and U.S. Mills has been operated as a separate subsidiary of the Company, the Company does not believe that it has any liability for the liabilities of U.S. Mills. Accordingly, as stated above, the Company does not believe it is probable that the effect of U.S. Mills Fox River liabilities, along with any claims against the Company, would result in a pre-tax loss that would materially exceed the net worth of U.S. Mills, which was approximately $80 million at December 31, 2007.

Additional information regarding legal proceedings is provided in Note 13 to the Consolidated Financial Statements of this Annual Report on Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock is traded on the New York Stock Exchange under the stock symbol SON. As of December 31, 2007, there were approximately 38,000 shareholder accounts. Information required by Item 201(d) of Regulation S-K can be found in Part III, Item 12 of this Annual Report on Form 10-K. The following table indicates the high and low sales prices of the Company s common stock for each full quarterly period within the last two years as reported on the New York Stock Exchange, as well as cash dividends declared per common share:

	High	*Low*	*Cash Dividends*
2007			
First Quarter	**$ 38.90**	**$ 36.19**	**$ .24**
Second Quarter	**$ 44.91**	**$ 38.10**	**$ .26**
Third Quarter	**$ 44.75**	**$ 29.65**	**$ .26**
Fourth Quarter	**$ 34.76**	**$ 28.45**	**$ .26**
2006			
First Quarter	$ 34.75	$ 28.76	$ .23
Second Quarter	$ 34.75	$ 29.45	$ .24
Third Quarter	$ 34.75	$ 30.30	$ .24
Fourth Quarter	$ 38.71	$ 33.10	$ .24

The Company did not make any unregistered sales of its securities during 2007, and did not purchase any of its securities during the fourth quarter of 2007.

Item 6. Selected Financial Data

The following table sets forth the Company s selected consolidated financial information for the past five years. The information presented below should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K and the Company s historical Consolidated Financial Statements and the Notes thereto included in Item 8 of this Annual Report on Form 10-K. The selected statement of income data and balance sheet data are derived from the Company s Consolidated Financial Statements.

	Years ended December 31				
(Dollars and shares in thousands except per share data)	*2007*	*2006*	*2005*	*2004*	*2003*
Operating Results					
Net sales	**$ 4,039,992**	$ 3,656,839	$ 3,528,574	$ 3,155,433	$ 2,758,326
Cost of sales and operating expenses	**3,695,917**	3,310,751	3,232,590	2,897,046	2,549,726
Restructuring and impairment charges	**36,191**	25,970	21,237	18,982	50,056
Interest expense	**61,440**	51,952	51,559	47,463	52,399
Interest income	**(9,182)**	(6,642)	(7,938)	(5,400)	(2,188)
Income before income taxes	**255,626**	274,808	231,126	197,342	108,333
Provision for income taxes	**55,186**	93,329	84,174	58,858	37,698
Equity in earnings of affiliates/minority interest, net of tax	**13,716**	13,602	14,925	12,745	7,543
Income from continuing operations	**214,156**	195,081	161,877	151,229	78,178
Income from discontinued operations, net of income taxes[1]					60,771
Net income available to common shareholders	**$ 214,156**	$ 195,081	$ 161,877	$ 151,229	$ 138,949
Per common share					
Net income available to common shareholders:					
Basic	**$ 2.13**	$ 1.95	$ 1.63	$ 1.54	$ 1.44
Diluted	**2.10**	1.92	1.61	1.53	1.43
Cash dividends common	**1.02**	.95	.91	.87	.84
Weighted average common shares outstanding:					
Basic	**100,632**	100,073	99,336	98,018	96,819
Diluted	**101,875**	101,534	100,418	98,947	97,129
Actual common shares outstanding at December 31	**99,431**	100,550	99,988	98,500	96,969
Financial Position					
Net working capital	**$ 269,598**	$ 282,974	$ 265,014	$ 282,226	$ 75,671
Property, plant and equipment, net	**1,105,342**	1,019,594	943,951	1,007,295	923,569
Total assets	**3,340,243**	2,916,678	2,981,740	3,041,319	2,520,633
Long-term debt	**804,339**	712,089	657,075	813,207	473,220
Total debt	**849,538**	763,992	781,605	906,961	674,587
Shareholders equity	**1,441,537**	1,219,068	1,263,314	1,152,879	1,014,160
Current ratio	**1.4**	1.4	1.4	1.4	1.1
Total debt to total capital[2]	**35.8%**	37.5%	35.7%	40.7%	36.4%

1 Income from discontinued operations, net of income taxes, includes the operating results for the High Density Film business, which was sold in 2003.

2 Calculated as Total Debt divided by the sum of Total Debt, Shareholders Equity and Long-term Deferred Tax Liability.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

General Overview

Sonoco is a leading manufacturer of consumer and industrial packaging products and provider of packaging services with 334 locations in 35 countries. The Company s operations are organized and reported in three segments, Consumer Packaging, Tubes and Cores/Paper and Packaging Services, while a number of smaller businesses are discussed as All Other Sonoco. Generally, the Company serves two broad end-use markets: consumer and industrial. Consumer and industrial sales are split approximately 52% and 48% , respectively. Geographically, approximately 62% of sales are generated in the United States, 18% in Europe, 10% in Canada and 10% in other regions.

The Company is a market-share leader in many of its product lines, particularly in tubes, cores and composite containers and competition in most of the Company s businesses is intense. Demand for the Company s products and services is primarily driven by the overall level of consumer consumption of non-durable goods, however, certain product groups are tied more directly to durable goods, such as appliances, and construction.

While overall market conditions have been relatively stable over the past several years in consumer markets, declining domestic textile and paper markets have negatively impacted the Company s industrial businesses. Currently, for many of our businesses, marginal capacity in the industry works to restrain the pricing ability of all market participants.

Strategy and Opportunities

Financially, the Company s objective is to deliver average annual double-digit total returns to shareholders over time. To meet that target, the Company focuses on three major areas: driving profitable sales growth, improving margins, and leveraging the Company s strong cash flow and financial position. Operationally, the goal is to be the low-cost global leader in customer-preferred packaging solutions within targeted customer market segments.

In December 2007, the Company announced its current five-year plan to grow revenue, improve margins and more effectively utilize assets. The new five-year plan continues the Company s recent focus on growing its consumer-related business faster than the industrial-related business, with the goal of transitioning the overall mix of business to approximately 60% consumer and 40% industrial by 2012.

The Company s primary growth drivers are increasing organic sales, geographic expansion, providing total packaging solutions for customers and strategic acquisitions. Over the next five years, revenue growth is expected to be equally split between organic and acquisitions. Much of the organic growth is expected to occur in the form of new products. The five-year plan targets average annual sales from new products (those commercialized for two years or less) at $100 million to $150 million. Sales from new products were $100 million in 2007 and $111 million in 2006.

The Company s plan to improve margins focuses on leveraging fixed costs, improving productivity, maintaining a positive price/cost relationship (raising selling price at least enough to recover cost inflation plus a reasonable margin), improving underperforming operations and effectively utilizing capital.

Results of Operations

2007 Overview

In 2007, Sonoco achieved records in sales and net income. This was accomplished despite significant increases in raw material and other costs and a slowing economy in North America. In addition, the Company generated another year of record productivity improvements and strong cash flow, which was invested in growing the business and returning value to shareholders through increased dividends and stock repurchases.

In 2007, sales grew 10.5%, or $383 million, primarily due to acquisitions, increased selling prices and foreign exchange rates. The Tubes and Cores/Paper segment provided 49% of the total increase in revenue, the Consumer Packaging segment provided 35% and the Packaging Services segment provided 16%. Sales in All Other Sonoco were essentially flat year-over-year. Acquisitions accounted for $207 million, or 54%, of the year-over-year sales increase.

The Company reported net income of $214.2 million for 2007, compared with $195.1 million for 2006. Current year earnings benefited from a notably lower effective tax rate and were negatively affected by after-tax asset impairment and restructuring-related charges of $25.4 million, compared with $20.9 million in 2006. Current year results also include a $14.8 million after-tax charge for environmental costs.

Selling price increases were exceeded by increases in the costs of labor, material, freight and energy, while lower volumes and an unfavorable change in the mix of business more than offset productivity improvements in virtually all of the Company s businesses. This resulted in gross profit margins declining to 18.7%, compared with 19.3% in 2006; however, net income margin remained flat due to a reduction in the overall effective tax rate.

Outlook

While revenues are expected to continue to increase in 2008, the outlook for the North American economy is very uncertain and a significant slowdown or decline could affect the Company s business accordingly. Although market share is expected to hold, overall demand for tubes and cores, specifically in North America, is expected to remain weak. Margins in the Consumer Packaging segment are expected to improve. Higher volume and productivity improvements in flexible packaging, and new products and customers in rigid plastic containers, are expected to lead to higher sales and operating profits for that segment.

The current high cost of old corrugated containers (OCC), other raw materials, and energy is expected to continue at least into the first half of 2008, which will continue to put pressure on margins. The Company will seek to offset any significant cost inflation through price adjustments. To that end, in January 2008, the Company announced a price increase for paper-based tubes and cores in the United States and Canada. Productivity improvements and strong cost controls are expected to help maintain or slightly increase margins in what is expected to be a tough cost and pricing environment in 2008.

The consolidated effective tax rate, which was 21.6% in 2007, is expected to be approximately 32% in 2008.

Restructuring Charges, Unusual Items and Other Activities

RESTRUCTURING/ASSET IMPAIRMENT CHARGES

During 2007, the Company recognized restructuring and asset impairment charges totaling $36.2 million ($25.4 million after tax). These charges resulted primarily from closing the following facilities: a metal ends plant in Brazil; two rigid packaging plants, one in the United States and one in Germany; rigid packaging production lines in the United Kingdom; two paper mills, one in China and one in France; three tube and core plants, one in the United States and two in Canada; two molded plastics plants, one in the United States and one in Turkey; and a point-of-purchase display manufacturing plant in the United States. Five of these closures were not part of a formal restructuring plan. The remainder of the closures were part of restructuring plans announced in 2006 and 2003. The charges were comprised of severance and termination benefits of $11.9 million, other exit costs of $7.6 million, and asset impairment charges of $16.7 million. Other exit costs consist of building lease termination charges and other miscellaneous costs related to closing these facilities. Asset impairment charges related primarily to the closures of the metal ends plant in Brazil and the rigid packaging plant in the United States. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2006, pursuant to restructuring plans announced in 2006 and 2003, the Company recognized restructuring and asset impairment charges totaling $26.0 million ($21.3 million after tax). These charges resulted primarily from the following plant closures: a paper mill in France; four tube and core plants, three in the United States and one in Canada; two flexible packaging operations, one in the United States and one in Canada; a wooden reels facility in the United States; and a molded plastics operation in the United States. In addition, the charges reflect the impact of downsizing actions primarily in the Company s European tubes and cores/paper operations. These charges were comprised of severance and termination benefits of $11.8 million, other exit costs of $6.4 million, and asset impairment charges of $7.8 million. Other exit costs consist of building lease termination charges and other miscellaneous costs related to closing these facilities. Asset impairment charges related primarily to the closure of the paper mill in France. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2005, pursuant to a restructuring plan announced in 2003, the Company recognized restructuring and asset impairment charges totaling $21.2 million ($14.3 million after tax) resulting from 11 plant closings in the Tubes and Cores/Paper segment and three plant closings in the Consumer Packaging segment. These charges consisted of severance and termination benefits of $6.2 million, other exit costs of $8.5 million, and asset impairment charges of $6.5 million. Other exit costs consist of building lease termination charges and other miscellaneous costs related to closing these facilities. Of the asset impairment charges, $5.9 million related to equipment impaired as a result of the plant closures, and $0.6 million related to buildings. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable. In addition to the above charges, the Company incurred a non-restructuring asset impairment charge of $3.0 million related to a paper mill in China. This charge was included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income.

The Company also recorded non-cash, after-tax income in the amount of $0.1 million in 2007, $0.4 million in 2006 and $1.3 million in 2005 to reflect a minority shareholder s portion of restructuring costs that were charged to expense. This income is included in Equity in earnings of affiliates/minority interest in subsidiaries, net of tax in the Company s Consolidated Statements of Income.

The Company expects to recognize future additional restructuring costs of approximately $12 million associated with the 2007 restructuring actions and the 2006 restructuring plan. The Company does not expect to recognize any future additional restructuring costs under the 2003 plan.

ACQUISITIONS/JOINT VENTURES

The Company completed four acquisitions during 2007, and purchased the remaining 51.1% interest in a small joint venture in Europe, at an aggregate cost of $236.3 million, all of which was paid in cash. Acquisitions made in the Consumer Packaging segment included Matrix Packaging, Inc., a leading manufacturer of custom-designed blow molded rigid plastic containers and injection molded products with operations in the United States and Canada, and the fiber and plastic container business of Caraustar Industries, Inc. Additional acquisitions in 2007 consisted of a small tube and core business in Mexico, which is included in the Tubes and Cores/Paper segment, and a small protective packaging business in the United States, which is included in All Other Sonoco. The Company also purchased the remaining 51.1% interest in AT-Spiral OY, a European tubes and cores joint venture. Annual sales from these acquisitions are expected to total approximately $200 million. As these acquisitions were not material to the Company s financial statements individually or in the aggregate, pro forma results have not been provided.

The Company completed six acquisitions during 2006, and purchased the remaining 35.5% minority interest of its Sonoco-Alcore S.a.r.l. joint venture, at an aggregate cost of $227.3 million, all of which was paid in cash. Annual sales from these acquisitions, excluding the joint venture interest, are expected to total $130 million. The Company had previously consolidated the joint venture, which was included in the Tubes and Cores/Paper segment, so no additional reported sales resulted from the purchase of the remaining interest.

In 2005, the Company completed three minor acquisitions with an aggregate cost of $3.6 million, all of which was paid in cash.

DISPOSITIONS

In December 2005, the Company divested its single-plant folding cartons business for a note receivable of approximately $11.0 million, which was collected in early 2006. This trans-

action 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.

OTHER SPECIAL CHARGES, INCOME ITEMS AND CONTINGENCIES

In 2007, U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, recorded charges totaling $25.2 million ($14.5 million after tax) in association with environmental remediation liabilities for various sites in the lower Fox River in Wisconsin. In 2005, U.S. Mills recorded a $12.5 million charge ($7.6 million after tax) related to one of the sites. The charges are included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income.

The 2005 charge and $5.2 million of the 2007 charge related to a particular site on the lower Fox River in which remediation of PCB-contaminated sediments has already begun. The total charge of $17.7 million represents the Company s best estimate of what it is likely to pay to complete the project; however, the actual costs associated with remediation of this particular site are dependent upon many factors, and it is possible that actual costs could exceed current estimates. The Company acquired U.S. Mills in 2001, and the identified contamination predates the acquisition. Some or all of any costs incurred may be covered by insurance or be recoverable from third parties; however, there can be no assurance that such claims for recovery will be successful. Accordingly, no amounts have been recognized in the financial statements for such recovery.

In February 2007, U.S. Mills and seven other potentially responsible parties received a general notice of potential liability under CERCLA from the Environmental Protection Agency (EPA) and the Wisconsin Department of Natural Resources relating to a stretch of the lower Fox River, including the bay at Green Bay. The contamination referred to in this notice covers a vastly larger area than the site referred to in the paragraph above. Mediation proceedings between the potentially responsible parties to allocate the liability began in the second quarter of 2007. As a result of these proceedings, U.S. Mills revised its estimate of the range of loss probable to be incurred by it in association with the additional remediation. Accordingly, a charge of $20 million was recorded in the second quarter of 2007. This charge represents the minimum estimated amount of potential loss U.S. Mills believes it is likely to incur. Developments since the second quarter, including ongoing mediation and a unilateral Administrative Order for Remedial Action issued by the EPA in November 2007 against the eight potentially responsible parties, have not yet provided U.S. Mills with a reasonable basis for further revising its estimate of the range of possible loss. Although U.S. Mills ultimate share of the liability could conceivably exceed its net worth, the Company believes the maximum additional exposure to Sonoco s consolidated financial position is limited to the equity position of U.S. Mills which was approximately $80 million as of December 31, 2007, excluding any tax benefits that may reduce the net charge. For a more detailed discussion of the Fox River environmental matters, see Item 3. Legal Proceedings above.

During 2005, the Company repatriated $124.7 million 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. Although the effective tax rate on the repatriated funds was lower than it would have otherwise been absent the AJCA, the repatriation resulted in the recognition of additional U.S. federal and state income taxes totaling $10.1 million.

Results of Operations 2007 versus 2006

OPERATING REVENUE

Consolidated net sales for 2007 were $4.04 billion, a $383 million, or 10.5%, increase over 2006.

The components of the sales change were:

($ in millions)	
Acquisitions (net of dispositions)	$ 192
Currency exchange rate	109
Selling price	88
Volume/Mix	(6)
Total sales increase	$ 383

Prices were higher throughout the Company, with the exceptions of flexible packaging and point-of-purchase and fulfillment operations, as the Company was able to implement price increases to offset the impact of higher costs of labor, energy, freight and materials. Companywide volume, excluding service center revenue, which was on a pass-through basis, decreased approximately 1.0% from 2006 levels driven by decreases in the Tubes and Cores/Paper and Consumer Packaging segments, partially offset by volume increases in point-of purchase displays. Domestic sales were $2.5 billion, up 7.6% from 2006. International sales were $1.5 billion, up 15.7% over 2006, driven primarily by the impact of acquisitions and currency translation.

COSTS AND EXPENSES

Selling, general and administrative expenses as a percentage of sales increased to 10.1% during the year from 9.8% in 2006, primarily as a result of the previously mentioned $25.2 million U.S. Mills environmental charge. Stock-based compensation expense associated with the issuance of stock-settled stock appreciation rights totaled $4.0 million and $4.1 million in 2007 and 2006, respectively. Recognition of this expense is required under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, which the Company adopted effective January 1, 2006. Current year results also include the recovery from a third party of $5.5 million in certain benefit costs.

In 2007, aggregate pension and postretirement expense decreased $9.9 million to $34.2 million, versus $44.1 million in 2006. This reduction was partially offset by a $3.5 million increase in defined contribution plan costs. The Company expects these expenses to decrease by approximately $7 million in 2008. The return on assets of U.S.- based defined

benefit plans was 8.4% in 2007 and 13.9% in 2006. Over time, investment returns on benefit plan assets impact the Company s cost of providing pension and postretirement benefits.

Operating profits also reflect restructuring and asset impairment charges of $36.2 million and $26.0 million in 2007 and 2006, respectively. These items are discussed in more detail in the section above titled, Restructuring Charges, Unusual Items and Other Activities.

Research and development costs, all of which were charged to expense, totaled $15.6 million and $12.7 million in 2007 and 2006, respectively. Management expects research and development spending in 2008 to be consistent with these levels.

Net interest expense totaled $52.3 million for the year ended December 31, 2007, compared with $45.3 million in 2006. The increase was due primarily to higher average debt levels resulting from acquisitions and stock buybacks.

The 2007 effective tax rate was 21.6%, compared with 34.0% in 2006. The year-over-year decrease in the effective tax rate, which added approximately $32 million to reported net income, was due primarily to the release of tax reserves on expiration of statutory assessment periods, foreign tax rate reductions and improved international results. Included in the effective tax rate for 2006 was the impact of a $5.3 million benefit associated with entering into favorable tax agreements with state tax authorities and closing state tax examinations for amounts less than originally anticipated. The 2006 benefits were partially offset by a $4.9 million impact resulting from restructuring charges for which a tax benefit could not be recognized.

The estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonable foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitations on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates. As a result, the effective tax rate may fluctuate significantly on a quarterly basis.

REPORTING SEGMENTS

Consolidated operating profits, also referred to as Income before income taxes on the Consolidated Statements of Income, are comprised of the following:

($ in millions)	*2007*	*2006*	*% Change*
Consumer Packaging segment	**$ 104.5**	$ 109.6	(4.7)%
Tubes and Cores/Paper segment	**143.7**	148.2	(3.0)%
Packaging Services segment	**44.5**	39.2	13.5%
All Other Sonoco	**51.4**	49.1	4.6%
Restructuring and related impairment charges	**(36.2)**	(26.0)	(36.9)%
Interest expense, net	**(52.3)**	(45.3)	(15.3)%
Consolidated operating profits	**$ 255.6**	$ 274.8	(7.0)%

Segment results viewed by Company management to evaluate segment performance do not include restructuring and impairment charges and net interest charges. Accordingly, the term segment operating profits is defined as the segment s portion of Income before income taxes excluding restructuring charges, asset impairment charges and net interest expense. 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 15 to the Company s Condensed Consolidated Financial Statements for more information on reportable segments.

Consumer Packaging

($ in millions)	*2007*	*2006*	*% Change*
Trade sales	**$ 1,438.1**	$ 1,304.8	10.2%
Segment operating profits	**104.5**	109.6	(4.7)%
Depreciation, depletion and amortization	**66.5**	55.1	20.7%
Capital spending	**74.2**	48.2	54.1%

Sales in this segment increased due to the impact of acquisitions, increased selling prices of composite cans and closures and favorable exchange rates, as the dollar weakened against foreign currencies. These favorable impacts were partially offset by lower volume in composite cans along with lower volume and lower selling prices in flexible packaging. Overall volumes, excluding the impact of acquisitions, were down 1% in the segment. Domestic sales were approximately $1,027 million, up 11.0% from 2006, and international sales were approximately $411 million, up 8.3% from 2006.

Segment operating profits decreased primarily due to price and volume declines in flexible packaging, along with volume declines in composite cans. These unfavorable factors exceeded the impact of productivity and purchasing initiatives and acquisitions. While the Company was able to increase selling prices in all operations except for flexible packaging, it was unable to offset increased costs of energy, freight, material and labor. High startup costs at the Company s rigid plastics container plants in Wisconsin and Ohio also dampened operating profits in the segment, as did operational issues at the closures plant in Brazil. The Wisconsin plant will cease operations at the end of the first quarter of 2008, while the Brazilian plant has already been closed.

Significant capital spending included increasing rigid plastic production capacity in the United States and productivity projects throughout the segment.

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Tubes and Cores/Paper

($ in millions)	2007	2006	% Change
Trade sales	**$ 1,712.0**	$ 1,525.6	12.2%
Segment operating profits	**143.7**	148.2	(3.0)%
Depreciation, depletion and amortization	**91.2**	85.9	6.2%
Capital spending	**75.7**	63.3	19.5%

The increase in sales was due to increased selling prices throughout the segment, the impact of acquisitions and the effect of favorable exchange rates. Lower domestic tube and core volume was partially offset by increased volume in the Company s European operations. Overall, volume in the segment, excluding the impact of acquisitions, decreased by approximately 2%. Domestic sales increased approximately $52 million, or 6.8%, to approximately $825 million and international sales increased approximately $134 million, or 17.8% to approximately $887 million. International sales increased primarily as a result of the late 2006 acquisition of the remaining 75% interest in Demolli Industria Cartaria S.p.A, an Italy-based manufacturer of tubes, cores and paperboard.

Segment operating profits were unfavorably impacted by a charge of $25.2 million related to an increase in the environmental reserve at a Company subsidiary s paper operations in Wisconsin. See Other Special Charges, Income Items and Contingencies above for a discussion of this claim. In addition, lower volume and increases in the costs of energy, freight, material and labor had a negative impact on segment profitability. Partially offsetting these items were productivity and purchasing initiatives and higher selling prices, along with the impact of acquisitions.

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

Packaging Services

($ in millions)	2007	2006	% Change
Trade sales	**$ 518.8**	$ 456.8	13.6%
Segment operating profits	**44.5**	39.2	13.5%
Depreciation, depletion and amortization	**11.8**	11.9	(0.8)%
Capital spending	**3.7**	3.4	6.8%

Sales increased due to higher volumes throughout the segment, which more than offset lower selling prices in point-of-purchase and fulfillment operations related to recent competive bidding activity. Domestic sales increased to approximately $374 million, an 8.5% increase, while international sales increased to approximately $144 million, up 29.1%, primarily as a result of increased service center volume in Poland.

The increase in segment operating profits is attributable to volume increases in point-of-purchase and fulfillment operations along with productivity and purchasing initiatives. The service centers sales increase had very little impact on profits, as these sales were on a pass-through basis with no significant additional gross margin. Partially offsetting these favorable factors were the selling price declines discussed above.

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

All Other Sonoco

($ in millions)	2007	2006	% Change
Trade sales	**$ 371.1**	$ 369.7	0.4%
Operating profits	**51.4**	49.1	4.6%
Depreciation, depletion and amortization	**11.8**	12.0	(1.2)%
Capital spending	**15.9**	8.4	89.4%

Sales for All Other Sonoco increased slightly as price increases, the impact of acquisitions and the effect of favorable exchange rates were nearly offset by lower volumes in molded plastics and wire and cable reels. Domestic sales were approximately $294 million, down 2.2% from 2006, and international sales were approximately $77 million, an increase of 11.9%.

Operating profits in All Other Sonoco increased due primarily to manufacturing productivity and purchasing initiatives, although they were partially offset by the impact of the volume declines. Through higher selling prices, the Company was able to recover increases in raw material costs but not higher costs of energy, freight and labor.

Capital spending included investing in productivity and customer development projects in the United States and Asia 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 $445.1 million in 2007, compared with $482.6 million in 2006. Operating cash flows in both years benefited from companywide initiatives aimed at reducing working capital, but to a lesser extent in 2007. The projected benefit obligation of the U.S. Defined Benefit Pension Plan was fully funded as of December 31, 2007. The Company froze participation for newly hired salaried and non-union hourly U.S. employees effective December 31, 2003. Based on the current actuarial estimates, the Company anticipates that the total 2008 contributions made to its benefit plans will be comparable to 2007 levels which were approximately $17 million. However, no assurances can be made about funding requirements beyond 2008, as they will depend largely on actual investment returns and future actuarial assumptions.

Cash flows used by investing activities increased from $332.1 million in 2006 to $379.6 million in 2007. The Company invested $236.3 million in four acquisitions and the purchase of the remaining minority interest in a European tube and core joint venture in 2007. This was comparable to the level of acquisition spending in 2006. As part of its growth strategy, the Company is actively seeking acquisition opportunities and the level of acquisition spending in any given year will depend on the size and number of suitable candidates identified and

the Company s success at closing the transactions. Capital spending increased by $46.1 million to $169.4 million in 2007 from $123.3 million in 2006. Capital spending is expected to return to more historic levels of approximately $125 million to $130 million in 2008.

Net cash used by financing activities totaled $75.0 million in 2007, compared with $125.7 million in 2006. Cash dividends increased 8.3% to $102.6 million during 2007. Net borrowings increased $78.7 million, primarily in connection with acquisition activities. During 2007, the Company acquired 3.0 million shares of Sonoco common stock at a cost of $109.2 million and issued shares through the exercise of previously awarded stock options for proceeds of $49.7 million.

Current assets increased by $84.9 million to $1,027.7 million at December 31, 2007. This increase is largely attributable to higher levels of inventory and accounts receivable stemming from 2007 acquisitions. Current liabilities increased by $98.3 million to $758.1 million at December 31, 2007. This increase was due to higher accounts payable, accrued wages and taxes payable, partially offset by decreases in notes payable. The current ratio was 1.4 at December 31, 2007 and 2006.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits, and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both.

CONTRACTUAL OBLIGATIONS

The following table summarizes contractual obligations at December 31, 2007:

				Payments Due In		
($ in millions)	*Total*	*2008*	*2009-2010*	*2011-2012*	*Beyond 2012*	*Uncertain*
Debt obligations	$ 850.0	$ 45.2	$ 109.0	$ 180.8	$ 515.0	$
Interest payments[1]	283.2	38.0	75.6	61.3	108.3	
Operating leases	139.4	32.9	47.0	28.4	31.1	
Environmental remediation (U.S. Mills)[2]	29.0	9.0				20.0
FIN 48[2]	40.0					40.0
Purchase obligations[3]	289.6	23.7	47.4	38.5	180.0	
Total contractual obligations	$ 1,631.2	$ 148.8	$ 279.0	$ 309.0	$ 834.4	$ 60.0

[1] Includes interest payments on outstanding fixed-rate, long-term debt obligations as well as financing fees on the backstop line of credit.

[2] Due to the nature of this obligation, the Company is unable to estimate the timing of the cash outflows.

[3] 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.

CAPITAL RESOURCES

The Company s total debt, including the impact of foreign exchange rates, increased by $85.5 million to $849.5 million at December 31, 2007.

The Company currently operates a commercial paper program totaling $500 million and has a fully committed bank line of credit supporting the program by a like amount. On May 3, 2006, the Company entered into an amended and restated credit agreement to extend its bank line of credit to a new five-year maturity. The amended and restated credit agreement also provided the Company the option to increase its credit line from $350 million to $500 million subject to the concurrence of its lenders. The Company exercised this option and increased the credit line to $500 million on May 29, 2007. The Company intends to indefinitely maintain line of credit agreements fully supporting its commercial paper program. At December 31, 2007, the amount of the Company s outstanding commercial paper was $169 million, compared with $89 million at December 31, 2006. Consistent with the maturity of the supporting line of credit, the Company classifies outstanding commercial paper balances as long-term debt.

On January 2, 2008, the Company prepaid its 6.125% Industrial Revenue Bond (IRB) for $35.1 million. The Company intends to prepay its 6.0% IRB in the second quarter of 2008 for $35.4 million. The prepayment of these two bond issues is expected to result in an after-tax charge totaling approximately $1.3 million.

One of the Company s primary growth strategies is growth through acquisitions. The Company believes that cash on hand, cash generated from operations, and the available borrowing capacity under its amended and restated credit agreement will enable it to support this strategy. Although the Company currently has no intent to do so, it may obtain additional financing in order pursue its growth strategy. Although the Company believes that it has excess borrowing capacity beyond its current lines, there can be no assurance that such financing would be available or, if so, at terms that are acceptable to the Company.

The Company s U.S.-based qualified defined benefit pension plan, and certain of the Company s Canadian defined benefit plans, had a positive funded status totaling $41.4 million at December 31, 2007. None of the Company s other defined benefit plans were fully funded. The cumulative unfunded liability of these plans at December 31, 2007, totaled $132.3 million.

Shareholders equity increased $222.5 million during 2007. The increase resulted mainly from net income of $214.2 million in 2007, stock option exercises of $59.8 million, a foreign currency translation gain of $95.4 million, and defined benefit plan adjustments, net of tax, of $59.0 million, offset by cash dividends of $102.7 million, and the repurchase of $109.2 million of the Company s common stock. Shareholders equity decreased $44.2 million during 2006.

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The decrease resulted mainly from net income of $195.1 million in 2006, stock option exercises of $82.7 million, and a foreign currency translation gain of $37.2 million, which were more than offset by cash dividends of $94.7 million, the repurchase of $82.7 million of the Company s common stock, and a $181.4 million adjustment, net of tax, from the initial application of FASB Statement No. 158.

On April 19, 2006, the Company s Board of Directors authorized the repurchase of up to 5.0 million shares of the Company s common stock. The new authorization rescinded all previous authorizations and does not have a specific expiration date. During 2007, the Company purchased a total of 3.0 million shares of its common stock under this authorization at a total cost of $109.2 million. The Board of Directors has approved the reinstatement of those shares to the original authorization. Accordingly, 5.0 million shares remain available for purchase under this authorization at December 31, 2007. During 2006, the Company repurchased 2.5 million shares of Sonoco common stock for approximately $82.7 million, under previously existing authorizations.

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 $1.02 in 2007, $.95 in 2006 and $.91 in 2005. On February 6, 2008, the Company declared a regular quarterly dividend of $.26 per common share payable on March 10, 2008, to shareholders of record on February 22, 2008.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no material off-balance sheet arrangements at December 31, 2007.

RISK MANAGEMENT

As a result of operating globally, the Company is exposed to 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 the risks 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 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. No such instruments were outstanding at December 31, 2007.

The Company is a purchaser of various inputs such as recovered paper, energy, steel, aluminum and resin. The Company does not engage in significant hedging activities, other than for energy, because there is usually a high correlation between the primary input costs and the ultimate selling price of its products. Inputs 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 input price is less direct, the Company may enter into derivative contracts such as futures or swaps to reduce the effect of price fluctuations.

At the end of 2007, the Company had contracts outstanding to fix the costs of a portion of commodity, energy and foreign exchange risks for 2008 through December 2010. The swaps qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). Of these, the Company had swaps to cover approximately 6.1 million MMBTUs of natural gas. The hedged natural gas quantities at this date represent approximately 69%, 44% and 19% of anticipated U.S. and Canadian usage for 2008, 2009 and 2010, respectively. The use of derivatives to hedge other commodities or foreign exchange was not material as of that date.

The fair market value of derivatives was a net unfavorable position of $2.4 million ($1.5 million after tax) at December 31, 2007, and a net unfavorable position of $3.2 million ($2.1 million after tax) at December 31, 2006. 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 9 to the Consolidated Financial Statements for more information on financial instruments.

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. The Company has accrued $31.1 million (including $29.0 million associated with U.S. Mills) at December 31, 2007, compared with $15.3 million at December 31, 2006 (including $11.7 million associated with U.S. Mills), with respect to these sites. See Other Special Charges, Income Items and Contingencies , Item 3 Legal Proceedings, and Note 13 to the Consolidated Financial Statements for more information on environmental matters.

Results of Operations 2006 versus 2005

Net income for 2006 was $195.1 million, compared with $161.9 million in 2005. The year-over-year increase is largely attributable to higher operating profits on improved productivity and increased selling prices. Gross profit margin improved to 19.3%, compared with 18.7% in 2005. Also contributing to the year-over-year net income improvement was the net effect of fewer special charges and the impact of additional U.S. federal and state income taxes recorded in 2004 totaling $10.1 million associated with the repatriation of $124.7 million from foreign subsidiaries under the provisions of the American Jobs Creation Act of 2004 (AJCA).

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OPERATING REVENUE

Consolidated net sales for 2006 were $3.66 billion, a $128 million, or 3.6%, increase over 2005.

The components of the sales change were:

($ in millions)	
Volume	$ 41
Selling price	51
Currency exchange rate	39
Acquisitions (net of dispositions)	(4)
Other	1
Total sales increase	$ 128

Prices were higher throughout the Company, with the exception of recovered paper operations, as the Company was able to implement price increases to offset the impact of higher costs of labor, energy, freight and materials. Companywide volume, excluding service center revenue, which was on a pass-through basis, increased slightly less than 1.0% from 2005 levels driven by increases in the Tubes and Cores/Paper and Consumer Packaging segments. Domestic sales were $2.3 billion, up 2.3% from 2005. International sales were $1.3 billion, up 6.2% over 2005, driven primarily by the impact of currency translation.

COSTS AND EXPENSES

In 2006, defined-benefit pension and postretirement expense increased $1.1 million to $44.1million, versus $43.0 million in 2005. The return on assets of U.S.-based defined-benefit plans was 13.9% in 2006 and 7.2% in 2005. The Company s U.S.-based qualified defined-benefit pension plan had a positive funded status of $9 million at December 31, 2006. None of the Company s other defined-benefit plans were fully funded as of December 31, 2006. The cumulative unfunded liability of these plans at December 31, 2006, was $229 million. The Company s total expense under its defined-contribution plan was $1.2 million in 2006 and $0.4 million in 2005.

On January 1, 2006, the Company implemented certain changes to its U.S.-based retiree medical benefits 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 current retirees and all future retirees. These changes resulted in a reduction to the accumulated postretirement benefit obligation of $38 million, which is being amortized over a period of 4.6 years beginning in 2006. In addition, 2006 long-term disability expenses were favorably impacted by both a decrease in the number of employees receiving benefits and by a decrease in the amount of the average claim.

Selling, general and administrative expenses as a percentage of sales decreased to 9.8% during the year from 10.3% in 2005. Included in 2006 was an additional $4.1 million of stock- based compensation expense associated with the issuance of stock-settled stock appreciation rights. Expenses in 2005 included a $12.5 million U.S. Mills environmental charge.

Operating profits also reflect restructuring charges of $26.0 million and $21.2 million in 2006 and 2005, respectively. These items are discussed in more detail in the section titled, Restructuring Charges, Unusual Items and Other Activities.

Research and development costs, all of which were charged to expense, totaled $12.7 million and $14.7 million in 2006 and 2005, respectively.

Interest expense totaled $52.0 million for the year ended December 31, 2006, compared with $51.6 million in 2005. The slight increase in 2006, compared with 2005, was due to higher average interest rates, substantially offset by lower U.S. and international debt levels. Interest income was $6.6 million in 2006, a decrease of $1.3 million, from the $7.9 million reported in 2005. The decrease was primarily due to the Company s repatriation of $124.7 million of accumulated offshore cash in December 2005 under the AJCA and the subsequent use of the repatriated cash to lower domestic debt.

The effective tax rate for continuing operations in 2006 was 34.0%, compared with 36.4% in 2005. Included in the effective tax rate for 2006 was the impact of a $5.3 million benefit associated with entering into favorable tax agreements with state tax authorities and closing state tax

examinations for amounts less than originally anticipated. Partially offsetting this was a $4.9 million impact resulting from restructuring charges for which a tax benefit could not be recognized. The 2005 effective tax rate reflects an additional $10.1 million of income tax expense associated with the repatriation of foreign earnings under the AJCA.

REPORTING SEGMENTS

Consolidated operating profits, also referred to as Income before income taxes on the Consolidated Statements of Income, are comprised of the following:

($ in millions)	*2006*	*2005*	*% Change*
Consumer Packaging segment	$ 109.6	$ 103.5	5.9%
Tubes and Cores/Paper segment	148.2	107.0	38.4%
Packaging Services segment	39.2	44.8	(12.6)%
All Other Sonoco	49.1	40.6	20.9%
Restructuring and related impairment charges	(26.0)	(21.2)	(22.3)%
Interest expense, net	(45.3)	(43.6)	(3.9)%
Consolidated operating profits	$ 274.8	$ 231.1	18.9%

Consumer Packaging

($ in millions)	*2006*	*2005*	*% Change*
Trade sales	$ 1,304.8	$ 1,247.5	4.6%
Segment operating profits	109.6	103.5	5.9%
Depreciation, depletion and amortization	55.1	56.3	(2.1)%
Capital spending	48.2	50.8	(5.2)%

Sales in this segment increased due to higher selling prices for composite cans, plastic packaging and closures, along with the impact of favorable exchange rates, as the dollar weakened against foreign currencies. Higher composite can volume was partially offset by reduced volume in flexible packaging and closures. Overall, volumes were up 1% in the segment. Domestic sales were approximately $925 million, up 3.5% from 2005, and international sales were approximately $380 million, up 7.4% from 2005.

Segment operating profits were favorably impacted by productivity and purchasing initiatives, while selling price increases were partially offset by increased costs of energy, freight, material and labor. Continued high startup costs at the Company s rigid plastics container plant in Wisconsin also dampened operating profits in the segment, as did operational issues and the loss of a customer at the closures plant in Brazil.

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

Tubes and Cores/Paper

($ in millions)	*2006*	*2005*	*% Change*
Trade sales	$ 1,525.6	$ 1,482.1	2.9%
Segment operating profits	148.2	107.1	38.4%
Depreciation, depletion and amortization	85.9	83.7	2.5%
Capital spending	63.3	62.3	1.6%

The increase in sales was due to increased selling prices and volume in North American paper operations and Asia. The effect of favorable exchange rates also increased sales. Lower tube and core volume in most geographic segments partially offset these favorable factors. Overall volume in the segment, including the impact of acquisitions, increased by approximately 1%. Domestic sales increased approximately $15 million, or 1.9%, to $772.6 million and international sales increased approximately $29 million, or 4.0%, to $753.0 million.

Segment operating profits increased due to productivity and purchasing initiatives along with higher selling prices, which offset increases in the costs of energy, freight, material and labor. Results in 2005 were impacted by a charge of $12.5 million related to an environmental claim at U.S. Mills paper operations in Wisconsin. See Other Special Charges, Income Items and Contingencies for a discussion of this claim. In addition, 2005 results included a $3.0 million non-restructuring asset impairment charge related to operations in Asia.

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

Packaging Services

($ in millions)	*2006*	*2005*	*% Change*
Trade sales	$ 456.8	$ 455.9	0.2%
Segment operating profits	39.2	44.8	(12.6)%
Depreciation, depletion and amortization	11.9	12.0	(0.4)%
Capital spending	3.4	4.9	(30.0)%

Sales in this segment were flat due to the December 2005 divestiture of a single-plant folding carton operation. Higher volumes and selling prices in the service centers more than offset lower volumes in point-of-purchase and fulfillment operations. Domestic sales decreased to $344.9 million, a 3.3% decrease, while international sales increased to $111.9 million, up 12.8%, primarily as a result of a new service center in Poland increasing output.

The decrease in segment operating profits is attributable to unfavorable changes in the mix of business and the impact of a $2.4 million gain on the sale of a carton facility in 2005. The service centers sales increase had very little impact on profits, as these sales were on a pass-through basis with no significant additional gross margin. Productivity and purchasing initiatives partially offset the unfavorable factors discussed above.

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

All Other Sonoco

($ in millions)	*2006*	*2005*	*% Change*
Trade sales	$ 369.7	$ 343.2	7.7%
Operating profits	49.1	40.6	20.9%
Depreciation, depletion and amortization	12.0	11.1	8.3%
Capital spending	8.4	11.1	(24.2)%

Sales for All Other Sonoco increased due to price increases within each line of business, along with higher volumes in wire and cable reels and protective packaging. Domestic sales were $300.5 million, up 6.3% from 2005, and international sales were $69.2 million, an increase of 14.3%.

Operating profits in All Other Sonoco increased due primarily to manufacturing productivity and purchasing initiatives. The Company was able to recover increases in raw material costs, energy, freight and labor through higher selling prices. Although higher volume was a significant reason for the increased sales, operating profits did not benefit as changes in the mix of products resulted in lower profit margins.

Capital 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.

Critical Accounting Policies and Estimates

Management s analysis and discussion of the Company s financial condition and results of operations are based upon the Company s 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 of 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 included in Item 8 of this Annual Report on Form 10-K are critical to understanding the results of its operations. The following discussion represents those policies that involve the more significant judgments and estimates used in the preparation of the Company s Consolidated Financial Statements.

IMPAIRMENT OF LONG-LIVED, INTANGIBLE AND OTHER ASSETS

Assumptions and estimates used in the evaluation of potential impairment may affect the carrying values of long-lived, intangible and other assets and possible impairment expense in the Company s Consolidated Financial Statements. The Company evaluates its long-lived assets (property, plant and equipment), definite- lived intangible assets and other assets (including notes receivable and preferred stock) for impairment whenever indicators of impairment exist, or when it commits to sell the asset. 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 is 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 impairment. In addition, changes in the assumptions and estimates may result in a different conclusion regarding impairment.

The Company has a long-term note receivable from and preferred equity interest in Hilex Poly Co., LLC resulting from the sale its high density film business to Hilex in 2003. The combined carrying value of these items at December 31, 2007, was $42.7 million. The Company s assumptions and outlook for Hilex at December 31, 2007, indicated that these items were neither doubtful of collection nor impaired. However, Hilex is a highly leveraged entity operating in a very competitive market and its primary products, made from high density polyethylene film, are under increasing environmental scrutiny. Different assumptions regarding the outlook for the Hilex business may result in an impairment or reserve for collectibility/recoverability in future periods.

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. Under FAS 142, if the carrying value of a reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized for the excess.

The Company s reporting units are one level below its reporting segments, as determined in accordance with FAS 131.

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. Key assumptions and estimates used in the cash flow

model include discount rate, sales growth, margins and capital expenditures and working capital requirements. Fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill. In addition, changes in the assumptions and estimates may result in a different conclusion regarding impairment.

The annual evaluation of goodwill impairment that was completed during 2007 used forward-looking projections, including expected improvement in the results of certain reporting units, most notably, the flexible packaging operations within the Consumer Packaging segment. The goodwill associated with the Flexible Packaging business totaled approximately $96 million at December 31, 2007. If actual performance in this reporting unit falls significantly short of the projected results, or the assessment of the relevant facts and circumstances changes, 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 any deferred tax assets, net operating losses and capital loss carryforwards is not likely. Deferred tax assets generally 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 amounts of the valuation allowance and deferred income tax expense in the Company s Consolidated Financial Statements.

For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those positions not meeting the more-likely-than-not standard, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized.

STOCK COMPENSATION PLANS

The Company utilizes share-based compensation in the form of stock options, stock appreciation rights and restricted stock units. Certain awards are in the form of contingent stock units where both the ultimate number of units and the vesting period are performance based. The amount and timing of compensation expense associated with these performance-based awards are based on estimates regarding future performance using measures defined in the plan. In 2007, the performance measures consisted of Earnings per Share and Return on Net Assets Employed. Changes in estimates regarding the future achievement of these performance measures may result in significant fluctuations from period to period in the amount of compensation expense reflected in the Company s Consolidated Financial Statements.

The Company uses a binomial option-pricing model to determine the grant date fair value of its stock options and stock appreciation rights. The binomial option-pricing model requires the input of subjective assumptions. Management routinely assesses the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time that result in changes to these assumptions and methodologies, which could materially impact fair value determinations.

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. The key actuarial assumptions used at December 31, 2007, in determining the projected benefit obligation and the accumulated benefit obligation for U.S. retirement and retiree health and life insurance plans include: a discount rate of 6.40%, 6.27% and 6.11% for the qualified retirement plan, non-qualified retirement plans, and retiree health and life insurance plan, respectively; an expected long-term rate of return on plan assets of 8.5%; and a rate of compensation increase ranging from 4.57% to 4.77%. Discount rates of 5.84%, 5.77% and 5.68% were used to determine net periodic benefit cost for 2007 for the qualified retirement plan, non-qualified retirement plans, and retiree health and life insurance plan, respectively.

The Company adjusts its discount rates at the end of each fiscal year based on yield curves of high-quality debt instruments over durations that match the expected benefit payouts of each plan. The long-term rate of return assumption is based on the Company s historical plan return performance and a range of probable return outcomes given the targeted asset class weights of the portfolios. The rate of compensation increase assumption is generally based on salary and incentive increases. A key assumption for the U.S. retiree health and life insurance plan is a medical trend rate beginning at 11.3% for post-age 65 participants 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 inflation level.

During 2007, the Company incurred total pension and postretirement benefit expenses of approximately $34.2 million, compared with $44.1 million during 2006. The 2007 amount is net of $91.3 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of $75.4 million at a weighted-average discount rate of 5.63%. The 2006 amount is net of $83.6 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of $69.5 million at a discount rate of 5.50%. During 2007, the Company made contributions to pension plans of $15.1 million and postretirement plans of approximately $1.5 million. The contribution amount varies from year to year depending on factors including asset market value volatility and interest rates. Although 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. Cumulative net actuarial losses were approximately $294.5 million at December 31, 2007, and are primarily the result of poor asset performance during 2000 through 2002. The amortization period for 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.

Other assumptions and estimates impacting the projected liabilities of these plans include inflation, participant withdrawal and mortality rates and retirement ages. 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 net assets and liabilities and pension and postretirement plan expenses in the Company s Consolidated Financial Statements. The sensitivity to changes in the critical assumptions for the Company s U.S. plans as of December 31, 2007 is as follows:

Assumption	*Percentage Point*	*Projected Benefit Obligation*	*Annual Expense*
($ in millions)	*Change*	*Higher/(Lower)*	*Higher/(Lower)*
Discount rate	-.25 pts	$ 24.7	$ 3.3
Expected return on assets	-.25 pts	N/A	$ 2.1

See Note 11 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 17 of the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information regarding market risk is provided in this Annual Report on Form 10-K under the following items and captions: Conditions in foreign countries where the Company operates may reduce earnings and Foreign exchange rate fluctuations may reduce the Company s earnings in Item 1A Risk Factors; Risk Management in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations; and in Note 9 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements and Notes to the Consolidated Financial Statements are provided on pages F-1 through F-30 of this report. Selected quarterly financial data is provided in Note 18 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Sonoco Products Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Sonoco Products Company and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal *Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

Charlotte, North Carolina

February 28, 2008

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CONSOLIDATED BALANCE SHEETS

Sonoco Products Company and consolidated subsidiaries

(Dollars and shares in thousands)

At December 31	*2007*	*2006*
Assets		
Current Assets		
Cash and cash equivalents	**$ 70,758**	$ 86,498
Trade accounts receivable, net of allowances of $9,519 in 2007 and $8,983 in 2006	**488,409**	459,022
Other receivables	**34,328**	33,287
Inventories		
Finished and in process	**138,722**	126,067
Materials and supplies	**204,362**	177,781
Prepaid expenses	**50,747**	27,611
Deferred income taxes	**40,353**	32,532
	1,027,679	942,798
Property, Plant and Equipment, Net	**1,105,342**	1,019,594
Goodwill	**828,348**	667,288
Other Intangible Assets, Net	**139,436**	95,885
Other Assets	**239,438**	191,113
Total Assets	**$ 3,340,243**	$ 2,916,678
Liabilities and Shareholders Equity		
Current Liabilities		
Payable to suppliers	**$ 426,138**	$ 357,856
Accrued expenses and other	**206,711**	179,462
Accrued wages and other compensation	**68,422**	63,925
Notes payable and current portion of long-term debt	**45,199**	51,903
Accrued taxes	**11,611**	6,678
	758,081	659,824
Long-term Debt	**804,339**	712,089
Pension and Other Postretirement Benefits	**180,509**	209,363
Deferred Income Taxes	**84,977**	52,809
Other Liabilities	**70,800**	63,525
Commitments and Contingencies		
Shareholders Equity		
Serial preferred stock, no par value		
Authorized 30,000 shares		
0 shares issued and outstanding as of December 31, 2007 and 2006		
Common shares, no par value		
Authorized 300,000 shares		
99,431 and 100,550 shares issued and outstanding at December 31, 2007 and 2006, respectively	**7,175**	7,175
Capital in excess of stated value	**391,628**	430,002
Accumulated other comprehensive loss	**(107,374)**	(262,305)
Retained earnings	**1,150,108**	1,044,196
Total Shareholders Equity	**1,441,537**	1,219,068
Total Liabilities and Shareholders Equity	**$ 3,340,243**	$ 2,916,678

The Notes beginning on page F-6 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	*2007*	*2006*	*2005*
Net sales	**$ 4,039,992**	$ 3,656,839	$ 3,528,574
Cost of sales	**3,286,198**	2,951,799	2,867,623
Selling, general and administrative expenses	**409,719**	358,952	364,967
Restructuring/Asset impairment charges	**36,191**	25,970	21,237
Income before interest and income taxes	**307,884**	320,118	274,747
Interest expense	**61,440**	51,952	51,559
Interest income	**(9,182)**	(6,642)	(7,938)
Income before income taxes	**255,626**	274,808	231,126
Provision for income taxes	**55,186**	93,329	84,174
Income before equity in earnings of affiliates/minority interest in subsidiaries	**200,440**	181,479	146,952
Equity in earnings of affiliates/minority interest in subsidiaries, net of tax	**13,716**	13,602	14,925
Net income	**$ 214,156**	$ 195,081	$ 161,877
Weighted average common shares outstanding:			
Basic	**100,632**	100,073	99,336
Assuming exercise of awards	**1,243**	1,461	1,082
Diluted	**101,875**	101,534	100,418
Per common share			
Net income:			
Basic	**$ 2.13**	$ 1.95	$ 1.63
Diluted	**$ 2.10**	$ 1.92	$ 1.61
Cash dividends common	**$ 1.02**	$ .95	$ .91

The Notes beginning on page F-6 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

Sonoco Products Company and consolidated subsidiaries

		Common Shares				
(Dollars and shares in thousands)	*Comprehensive Income*	*Outstanding*	*Amount*	*Capital in Excess of Stated Value*	*Accumulated Other Comprehensive Loss*	*Retained Earnings*
January 1, 2005		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	$ 158,643					
Cash dividends						(90,126)
Issuance of stock awards		1,488		37,370		
Stock-based compensation				4,548		
December 31, 2005		99,988	$ 7,175	$ 418,668	$ (106,389)	$ 943,860
Net income	$ 195,081					195,081
Other comprehensive income (loss):						
Translation gain	37,203					
Minimum pension liability adjustment, net of tax	1,517					
Derivative financial instruments, net of tax	(13,240)					
Other comprehensive income	25,480				25,480	
Comprehensive income	$ 220,561					
Adjustment to initially apply FASB Statement No. 158, net of tax					(181,396)	
Cash dividends						(94,745)
Issuance of stock awards		3,062		82,655		
Shares repurchased		(2,500)		(82,668)		
Stock-based compensation				11,347		
December 31, 2006		100,550	$ 7,175	$ 430,002	$ (262,305)	$ 1,044,196
Net income	**$ 214,156**					**214,156**
Other comprehensive income:						
Translation gain	**95,449**					
Defined benefit plan adjustment, net of tax	**58,958**					
Derivative financial instruments, net of tax	**524**					
Other comprehensive income	**154,931**				**154,931**	
Comprehensive income	**$ 369,087**					
Cash dividends						**(102,658)**
Adjustment to initially apply FASB Interpretation No. 48						**(5,586)**
Issuance of stock awards		**1,881**		**59,832**		
Shares repurchased		**(3,000)**		**(109,206)**		
Stock-based compensation				**11,000**		
December 31, 2007		**99,431**	**$ 7,175**	**$ 391,628**	**$ (107,374)**	**$ 1,150,108**

The Notes beginning on page F-6 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Sonoco Products Company and consolidated subsidiaries

(Dollars in thousands)

Years ended December 31	*2007*	*2006*	*2005*
Cash Flows from Operating Activities			
Net income	**$ 214,156**	$ 195,081	$ 161,877
Adjustments to reconcile net income to net cash provided by operating activities			
Asset impairment	**16,684**	7,750	9,515
Depreciation, depletion and amortization	**181,339**	164,863	163,074
Environmental charges	**25,150**		12,500
Non-cash share-based compensation expense	**11,000**	11,347	4,548
Equity in earnings of affiliates/minority interest in subsidiaries	**(13,716)**	(13,602)	(14,925)
Cash dividends from affiliated companies	**8,435**	9,496	6,758
Gain on disposition of assets	**(838)**	(4,644)	(555)
Tax effect of nonqualified stock options	**9,538**	10,580	2,753
Excess tax benefit of share-based compensation	**(9,317)**	(10,580)	
Deferred taxes	**(31,940)**	(15,265)	(24,722)
Change in assets and liabilities, net of effects from acquisitions, dispositions, and foreign currency adjustments			
Receivables	**20,169**	(9,356)	(24,026)
Inventories	**(9,259)**	33,159	(6,447)
Prepaid expenses	**(1,304)**	6,412	2,298
Payables and deferred expenses	**69,781**	70,376	731
Cash contribution to pension plans	**(11,647)**	(10,471)	(77,024)
Prepaid income taxes and taxes payable	**(26,258)**	(1,985)	(9,110)
Other assets and liabilities	**(6,837)**	39,402	20,118
Net cash provided by operating activities	**445,136**	482,563	227,363
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	**(169,444)**	(123,279)	(129,112)
Cost of acquisitions, net of cash acquired	**(236,263)**	(227,304)	(3,566)
Proceeds from the sale of assets	**23,417**	21,030	13,377
Investment in affiliates and other	**2,652**	(2,500)	
Net cash used by investing activities	**(379,638)**	(332,053)	(119,301)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**39,041**	33,535	43,859
Principal repayment of debt			