2006 ANNUAL REPORT

SONOCO At a Glance

Founded in 1899, Sonoco today serves industrial and consumer customers in 85 nations. From our headquarters in Hartsville, S.C., and from 324 manufacturing and sales locations in 35 countries, our approximately 17,700 employees produce packaging for a variety of industries and for many of the world's most recognized brands.

CONSUMER PACKAGING

RIGID PACKAGING – PAPER

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

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

Markets: Food: Snacks, nuts, cookies and crackers, confectionery, frozen concentrate, powdered beverages and infant formula, coffee, refrigerated dough, spices/seasonings, nutritional supplements, pet food Nonfood: Adhesives, caulks, cleansers, chemicals, lawn and garden, automotive, pet products

Locations: 35 rigid paper and plastic in North and South America, Europe, Asia and Australia, approximately 2,500 employees

RIGID PACKAGING – PLASTIC

A leader in rigid plastic containers and closures

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

Markets: Food: Liquid beverage (noncarbonated), including functional beverage and ready-to-drink coffee, processed foods, sauces and pet foods, powdered beverages including coffee, snacks and nuts Nonfood: Household chemicals, industrial chemicals, adhesives and sealants, personal care

Locations:
Information included in Rigid Packaging – Paper

ENDS AND CLOSURES

A world leader in convenience closure technology and manufacturing

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

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

Locations: Seven in the United States and South America, approximately 770 employees

PRINTED FLEXIBLE PACKAGING

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

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

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

Locations: Seven converting and two cylinder engraving in North America, approximately 990 employees

TUBES AND CORES/PAPER

TUBES AND CORES

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

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

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

Locations: 121 in North and South America, Asia, Australia and Europe, approximately 5,830 employees

PAPER

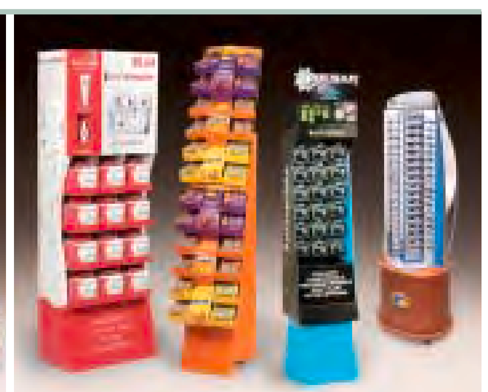
A global manufacturer of uncoated recycled paperboard for Sonoco's fiber-based packaging divisions and the external converting industry

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

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

Locations: 26 paper mills with 37 machines in 12 countries; 51 recovered paper collection sites in five countries; one forest operation in the United States, approximately 3,170 employees

PACKAGING SERVICES



SERVICE CENTERS

A fee-for-service arrangement for supply chain management

Services: Packaging supply chain management, including custom packing, fulfillment, scalable service centers and global brand artwork management

Markets: Personal care, baby care, beauty, healthcare, electronics, hosiery, pharmaceuticals and office supply

Locations: 20, including service centers, point-of-purchase manufacturing facilities, sales and design offices, and an artwork management center, approximately 2,500 employees

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

A leading provider of P-O-P displays, including fulfillment operations, for a "one-stop" display needs solution

Products and Services: Designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent P-O-P displays, as well as contract packaging, co-packing and fulfillment services

Markets: Consumer packaged goods, including: personal care, beauty, healthcare, food, confectionery, sporting goods and home and garden products

Locations: Information included in Service Centers

ALL OTHER SONOCO

PROTECTIVE PACKAGING

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

Products and Services: Proprietary Sonopost® technology, Sonobase® carrier systems, and through a partnership with Sonoco CorrFlex, the Sonopop® display system. Tier 1 supplier to major manufacturers, on-site engineering, ISTA-certified lab testing facilities and engineering, design and testing for many products and materials

Markets: Household appliances, heating and air conditioning, office furnishings, automotive, fitness equipment, lawn and garden, and promotional display and palletized distribution

Locations: One engineering and testing center, five Sonopost corner post manufacturing facilities, approximately 390 employees

WIRE AND CABLE REELS

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

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

Markets: Wire and cable manufacturers

Locations: Five in the United States; 29 distribution centers and 12 recycling centers in the United States and Canada, approximately 420 employees

MOLDED AND EXTRUDED PLASTICS

A leading innovative solutions provider of engineered plastic products

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

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

Locations: 15 in North America and Europe, approximately 650 employees

PAPERBOARD SPECIALTIES

A leading supplier of paper amenities in North America

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

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

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

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ABOUT THE COVER

By balancing and integrating social responsibility, environmental stewardship and economic performance within its business strategy and culture, Sonoco is becoming more competitive and better prepared to meet the challenges of the future.

The paper used to cover the 2006 Annual Report is .018" EcoTect® tan bending chip which is produced at Sonoco's Hutchinson, Kan., mill. EcoTect chip is produced from 100% recycled paper with a minimum of 80% post consumer content. The paper is primarily sold to manufacturers of folding cartons where a smooth, pliable surface is required.

INSIDE FRONT COVER

Illustrations of Sonoco's commitment to sustainability, through its diverse line of packaging include: (top) Some of the brightest young minds in the fields of science and math in South Carolina take part in a chemistry experiment at the Governor's School for Science and Mathematics (GSSM) located in Hartsville, S.C. Sonoco's continuing support of GSSM and other educational institutions and programs is fueling a better quality of life for citizens in Sonoco's home state. (center) Sonoco's forestry professionals exercise best practices in conservation and forestry management on the approximately 80,000 acres of woodlands owned or leased by Sonoco. These practices include utilizing 100% of the wood coming from logged trees to provide pulp fiber used to produce linerboard. (bottom) Pam Horine, senior development engineer for Sonoco (left), confers with World Pac Paper's Edgar Smith Jr., chief executive officer (bottom), Richard Baptiste, president and chief operating officer (center), and Glen Butler, executive vice president (top), over samples of towel and tissue cores at Sonoco's Hartsville pilot plant. Sonoco teamed up with the Maryland-based minority-owned paper distributor to secure one of the Company's largest external paper sales in 2006.

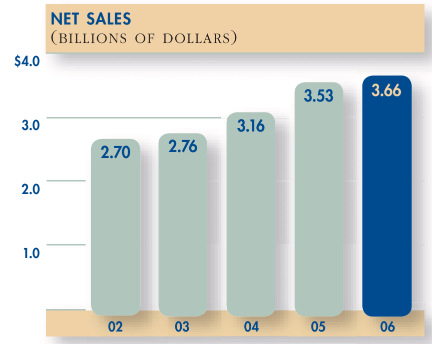
Packaging used in the illustration includes: (top to bottom) a new high-barrier foil flexible package produced by Sonoco for the launch of Pringles® Select crisps; Sonoco's new Dorpak® paperboard pails used for Preen® fertilizers; and Sonotube® concrete forms with RainGuard™ technology being used on construction sites throughout North America.

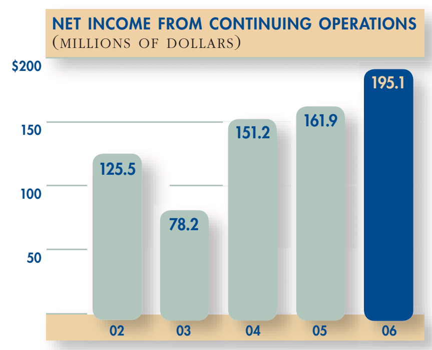
COMPARATIVE HIGHLIGHTS unaudited

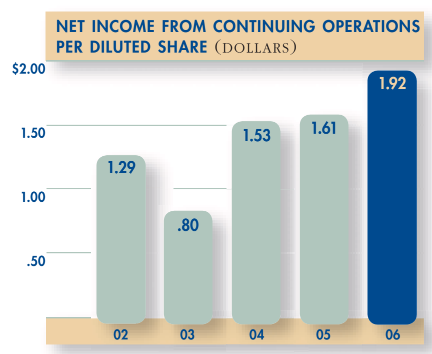
($ and shares in thousands except per share data) Years ended December 31	2006	2005
Net sales	$3,656,839	$3,528,574
Gross profit[1]	705,040	660,951
Net income	195,081	161,877
Return on total equity	15.7%	13.5%
Return on net assets[2]	9.7%	7.9%
Return on net sales	5.3%	4.6%
Approximate number of employees	17,700	17,600
Approximate number of shareholder accounts	40,000	46,000
Per common share:		
Net income – basic	$ 1.95	$ 1.63
– diluted	1.92	1.61
Cash dividends – common	.95	.91
Ending common stock market price	38.06	29.40
Price/earnings ratio	19.82	18.26

[1] *Gross profit: Net sales minus cost of sales.*

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







STRATEGIC MISSION STATEMENT

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

STRATEGIC OBJECTIVE

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

2006 was a year of record performance for Sonoco, reflecting the strength of our balanced portfolio of packaging products and services, solid capital structure and dedication to providing shareholder value. We achieved all-time high sales, net income, cash flow from operations, productivity improvement and new product sales, while increasing dividends for the 24th consecutive year, effectively recovering raw material cost increases and other inflationary costs, and further reducing working capital. Furthermore, we improved margins for the third consecutive year. And, most importantly, our shareholders enjoyed a 33.2% total return on their investment, which significantly outpaced the Standard & Poor's 500 Index and the Dow Jones Containers and Packaging Index.

Although pleased with our accomplishments in 2006, we have significant opportunities for improvement. We know that to sustain annual average double-digit total returns for shareholders, we must accelerate top-line growth, both organically and through acquisitions. We know that we must remain vigilant about margin improvement by further improving our position as the low-cost producer, whether through restructuring, consolidation or process improvement. We must continue offsetting rising raw material and other operating costs through effective price management. And, we must continue protecting our solid cash flow through focused day-to-day management of manufacturing and purchasing productivity, working capital and the improvement of any underperforming operations.

SUMMARY OF 2006 RESULTS

Net sales for the full year 2006 were $3.7 billion, up 3.6%, compared with $3.5 billion for 2005. Sales increased in all the Company's reporting segments, led principally by higher selling prices and favorable foreign currency translation.

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

Net income for 2006 was $195.1 million ($1.92 per diluted share), up 21%, compared with $161.9 million ($1.61 per diluted share) for 2005. Net income in 2006 was negatively impacted by after-tax restructuring charges of $21.3 million, all of which relate to previously announced cost reduction and restructuring activities. Net income for 2005 was negatively affected by $10.1 million of additional tax expense associated with the repatriation of foreign earnings, a $7.6 million after-tax expense to increase an environmental reserve and $13 million of after-tax restructuring costs.

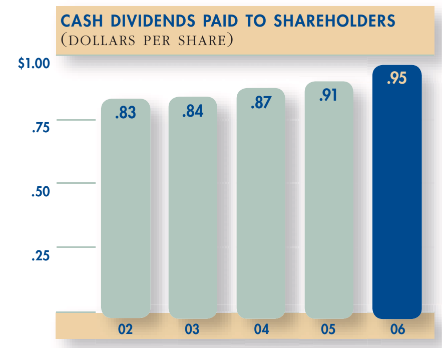
Base earnings per diluted share for 2006 were $216 million ($2.13 per diluted share), up 12.1%, compared with $192.6 million ($1.92 per diluted share) for 2005. Base earnings is a non-GAAP financial measure that excludes restructuring charges and certain non-recurring or infrequent and unusual expenses, as applicable. Additional information about base earnings, base earnings per share and base operating profit (pretax base earnings), along with reconciliations to the most closely applicable GAAP financial measure, is provided on page 49 of this report.

The increase in base earnings for 2006 was primarily due to productivity improvements and maintaining a positive selling price/material cost relationship. These favorable factors were partially offset by increased costs for energy, freight and labor, along with an unfavorable shift in the mix of business.

In 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payments," which requires the expensing of the grant-date fair value of stock options and other equity-based compensation. As a result, net income and base earnings in 2006 include after-tax stock option charges of $2.8 million ($.03 per diluted share). Prior to 2006, the Company expensed stock options based on their intrinsic value. Because the Company has only granted at-market options, which have an intrinsic value of zero, 2005 results did not include any corresponding stock option expense.

For the full year 2006, cash generated from operations was a record $482.6 million, more than doubling the $227.4 million in 2005. This increase resulted primarily from increased earnings, a decline in pension contributions and improved working capital. The cash generated from operations during 2006 was used to fund capital expenditures of $123.3 million and pay dividends of $94.8 million. The Company also repurchased 2.5 million shares of Sonoco common stock in early 2006 for approximately $83 million and paid $23.6 million toward debt reduction.

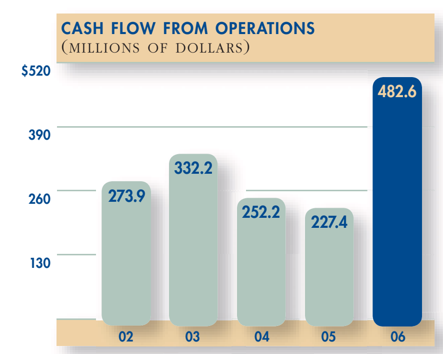
In February 2007, we used $56.7 million to repurchase 1.5 million shares of Sonoco common stock for the purpose of offsetting the dilution from stock-based compensation. Following that purchase, the Company had authority to purchase up to another five million shares.



GROWTH STRATEGY

Sonoco's growth strategy remains unchanged and, we believe, on target to sustain our ongoing objective of providing average annual double-digit total returns to our shareholders. The execution of our strategy will focus on sales growth and margin improvement and, of course, the effective employment of the Company's strong capital structure.

Our growth strategy is supported by a solid foundation of 108 years of packaging experience, including international operations since the 1920s; consecutive quarterly dividends paid since 1925, with a current yield about one-fourth higher than the Standard & Poor's 500 Index; and consistently healthy cash flow generation from operations, which has helped Sonoco maintain one of the strongest balance sheets in the packaging industry.



TOP-LINE GROWTH

Profitable top-line growth is the engine that must sustain Sonoco's progress. Since 2000, excluding divested businesses, we have grown the top line at a 6.2% compound annual average rate, up from 4.6% for the prior five-year period. (This non-GAAP financial measure is reconciled to reported sales on page 49.) And, during the last three years, we have experienced consecutive annual increases in margins, signaling improved sales profitability. Nonetheless, we are not pleased with our 2006 sales growth which, if not for positive exchange rates, would have increased only modestly above 2005. The good news is that the primary issue was not a lack of market opportunity or lost market share, but rather of customer project timing and there is opportunity to better manage the process. Sonoco's top-line growth will continue to be driven by focusing on strategic acquisitions and joint ventures; expanding geographically in response to customer requirements; strengthening our organic sales growth funnel, including continued development of new products and services; and enhancing our position as the only true total solutions provider capable of meeting consumer product companies' packaging supply chain needs. We must succeed in each of these areas to produce the necessary top-line growth that will sustain average annual double-digit total returns over the long term.

CUMULATIVE TOTAL SHAREHOLDER RETURN
(DOLLARS)

5-year Total Return = 69.27%

5-year Compound Average Growth Rate (CAGR) = 11%

2006 1-year Total Return = 33.24%

Assumes $100 invested in Sonoco common stock on Dec. 31, 2001, with reinvestment of dividends.

ACQUISITIONS AND JOINT VENTURES

Acquisitions will continue to be a major growth vehicle for Sonoco. Our basic criteria for acquisitions have not changed. Generally, they should not be dilutive in the first year, they should meet our cost of capital in three to four years and they should complement our existing businesses.

During 2006, we spent $227.3 million on acquisitions that we expect to produce approximately $130 million of annual sales. These transactions included additional flexible packaging capacity, a need identified in last year's annual report; additional point-of-purchase assets, principally in the Chicago area; a producer of large-size rigid paper containers, giving us a new technology and access to an additional market; an increase in our rigid plastic capabilities; and the remaining 35.5% interest in the Sonoco-Alcore joint venture from Ahlstrom Corporation and the remaining 75% interest in the Italy-based Demolli joint venture. The last two transactions further solidified our leadership position in the tubes and cores market in Europe.

GEOGRAPHIC EXPANSION

Geographic expansion remains an important growth tool for Sonoco, principally in response to our customers' needs. In the past few years, we have opened tube and core facilities in China, a steel easy-opening closures facility in Brazil and a new service center for Procter & Gamble (P&G) in Poland.

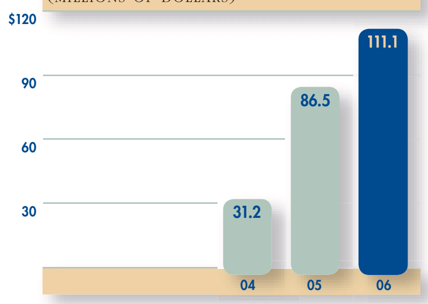
In recent months, we started a new protective packaging line in Kaiping, China, for use by manufacturers of exercise equipment and kitchen appliances. We are now testing development of a similar production line in Turkey for a large European appliance maker. Also during 2006, we received a five-year contract to provide packaging fulfillment services for The LEGO Group in Poland near the existing Gillette service center where we package razors and blades.

helping P&G, our largest consumer product customer, find new, innovative products and services to meet its packaging supply chain needs. The center is the first and only facility of its kind in the global packaging industry and has already resulted in several new business activities between P&G and Sonoco.

REDUCE, RECLAIM AND RECYCLE

Our portfolio of packaging supply chain products and services runs from concept and design to reclamation and recycling. This newest addition is in response to increasing demands being placed on consumer product company customers by consumers and large retailers to reduce, reclaim and recycle packaging materials. Sonoco has long been one of the largest collectors and users of recovered paper, and as such, has an extensive infrastructure in place to handle this new requirement. We are using these resources as a base for identifying and developing opportunities to assist our consumer product company customers in meeting such demands. We do so by not only helping recover and recycle specific packaging waste generated by our customers' products, but also by helping retailers dispose of other recyclable waste materials. Through this initiative, Sonoco experts audit a manufacturing facility to review its existing programs for handling wastes. The Company then develops programs that offer significant savings by reducing waste hauling charges and landfill fees, and converts the waste streams into revenue streams by facilitating recovery and recycling of

NEW PRODUCT SALES*
(MILLIONS OF DOLLARS)



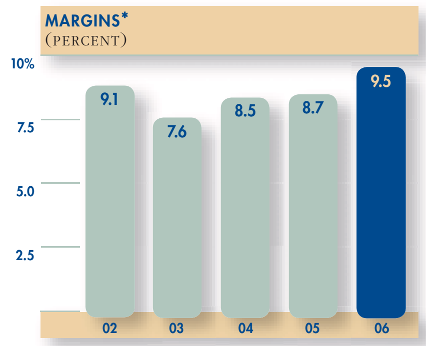
*New products are those commercialized for two years or less.

TOTAL PACKAGING SOLUTIONS

We are the only packaging company in the world that has adopted the strategy of being a truly full-service or total solutions provider for consumer product companies. We offer the broadest range of packaging supply chain products and services in the industry in response to the desire of large consumer product companies to reduce their number of packaging suppliers.

A significant component of our total solutions offering is new product and market development. In 2000, we had no significant sales from new products. In 2006, we generated new product sales of about $111 million, the third consecutive year of growth. We define new products as those that have been commercial for two years or less. After two years, they are no longer counted as new product sales. Our goal over the next several years is to achieve annual sales of about $125 million from new products alone.

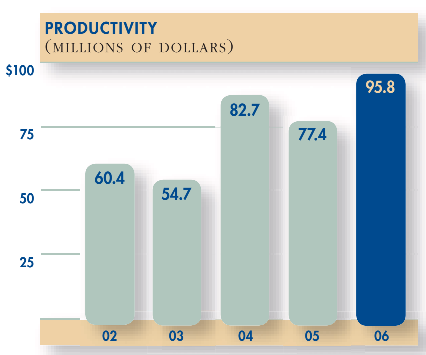
To further enhance our existing total solutions offerings, in 2006, we opened a new Innovation Center in Cincinnati, Ohio, dedicated exclusively to the plant's remaining waste materials. The program is in the initial stages of development and during 2006, 12 Sonoco plants and two customers' manufacturing facilities participated in programs that are providing significant savings while reducing the amount of waste ending up in landfills.



*EBIT margins (Base Earnings Before Interest and Taxes) as a percent of sales

MANAGING THE FUNDAMENTALS

To help ensure profitable sales growth, we place strong emphasis on managing the fundamentals, or "guts" of the business, to help drive and maintain margin expansion. With customer and market migration an ongoing significant global and domestic competitive factor, we must continuously identify and act on opportunities to reduce operating costs. This is particularly important because of Sonoco's large complement of plants at 324 global locations. To that end, we completed two restructuring programs, one in 2001 and the other in 2003, totaling about $115 million in structural cost reductions. In the fourth quarter of 2006, the Company announced another restructuring, principally focused on international locations, that should result in about $35 million of restructuring costs and produce an expected $23 million in annual savings. That program is well underway.



Another important initiative aimed at improving our fundamentals is continued aggressive price recovery of raw material cost increases, such as the recent runup in prices for recovered paper, our primary raw material. We were successful in staying on top of such costs with timely price increases during 2005 and 2006, and we will remain diligent in offsetting future raw material cost increases.

Productivity improvement has become a way of life at Sonoco as an indispensable means of optimizing our cost structure and offsetting the impact of inflation. Since 2002, we have generated approximately $370 million in manufacturing and purchasing productivity savings, including a record in 2006. We will perpetuate productivity improvement through the ongoing execution of such process improvement disciplines as Six Sigma and Lean Manufacturing.

We have also continued making progress toward our previously stated goal of reversing the historical 55%/45% ratio of sales from our industrial and consumer markets, respectively. Today, we are near parity between the two and believe this improving balance has been a significant factor in helping Sonoco achieve a more consistent earnings record over the last few years. We expect that ratio to continue moving toward a portfolio more heavily weighted toward consumer markets which historically have been less sensitive to general economic cycles.

CONCLUSION AND OUTLOOK

2006 was indeed a good year. Clearly, we had a strong performance in earnings, total shareholder return, generation of cash flow from operations, price/cost management, productivity improvement and margin enhancement. And, employee morale remains outstanding. However, we fell short of our aggressive, self-imposed expectations for top-line growth and for employee safety. While our safety record remains world class, we did not improve over the previous year. Fortunately, these issues are correctable with better execution, and positive actions are already being implemented. More important than the past, however, are the actions required to ensure further improvement in 2007.

First, we must always ensure that we have the best people in the right jobs. This is seldom a static issue and requires constant monitoring.

We will focus on increasing sales by more aggressively strengthening our organic and new product sales funnels, continuing to seek strategic acquisitions that meet our criteria and by partnering with our customers geographically.

We will maintain a sharp "edge" about employee safety, which we consider a strong proxy for measuring our effectiveness in managing the fundamentals of our business. Any degree of complacency about employee safety is repugnant to our culture and shall not be tolerated.

We will work diligently to improve margins toward the 10% to 11% range through productivity improvements, price management, cost reductions and turning around any underperforming operations.

We will focus on building cash flow by targeting a working capital days reduction with a goal of $50 million in savings in 2007, in addition to the $84 million improvement we made in 2006.

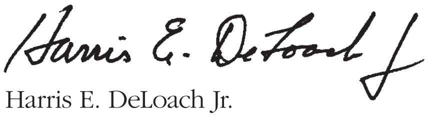
And, we will concentrate Companywide on improving return on assets and capital.

In conclusion, your management team has never felt more positive about Sonoco's future. While comparisons to 2006 will clearly be difficult, we have more than ample opportunities to be highly successful. To that end, cash flow from operations in 2007 is again expected to be more than $400 million, and the Company expects base earnings per diluted share for the full year 2007 to be in the range of $2.28 to $2.31, assuming no significant change in Companywide volumes and/ or prices due to a change in general economic conditions.

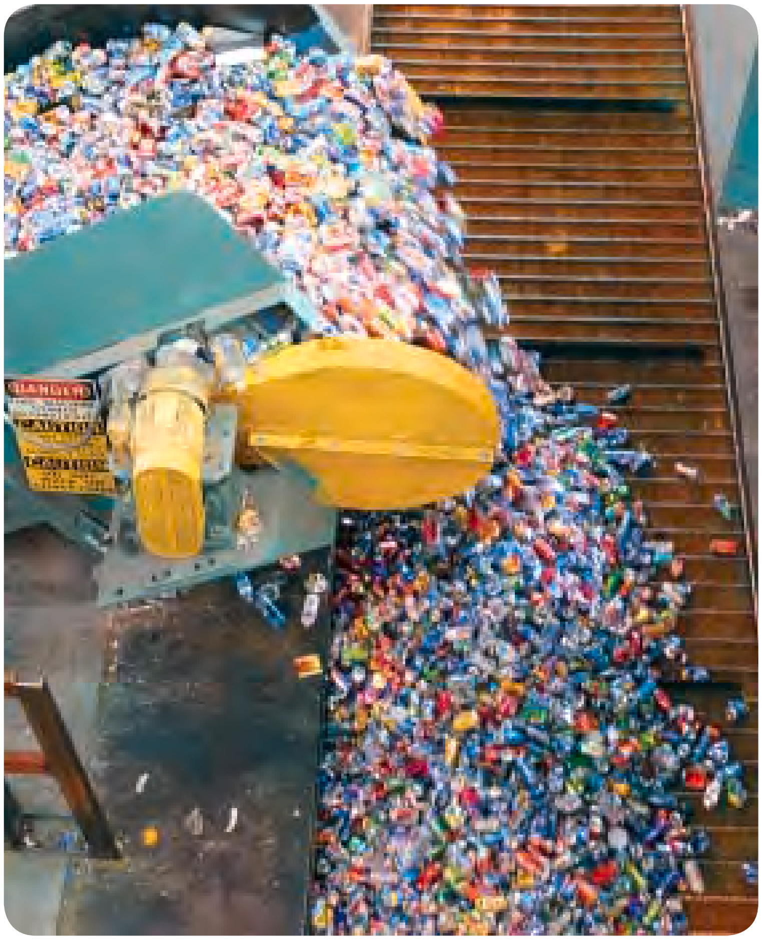
*Total common shares outstanding at year-end multiplied by year-end stock price

We are more confident than ever that our growth strategy is sound. We believe that our broad base of packaging offerings, the most extensive in the global packaging industry, can provide consistent fair value for our shareholders' investments, and over time, should continue to exceed general and industry market returns. The key to success, however, lies not in our strategy but in our ability to have the right people in the right jobs who can execute consistently. Thank you for your confidence in our stewardship of your investment and for the opportunity to serve you.

Sincerely,



Harris E. DeLoach Jr.
Chairman, President and Chief Executive Officer
March 8, 2007



Sonoco's new, fully automated commercial materials recovery facility in Raleigh, N.C., can annually process up to 500 million pounds of curbside-collected and dual-stream residential and commercial waste.

The World Commission on Environment and Development defines sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."

Throughout its history, Sonoco has pursued sustainability by working to enhance the "triple bottom line." By balancing and integrating economic performance, social responsibility and environmental stewardship within its business strategy and culture, Sonoco is becoming more competitive and better prepared to meet the challenges of the future.

Because issues supporting sustainability are directly linked to Sonoco's long-term profitability and viability, a Sustainability Council, reporting directly to the chairman, president and chief executive officer, was formed to provide feedback, guidance and oversight on sustainability-related issues. The council has developed Companywide metrics and is monitoring progress on a series of economic, social and environmental goals.

Sonoco is focusing its efforts on six primary sustainability actions. The following is a brief review of the Company's efforts in each category during 2006.

ECONOMIC PERFORMANCE

Sonoco believes that sustainability maximizes shareholder value and will seek opportunities that will demonstrate superior operating performance.

In October 2006, Sonoco was recognized as the Large Manufacturer of the Year by the South Carolina Chamber of Commerce and the National Association of Manufacturers for leadership in driving productivity improvements, product quality, environmental stewardship, quality of life for employees and community involvement and partnerships.

COMMUNITY SERVICE

Strong communities and a thriving business are interdependent. Therefore, Sonoco believes it has a responsibility to address critical social issues in the communities where it operates and to seek partnerships with other stakeholders to effect necessary change.

Through a multiyear contribution from Sonoco, Clemson University is creating the Sonoco Institute of Packaging Design and Graphics. The new institute will promote research and development of superior packaging design and provide a new learning and economic development resource for the packaging industry and the region.

ENVIRONMENTAL STEWARDSHIP

Sonoco takes seriously its responsibility to protect the environment, and the Company conducts business in accordance with all legal

Sonoco's Sustainability Statement of Intent

Sonoco will be the packaging industry leader in creating, maintaining and enhancing a sustainable future that benefits all of its stakeholders through continuous improvement in operating performance, social responsibility and environmental stewardship.

requirements and ethical responsibilities, using scientific knowledge, technical innovation and sound environmental management practices.

To meet changing U.S. Environmental Protection Agency (EPA) regulations aimed at reducing hazardous air pollutants, Sonoco was able to work with a vendor to reformulate coatings and compounds used in the production of metal ends at the Company's President's Island/Memphis, Tenn., and Orlando, Fla., plants. As a result of this cost-effective approach to reducing emissions, both facilities now meet the new regulations and have received new EPA permits.

GOVERNANCE AND ETHICS

Integrity is a hallmark of Sonoco's culture. The Company will not permit any type of illegal, unethical or improper behavior on the part of any employee. In addition, the Company has adopted and supports regulations and standards aimed at improving corporate governance.

For 13 years, Sonoco has been listed on the KLD Domini 400 Social Index. The investment index consists of 400 carefully selected U.S. companies that demonstrate leadership in corporate and social responsibility based on superior corporate governance and ethics, community relations, diversity, employee relations, human rights, environment, product quality and safety. Since 1990, the index has cumulatively outperformed the Standard & Poor's 500 Index.

WORKPLACE

Safety and good health are integral to Sonoco's business strategy. The Company is committed to creating an environment that encourages, supports and facilitates meaningful work, family and employees' personal lives.

In May 2006, South Carolina Governor Mark Sanford and First Lady Jenny Sanford presented Sonoco with the Healthy South Carolina Challenge Community Award for successfully working to improve the health and safety of its employees and the community.

CUSTOMER SATISFACTION AND PRODUCT QUALITY

Sonoco is committed to the highest quality products and services that satisfy customer requirements.

Sonoco do Brasil solidified its technical and commercial relationship with Rhodia, one of its largest textile tube customers, by proactively identifying paper tube cost reductions and process improvement opportunities for Rhodia's manufacturing operations. As a result of the collaboration, Sonoco was named Rhodia's 2006 Packaging Supplier of the Year.

^ Sonoco significantly expanded its rigid plastic capacity and capabilities with the acquisition of Clear Pack Company, a vertically integrated manufacturer of thermoformed and extruded plastic containers for consumer product and food services companies, adding 14 new high-speed roll-fed thermoformers and five new extrusion lines.

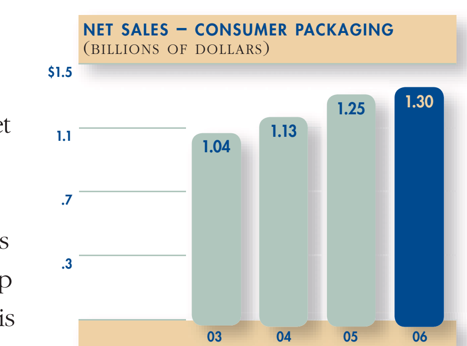
The Consumer Packaging segment develops and produces the packaging for many of the most recognized food and nonfood brands that consumers around the world use daily. This segment represents 35.7% of Sonoco's 2006 consolidated net sales and operates 51 plants in North America, South America, Europe and Asia. Packaging in this segment includes round and shaped composite paperboard cans, for which Sonoco is the global market leader; single-wrap paperboard packages; large paperboard pails; fiber and plastic cartridges; thermoformed, extruded and blow-molded rigid plastic containers; and squeeze tubes. In addition, this segment includes printed flexible packaging made from thin-gauge, high-value-added rotogravure, flexographic and combination printed film, including laminations, and rotogravure cylinder engraving. This segment also includes aluminum, steel, plastic and peelable membrane easy-open ends and closures for composite, metal and plastic containers.

Sales for the Consumer Packaging segment increased in 2006 to $1.30 billion, up 4.6%, compared with $1.25 billion in 2005. 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. Overall volumes were up 1% in the segment. Domestic sales in 2006 were approximately $925 million, up 3.5%, from 2005, and international sales were approximately $380 million, up 7.4% from 2005.

Operating profits for the Consumer Packaging segment increased in 2006 to $109.6 million, up 5.9%, compared with $103.5 million in 2005. Segment operating profits were favorably impacted by higher productivity and purchasing initiatives, while selling price increases were partially offset by higher costs of energy, freight, material and labor. Continued high startup costs at the Company's rigid plastic containers plant in Wisconsin also dampened operating profits in the segment, as did operational issues and the loss of a customer at the Company's closures plant in Brazil.

RIGID PAPER PACKAGING

Sonoco's rigid paper packaging products are the Company's second largest revenue-producing group of products and services, representing 16% of consolidated net sales in 2006. The increasing market demand for sustainable packaging is leading to growing interest in Sonoco's rigid paper packaging, as up to 75% of a composite can is made of recycled content. In addition, a number of companies are converting from other, more costly, rigid packaging containers to Sonoco's more economical and equally durable paperboard-based cans.



^ Sonoco helped customer Parmalat convert from a steel can to a safer-to-open, easier-to-reseal and more attractive composite can for its Leite Gloria, a powdered beverage mix made and sold in Brazil. The high-oxygen and high-moisture barrier can Sonoco developed keeps the powder clump-free.

RIGID PAPER INNOVATIONS

Sonoco has developed new grades of paperboard that are more rigid and stronger allowing its composite cans to withstand extreme changes in altitude, temperature and humidity. During 2006, many of the largest global producers of powdered infant formula and powdered milk beverages, including Abbott's Ross Products and Nestlé in the United States, Mead Johnson in Mexico and Parmalat in Brazil, converted from higher-priced all-metal cans to Sonoco composite cans without sacrificing performance.

The October 2006 acquisition of Cin-Made Packaging of Cincinnati expanded Sonoco's industry-leading rigid paper containers portfolio with the popular Dorpak® rectangular composite pail. This large-volume container provides better functionality than bags, jugs or buckets and is being used by a number of consumer product companies serving the following markets: lawn and garden, food and beverage, personal care, pet products and gourmet items.

Sonoco recently introduced a new market-differentiating Linearpak® paperboard can for Whole Foods Market's new gourmet pet treats in the United States. This unique rectangular-shaped can is designed with rounded corners that provide a superior presentation of the package's graphics. In addition, Sonoco became the sole supplier of Sono-wrap® single-wrap cups for General Mills'

Lebanon Seaboard's Preen lawn and garden products use Sonoco's rectangular Dorpak composite pail to stand out on crowded store shelves.

popular Häagen-Dazs® ice creams, sorbets and frozen yogurts in Europe. And, the Company developed a unique tapered single-wrap canister for the launch of Aimia Food's new Galaxy® Hot Chocolate Bliss drink mix in the United Kingdom.

RIGID PLASTIC PACKAGING

The acquisition of Clear Pack Company of Franklin, Ill., at the end of 2006 substantially increases Sonoco's technological and manufacturing capability for thermoformed and extruded rigid plastic containers. Clear Pack serves several large consumer product and food service companies and produces a variety of containers for single-serve condiments, fresh produce and other food service needs. With the addition, Sonoco now offers a complete line of rigid plastic products, including injection molding, blow molding, thermoforming, tube extrusion and sheet extrusion designs to meet a wide range of customer needs.

NEW RIGID PLASTIC PRODUCTS

One of Sonoco's more significant new product developments for 2007 is the production of blow-molded, rigid plastic bottles for Ensure® nutritional drinks. Because of the size of the new business development with Abbott's Ross Products Division, Sonoco is significantly expanding its blow-molding production capabilities. The first phase of the expansion will result in the production of new eight-ounce, retort bottles by the second quarter of 2007 at the Company's Wausau, Wis., plant. Phase two of the expansion will have Sonoco starting production in late 2007 from a new blow-molding plant being developed in Columbus, Ohio.

Consumer demand for high-quality, portable heat-and-eat entrees continues to grow. Now Foods, LLC chose Sonoco's Sonotort™ Shatterproof™ microwaveable retort pouches with eight-color rotogravure printing to launch its new line of Rice Now® side dishes.

FLEXIBLE PACKAGING

Sales and operating earnings improved year-over-year in Sonoco's flexible packaging business and steps were taken during the year to further expand and improve the business' technology and manufacturing capabilities. The acquisition of much needed rotogravure printing capacity in

^ P&G launched its new line of gourmet snacks, Pringles® Select crisps, in Sonoco's high-performance flexible standup pouches with clear shelf appeal. The pouch's foil barrier protects the flavor and freshness of the crisps inside and its vibrant graphics attract consumer attention and communicate the premium nature of the snack.

Texas in the first quarter of 2006 is providing a vehicle for new business development. A new eight-color flexographic printing press, which came on line in June 2006 at the Company's Terrebonne, Quebec, Canada, plant, improved operating efficiency and provided expanded capacity to meet the needs of a growing confectionery market. A second new flexographic printing press will be added in Terrebonne and another new printing press will be operational at the Company's Winnipeg, Manitoba, Canada, plant by mid-2007. And, a new state-of-the-art pre-press graphics and automated cylinder engraving facility was opened in Richmond, Va., early in 2007 to expand the Company's image carrier operations.

FLEXIBLE PACKAGING INNOVATIONS

The "hot button" for flexible packaging in 2006 was development of easy-open and reclose features that are more convenient for consumers. Sonoco and Kraft Foods received the prestigious DuPont Gold Award for Packaging Innovation for the revolutionary Snack 'n Seal® easy-open and reclose flexible package that is being used in seven lines of Nabisco® brand cookies. A second generation of this unique feature, that is proprietary to Sonoco, is completing customer testing and is expected to be commercialized into other cookie lines in 2007. In addition, Sonoco is leading development of precision die cutting and laser scoring that creates a custom-shaped opening feature that can be tailored to various flexible packaging formats without compromising the integrity of the package.

Sonoco is introducing its newest line of retort flexible pouches in early 2007, the Sonotort™ Shatterproof™ microwaveable pouch. The non-foil pouches feature a unique organic coating that is highly resistant to flex cracking, a phenomenon that can compromise the performance and aesthetic appeal of retort pouches. The first commercial application of the pouch will be launched in 2007 by Now Foods of Pearl, Miss., for its new heat-and-eat Rice Now® entrees. Initially being introduced in seven flavors, Now Foods is also testing the new packaging for other ready-to-eat processed foods. In addition, Sonoco worked with Three Dog Bakery of Kansas City, Mo., to develop a unique standup retort pouch to launch its Entrée for Dogs® premium shelf-stable wet dog food that is being sold in Wal-Mart stores throughout the United States.

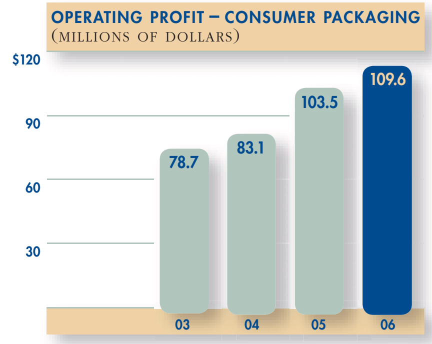
And the Company developed new high-barrier flexible packages for P&G's new Pringles® Minis and Pringles® Select crisps that were introduced in the United States in late 2006 and early 2007.

ENDS AND CLOSURES

As one of the world's largest manufacturers of easy-opening ends, Sonoco provides global distribution of a full range of convenience closures for metal, composite and plastic packaging serving processed and nonprocessed food markets.

PRODUCT AND TECHNOLOGY INNOVATIONS

One of North America's leading packaged food companies converted to Sonoco's dual countersink easy-opening ends for a single line of canned vegetables during 2006 and, as a result of its success, the company is planning to expand into other products in 2007. In addition, another major U.S. processed food manufacturer is completing qualification testing of Sonoco's new Ultrapeel™ retortable membrane closure system for its microwaveable liquid food products. A new production line was installed at the Company's Canton, Ohio, ends plant to produce the new smooth-opening, consumer safe ends. Designed for convenient heat-and-eat packages, Ultrapeel membrane ends can be printed and embossed with high-quality graphics to provide greater market differentiation.



Left, Sonoco is General Mills' sole supplier of single-wrap cups for Häagen-Dazs ice creams, sorbets and frozen yogurts in Europe. Right, Amia chose a richly colored, tapered Sono-wrap package to launch its new premium Galaxy Hot Chocolate Bliss drink mix.

^ Not only is Sonoco the world's largest producer of tubes and cores, it is also the industry technology leader. The superior quality of the tubes manufactured by Sonoco's Hartsville Spiral operation led Nan Ya Plastics to name Sonoco its sole tube supplier for its Lake City, S.C., textile yarn plant.

The Tubes and Cores/Paper segment accounted for 41.7% of the Company's consolidated net sales in 2006. The products and services of the Tubes and Cores/Paper segment include paperboard tubes, cores, roll packaging, supply chain packaging services, molded plugs, recycled paperboard and recovered paper.

Sales for the Tubes and Cores/Paper segment were $1.53 billion, up 2.9%, from $1.48 billion in 2005. The increase in sales was due to higher 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. Domestic sales increased approximately $15 million, or 1.9%, to $772.6 million, and international sales increased approximately $29 million, or 4%, to $753 million.

Segment operating profits increased in 2006 to $148.2 million, up 38.4%, from $107.1 million in 2005 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 a subsidiary's paper operations in Wisconsin. In addition, 2005 results included a $3 million non-restructuring asset impairment charge related to operations in Asia.

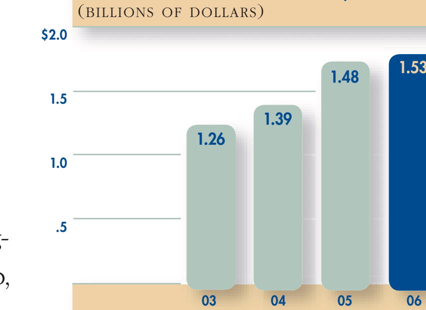
GEOGRAPHIC EXPANSION

In the fourth quarter of 2006, Sonoco purchased the remaining 35.5% minority interest in Sonoco-Alcore, S.a.r.l., a European tube, core and paper joint venture, from Ahlstrom Corporation of Finland. In addition, Sonoco-Alcore purchased the remaining 75% interest of Demolli Industria Cartaria S.p.A, Italy's largest manufacturer of tubes, cores and recycled coreboard. These complementary transactions have resulted in Sonoco now owning 100% controlling interest in 30 tube and core converting plants and six paperboard mills in Europe, further increasing the Company's market leading position in Europe as a whole. As part of its cost-reduction program announced in October 2006, which is primarily focused on certain of the Company's international operations, Sonoco closed a paper mill in France and expects further restructuring of its global operations in 2007.

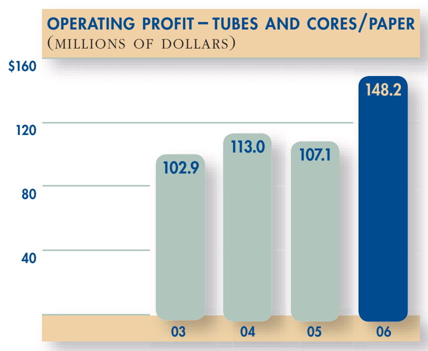
TUBES AND CORES

Sonoco is the world's leading producer of tubes and cores from 121 converting facilities on five continents. The Company's tube and core products and services are the Company's largest revenue-producing group, representing 31% of consolidated net sales in 2006. Sonoco's tubes and cores business serves industrial customers in a variety of markets, including those in the construction, film, paper, textile, metals, flowable products, and tape and label industries.

NET SALES – TUBES AND CORES/PAPER
(BILLIONS OF DOLLARS)



NEW PRODUCT INNOVATIONS



As the market and technology leader in the design and manufacture of concrete column forms, Sonoco recently launched Sonotube® Commercial, the Company's most durable, water-resistant concrete form. The new concrete form offers exceptional tear resistance, and its strength allows it to stand up to full liquid head pressures of up to 20 feet. In addition, the new concrete form is more water-resistant than other paper forms and able to withstand 72 hours or more of rainfall. The patent-pending, poly-woven design of the Sonotube Commercial form makes it perfect for commercial grade applications such as parking garages, stadiums, bridges, residential structures and footings, and commercial buildings. The form is being marketed throughout North America in sizes ranging from six to 60 inches in diameter and in lengths of either 12 or 20 feet.

PAPER

Sonoco's paper operations provide the primary raw material for the Company's paper-based packaging. The Company uses approximately 65% of the paper it manufactures, and the remainder is sold to third parties. This vertical integration strategy is supported by 26 paper mills and 37 paper machines and 51 recovered paper collection facilities in North America, South America, Europe and Asia. In 2006, Sonoco had the capacity to manufacture approximately 1.8 million tons of recycled paperboard. The Company's paper operations serve such markets as converted paper products, spiral winders, beverage insulators, displays, gaming and paper manufacturing.

EXPANDING EXTERNAL SALES

Sonoco teamed up with World Pac Paper (WPP), a Maryland-based minority-owned paper distributor, to secure one of the Company's largest external trade paper sales. In January 2006, the Sonoco/WPP partnership began supplying corestock from Sonoco's North American mills to P&G for use in making cost-effective single-ply towel and tissue cores.

ENVIRONMENTAL SUSTAINABILITY

Sonoco is one of North America's largest paper recyclers, annually collecting 3.5 million tons of

Left, Sonoco has increased export of recovered paper from major ports across the United States, including Charleston, S.C. Right, paper mills add Cascades-Sonoco's patent-pending DryTech™ moisture barrier system to their wrap lines to prevent water-related damage to rolls of paper during transit and storage and to protect their profits.

PHOTO COURTESY OF MARVIN PRESTON, PORT OF CHARLESTON

^ Sonoco's versatile and easy-to-use Builder's Tube® concrete forms are ideal for the growing do-it-yourself home improvement market. Made of multiple layers of high-quality fiber and ideal for decks, fences, mailboxes and lamps, they meet consumer demand for convenient products that produce professional results.

old corrugated containers (OCC) and other grades of recovered paper as well as significant volumes of plastics and metals. In addition to providing a secure supply of raw material for Sonoco's worldwide paper operations, the Company sells about one-third of its recovered materials to other basic material recyclers, including a growing amount of OCC exported to paperboard manufacturers in China.

To support its growing recycling efforts, Sonoco opened, in September 2006, a new $5 million fully automated Materials Recovery Facility (MRF) in Raleigh, N.C., that is capable of processing up to 500 million pounds of residential and commercial recyclable materials annually. The 45,000-square-foot recycling facility incorporates a computer-automated reclamation processing system that uses customized conveyors, an elliptical sorter, larger storage hoppers and a fully automated horizontal baler to automatically separate, store, compact and bale reclaimed newsprint, OCC, and other recycled paper and packaging, aluminum, steel, glass and plastic.

In addition to handling materials from the Raleigh and Wake County, N.C., area under an extended contract, Sonoco recently signed agreements to process residential curbside recycled materials from three other eastern North Carolina communities.

^ Sonoco CorrFlex service centers, like this one in Rural Hall, N.C., design, manufacture, assemble, pack and distribute temporary, semipermanent and permanent point-of-purchase displays for some of the world's largest consumer product companies, including P&G.

The Packaging Services segment accounted for 12.5% of the Company's consolidated net sales in 2006. The segment consists of packaging supply chain management services, including contract packing, fulfillment and scalable service centers operated by Sonoco for major consumer product companies. In addition, this segment is engaged in designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase (P-O-P) displays, and providing brand artwork management services.

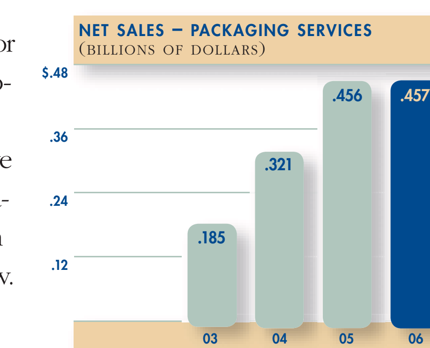
Net sales for the Packaging Services segment in 2006 were $456.8 million, compared with $455.9 million in 2005. Sales were flat in this segment due to the December 2005 divestiture of a single-plant folding carton operation. Higher volumes and selling prices in the service centers more than offset lower 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 increasing output from a new service center in Poland.

Segment operating profits decreased to $39.2 million in 2006, compared with $44.8 million in 2005. The decrease was attributable to unfavorable changes in the mix of business and the impact of a gain on the sale of the folding 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 gross margin. Productivity and purchasing initiatives partially offset unfavorable factors.

SERVICE CENTERS

Sonoco's four dedicated service centers and eight fulfillment centers provide supply chain management services on a global basis to a growing number of large consumer product companies. For P&G, Sonoco packages all Gillette® razors and blades for North America in a dedicated service center in Devens, Mass., and for Europe in Lodz, Poland. P&G's highly successful global launch during 2006 of the new Gillette Fusion™ razor was primarily fulfilled in service centers operated by Sonoco.

In September 2006, Sonoco was awarded a five-year contract with The LEGO Group of Denmark to fulfill its educational and Belville™ products in a new service center in Strykow, Poland, near Lodz. In addition, Sonoco received a new multiyear contract, beginning in 2007, to handle fulfillment services for Gillette personal care promotional packaging. Under the agreement, Sonoco will move existing service center operations in the United Kingdom to the new facility in Strykow. Sonoco also operates a service center for P&G in Euskirchen, Germany, where it packs baby, beauty and family care products.



In Sandston, Va., Sonoco packs ink cartridges for Hewlett-Packard (HP) printers that are marketed throughout the Americas. In 2006, HP increased

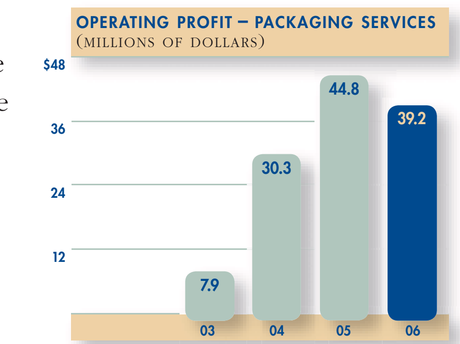
Consumers today have more personal care product choices than ever before. To maximize launches of new products, consumer product companies call on Sonoco CorrFlex to design and manufacture high-impact P-O-P displays that get noticed.

fulfillment business at the center, including transitioning all Photo Value Pack packaging to Sonoco from another third-party supplier.

POINT-OF-PURCHASE DISPLAYS

As one of the largest providers of retail displays and fulfillment services in North America, Sonoco CorrFlex is a key driver of the Company's total solutions strategy of offering a full range of packaging supply chain products and services to retail-focused companies. Sonoco CorrFlex operates a national network of nine regional sales and design offices and four in-house manufacturing operations. The Company expanded its footprint in May 2006 with the acquisition of certain P-O-P and packaging fulfillment assets of Markson Rosenthal & Co. The purchase provided Sonoco CorrFlex with a much needed design and fulfillment center in Bolingbrook, Ill., near Chicago, as well as several new relationships with large consumer product companies.

Sonopop®, the modular palletized display system that uses Sonoco's proprietary Sonopost® technology, is a key marketing tool for Sonoco CorrFlex. This system incorporates Sonoco engineered corrugated components from the Company's protective packaging business to create a cost-effective customizable display that safely delivers consumer products to grocery, club and mass merchandising stores. In 2006, Sonoco CorrFlex developed a unique mix-and-match Sonopop display system for Gerber® baby food products going into Food Lion stores. The quarter pallet solution merchandized the same amount of product in half the previous footprint and substantially reduced the number of truckloads required to move the displays from warehouse to the store floor.



Elizabeth Arden, one of the largest U.S. fragrance creators, tapped Sonoco CorrFlex in 2006 to design, engineer and manufacture bold, eye-catching displays to launch its new Daytona 500® men's fragrance. Under a licensing agreement with International Speedway Corporation, Elizabeth Arden wanted a display that capitalized on the growing popularity of NASCAR. To facilitate the launch, Sonoco CorrFlex created endcap displays for Wal-Mart stores and counter displays for several chain drug retailers including Walgreens, CVS and Rite Aid. The header and base of the display were designed with curved panels reflecting the lines of a racing tire and featured large product photography and the Daytona 500 trademark to evoke an emotional selling proposition to the consumer.

Sonoco CorrFlex P-O-P displays like this one boost customers' sales by making it quick and easy for busy mothers to buy all the baby food items they need at one time in one place.

GLOBAL GRAPHICS MANAGEMENT

Sonoco Trident uses a proprietary computerized global graphics operating system to manage and enhance the reproduction of its consumer product company customers' brand images, regardless of the medium. Sonoco Trident manages the global brands of The Body Shop, P&G, Unilever, McDonald's, Philip's, Seven Seas, Boots the Chemist and others. Based in Hull, England, U.K., Sonoco Trident was named to the lists of the Best Workplaces in the United Kingdom and Europe in 2006 by the *Financial Times*. In addition, during 2006, Sonoco Trident opened a new office in northern Kentucky to expand services into North America and better serve its global customers.

Sonoco's unique Baker™ reels recycling program gives customers the option of using new or used reels. Twelve recycling centers throughout the United States collect and refurbish used reels, helping Sonoco and its customers better use natural resources, reducing waste and lowering customers' disposal costs. The program has already saved 500,000 trees.

In addition to the products and services provided by Sonoco's three business segments, Sonoco produces protective packaging, wire and cable reels, molded and extruded plastics and paperboard specialties, including glass covers and coasters. The results of these operations are reported as All Other Sonoco. In 2006, these businesses accounted for 10.1% of the Company's consolidated net sales.

All Other Sonoco net sales increased 7.7% in 2006 to $369.7 million, compared with $343.2 million in 2005. Sales in these businesses increased due to price increases, 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 were $49.1 million, up 20.9%, compared with $40.6 million in 2005. Operating profits for these businesses 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.

ICON Health & Fitness, which manufactures home exercise equipment in China for export to the United States, counts on Sonoco's engineered protective packaging solutions to protect products during shipment, storage and retail distribution.

PROTECTIVE PACKAGING

Sonoco is a leading provider of custom-designed and engineered protective packaging solutions for household appliances, heating and air conditioning units, exercise equipment, furniture, office furnishings, and lawn and garden products.

GLOBAL GROWTH. Because of increased focus by appliance retailers on damage prevention, Sonoco saw significant growth in 2006 sales of its proprietary Sonopost® corner posts and cross braces, and Sonobase® carrier systems. To meet this growing demand, Sonoco added new production capacity at its Nashville, Tenn., and Tiffin, Ohio, plants, and will add a new production line at its San Louis Potosi, Mexico, plant in 2007. Sonoco leveraged existing resources and business relationships in adding a new production line in Kaiping, China, to provide protective packaging for an exercise equipment manufacturer and a large Chinese appliance manufacturer. The Company is also qualifying its packaging system for use by a large European appliance manufacturer in Turkey.

WIRE AND CABLE REELS

Sonoco is the leading producer of wooden, composite and metal reels for North America's wire and cable industry.

RECYCLING SERVICES. Sonoco has an established wooden reel recycling program that serves more than 1,200 end users in 641 cities throughout the Unites States and Canada. Recycling about 150,000 reels annually, the program helps customers reduce landfill costs and provides a cost-effective alternative to new reels. Since its inception, the program has saved more than 500,000 trees and reduced customers' landfill costs by as much as $60 million.

MOLDED AND EXTRUDED PLASTICS

Sonoco provides engineered plastic products to customers in North America, South America, Europe and Asia including a complete offering of product design, tool design and fabrication using injection molding and extrusion technologies. Working closely with both the Company's Consumer Packaging and Tubes and Cores/Paper segments, this business serves a broad array of markets including functional closures and containers, sophisticated films and foils, P-O-P displays, protective packaging, automotive, medical, healthcare, food service, food packaging, wire, cable, fiber optic and textile markets.

GLASS COVERS AND COASTERS

Sonoco is the North American market leader in supplying Stancap® glass covers, custom-printed Rixie™ paper coasters and other amenities to the hospitality, restaurant, advertising specialty and healthcare industries.

As part of its supplier diversity initiatives, Sonoco is purchasing fuel for its Recovered Paper group's transportation fleet from the Franklin, Ohio, minority-owned Hightowers Petroleum Company (HPC). To improve the refueling process, Sonoco worked with HPC to create the United States' first African-American-owned MasterCard Fuel Card program.

RENEWED FOCUS ON SAFETY

Safety is at the heart of Sonoco's culture, and the Company has built a record of world-class performance. During 2006, 195 operating locations qualified for the Company's President's Safety Award, and 58 locations received awards for totaling more than 200,000 hours of safe operation by their employees. Despite this success, for the first time in nearly a decade, Sonoco did not establish a new record for safe operations, recording a Total Incident Rate (TIR) (annualized number of reportable injuries per 100 full-time employees) of .85, compared with .84 in the previous year.

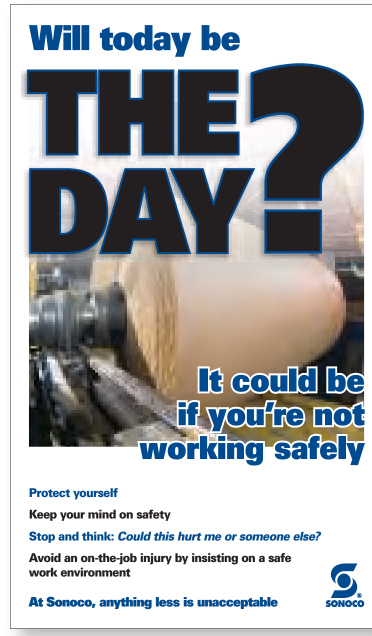
Sonoco is redoubling safety efforts and focusing on maintaining continuous improvement programs until a zero TIR is reached. Part of the Company's strategy to improve safety is to ensure that every employee is properly trained and focused on safety—with no exceptions. To combat a rise in hand and finger injuries, Sonoco has developed a new hand safety training video entitled "Will Today be The Day?" This new training aid has been translated into 17 different languages to ensure all employees are able to view and understand its important message.

INCREASING SUPPORT OF DIVERSE SUPPLIERS

The goal of Sonoco's supplier diversity program is to give Sonoco and its customers a competitive edge by encouraging qualified minority-owned and female-owned businesses to partner with the Company by providing a wide range of products and services. Sonoco's supply management team actively seeks diverse suppliers who share Sonoco's commitment to quality, customer focus, innovative business solutions, technology and cost savings.

Over the past several years, Sonoco has significantly increased its diversity spending, including a 30% increase in 2006 and a doubling of the Company's spending with minority-owned firms. To further benefit from its relationship with minority-owned and female-owned businesses, Sonoco has set a goal of again doubling its annual spending with diverse suppliers over the next several years.

Thanks in part to a unique partnership with Sonoco, Hightowers Petroleum Company (HPC), of Franklin, Ohio, has become the first African-American-owned MasterCard Fuel Card provider in the United States. Sonoco, which spends about $1.5 million annually with HPC, worked with the family owned company to develop a credit card fueling program that is being used by Sonoco's Recovered Paper group's truck fleet. HPC has been able to leverage Sonoco's business to attract much larger transportation fleets and significantly grow its business. For its part, Sonoco has been able to reduce fuel costs and greatly improve its fueling process.



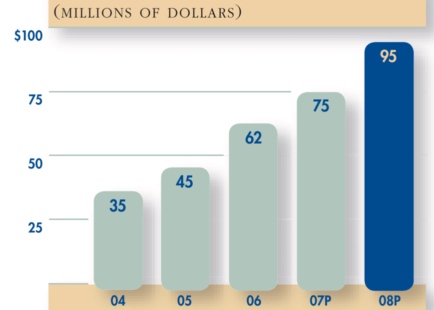
^ Sonoco helps improve the quality of life in the communities where it operates by donating used computer equipment to nonprofit organizations. Desktop computers Sonoco donated to the South Carolina Commission for the Blind narrate emails sent to and received by visually impaired residents.

REACHING OUT TO COMMUNITIES

Historically, Sonoco and its employees have reached out to provide support to the communities where the Company operates with the goal of improving the quality of life for its employees and fellow citizens. The Company annually budgets approximately 1% of its consolidated pretax income in the areas of education, health and welfare, arts and the environment. The Company's philanthropic, community, employee and general citizenship activities and policies are reviewed by the Employee/Public Responsibility Committee of Sonoco's board of directors.

In addition to financial contributions, Sonoco has developed programs to further enrich its communities, such as providing used computer equipment to support more than 20 nonprofit organizations. One recent donation of 24 desktop computers went to the South Carolina Commission for the Blind to power a special audio program that verbally narrates emails being sent and received by visually impaired persons.

SUPPLIER DIVERSITY GROWTH
(MILLIONS OF DOLLARS)



^ Seated, left to right, Ed Lawton, Marc Oken and James Micali. Standing, left to right, Fitz Coker, Jack Linville, Caleb Fort, Charlie Bradshaw, Harris DeLoach, Pamela Davies, Tom Whiddon, John Mullin, Bernard Kasriel and James Coker.

HARRIS E. DELOACH JR., 62
Chairman of the Board since 2005, President and Chief Executive Officer since 2000. Served on the Board since 1998. Member of the Executive Committee.

CHARLES J. BRADSHAW, 70
President and director of Bradshaw Investments, Inc. (private investments), Georgetown, S.C., since 1986. Formerly President and Chief Operating Officer of Transworld Corporation 1984-1986; Chairman and Chief Executive Officer of Spartan Food Systems, Inc. 1961-1986. Served on the Board since 1986. Member of the Corporate Governance and Nominating, Financial Policy and Executive Compensation Committees.

FITZ L.H. COKER, 71
Retired. Formerly President and a director of Sea Corporation of Myrtle Beach, Inc. (private investments), Myrtle Beach, S.C. 1983-1989; Sr. Vice President at Sonoco 1976-1979. Served on Board since 1964. Member of the Employee and Public Responsibility Committee.

JAMES L. COKER, 66
President, JLC Enterprises (private investments), Stonington, Conn., since 1979. Formerly Secretary of the Company 1969-1995; President of Sonoco Limited, Canada 1972-1979. Served on the Board since 1969. Member of the Audit and Financial Policy Committees.

DR. PAMELA L. DAVIES, 50
President of Queens University of Charlotte (institute of higher learning), Charlotte, N.C., since 2002. Formerly Dean of the McColl School of Business at Queens University of Charlotte 2000-2002; Professor of Management and Dean of the LeBow College of Business at Drexel University 1997-2000. Served on the Board since 2004. Member of the Audit and Employee and Public Responsibility Committees.

CALEB C. FORT, 45
Co-chairman, The Merit Group, Inc. (distributors of residential and commercial paint-related products and various industrial supplies), Spartanburg, S.C., since 1998. Formerly a principal of Lancaster Distributing Company 1990-1998. Served on the Board since 2001. Member of the Audit, Employee and Public Responsibility and Corporate Governance and Nominating Committees.

BERNARD L.M. KASRIEL, 60
Partner in LBO France (private equity firm), Paris, France, since September 2006. Formerly Vice Chairman of the Board, Lafarge, Paris, France, January-May 2006 and Chief Executive Officer of Lafarge 2003-January 2006; Vice Chairman and Chief Operating Officer of Lafarge 1995-2003; Vice Chairman and Chief Operating Officer of Lafarge 1995-2003; Managing Director of Lafarge 1989-1995; Sr. Executive Vice President 1987-1989; Executive Vice President 1982-1987. Served on the Board since 1995. Member of the Executive Compensation and Financial Policy Committees.

EDGAR H. LAWTON III, 46
President and Treasurer, Hartsville Oil Mill (vegetable oil processor), Darlington, S.C., since 2000, and a director since 1991. Formerly Vice President of Hartsville Oil Mill 1991-2000. Served on the Board since 2001. Member of the Audit and Employee and Public Responsibility Committees.

JOHN E. (JACK) LINVILLE, 61
Attorney in private practice in New York, N.Y., since 2004. Formerly counsel with Manatt, Phelps & Phillips, LLP 2003-2004, joining the firm through its merger with his prior firm, Kalkines, Arky, Zall & Bernstein, LLP 1990-2003; General Counsel and then Acting President of the New York Health & Hospitals Corporation prior to 1990. Served on the Board since 2004. Member of the Executive Compensation and Financial Policy Committees.

JAMES M. MICALI, 59
Chairman and President, Michelin North America, Inc. (tire manufacturer), Greenville, S.C., since 1996 and a member of Michelin Group's Executive Council since 2001. Formerly Executive Vice President, Legal and Finance of Michelin North America 1990-1996; General Counsel and Secretary 1985-1990. Served on the Board since 2003. Member of the Audit, Executive, and Corporate Governance and Nominating Committees.

JOHN H. MULLIN III, 65
Chairman, Ridgeway Farm LLC, Brookneal, Va. (privately held timber and farming business), since 1989. Formerly Managing Director of Dillon, Read & Co. Inc., 1969-1989. Served on the Board since 2002. Member of the Corporate Governance and Nominating, Financial Policy, Executive and Executive Compensation Committees.

MARC D. OKEN, 60
Managing Partner of Falfurrias Capital Partners (private equity firm), Charlotte, N.C., since January 2006. Formerly held executive officer positions at Bank of America Corporation 1989-2006, most recently as Chief Financial Officer; partner at Price Waterhouse LLP for 13 years; a Fellow with the Securities and Exchange Commission 1981-1983. Joined the Board in February 2006. Member of the Audit and Executive Compensation Committees.

THOMAS E. WHIDDON, 54
Advisory Director of Berkshire Partners, LLC (private equity firm), Boston, Mass., since October 2005. Formerly acting Chief Operating Officer of Waterworks, Inc., a Berkshire portfolio company, January-June 2006. Executive Vice President, Logistics and Technology, of Lowe's Companies, Inc. 2000-2003; Executive Vice President and Chief Financial Officer of Lowe's 1996-2000; also held senior financial positions at Zale Corporation and Eckerd Corporation. Served on the Board since 2001. Member of the Audit Committee.

^ Left to right, Harris DeLoach, Charles Sullivan, Cindy Hartley, Jim Bowen, Charlie Hupfer, Jack Sanders and Eddie Smith.

EXECUTIVE COMMITTEE

HARRIS E. DELOACH JR., 62
Chairman of the Board, President and Chief Executive Officer since 2005. Previously President and Chief Executive Officer 2000-2005; Chief Operating Officer April-July 2000; Senior Executive Vice President 1999-2000; Senior Executive Vice President, Global Industrial Products/Paper/Molded Plastics 1999; Executive Vice President, High Density Film, Industrial Container, Fibre Partitions, Protective Packaging, Sonoco Crellin and Baker Reels 1996-1998. Joined Sonoco in 1985.

JIM C. BOWEN, 56
Senior Vice President since 2002. Previously Senior Vice President, Global Paper Operations 2000-2002; Vice President/General Manager, Paper 1997-2000; Vice President, Manufacturing N.A., Paper 1994-1997; Director of Manufacturing 1993-1994. Joined Sonoco in 1972.

CYNTHIA A. HARTLEY, 58
Senior Vice President, Human Resources since 2002. Previously Vice President, Human Resources 1995-2002. Joined Sonoco in 1995.

CHARLES J. HUPFER, 60
Senior Vice President and Chief Financial Officer and Corporate Secretary since 2005. Previously Vice President and Chief Financial Officer and Corporate Secretary 2002-2005; Vice President, Treasurer and Corporate Secretary 1995-2002; Treasurer 1988-1995. Joined Sonoco in 1975.

M. JACK SANDERS, 53
Senior Vice President, Global Industrial Products since October 2006. Previously Vice President, Global Industrial Products January-October 2006; Vice President, Industrial Products N.A. 2001-2006; Division Vice President/General Manager, Protective Packaging 1998-2001; General Manager, Protective Packaging 1991-1998. Joined Sonoco in 1987.

EDDIE L. SMITH, 55
Vice President, Industrial Products and Paper Europe since November 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; Division Vice President, Consumer Products Europe 1994-1996. Joined Sonoco in 1971.

CHARLES L. SULLIVAN JR., 63
Executive Vice President since 2005. Previously Senior Vice President 2000-2005; Regional Director, Cargill Asia/Pacific in 2000 and President, Cargill's Salt Division 1995-2000. Joined Sonoco in 2000.

OTHER CORPORATE OFFICERS

RITCHIE L. BOND, 50
Staff Vice President, Treasurer since 2005. Prior experience: Senior Vice President and Treasurer of Alliance One International. Joined Sonoco in 2005.

BERNARD W. CAMPBELL, 57
Vice President and Chief Information Officer since 1996. Previously Staff Vice President, Information Services 1991-1996; Director, Corporate Information Services 1990-1991. Joined Sonoco in 1988.

RODGER D. FULLER, 45
Vice President, Rigid Paper and Plastics N.A. since 2006. Previously Vice President, Rigid Paper and Plastics N.A. and Sonoco Phoenix 2005-2006; Vice President and General Manager, Consumer Products N.A. 1997-2005. Joined Sonoco in 1985.

KEVIN P. MAHONEY, 51
Vice President, Corporate Planning since 2002. Previously Staff Vice President, Corporate Planning 1996-2000. Joined Sonoco in 1987.

MARTY F. PIGNONE, 50
Vice President Paper, N.A. since 2005. Previously Division Vice President and General Manager, Paper N.A. 2000-2005. Joined Sonoco in 1997.

DOLLARS IN MILLIONS EXCEPT PER SHARE

The Company's results determined in accordance with U.S. generally accepted accounting principles (GAAP) are referred to as "as reported" results. Some of the information presented in this report reflects the Company's "as reported" results adjusted to exclude certain amounts related to the Company's restructuring initiatives and certain non-recurring or infrequent and unusual expenses. These adjustments result in the non-GAAP financial measures referred to in this report as "Base Earnings" and "Base Earnings per Diluted Share."

These non-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Sonoco continues to provide all information required by GAAP, but it believes that evaluating its ongoing operating results may not be as useful if an investor or other user is limited to reviewing only GAAP financial measures. Accordingly, Sonoco uses these non-GAAP financial measures for internal planning and forecasting purposes, to evaluate its ongoing operations, and to evaluate the ultimate performance of each business unit against budget all the way up through the evaluation of the chief executive officer's performance by the board of directors. In addition, these same non-GAAP measures are used in determining incentive compensation for the entire management team and in providing earnings guidance to the investing community.

Sonoco management does not, nor does it suggest that investors should, consider these non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Sonoco presents these non-GAAP financial measures to provide users information to evaluate Sonoco's operating results in a manner similar to how management evaluates business performance. Material limitations associated with the use of such measures are that they do not reflect all period costs included in operating expenses and may not reflect financial results that are comparable to financial results of other companies that present similar costs differently. Furthermore, the calculations of these non-GAAP measures are based on subjective determinations of management regarding the nature and classification of events and circumstances that the investor may find material and view differently. To compensate for these limitations, management believes that it is useful in understanding and analyzing the results of the business to review both GAAP information that includes the impact of restructuring charges and certain unusual items, and the non-GAAP measures that exclude them. Whenever Sonoco uses a non-GAAP financial measure, it provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures as detailed below.

	1ST QUAR.	2ND QUAR.	3RD QUAR.	4TH QUAR.	YEAR	ANNUAL EPS
2006						
Net income, as reported (GAAP)	$45.1	$49.3	$61.1	$39.5	$195.1	$1.92
Adjusted for:						
Restructuring charges, net of tax	1.4	1.6	.6	17.4	20.9	.21
Base earnings (non-GAAP)	$46.5	$50.9	$61.7	$56.9	$216.0	$2.13
2005						
Net income, as reported (GAAP)	$37.0	$40.2	$45.9	$38.8	$161.9	$1.61
Adjusted for:						
Restructuring charges, net of tax	3.1	5.6	2.5	1.8	13.0	.13
Environmental reserve, net of tax				7.6	7.6	.08
Taxes on repatriation of foreign earnings				10.1	10.1	.10
Base earnings (non-GAAP)	$40.1	$45.8	$48.4	$58.3	$192.6	$1.92

NET SALES, EXCLUDING DIVESTED BUSINESSES

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

YEAR ENDED DECEMBER 31	1995	2000	2006
Net sales, as reported (GAAP)	$2,556,248	$2,570,708	$3,656,839
Adjusted for:			
Net sales from businesses subsequently divested	(522,429)	(25,206)	
Net sales, excluding divested businesses (non-GAAP)	$2,033,819	$2,545,502	$3,656,839
Five-year compound annual growth rate			
1995-2000		4.6%	
2000-2006			6.2%

ADDRESS

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

INVESTOR INFORMATION

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

SONOCO ON THE INTERNET

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

TRANSFER AGENT AND REGISTRAR

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

Address shareholder inquiries to:
The Bank of New York
Investor Services Department
P.O. Box 11258
New York, NY 10286-1258
E-mail: shareowners@bankofny.com

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

Send certificates for transfer and address changes to:
The Bank of New York
Receive and Deliver Department
P.O. Box 11002
New York, NY 10286-1002
Featuring:

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

SHAREHOLDER SERVICES

Sonoco – B01
1 North Second Street
Hartsville, SC 29550-3305

ELECTRONIC PAYMENT OF DIVIDENDS

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

SHAREHOLDER INVESTMENT PROGRAM

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

DUPLICATE ANNUAL REPORTS

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

SONOCO PUBLICATIONS

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

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

GENERAL INFORMATION

ANNUAL MEETING

The annual meeting of shareholders' will be held at 11 a.m. Eastern time on Wednesday, April 18, at:

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

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

LEGAL COUNSEL

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

INTELLECTUAL CAPITAL MANAGEMENT

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

125 West Home Avenue
Hartsville, SC 29550-4123

EQUAL OPPORTUNITY EMPLOYER

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

REFERENCES TO WEB SITE ADDRESSES

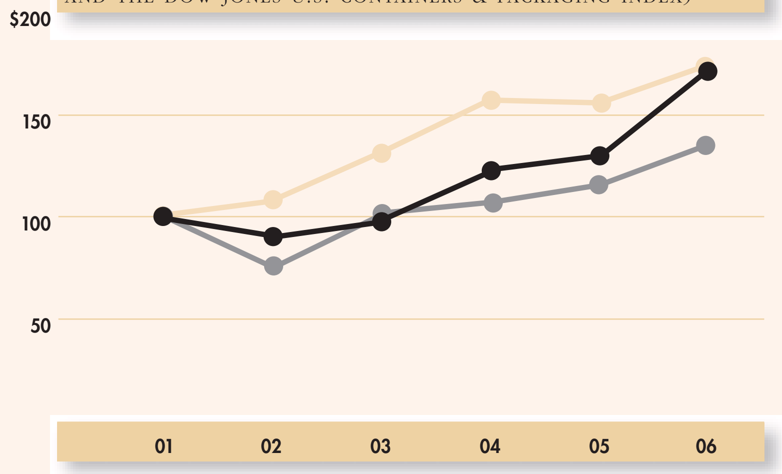
References to Sonoco's Web site address and The Bank of New York's Web site address are for informational purposes only and are not intended to, and do not, incorporate those Web sites or their contents by reference into this annual report.

SONOCO

2006 ANNUAL REPORT

The following graph compares the cumulative five-year total return attained by shareholders on Sonoco Products Company's common stock relative to the cumulative total returns of the S&P 500 Index and the Dow Jones U.S. Containers & Packaging Index (which includes the Company). An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on 12/31/2001 and its relative performance is tracked through 12/31/2006.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*
(AMONG SONOCO PRODUCTS COMPANY, THE S&P 500 INDEX AND THE DOW JONES U.S. CONTAINERS & PACKAGING INDEX)



*$100 invested on 12/31/01 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

	12/01	12/02	12/03	12/04	12/05	12/06
Sonoco Products Company	100.00	89.14	99.52	123.99	127.04	169.27
S&P 500	100.00	77.90	100.24	111.15	116.61	135.03
Dow Jones U.S. Containers & Packaging	100.00	107.59	128.11	153.28	152.31	170.72

OVERVIEW

2006 was a good year for both Sonoco and its shareholders. Sonoco achieved records in sales, net income and cash flow from operations and the Company's stock provided its shareholders with an annual total return of 33.2%. Sonoco's target is to provide shareholders with a double-digit average annual total return 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.

Sales continued to grow in 2006 from new products and acquisitions, while the Company received a number of awards for packaging innovation. The Company recorded a third consecutive year of operating margin improvement driven by strong productivity gains and a continued focus on price management, cost reductions and the turnaround of underperforming operations. The Company's initiative to reduce working capital and the operational improvement helped boost cash flow to record levels.

The Company's primary growth drivers are acquisitions, geographic expansion, providing total packaging solutions for customers and new product development. In 2006, sales grew 3.6% over 2005, primarily due to increased selling prices throughout the Company, the favorable impact of foreign exchange rates and an increase in volume.

During 2006, the Consumer Packaging segment provided 45% of the total increase in revenue and Tubes and Cores/Paper provided 34%, while revenue in the Packaging Services segment was essentially unchanged. Businesses in All Other Sonoco provided the remaining 21% of the total revenue increase. The Company expects that, over the next several years, growth in the consumer-related portions of its business will outpace growth in the industrial-related portions. Higher volume accounted for 21% of the revenue increase in Consumer Packaging, 40% in Tubes and Cores/Paper and 54% in All Other Sonoco. Volume increases in the Packaging Services segment were more than offset by the impact of the 2005 divestiture of a folding cartons plant.

The acquisitions made in 2006 did not have a significant impact on sales, as two of the larger ones did not close until late in the fourth quarter. However, these acquisitions are expected to provide additional year-over-year sales in excess of $100 million in 2007. The purchase of the remaining 35.5% interest in the Sonoco-Alcore S.a.r.l. (Sonoco-Alcore) joint venture will not result in additional sales as it was previously consolidated in the Company's results. A reduction in sales resulting from the December 2005 sale of the folding cartons operation more than offset the positive impact of several smaller acquisitions made earlier in 2006.

The Company reported net income of $195.1 million for 2006, compared with $161.9 million for 2005. Earnings growth in 2006 resulted in large part from productivity improvements in virtually all of the Company's businesses along with price increases that effectively offset increases in the costs of labor, material, freight and energy. Volume growth had less impact on operating profits than its effect on sales due to a change in the mix of products sold. The change in mix is primarily attributable to increased sales of tissue and towel board in the Tubes and Cores/Paper segment and composite cans to the powdered infant formula market in the Consumer Packaging segment. Both of these products have lower margins relative to other products. In addition, $10.1 million of increased sales volume in the Packaging Services segment were on a pass-through basis and therefore generated no significant additional gross margin.

Operating margins, including both gross profit margin and net income margin, showed improvement over 2005 levels. Net income for 2006 included after-tax restructuring charges of $20.9 million, $7.8 million more than the $13.1 million net restructuring charges recorded in 2005. Net income for 2005 was negatively impacted by an after-tax charge of $7.6 million related to an environmental reserve at a subsidiary's paper operations in Wisconsin and additional tax expense of $10.1 million associated with the repatriation of foreign earnings.

Cash flow from operations reached a record $482.6 million in 2006. Cash flow was used to fund capital expenditures, make acquisitions, pay dividends, repurchase Company stock and make net payments on debt. To sustain strong cash flow, the Company emphasizes profitable growth, effective working capital management and capital expenditure control. A portion of key manager incentive compensation is tied to achieving a targeted return on net assets.

RESTRUCTURING CHARGES, UNUSUAL ITEMS AND OTHER ACTIVITIES

RESTRUCTURING CHARGES

During 2006, the Company recognized restructuring charges, net of adjustments, totaling $26.0 million ($21.3 million after tax) under two restructuring plans—the 2006 Plan and the 2003 Plan. Of this total amount, the Company recognized $17.5 million of restructuring charges, net of adjustments, under the 2006 Plan and $8.5 million, net of adjustments, under the 2003 Plan.

The 2006 Plan, approved in October 2006, initiated cost-reduction measures primarily focused on certain of the Company's international operations, principally centered around Europe. It calls for the closure of approximately 12 plant locations globally and the reduction of approximately 540 positions worldwide. These measures began in the fourth quarter of 2006 and are expected to be substantially complete by the end of 2007. The 2006 charges related primarily to the closures of a paper mill in France, two tube and core plants—one in Canada and one in the United States, and a flexible packaging operation in Canada. The charges also include the closures of a wooden reels facility and a molded plastics operation in the United States as well as the impact of downsizing actions primarily in the Company's European tube and core/paper operations. The total pretax cost of the 2006 Plan is estimated to be approximately $35 million, most of which is related to severance and other termination costs; accordingly, the vast majority of the cost will result in the expenditure of cash.

The 2003 Plan, announced in August 2003, was designed to reduce the Company's overall operating cost structure by approximately $54 million by realigning and centralizing a number of staff functions and eliminating excess plant capacity. Pursuant to the 2003 Plan, the Company has initiated or completed 22 plant closings and has reduced its workforce by approximately 1,120 employees. Net charges recorded in 2006 related primarily to the closure of two tube and core plants and a flexible packaging operation in the United States, and an additional asset impairment charge resulting from a revision to the estimated sales proceeds of a previously closed paper mill located in the United States. These charges consisted of severance and termination benefits of $1.8 million, asset impairment charges of $2.6 million and other exit costs of $4.1 million, consisting of building lease termination charges and other miscellaneous exit costs. Through the end of 2006, the Company has recognized cumulative restructuring charges, net of adjustments, of $103.0 million under the 2003 Plan. Future restructuring charges to be incurred under this plan are expected to be minimal. With the exception of ongoing pension subsidies and certain building lease termination expenses, costs associated with the 2003 Plan are expected to be paid by the end of the 2007 using cash generated from operations.

During 2005, the Company recognized restructuring charges under the 2003 Plan of $21.2 million ($14.3 million after tax), net of adjustments, primarily related to 11 plant closings in the Tubes and Cores/Paper segment and three plant closings in the Consumer Packaging segment. Restructuring charges recognized during 2005 consisted of severance and termination benefits of $6.2 million, asset impairment charges of $6.5 million and other exit costs of $8.5 million, consisting of building lease termination charges and other miscellaneous exit costs. Of the $6.5 million of asset impairment charges (related to the writeoff/down of assets associated with 11 plant closings), the Company recognized writeoffs/downs of impaired equipment of $5.9 million and writeoffs/downs related to facilities held for sale of $0.6 million. Impaired assets are valued at the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2004, the Company recognized restructuring charges of $19.0 million ($16.2 million after tax), net of adjustments, primarily related to plant closings in the Tubes and Cores/Paper segment, the Consumer Packaging segment and in All Other Sonoco. Included in this amount is $2.2 million in restructuring charges, which resulted from a correction to previously reported financial statements at the Company's wholly owned subsidiary in Spain. Restructuring charges recognized during 2004 consisted of severance and termination benefits of $6.5 million, asset impairment charges of $6.2 million and other exit costs of $6.3 million, consisting of building lease termination charges and other miscellaneous exit costs.

The Company also recorded noncash, after-tax income in the amount of $0.4 million in 2006, $1.3 million in 2005, and $1.8 million in 2006 to reflect a minority shareholder's portion of restructuring costs that were charged to expense. This income, which resulted from the closure of certain plants that the Company contributed to Sonoco-Alcore, is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

ACQUISITIONS/JOINT VENTURES

The Company completed six acquisitions during 2006, and purchased the remaining 35.5% minority interest of its Sonoco-Alcore joint venture, at an aggregate cost of $227.3 million, all of which was paid in cash. Acquisitions in the Company's Tubes and Cores/Paper segment included the remaining 75% interest in Demolli Industria Cartaria S.p.A, an Italy-based tube and core/paper manufacturer, and a small tube and core manufacturer in Canada. Acquisitions made in the Consumer Packaging segment included a rotogravure printed flexible packaging manufacturer in Texas; a rigid paperboard composite container manufacturer located in Ohio; and Clear Pack Company, a manufacturer of thermoformed and extruded plastic materials and containers located in Illinois. In addition, the Company acquired a small packaging fulfillment business in Illinois, which is included in the Packaging Services segment. These acquisitions are expected to provide approximately $130 million in reported sales in 2007. Also in 2006, the Company purchased the remaining 35.5% interest in Sonoco-Alcore, a European tube, core and coreboard joint venture between the Company and Ahlstrom Corporation. Results for the Sonoco-Alcore joint venture, part of the Tubes and Cores/Paper segment, have been consolidated in the Company's results since its original formation in 2004; accordingly, no additional sales will result 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 were paid in cash.

The Company completed nine acquisitions during 2004 with an aggregate cost of $367 million, of which $267 million was paid in cash. The most significant acquisition in 2004 was CorrFlex Graphics, LLC, one of the nation's largest point-of-purchase display companies. The acquired business, which is known as Sonoco CorrFlex, LLC, is reflected in the Packaging Services segment. Acquisitions in the Company's Tubes and Cores/Paper segment included tube and core manufacturers in Australia, China and the United States. During the fourth quarter of 2004, the Company also completed a business combination with Ahlstrom Corporation, Helsinki, Finland (Ahlstrom), by which each of the companies' respective European paper-based tube/core and coreboard operations were combined into a joint venture that operates under the name Sonoco-Alcore S.a.r.l. and is reflected in the Tubes and Cores/Paper segment. The Company contributed ownership positions in 25 tube and core plants and five paper mills to Sonoco-Alcore, and held a 64.5% interest in the joint venture. Ahlstrom, a leader in high-performance fiber-based materials serving niche markets worldwide, contributed 14 tube and core plants and one paper mill to Sonoco-Alcore, and held a 35.5% interest in the joint venture. As noted above, the Company acquired this remaining 35.5% interest during 2006. The Company accounted for this transaction as an acquisition and, therefore, consolidated the joint venture and reported Ahlstrom's ownership as minority interest in the Company's financial statements. The recognition of Ahlstrom's share of the joint venture's net income was included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income until acquisition of the remaining minority interest was completed in 2006. Acquisitions in the Company's Consumer Packaging segment included a composite can manufacturer in Australia, a manufacturer of rotogravure cylinders in Canada and the remaining ownership interest in a manufacturer of rotogravure cylinders in Charlotte, N.C. The Company also acquired certain assets of a wooden reel refurbisher in Alabama, which are reported in All Other Sonoco.

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 transaction resulted in a gain of $2.4 million ($1.6 million after tax). The results of this business unit were immaterial to the Company's consolidated net income for all periods presented.

OTHER SPECIAL CHARGES, INCOME ITEMS AND CONTINGENCIES

During the fourth quarter of 2005, the United States Environmental Protection Agency (EPA) notified U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, that U.S. Mills and NCR Corporation (NCR), an unrelated company, would be held jointly responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin. U.S. Mills and NCR reached agreement between themselves that each would fund 50% of the costs of remediation, which the Company currently estimates to be between $24 million and $26 million for the project as a whole. Project implementation began in 2006; however, most of the project costs are expected to be incurred in 2007. Although the agreement reached 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 as an estimate of the portion of costs that U.S. Mills expects to fund under the current agreement. The charges recognized for this environmental reserve are included in "Selling, general and administrative expenses" in the Company's Consolidated Statements of Income. The actual costs associated with cleanup of this particular site are dependent upon many factors, and it is reasonably possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the 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 June 2006, U.S. Mills first received the results of tests it initiated on the U.S. Mills property that suggested that its DePere plant might have previously processed more 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. Further testing of the site is continuing to attempt to determine the extent of this recently discovered contamination. Based on these most recent findings, it is possible that U.S. Mills might be responsible for a larger portion of the remediation of the lower Fox River than previously anticipated. Governmental estimates of the costs for remediation of the lower Fox River are several hundred millions of dollars. The information currently available to the Company is insufficient to determine the probability or amount of liability that may be attributable to U.S. Mills. Accordingly, as of December 31, 2006, no additional reserve for the potential remediation costs of this site has been established. However, it is possible that U.S. Mills' ultimate share of the liability could exceed its net worth of approximately $90 million, but Sonoco believes the net worth of U.S. Mills represents the maximum exposure to the Company's consolidated financial position from these environmental claims.

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.

In 2004, the Company recognized charges of $5.6 million for the future costs of new executive life insurance benefits established to replace key executive split-dollar life agreements. Due to regulatory changes, the Company was not able to maintain those split-dollar agreements and the replacement benefits for the affected employees have been provided to meet the intent and commitments of the previous program. Also in 2004, the Company incurred a $4.5 million charge related to a trade secrets dispute. The charges recognized for the new executive life insurance benefits and the trade secrets dispute are included in "Selling, general and administrative expenses" in the Company's Consolidated Statements of Income. Additionally, 2004 net income was positively affected by $9.7 million due to the recognition of certain tax benefits as a result of examination conclusions by the Internal Revenue Service (IRS) and state tax authorities.

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

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, which were discussed above.

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 approximately:

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

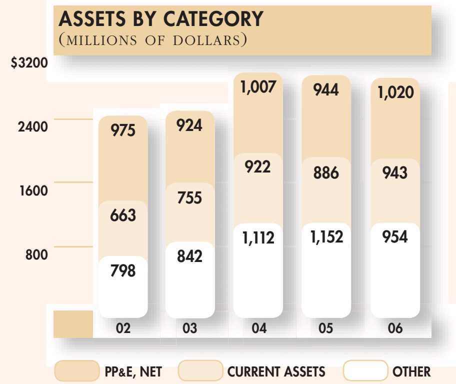
Prices were higher throughout the Company, with the exception of recovered paper operations, as the Company was able to implement price increases to offset the impact of higher costs of labor, energy, freight and materials. Companywide volume, excluding service center revenue which was on a pass-through 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 $44.1 million, versus $43.0 million in 2005. The Company expects these expenses to total approximately $34 million in 2007. This reduction will be partially offset by higher defined contribution plan costs. The return on assets of U.S.-based defined benefit plans was 13.9% in 2006 and 7.2% in 2005. Over time, investment returns on benefit plan assets impact the Company's cost of providing pension and postretirement benefits. The Company's U.S.-based qualified defined-benefit pension plan had a positive funded status of $9 million at year-end. 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 also sponsors the Sonoco Investment and Retirement Plan, a defined contribution pension plan, for its salaried and nonunion U.S. employees who were hired on or after January 1, 2004. The Company makes an annual contribution of 4% of all eligible pay plus 4% of eligible pay in excess of the Social Security wage base. The Company's total expense under this defined contribution plan was $1.2 million in 2006 and $0.4 million in 2005. The Company expects the defined contribution expense to total approximately $5 million in 2007.

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. 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. Expenses in 2005 included the previously mentioned $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 above 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. Significant 2006 projects in Sonoco's Tubes and Cores/Paper segment 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 projects aimed at enhancing productivity. The Consumer Packaging segment continued to invest in development of specialty metal closures, flexible packaging enhancements and rigid plastic containers technology.

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 American Jobs Creation Act 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 is 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 American Jobs Creation Act.

OPERATING SEGMENTS

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

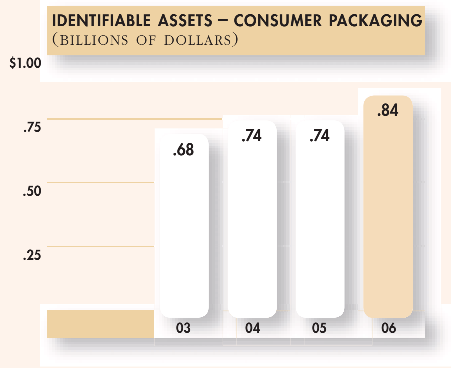
($ IN MILLIONS)	2006	2005	% CHANGE
Consumer Packaging Segment	$109.6	$103.5	5.9%
Tubes and Cores/Paper Segment	148.2	107.0	38.4%
Packaging Services Segment	39.2	44.8	(12.6)%
All Other Sonoco	49.1	40.6	20.9%
Restructuring and related impairment charges	(26.0)	(21.2)	(22.3)%
Interest expense, net	(45.3)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

Segment results viewed by Company management to evaluate segment performance do not include restructuring 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 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 Segment – Results for this segment are presented as follows:

($ 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.

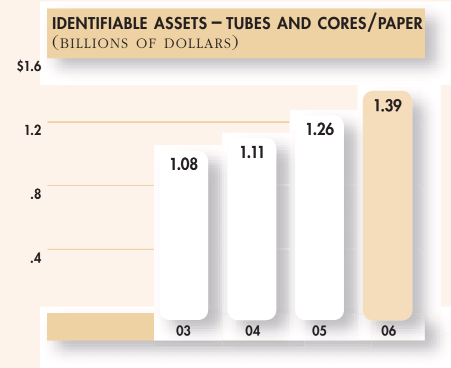
Segment operating profits were favorably impacted by productivity and purchasing initiatives, while selling price increases were partially offset by increased costs of energy, freight, material and labor. Continued high startup costs at the Company's rigid plastics container plant in Wisconsin also dampened 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 Segment – Results for this segment are presented as follows:

($ 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 a subsidiary's 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.

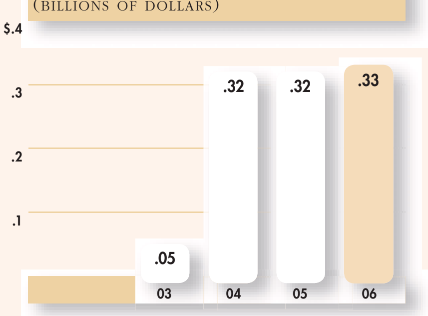
Packaging Services Segment – Results for this segment are presented as follows:

($ IN MILLIONS)	2006	2005	% CHANGE
Trade sales	$456.8	$455.9	.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 cartons 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.

IDENTIFIABLE ASSETS – PACKAGING SERVICES
(BILLIONS OF DOLLARS)



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

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

($ IN MILLIONS)	2006	2005	% CHANGE
Trade sales	$369.7	$343.2	7.7%
Segment 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 for all businesses, 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.

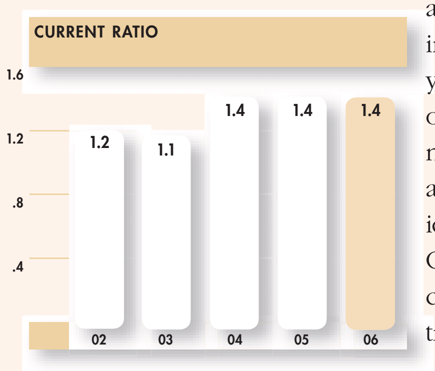
Capital spending included investing in customer development projects in the United States and Europe for molded and extruded plastics, protective packaging and wire and cable reels.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Cash flow from operations totaled $482.6 million in 2006, compared with $227.4 million in 2005. One driver of this increase was lower contributions to the Company's pension plans, as only $10.5 million was contributed in 2006, versus $77.0 million in 2005. Increased earnings and working capital initiatives, resulting in year-over-year reductions in inventories and increases in accounts payable, also favorably impacted operating cash flows. The projected benefit obligation of the U.S. Defined Benefit Pension Plan was fully funded as of December 31, 2006. 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 2007 contributions made to its benefit plans will be comparable to 2006 levels. However, no assurances can be made about funding requirements beyond 2007, as they will depend largely on actual investment returns and future actuarial assumptions.

Cash flows used by investing activities increased from $119.3 million in 2005 to $332.1 million in 2006. The Company invested $227.3 million in six acquisitions and the purchase of the remaining minority interest in a European tube, core and coreboard joint venture, in 2006. There were no significant acquisitions in 2005. Capital expenditures decreased by $5.8 million to $123.3 million in 2006 from $129.1 million in 2005. Capital expenditures in 2007 are expected to continue to be in the $130 million range. 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.



Net cash used by financing activities totaled $125.7 million in 2006, compared with $165.6 million used in 2005. Cash dividends increased 5.1% to $94.7 million during 2006 and cash was used to make net payments on debt of $23.6 million. During 2006, the Company acquired 2.5 million shares of Sonoco common stock at a cost of $82.7 million and issued shares through the exercise of previously awarded stock options for proceeds of $74.4 million.

Current assets increased by $57.3 million to $942.8 million at December 31, 2006. This increase is largely attributable to higher levels of cash and to a higher balance of trade accounts receivable stemming from 2006 acquisitions. Current liabilities increased by $39.3 million to $659.8 million at December 31, 2006. 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, 2006 and 2005.

CONTRACTUAL OBLIGATIONS

The following table summarizes contractual obligations at December 31, 2006:

		PAYMENTS DUE IN			
($ IN MILLIONS)	TOTAL	2007	2008-2009	2010-2011	BEYOND 2011
Debt obligations	$ 764.0	$ 51.9	$ 0.6	$ 100.0	$ 611.5
Interest payments[1]	354.0	39.5	79.0	72.2	163.3
Operating leases	135.7	28.9	43.2	25.8	37.8
Environmental remediation (U.S. Mills)[3]	11.7	11.7			
Purchase obligations[2]	174.1	11.9	25.8	24.2	112.2
Total contractual obligations	$1,439.5	$143.9	$148.6	$222.2	$924.8

[1] *Includes interest payments on outstanding fixed-rate, long-term debt obligations that do not have associated fair value hedges, as well as financing fees on the backstop line of credit.*
[2] *Includes only long-term contractual commitments. Does not include short-term obligations for the purchase of goods and services used in the ordinary course of business.*
[3] *Environmental remediation reserved in 2005.*

CAPITAL RESOURCES

Debt decreased by $17.6 million to $764.0 million at December 31, 2006, as cash flows from operations were used to pay down debt.

The Company currently operates a commercial paper program totaling $350 million and has fully committed bank lines of credit supporting the program by a like amount. On May 3, 2006, the Company entered into an amended and restated credit agreement to extend its $350 million bank line of credit to a new five-year maturity. The amended and restated credit agreement also provides the Company the option to increase its credit line to $500 million subject to the concurrence of its lenders. The Company intends to indefinitely maintain line of credit agreements fully supporting its commercial paper program. At December 31, 2006, the amount of the Company's outstanding commercial paper was $89 million, compared to $30 million at December 31, 2005. Consistent with the maturity of the supporting line of credit, the Company classifies outstanding commercial paper balances as long-term debt.

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 require 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.

Effective December 31, 2006, the Company adopted the balance sheet recognition provisions of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 requires companies to recognize the funded status of defined benefit plans on the balance sheet. Because FAS 158 is applied on a prospective basis, only the 2006 balance sheet is impacted by this change. Compared to what the balances would have otherwise been at December 31, 2006, applying FAS 158 reduced long-term assets by $260 million, increased total liabilities by $35 million, reduced long-term deferred tax liabilities by $114 million and reduced shareholders' equity by $181.4 million. The majority of the impact relates to the Company's U.S. qualified retirement plan which, although in an over-funded position, had a significant prepaid expense balance primarily related to unrecognized actuarial losses that was required to be reclassified to equity on an after-tax basis.

Shareholders' equity decreased $44.2 million from December 31, 2005, to $1.22 billion at December 31, 2006. 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, being 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. Shareholders' equity increased $110.4 million from December 31, 2004, to $1.26 billion at December 31, 2005. The increase resulted mainly from net income of $161.9 million in 2005 and stock option exercises of $37.4 million, reduced by dividends of $90.1 million, a foreign currency translation loss of $12.8 million, and minimum pension liability adjustments of $0.6 million.

During the first six months of 2006, the Company repurchased 2.5 million shares of Sonoco common stock for approximately $82.7 million. The shares were repurchased under an existing authorization to repurchase up to approximately 5.29 million shares. On April 19, 2006, the Company's board of directors rescinded all previously approved stock repurchase programs in conjunction with the approval of a new program, which authorizes the repurchase of up to 5.0 million shares of the Company's common stock. On February 7, 2007, the Company's Board of Directors, in anticipation of a planned 1.5 million share repurchase, authorized the reinstatement of those shares to its existing 5.0 million share authorization. On February 8, 2007, the Company completed the repurchase of 1.5 million shares of its common stock at a cost of $56.7 million; accordingly, 5.0 million shares remain available for repurchase. The Company did not repurchase any of its common stock in 2005.

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 $.95 in 2006, $.91 in 2005 and $.87 in 2004. On February 7, 2007, the Company declared a regular quarterly dividend of $.24 per common share payable on March 9, 2007, to shareholders of record on February 23, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no material off-balance sheet arrangements at December 31, 2006.

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 its operations. When necessary, the Company uses traditional, unleveraged interest-rate swaps to manage its mix of fixed and variable rate debt to maintain its exposure to interest rate movements within established ranges. No such instruments were outstanding at December 31, 2006.

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

At the end of 2006, the Company had contracts outstanding to fix the costs of a portion of commodity, energy and foreign exchange risks for 2007 through June 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). As of December 31, 2006, the Company had swaps to cover approximately 8.0 million MMBTUs of natural gas. The hedged natural gas quantities at this date represent approximately 75%, 56%, 31% and 6% of anticipated U.S. and Canadian usage for 2007, 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 $3.2 million ($2.1 million after tax) and a net favorable position of $17.5 million ($11.2 million after tax) at December 31, 2006 and 2005, respectively. Derivatives having a favorable position are reflected as a component of "Other Assets" on the Company's Consolidated Financial Statements while those having an unfavorable position are reflected as a component of "Other Liabilities." Derivatives are marked to fair value using published market prices, if available, or estimated values based on current price quotes and a discounted cash flow model. See Note 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. Accordingly, the Company has accrued $15.3 million (including $11.7 million associated with U.S. Mills) at December 31, 2006, compared with $16.8 million at December 31, 2005 (including $12.5 million associated with U.S. Mills), with respect to these sites. See Note 13 to the Consolidated Financial Statements for more information on environmental matters.

RESULTS OF OPERATIONS 2005 VERSUS 2004

Net income for 2005 was $161.9 million, compared with $151.2 million in 2004. This year-over-year increase in net income is largely attributable to higher operating profits in 2005, which increased primarily due to savings resulting from ongoing productivity and purchasing initiatives. The Company experienced a favorable price/cost relationship as sales price increases more than offset higher material costs, most notably in the Tubes and Cores/Paper segment. The full-year impact of acquisitions also contributed to earnings growth. Operating profits for 2005 were negatively impacted by higher energy, labor and freight costs, as well as startup costs associated with the Company's rigid plastic container plant in Wisconsin. Volume, excluding acquisitions, while contributing favorably to the sales growth, had a negligible impact on profits, as the change in the mix of products sold had an unfavorable effect on operating profits. In addition, approximately $24.8 million of the increased sales in the service centers were on a pass-through basis, with no significant gross margin, and therefore had very little impact on profits. Gross profit as a percentage of net sales was 18.7% in 2005, compared with 18.2% in 2004.

OPERATING REVENUE

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

The components of the sales change were approximately:

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

Sales increased primarily due to the full-year impact of the CorrFlex acquisition and the Sonoco-Alcore joint venture, which increased sales by $80 million and $87 million, respectively. Companywide volume, excluding the increased service revenue in the service centers, which was on a pass-through basis, was approximately 2.4% higher than 2004 levels, driven by increases in the Consumer Packaging and Packaging Services segments. Higher selling prices for rigid paper and plastic packaging, closures, North American tubes and cores, paperboard, wire and cable reels, and molded and extruded plastics, along with the favorable impact of exchange rates as the dollar weakened against foreign currencies, also contributed to the sales gain. Domestic sales were $2.3 billion, up 9.1% from 2004, and international sales were $1.2 billion, up 17.4% over 2004, driven primarily by the impact of a full-year of sales from Sonoco-Alcore and the impact of currency translation discussed above.

COSTS AND EXPENSES

During 2005, the Company experienced postretirement and defined benefit pension expense of $43.0 million, versus $45.8 million in 2004, a decrease of $2.3 million. The market value of U.S. defined benefit pension plan assets increased approximately 7% in 2005 and 13% in 2004. Investment returns on assets held by the Company's benefit plans are used to lower the Company's cost of providing pension and postretirement benefits. Although there was no requirement under the Employee Retirement Income Security Act of 1974 to fund the U.S. defined benefit pension plan, the Company contributed $68.0 million to the plan during the year to maintain its fully funded status on an accumulated benefit obligation basis. Other pension plans in the Company were not fully funded as of December 31, 2005. These plans, including the Supplemental Executive Retirement Plan, and several international plans had accrued liabilities associated with their plans of $82.3 million and $51.3 million as of December 31, 2005, respectively. For 2005, the Company used 8.5% as its expected long-term rate of return for U.S. pension and postretirement benefit plan assumptions.

Selling, general and administrative expenses as a percentage of sales increased slightly during the year to 10.3% from 9.8% in 2004. Included in 2005 expenses was the $12.5 million expense of establishing an environmental reserve at the Company's subsidiary in Wisconsin, while 2004 costs included charges of $5.6 million pretax, which the Company incurred to recognize commitments to pay future costs associated with new executive life insurance benefits and a charge of approximately $4.5 million pretax associated with an unfavorable legal judgment that was entered against the Company.

As previously discussed, operating profits included $21.2 million and $19.0 million of restructuring charges in 2005 and 2004, respectively.

Research and development costs, all of which were charged to expense, totaled $14.7 million and $15.4 million in 2005 and 2004, respectively. Significant projects in the Company's Tubes and Cores/Paper segment during 2005 included efforts to design and develop a new generation of products for the construction industry, and to enhance performance characteristics of the Company's tubes and cores in the textile, film and paper packaging areas, as well as projects aimed at enhancing productivity. The Consumer Packaging segment continued to invest in development of specialty metal closures, flexible packaging enhancements and rigid plastic containers technology.

Net interest expense increased by approximately $1.5 million from $42.1 million in 2004 to $43.6 million in 2005. The increase in net interest expense resulted primarily from higher average interest rates, partially offset by decreased debt levels and increased interest income.

The effective tax rate in 2005 was 36.4%, compared with 29.8% in 2004. Included in the effective tax rate for 2005 was the impact of an additional $10.1 million expense associated with the repatriation of $124.7 million in foreign earnings under the American Jobs Creation Act. Included in the effective tax rate for 2004 was the impact of the recognition of tax benefits totaling approximately $9.7 million, resulting from the conclusions of examinations by the IRS and state tax authorities.

OPERATING SEGMENTS

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

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

Consumer Packaging Segment – Results for this segment are presented as follows:

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

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

Domestic sales were approximately $894 million, up 6.6% from 2004, and international sales were approximately $353 million, up 20.6% from 2004.

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

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

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

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

The increase in sales was due primarily to the recognition of a full-year's impact of the Sonoco-Alcore joint venture, which resulted in $86.6 million of higher sales. The impact of favorable exchange rates as the dollar weakened against foreign currencies along with increased selling prices, were partially offset by lower volume in North American and European tubes and cores. Volume, excluding the impact of the joint venture, declined approximately 2%, due primarily to declines in the textile and newsprint industries. Domestic sales decreased approximately $4 million, or .5%, to $758.0 million and international sales increased approximately $98 million, or 15.6% to $724.1 million.

Segment operating profits were unfavorably impacted by a charge of $12.5 million related to an increase in the environmental reserve at a Company subsidiary's paper operations in Wisconsin; decreased volume, primarily in the textile and newsprint markets; and increased costs of energy, freight and labor. These increased costs were partially offset by year-over-year savings from productivity and purchasing initiatives, and a favorable price/cost relationship. A $5.6 million charge associated with an accounting adjustment from a wholly owned subsidiary in Spain, which was related to prior years, was recorded in 2004, as discussed above under "Other Special Charges, Income Items and Contingencies," while 2005 results were impacted by a $3.0 million asset impairment charge related to operations in Asia.

This segment benefited by approximately $8.9 million from energy hedges in place during the period.

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

Packaging Services Segment – Results for this segment are presented as follows:

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

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

Although the increase in segment operating profits in this segment is largely attributable to the full-year's impact of the acquisition of CorrFlex, productivity and purchasing initiatives in the service centers also contributed to the improvement. Approximately $25 million of increased sales in the Company's service centers were on a pass-through basis and, therefore, had very little impact on profits. The impact of inflation partially offset the favorable variances discussed above.

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis 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 and any associated risks related to estimates, assumptions and accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where such estimates, assumptions and accounting policies affect the Company's reported and expected financial results.

The Company believes the accounting policies discussed in the Notes to the Consolidated Financial Statements on pages 54 through 76 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.

IMPAIRMENT OF GOODWILL

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

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

In performing the impairment evaluation required by FAS 142, the Company estimates the fair value of each reporting unit and compares it to the carrying amount of that reporting unit. If the carrying amount of a reporting unit exceeds the fair value of that reporting unit, the Company compares the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized), and liabilities of the reporting unit. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The excess, if any, of the carrying value over the implied fair value represents the amount of the impairment. That excess would be reflected as a loss on the income statement.

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 2006 used forward-looking projections, including expected improvement in the results of certain reporting units, most notably, the European operations within the Tubes and Cores/Paper segment. The assessment of the relevant facts and circumstances is ongoing, and if actual performance in this reporting unit falls significantly short of the projected results, it is reasonably possible that a noncash impairment charge would be required.

INCOME TAXES

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

STOCK COMPENSATION PLANS

Effective January 1, 2006, the Company adopted the fair value method of accounting for share-based compensation arrangements in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), 'Share-Based Payment' (FAS 123(R)), using the modified prospective method of transition. Using the modified prospective method, compensation expense is recognized beginning at the effective date of adoption of FAS 123(R) for all share-based payments (i) granted after the effective date of adoption and (ii) granted prior to the effective date of adoption and that remain unvested on the date of adoption. The Company had no unvested stock options outstanding at the date of adoption. The Company recognizes share-based compensation cost ratably over expected vesting periods.

In accordance with the adoption of FAS 123(R), the Company chose to adopt the short-cut method to determine the pool of windfall tax benefits as it relates to stock-based compensation.

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 2006, 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 the 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 highly 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 the fair value determination.

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, 2006, 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 5.84%, 5.77% and 5.68% 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 4.69% to 4.88%. A discount rate of 5.50% was used to determine net periodic benefit cost for 2006.

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. health and life insurance plan is a medical trend rate beginning at 12.3% 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 2006, the Company incurred total pension and postretirement benefit expenses of approximately $44.1 million, compared with $43.0 million during 2005. 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%. The 2005 amount is net of $75.2 million of expected returns on plan assets at the assumed rate of 8.5%, and includes interest cost of $67.6 million at a discount rate of 5.75%. During 2006, the Company made contributions to pension plans of $10.5 million and postretirement plans of approximately $5.0 million. The contribution amount varies from year to year depending on factors including asset market value volatility and interest rates. Although the cash portion of these contributions reduced cash flows from operations during the year, under Statement of Financial Accounting Standards No. 87, 'Employers' Accounting for Pensions' (FAS 87), they did not have an immediate significant impact on pension expense. Cumulative net actuarial losses were approximately $393.1 million at December 31, 2006, 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, 2006 is as follows:

		DECEMBER 31, 2006	
ASSUMPTION ($ IN MILLIONS)	PERCENTAGE POINT CHANGE	PROJECTED BENEFIT OBLIGATION HIGHER (LOWER)	2006 EXPENSE HIGHER (LOWER)
Discount rate	-.25 pts	$31.3	$3.3
Expected return on assets	-.25 pts	N/A	$1.9

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 on page 75.

RISK FACTORS

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

GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES MAY CHANGE, HAVING A NEGATIVE IMPACT ON THE COMPANY'S EARNINGS

Domestic sales accounted for approximately 64% 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

Many of the raw materials the Company uses are commodities purchased from third parties. Principal examples are recovered paper, steel, aluminum and resin. Prices of these commodities 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 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 fluctuations 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.

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 2006, approximately 36% 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 their 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.

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Report 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" and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to statements regarding offsetting high raw material costs; improved productivity and cost containment; adequacy of income tax provisions; refinancing of debt; adequacy of cash flows; anticipated amounts and uses of cash flows; effects of acquisitions and dispositions; adequacy of provisions for environmental liabilities; financial strategies and the results expected from them; continued payments of dividends; stock repurchases; and producing improvements in earnings. 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;
- 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 might not occur.

REFERENCES TO OUR WEB SITE ADDRESS

References to our Web site address and domain names throughout this Annual Report 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.

DOLLARS IN MILLIONS EXCEPT PER SHARE

The Company's results determined in accordance with U.S. generally accepted accounting principles (GAAP) are referred to as "as reported" results. Some of the information presented in this report reflects the Company's "as reported" results adjusted to exclude certain amounts related to the Company's restructuring initiatives and certain non-recurring or infrequent and unusual expenses. These adjustments result in the non-GAAP financial measures referred to in this report as "Base Earnings" and "Base Earnings per Diluted Share."

These non-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Sonoco continues to provide all information required by GAAP, but it believes that evaluating its ongoing operating results may not be as useful if an investor or other user is limited to reviewing only GAAP financial measures. Accordingly, Sonoco uses these non-GAAP financial measures for internal planning and forecasting purposes, to evaluate its ongoing operations, and to evaluate the ultimate performance of each business unit against budget all the way up through the evaluation of the chief executive officer's performance by the board of directors. In addition, these same non-GAAP measures are used in determining incentive compensation for the entire management team and in providing earnings guidance to the investing community.

Sonoco management does not, nor does it suggest that investors should, consider these non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Sonoco presents these non-GAAP financial measures to provide users information to evaluate Sonoco's operating results in a manner similar to how management evaluates business performance. Material limitations associated with the use of such measures are that they do not reflect all period costs included in operating expenses and may not reflect financial results that are comparable to financial results of other companies that present similar costs differently. Furthermore, the calculations of these non-GAAP measures are based on subjective determinations of management regarding the nature and classification of events and circumstances that the investor may find material and view differently. To compensate for these limitations, management believes that it is useful in understanding and analyzing the results of the business to review both GAAP information that includes the impact of restructuring charges and certain unusual items, and the non-GAAP measures that exclude them. Whenever Sonoco uses a non-GAAP financial measure, it provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures as detailed below.

	1ST QUAR.	2ND QUAR.	3RD QUAR.	4TH QUAR.	YEAR	ANNUAL EPS
2006						
Net income, as reported (GAAP)	$45.1	$49.3	$61.1	$39.5	$195.1	$1.92
Adjusted for:						
Restructuring charges, net of tax	1.4	1.6	.6	17.4	20.9	.21
Base earnings (non-GAAP)	$46.5	$50.9	$61.7	$56.9	$216.0	$2.13
2005						
Net income, as reported (GAAP)	$37.0	$40.2	$45.9	$38.8	$161.9	$1.61
Adjusted for:						
Restructuring charges, net of tax	3.1	5.6	2.5	1.8	13.0	.13
Environmental reserve, net of tax				7.6	7.6	.08
Taxes on repatriation of foreign earnings				10.1	10.1	.10
Base earnings (non-GAAP)	$40.1	$45.8	$48.4	$58.3	$192.6	$1.92

NET SALES, EXCLUDING DIVESTED BUSINESSES

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

YEAR ENDED DECEMBER 31	1995	2000	2006
Net sales, as reported (GAAP)	$2,556,248	$2,570,708	$3,656,839
Adjusted for:			
Net sales from businesses subsequently divested	(522,429)	(25,206)	
Net sales, excluding divested businesses (non-GAAP)	$2,033,819	$2,545,502	$3,656,839
Five-year compound annual growth rate			
1995-2000		4.6%	
2000-2006			6.2%

CONSOLIDATED Balance Sheets

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

(DOLLARS AND SHARES IN THOUSANDS) AT DECEMBER 31	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	**$ 86,498**	$ 59,608
Trade accounts receivable, net of allowances of		
$8,983 in 2006 and $8,325 in 2005	**459,022**	413,209
Other receivables	**33,287**	45,225
Inventories		
Finished and in process	**126,067**	124,891
Materials and supplies	**177,781**	193,425
Prepaid expenses	**27,611**	23,068
Deferred income taxes	**32,532**	26,074
	942,798	885,500
Property, Plant and Equipment, Net	**1,019,594**	943,951
Goodwill	**667,288**	573,903
Other Intangible Assets	**95,885**	73,037
Prepaid Pension Costs		281,904
Other Assets	**191,113**	223,445
Total Assets	**2,916,678**	$2,981,740
Liabilities and Shareholders' Equity		
Current Liabilities		
Payable to suppliers	**$ 357,856**	$ 265,219
Accrued expenses and other	**179,462**	186,559
Accrued wages and other compensation	**63,925**	44,082
Notes payable and current portion of long-term debt	**51,903**	124,530
Accrued taxes	**6,678**	96
	659,824	620,486
Long-term Debt	**712,089**	657,075
Pension and Other Postretirement Benefits	**209,363**	173,939
Deferred Income Taxes	**52,809**	146,981
Other Liabilities	**63,525**	119,945
Commitments and Contingencies		
Shareholders' Equity		
Serial preferred stock, no par value		
Authorized 30,000 shares		
0 shares issued and outstanding as of December 31, 2006 and 2005		
Common shares, no par value		
Authorized 300,000 shares		
100,550 and 99,988 shares issued and outstanding		
at December 31, 2006 and 2005, respectively	**7,175**	7,175
Capital in excess of stated value	**430,002**	418,668
Accumulated other comprehensive loss	**(262,305)**	(106,389)
Retained earnings	**1,044,196**	943,860
Total Shareholders' Equity	**1,219,068**	1,263,314
Total Liabilities and Shareholders' Equity	**$2,916,678**	$2,981,740

The Notes beginning on page 54 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	2006	2005	2004
Net sales	**$3,656,839**	$3,528,574	$3,155,433
Cost of sales	**2,951,799**	2,867,623	2,580,643
Selling, general and administrative expenses	**358,952**	364,967	316,403
Restructuring charges	**25,970**	21,237	18,982
Income before interest and taxes	**320,118**	274,747	239,405
Interest expense	**51,952**	51,559	47,463
Interest income	**(6,642)**	(7,938)	(5,400)
Income before income taxes	**274,808**	231,126	197,342
Provision for income taxes	**93,329**	84,174	58,858
Income before equity in earnings of affiliates/minority interest in subsidiaries	**181,479**	146,952	138,484
Equity in earnings of affiliates/minority interest in subsidiaries, net of tax	**13,602**	14,925	12,745
Net income	**$ 195,081**	$ 161,877	$ 151,229
Weighted average common shares outstanding:			
Basic	**100,073**	99,336	98,018
Assuming exercise of awards	**1,461**	1,082	929
Diluted	**101,534**	100,418	98,947
Per common share			
Net income:			
Basic	**$ 1.95**	$ 1.63	$ 1.54
Diluted	**$ 1.92**	$ 1.61	$ 1.53
Cash dividends - common	**$ .95**	$ .91	$ .87

The Notes beginning on page 54 are an integral part of these financial statements.

CONSOLIDATED Statements of Changes in Shareholders' Equity

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

(DOLLARS AND SHARES IN THOUSANDS)	COMPREHENSIVE INCOME	COMMON SHARES OUTSTANDING	COMMON SHARES AMOUNT	CAPITAL IN EXCESS OF STATED VALUE	ACCUMULATED OTHER COMPREHENSIVE LOSS	RETAINED EARNINGS
January 1, 2004		96,969	$7,175	$ 337,136	$ (136,091)	$ 805,940
Net income	$151,229					151,229
Other comprehensive income (loss):						
Translation gain	36,917					
Minimum pension liability adjustment, net of tax	(4,479)					
Derivative financial instruments, net of tax	498					
Other comprehensive income	32,936				32,936	
Comprehensive income	$184,165					
Cash dividends						(85,060)
Impact of stock awards		1,531		34,463		
Stock-based compensation				5,151		
December 31, 2004		98,500	$7,175	$ 376,750	$ (103,155)	$ 872,109
Net income	$161,877					161,877
Other comprehensive income (loss):						
Translation loss	(12,844)					
Minimum pension liability adjustment, net of tax	568					
Derivative financial instruments, net of tax	9,042					
Other comprehensive loss	(3,234)				(3,234)	
Comprehensive income	$158,643					
Cash dividends						(90,126)
Impact 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)
Impact 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

The Notes beginning on page 54 are an integral part of these financial statements.

CONSOLIDATED Statements of Cash Flows

SONOCO PRODUCTS COMPANY AND CONSOLIDATED SUBSIDIARIES

(DOLLARS IN THOUSANDS) YEARS ENDED DECEMBER 31	2006	2005	2004
Cash Flows from Operating Activities			
Net income	**$195,081**	$161,877	$151,229
Adjustments to reconcile net income to net cash provided by operating activities			
Asset impairment	**7,750**	9,515	6,153
Depreciation, depletion and amortization	**164,863**	163,074	163,928
Noncash share-based compensation expense	**11,347**	4,554	5,144
Equity in earnings of affiliates/minority interest in subsidiaries	**(13,602)**	(14,925)	(12,745)
Cash dividends from affiliated companies	**9,496**	6,758	7,114
(Gain) loss on disposition of assets	**(4,644)**	(555)	2,460
Tax effect of nonqualified stock options	**10,580**	2,753	3,013
Excess tax benefit of share-based compensation	**(10,580)**		
Deferred taxes	**(15,265)**	(24,722)	5,310
Change in assets and liabilities, net of effects from acquisistions dispositions, and foreign currency adjustments			
Receivables	**(9,356)**	(24,026)	(23,893)
Inventories	**33,159**	(6,447)	(38,395)
Prepaid expenses	**(2,854)**	2,298	1,272
Payables and taxes	**79,413**	(15,108)	6,938
Cash contribution to pension plans	**(10,471)**	(77,024)	(33,360)
Other assets and liabilities	**37,646**	39,341	8,020
Net cash provided by operating activities	**482,563**	227,363	252,188
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	**(123,279)**	(129,112)	(119,800)
Cost of acquisitions, net of cash acquired	**(227,304)**	(3,566)	(267,016)
Proceeds from the sale of assets	**21,030**	13,377	8,638
Investment in affiliates and other	**(2,500)**		
Net cash used by investing activities	**(332,053)**	(119,301)	(378,178)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**33,535**	43,859	206,157
Principal repayment of debt	**(116,182)**	(11,699)	(168,528)
Net increase (decrease) in commercial paper borrowings	**59,000**	(150,000)	180,000
Net (decrease) increase in bank overdrafts	**(9,614)**	7,765	(7,976)
Cash dividends – common	**(94,745)**	(90,126)	(85,060)
Excess tax benefit of share-based compensation	**10,580**		
Shares acquired	**(82,668)**		
Common shares issued	**74,413**	34,617	31,450
Net cash (used) provided by financing activities	**(125,681)**	(165,584)	156,043
Effects of Exchange Rate Changes on Cash	**2,061**	(595)	2,818
Increase (Decrease) in Cash and Cash Equivalents	**26,890**	(58,117)	32,871
Cash and cash equivalents at beginning of year	**59,608**	117,725	84,854
Cash and cash equivalents at end of year	**$ 86,498**	$ 59,608	$117,725
Supplemental Cash Flow Disclosures			
Interest paid, net of amounts capitalized	**$ 41,377**	$ 46,650	$ 41,530
Income taxes paid, net of refunds	**$ 99,999**	$115,253	$ 72,647

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

The Notes beginning on page 54 are an integral part of these financial statements.

DOLLARS IN THOUSANDS EXCEPT PER SHARE

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

1. BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Sonoco Products Company and its majority-owned subsidiaries (the "Company" or "Sonoco") after elimination of intercompany accounts and transactions. Investments in affiliated companies in which the Company shares control over the financial and operating decisions, but in which the Company is not the primary beneficiary are accounted for as equity investments ("equity investments"). Income applicable to equity investments is reflected as "Equity in earnings of affiliates/minority interest in subsidiaries" in the Consolidated Statements of Income. Investments related to equity in affiliates are included in "Other Assets" in the Company's Consolidated Balance Sheets and totaled $102,851 and $115,276 at December 31, 2006 and 2005, respectively.

Investments in affiliated companies in which the Company is not the primary beneficiary are accounted for by the equity method of accounting at December 31, 2006 as follows:

ENTITY	OWNERSHIP INTEREST PERCENTAGE AT DECEMBER 31, 2006
RTS Packaging JVCO	35.0%
Cascades Conversion, Inc.	50.0%
Cascades Sonoco, Inc.	50.0%
1191268 Ontario, Inc.	50.0%
Enstel Manufacturing Inc.	50.0%
AT-Spiral Oy	48.9%
Showa Products Company Ltd.	20.0%
Conitex Sonoco Holding BVI Ltd.	30.0%

For most of 2006, the Company accounted for its 25% ownership interest in Demolli Industria Cartaria S.p.A (Demolli) by the equity method. The Company acquired the remaining 75% ownership interest in Demolli in December 2006; accordingly, it is no longer accounted for under the equity method. For more information, see Note 2.

As a result of the 2003 sale of the High Density Film business to Hilex Poly Co., LLC (Hilex), the Company has a $25,200 note receivable and a $12,800 non-voting preferred membership interest in Hilex. The Company accounts for the preferred membership interest by the cost method.

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

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

The Company's trade accounts receivable are non-interest bearing and are recorded at the invoiced amounts. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses in existing accounts receivable. Provisions are made to the allowance for doubtful accounts at such time that collection of all or part of a trade account receivable is in question. The allowance for doubtful accounts is monitored on a regular basis and adjustments are made as needed to ensure that the account properly reflects the Company's best estimate of uncollectible trade accounts receivable. Trade accounts receivable balances that are more than 180 days past due are generally 100% provided for in the allowance for doubtful accounts. Account balances are charged off against the allowance for doubtful accounts when the Company determines that the receivable will not be recovered. As a result of a business combination during 2005 of two of the Company's customers, a concentration of credit representing approximately 10% of the consolidated trade accounts receivable existed at both December 31, 2006 and 2005. Sales to this customer represented approximately 12% of the Company's consolidated revenues in 2006; no other single customer comprised more than 5% of the Company's consolidated revenues in 2006, 2005 or 2004.

The Company identifies its reportable segments in accordance with Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information', based on the level of detail reviewed by the chief operating decision maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods used to distribute products and nature of the regulatory environment. Of these factors, the Company believes that the most significant are the nature of its products, the nature of the production process and the type of customers served.

Research and development costs are charged to expense as incurred and include salaries and other directly related expenses. Research and development costs totaling $12,735 in 2006, $14,668 in 2005, and $15,404 in 2004, are included in "Selling, general and administrative expenses" in the Company's Consolidated Statements of Income.

2. ACQUISITIONS/DISPOSITIONS/JOINT VENTURES

The Company completed six acquisitions during 2006, and purchased the remaining 35.5% minority interest in Sonoco-Alcore S.a.r.l. (Sonoco-Alcore), at an aggregate cost of $227,304, all of which was paid in cash. In connection with these acquisitions, the Company recorded fair value of identified intangibles of approximately $27,800, goodwill of approximately $83,400 (of which approximately $23,500 is expected to be tax deductible), and other net tangible assets of approximately $116,100. Acquisitions in the Company's Tubes and Cores/Paper segment included the remaining 75% interest in Demolli Industria Cartaria S.p.A, an Italy-based tube and core/paper manufacturer and a small tube and core manufacturer in Canada. Acquisitions in the Consumer Packaging segment included a rotogravure printed flexible packaging manufacturer in Texas; a rigid paperboard composite container manufacturer in Ohio; and Clear Pack Company, a manufacturer of thermoformed and extruded plastic materials and containers in Illinois. The Company also acquired a small packaging fulfillment business in Illinois, which is included in the Packaging Services segment. In addition, the Company purchased the remaining 35.5% interest in Sonoco-Alcore, a European tube, core and coreboard joint venture explained in more detail below. 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 three acquisitions during 2005 with an aggregate cost of $3,566 in cash. In connection with these acquisitions, the Company recorded fair value of identified intangibles of $25, goodwill of $1,081 and other net tangible assets of $2,460. Acquisitions in the Company's Tubes and Cores/Paper segment included a tube and core manufacturer in New Zealand, a small molded plug recycler in the United States and the remaining ownership interest in a Chilean tubes and cores business. The Company also acquired certain assets of a rigid plastic packaging manufacturer in Brazil, which is reported in the Consumer Packaging segment.

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

The Company completed nine acquisitions during 2004, with an aggregate cost of approximately $367,000. This amount included $267,016 of cash with the remainder consisting of the assumption of debt and the contribution of assets. In connection with these acquisitions, the Company recorded fair value of identifiable intangibles of approximately $51,000, goodwill of approximately $178,000 (of which approximately $152,000 is expected to be tax deductible) and net tangible assets of approximately $138,000. In May 2004, the Company acquired CorrFlex Graphics, LLC (CorrFlex), one of the nation's largest point-of-purchase display companies. The acquired business, which is known as Sonoco CorrFlex, LLC, is reflected in the Packaging Services segment. Acquisitions in the Company's Tubes and Cores/Paper segment included tube and core manufacturers in Australia, China and the United States. During the fourth quarter of 2004, the Company also completed a business combination with Ahlstrom Corporation, Helsinki, Finland (Ahlstrom), by which each of the companies' respective European paper-based tube/core and coreboard operations were combined into a joint venture that operates under the name Sonoco-Alcore S.a.r.l. (Sonoco-Alcore) and is reflected in the Tubes and Cores/Paper segment. The Company contributed ownership positions in 25 tube and core plants and five paper mills to Sonoco-Alcore, and held a 64.5% interest in the joint venture. Ahlstrom, a leader in high-performance fiber-based materials serving niche markets worldwide, contributed 14 tube and core plants and one paper mill to Sonoco-Alcore, and held a 35.5% interest in the joint venture. As noted above, the Company acquired this remaining 35.5% interest during 2006. The Company accounted for this transaction as an acquisition and, therefore, consolidated the joint venture and reported Ahlstrom's ownership as minority interest in the Company's financial statements. The recognition of Ahlstrom's share of the joint venture's net income was included in "Equity in earnings of affiliates/minority interest in subsidiaries" on the Company's Consolidated Statements of Income until acquisition of the remaining minority interest was completed in 2006. Acquisitions in the Company's Consumer Packaging segment included a composite can manufacturer in Australia, a manufacturer of rotogravure cylinders in Canada and the remaining ownership interest in a manufacturer of rotogravure cylinders in Charlotte, N.C. The Company also acquired certain assets of a wooden reel refurbisher in Alabama, which are reported in All Other Sonoco.

3. RESTRUCTURING PROGRAMS

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

The Company approved a restructuring plan in October 2006 (the 2006 Plan), and another in August 2003 (the 2003 Plan). The Company recognized restructuring charges, net of adjustments, totaling $25,970 ($21,330 after tax) in 2006, $21,237 ($14,343 after tax) in 2005, and $18,982 ($16,154 after tax) in 2004 under these two plans. Restructuring charges are included in "Restructuring charges" in the Consolidated Statements of Income, except for the restructuring charges applicable to equity method investments, which are included in earnings of affiliates/minority interest in subsidiaries." Additional disclosures concerning each of the plans are provided below.

THE 2006 PLAN

The 2006 Plan calls for the closure of approximately 12 plant locations and the reduction of approximately 540 positions worldwide. The majority of the restructuring program will focus on international operations, principally centered around Europe, in order to make those operations more cost effective. These measures began in the fourth quarter of 2006 and are expected to be substantially completed by the end of 2007.

The total cost of the 2006 Plan is estimated to be approximately $35,000, most of which is related to severance and other termination costs. Accordingly, the vast majority of the total restructuring cost will result in the expenditure of cash. As of December 31, 2006, the Company had incurred total charges of $17,498 associated with these activities. The following table provides additional details of these charges:

	SEVERANCE AND TERMINATION BENEFITS	ASSETS IMPAIRMENT/ DISPOSAL OF ASSET	OTHER EXIT COSTS	TOTAL
2006				
Tubes and Cores/ Paper Segment	$8,465	$4,620	$2,130	$15,215
Consumer Packaging Segment	1,057	309	156	1,522
Packaging Services Segment	77			77
All Other Sonoco	375	261	48	684
Total	$ 9,974	$ 5,190	$2,334	$17,498

The charges for 2006 relate primarily to the closures of a paper mill in France, two tube and core plants—one in Canada and one in the United States, and a flexible packaging operation in Canada. The charges also include the closures of a wooden reels facility and a molded plastics operation in the United States as well as the impact of downsizing actions primarily in the Company's European tube and core/paper operations.

The Company expects to recognize future additional costs totaling approximately $17,500 associated with the 2006 Plan. These charges are expected to consist primarily of severance and termination benefits. Of these future costs, it is estimated that $10,400 will impact the Tubes and Cores/Paper segment, $6,000 will impact the Consumer Packaging segment, $600 will impact the Packaging Services segment, and $500 will impact All Other Sonoco.

The following table sets forth the activity in the 2006 Plan restructuring accrual included in "Accrued expenses and other" on the Company's Consolidated Balance Sheets:

	SEVERANCE AND TERMINATION BENEFITS	ASSETS IMPAIRMENT/ DISPOSAL OF ASSET	OTHER EXIT COSTS	TOTAL
Liability, December 31, 2005				
2006 Charges	$ 9,974	$5,190	$2,334	$17,498
Cash payments	(1,302)		(649)	(1,951)
Asset impairment (noncash)		(5,247)		(5,247)
Reclassifications to pension liability	(438)			(438)
Foreign currency translation	30	57		87
Liability, December 31, 2006	$8,264	$	$1,685	$ 9,949

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

The majority of the liability and the remaining 2006 Plan restructuring costs, with the exception of ongoing pension subsidies and certain building lease termination expenses, are expected to be paid by the end of 2007, using cash generated from operations.

During 2006, the Company recognized impairment losses on equipment and facilities held for disposal of $4,681 in the Tubes and Cores/Paper segment, $305 in the Consumer Packaging segment and $261 in All Other Sonoco. Writeoffs in the Tubes and Cores/Paper segment related primarily to the closure of a 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.

THE 2003 PLAN

In August 2003, the Company announced general plans to reduce its overall annual operating cost structure by approximately $54,000 by realigning and centralizing a number of staff functions and eliminating excess plant capacity. Pursuant to these plans, the Company has initiated or completed 22 plant closings and has reduced its workforce by approximately 1,120 employees. As of December 31, 2006, the Company had incurred cumulative charges, net of adjustments, of $103,009 associated with these activities. The following table provides additional details of these net charges:

	SEVERANCE AND TERMINATION BENEFITS	ASSETS IMPAIRMENT/ DISPOSAL OF ASSET	OTHER EXIT COSTS	TOTAL
Tubes and Cores/ Paper Segment	$36,934	$ 18,074	$17,579	$ 72,587
Consumer Packaging Segment	11,195	5,084	5,186	21,465
Packaging Services Segment	333			333
All Other Sonoco	2,999	326	92	3,417
Corporate	5,094		113	5,207
Cumulative Restructuring Charges, net of adjustments	$56,555	$23,484	$22,970	$103,009

The Company expects to recognize future additional costs totaling approximately $300 associated with these activities. These costs are expected to be comprised of other exit costs within the Tubes and Cores/Paper segment.

The Company recognized restructuring charges related to the 2003 Plan, net of adjustments, of $8,472 in 2006, $21,237 in 2005 and $18,982 in 2004. The following table provides additional details of these net charges:

	SEVERANCE AND TERMINATION BENEFITS	ASSETS IMPAIRMENT/ DISPOSAL OF ASSET	OTHER EXIT COSTS	TOTAL
2006				
Tubes and Cores/ Paper Segment	$ 952	$2,062	$5,164	$8,178
Consumer Packaging Segment	861	498	(968)	391
All Other Sonoco	3		(100)	(97)
Total	$1,816	$2,560	$4,096	$8,472
2005				
Tubes and Cores/ Paper Segment	$4,834	$4,999	$6,194	$16,027
Consumer Packaging Segment	733	1,557	2,321	4,611
All Other Sonoco	640	(41)		599
Total	$6,207	$6,515	$8,515	$21,237
2004				
Tubes and Cores/ Paper Segment	$7,021	$4,459	$3,254	$14,734
Consumer Packaging Segment	1,513	1,327	2,439	5,279
All Other Sonoco	559	367	92	1,018
Corporate	(2,548)		499	(2,049)
Total	$6,545	$6,153	$6,284	$18,982

The net charges incurred in 2006 under the 2003 Plan relate primarily to the closure of two tube and core plants and a flexible packaging operation in the United States, and an additional asset impairment charge resulting from a revision to the estimated sales proceeds of a previously closed paper mill located in the United States.

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

The net charges incurred in 2004 relate primarily to the closure of a flexible packaging plant in Canada, and a tube and core plant, a paper mill and a molded plastics plant in the United States. The consolidation of plants in the Company's European operations also contributed to the restructuring charges recognized during 2004. Included in this amount are $2,200 of restructuring charges resulting from a correction to previously reported financial statements at the Company's wholly owned subsidiary in Spain. Restructuring charges associated with plants contributed to Sonoco-Alcore by Ahlstrom were recorded as an increase in goodwill in accordance with Emerging Issues Task Force Issue No. 95-3, 'Recognition of Liabilities in Connection with a Business Combination' (EITF 95-3). The Corporate credit is an adjustment to severance accrued when the plan was originally announced in 2003.

The Company also recorded noncash income in the amount of $416, $1,260 and $1,778 after tax, in 2006, 2005 and 2004, respectively, in order to reflect a minority shareholder's portion of restructuring costs that were charged to expense. This income, which resulted from the closure of certain plants that the Company contributed to Sonoco-Alcore, is included in "Equity in earnings of affiliates/minority interest in subsidiaries" in the Company's Consolidated Statements of Income.

The following table sets forth the activity in the 2003 Plan restructuring accrual included in "Accrued expenses and other" in the Company's Consolidated Balance Sheets:

	SEVERANCE AND TERMINATION BENEFITS	ASSETS IMPAIRMENT/ DISPOSAL OF ASSET	OTHER EXIT COSTS	TOTAL
Liability, December 31, 2003	$14,708	$	$6,386	$21,094
2004 Charges	9,815	5,894	5,970	21,679
Cash payments	(16,595)		(5,642)	(22,237)
Asset impairment/ pension curtailment (noncash)		(6,153)	(1,926)	(8,079)
Foreign currency translation	2,016		66	2,082
Adjustments	(3,270)	259	314	(2,697)
Liability, December 31, 2004	6,674		5,168	11,842
2005 Charges	6,232	7,099	8,992	22,323
Cash payments	(8,600)		(7,329)	(15,929)
Asset impairment (noncash)		(6,515)		(6,515)
Foreign currency translation	(859)		140	(719)
Adjustments	(538)	(584)	36	(1,086)
Liability, December 31, 2005	2,909		7,007	9,916
2006 Charges	2,101	2,672	6,009	10,782
Cash payments	(4,272)		(7,089)	(11,361)
Asset impairment (noncash)		(2,560)		(2,560)
Foreign currency translation	114		98	212
Adjustments	(285)	(112)	(1,913)	(2,310)
Liability, December 31, 2006	$ 567	$	$ 4,112	$ 4,679

Other exit costs consist primarily of building lease termination charges and other miscellaneous exit costs. Adjustments consist primarily of revisions to estimates of building lease termination charges and pension subsidies.

The majority of the liability and the remaining 2003 Plan restructuring costs, with the exception of ongoing pension subsidies and certain building lease termination expenses, are expected to be paid by the end of 2007, using cash generated from operations.

During 2006, under the 2003 Plan, the Company recognized impairment losses on equipment and facilities held for disposal in the Tubes and Cores/Paper segment in the amount of $2,062 and in the Consumer Packaging segment in the amount of $498. Writeoffs in the Tubes and Cores/ Paper segment related primarily to the closure of a paper mill in the United States. Writeoffs of impaired equipment and facilities in the Consumer Packaging segment related primarily to the closure of two flexible packaging plants. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2005, under the 2003 Plan, the Company recognized writeoffs of impaired equipment and facilities held for disposal in the Tubes and Cores/Paper segment in the amount of $4,312, in the Consumer Packaging segment in the amount of $1,367 and in All Other Sonoco in the amount of $(41). Also, during 2005, the Company recognized writeoffs of inventory in the Tubes and Cores/Paper segment in the amount of $687, and in the Consumer Packaging segment in the amount of $190. Writeoffs of impaired equipment, facilities and inventory in the Tubes and Cores/Paper segment related primarily to the closure of tube and core plants and a paper mill in the United States. Writeoffs of impaired equipment, facilities and inventory in the Consumer Packaging segment related primarily to the closure of two flexible packaging plants. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

During 2004, the Tubes and Cores/Paper segment recognized writeoffs of impaired equipment and facilities held for disposal of $4,459, attributed to the closing of six plant locations under the 2003 Plan. Additionally, the Consumer Packaging segment recognized writeoffs of impaired equipment and facilities held for disposal of $1,327 and pension curtailment of $1,926, related to the closing of two plant locations. Finally, during 2004, All Other Sonoco recognized writeoffs of impaired equipment and facilities held for disposal of $367, attributed to the closing of one plant location. Impaired assets were written down to the lower of carrying amount or fair value, less estimated costs to sell, if applicable.

4. CASH AND CASH EQUIVALENTS

Cash equivalents are composed of highly liquid investments with an original maturity of three months or less. Cash equivalents are recorded at cost, which approximates market. At December 31, 2006 and 2005, outstanding checks totaling $12,847 and $22,406, respectively, were included in "Payable to suppliers" on the Company's Consolidated Balance Sheets. In addition, outstanding payroll checks of $1,106 and $1,161 as of December 31, 2006 and 2005, respectively, were included in "Accrued wages and other compensation" on the Company's Consolidated Balance Sheets.

5. INVENTORIES

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method was used to determine costs of approximately 21% and 23% of total inventories at December 31, 2006 and 2005, respectively. The remaining inventories are determined on the first-in, first-out (FIFO) method.

If the FIFO method of accounting had been used for all inventories, total inventory would have been higher by $14,602 and $11,568 at December 31, 2006 and 2005, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Details at December 31 are as follows:

	2006	2005
Land	$ 66,161	$ 46,541
Timber resources	38,503	38,224
Buildings	421,291	388,414
Machinery and equipment	2,130,006	1,995,737
Construction in progress	76,063	68,886
	2,732,024	2,537,802
Accumulated depreciation and depletion	(1,712,430)	(1,593,851)
Property, plant and equipment, net	$1,019,594	$ 943,951

Estimated costs for completion of capital additions under construction totaled approximately $73,500 at December 31, 2006.

Depreciation and depletion expense amounted to $157,000 in 2006, $155,412 in 2005 and $158,212 in 2004.

The Company has certain properties and equipment that are leased under noncancelable operating leases. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows: 2007 – $28,900; 2008 – $23,300; 2009 – $19,900; 2010 – $14,500; 2011– $11,300 and thereafter – $37,800. Total rental expense under operating leases was approximately $42,200 in 2006, $41,900 in 2005 and $35,600 in 2004.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142 'Goodwill and Other Intangible Assets' (FAS 142). Under FAS 142, purchased goodwill and intangible assets with indefinite lives are not amortized. The Company evaluates its goodwill for impairment at least annually, and more frequently if indicators of impairment are present. In performing the impairment test, the Company uses discounted future cash flows to determine fair value of assets of each reporting unit, which is then compared to the carrying value of these assets. If, after completing this test, certain reporting units are deemed impaired, further analysis is completed to calculate the impairment charge required.

The Company completed its annual goodwill impairment testing during the third quarters of 2006, 2005 and 2004. Based on this impairment testing, no adjustment to the recorded goodwill balance was necessary. The evaluation of goodwill impairment that was completed during the third quarter of 2006 used forward-looking projections, which included expected improvement in results at certain reporting units, most notably, the European operations within the Tubes and Cores/Paper segment. The assessment of the relevant facts and circumstances is ongoing, and if actual performance in this reporting unit falls significantly short of projected results, it is reasonably possible that a noncash impairment charge would be required.

The changes in the carrying amount of goodwill for the year ended December 31, 2006, are as follows:

	TUBES AND CORES/ PAPER SEGMENT	CONSUMER PACKAGING SEGMENT	PACKAGING SERVICES SEGMENT	ALL OTHER SONOCO	TOTAL
Balance as of January 1, 2006	$189,635	$170,383	$148,125	$65,760	$573,903
Goodwill on 2006 acquisitions	28,369	52,376	2,678		83,423
Other adjustments	(249)				(249)
Foreign currency translation	8,202	1,898	170	(59)	10,211
Balance as of December 31, 2006	$225,957	$224,657	$150,973	$65,701	$667,288

Adjustments to goodwill consist primarily of changes to deferred tax valuation allowances acquired in connection with acquisitions made in prior years.

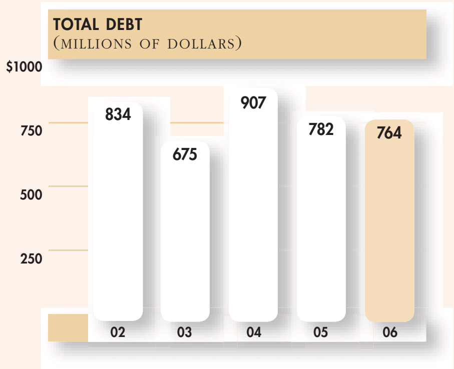
OTHER INTANGIBLE ASSETS

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

	2006	2005
Amortizable intangibles – Gross cost		
Patents	$ 3,360	$ 3,378
Customer lists	108,741	81,026
Land use rights	6,855	6,011
Supply agreements	1,000	5,261
Other	8,302	6,703
Total gross cost	$128,258	$102,379
Accumulated amortization		
Patents	$ (3,255)	$ (3,110)
Customer lists	(20,651)	(14,690)
Land use rights	(2,797)	(2,148)
Supply agreements	(550)	(4,619)
Other	(5,120)	(4,775)
Total accumulated amortization	$ (32,373)	$(29,342)
Net amortizable intangibles	$ 95,885	$ 73,037

Aggregate amortization expense on intangible assets was $7,863, $7,662 and $5,716 for the years ended December 31, 2006, 2005 and 2004, respectively. Amortization expense on intangible assets is expected to approximate $9,473 in 2007, $9,093 in 2008, $8,180 in 2009, $7,754 in 2010 and $7,692 in 2011.

The Company recorded $27,751 of identifiable intangibles in connection with 2006 acquisitions. Of this total, approximately $25,609 related to customer lists that are being amortized over periods ranging from 5 to 20 years. The remaining $2,142 consists of other identifiable intangibles, primarily non-compete agreements. These agreements are amortized over their respective lives – generally three to five years.



8. DEBT

Debt at December 31 was as follows:

	2006	2005
Commercial paper, average rate of 5.01% in 2006 and 3.26% in 2005	$ 89,000	$ 30,000
6.75% debentures due November 2010	99,926	99,912
6.5% debentures due November 2013	249,208	249,092
5.625% debentures due November 2016	149,322	149,250
9.2% debentures due August 2021	41,305	41,305
6.125% Industrial Revenue Bonds (IRBs) due June 2025	34,697	34,674
6.0% IRBs due April 2026	34,392	34,360
Foreign denominated debt, average rate of 7.6% in 2006 and 8.3% in 2005	50,576	124,937
Other notes	15,566	18,075
Total debt	763,992	781,605
Less current portion and short-term notes	51,903	124,530
Long-term debt	$712,089	$657,075

The Company currently operates a commercial paper program totaling $350,000, and has fully committed bank lines of credit supporting the program by a like amount. On May 3, 2006, the Company entered into an amended and restated credit agreement to extend its $350,000 bank line of credit to a new five-year maturity. The amended and restated credit agreement also provides the Company the option to increase its credit line to $500,000 subject to the concurrence of its lenders. The Company intends to indefinitely maintain line of credit agreements fully supporting its commercial paper program. The amount of the Company's outstanding commercial paper at December 31, 2006 and 2005, was $89,000 and $30,000, respectively. Consistent with the maturity of the supporting line of credit, the Company classifies outstanding commercial paper balances as long-term debt.

In addition, at December 31, 2006, the Company had $254,000 available under unused short-term lines of credit. These short-term lines of credit are for general Company purposes, with interest at mutually agreed-upon rates.

Certain of the Company's debt agreements impose restrictions with respect to the maintenance of financial ratios and the disposition of assets. The most restrictive covenant currently requires that net worth, as defined, at the end of each fiscal quarter be greater than $1,164,248, increased by 25% of net income after December 31, 2005, and decreased by stock purchases after May 3, 2006. This covenant excludes from the above net worth calculation any accumulated other comprehensive income or loss. As of December 31, 2006, the Company was approximately $261,858 above the minimum level required under this covenant.

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

The approximate principal requirements of debt maturing in the next five years are: 2007 – $51,903; 2008 – $404; 2009 – $200; 2010 – $99,989 and 2011 – $19.

9. FINANCIAL INSTRUMENTS

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

	DECEMBER 31, 2006		DECEMBER 31, 2005	
	CARRYING AMOUNT OF LIABILITY	FAIR VALUE OF LIABILITY	CARRYING AMOUNT OF LIABILITY	FAIR VALUE OF LIABILITY[1]
Long-term debt	$712,089	$732,377	$657,075	$705,989

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

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

The Company records qualifying derivatives based on Statement of Financial Accounting Standards No. 133, 'Accounting for Derivative Instruments and Hedging Activities' (FAS 133), and related amendments. This Statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value. Changes in the fair value of derivatives are recognized in either net income or in other comprehensive income, depending on the designated purpose of the derivative.

The Company uses derivatives from time to time to mitigate the effect of raw material and energy cost fluctuations, foreign currency fluctuations and interest rate movements. The Company purchases commodities such as recovered paper, metal and energy generally at market or fixed prices that are established with the vendor as part of the purchase process for quantities expected to be consumed in the ordinary course of business. The Company may enter into commodity futures or swaps to reduce the effect of price fluctuation. The Company may use foreign currency forward contracts and other risk management instruments to manage exposure to changes in foreign currency cash flows and the translation of monetary assets and liabilities on the Company's Consolidated Financial Statements. The

Company is exposed to interest-rate fluctuations as a result of using debt as a source of financing for its operations. The Company may use traditional, unleveraged interest rate swaps to adjust its mix of fixed and variable rate debt to manage its exposure to interest rate movements. The Company uses published market prices or estimated values based on current price quotes and a discounted cash flow model to estimate the fair market value of derivatives.

All interest rate swaps qualified as fair-value hedges, under which fixed interest rates are swapped for floating rates. During 2004, the Company entered into agreements to swap the interest rate from fixed to floating on $100,000 of its $250,000 6.5% notes maturing in 2013, and all $150,000 of its 5.625% notes maturing in 2016. The fair market value of these interest rate swaps was an unfavorable position of $1,098 and a favorable position of $4,483, respectively, at December 31, 2005, and was reflected as "Other Liabilities" and "Other Assets," respectively, in the Company's Consolidated Balance Sheet. During 2006, the Company terminated both interest rate swaps. At the time of termination, the fair value of the interest rate swap related to the 6.5% notes was an unfavorable position of $3,018, and the fair value of the interest rate swap related to the 5.625% notes was a favorable position of $881. In accordance with FAS 133, interest expense is being adjusted by amortization of the gain and loss associated with these swap terminations over the remaining life of the related bonds. Termination of these swaps increased the Company's proportion of fixed rate debt, reducing its exposure to the effects of interest rate changes. The Company did not enter into any new fair value hedges during the year ended December 31, 2006.

The Company has entered into certain cash flow hedges to mitigate exposure to commodity, energy and foreign exchange risks. Related hedge gains and/or losses are reclassified from accumulated other comprehensive income and into earnings in the same periods that the forecast purchases or payments affect earnings. The only significant open hedge positions relate to the Company's forecasted purchase of natural gas. At December 31, 2006, natural gas swaps, covering approximately eight million MMBTUs, were outstanding. The hedged natural gas quantities at this date represent approximately 75%, 56%, 31%, and 6% of anticipated U.S. and Canadian usage for 2007, 2008, 2009 and 2010, respectively. The total fair market value of the Company's cash-flow hedge derivatives as of December 31, 2006, was a net loss of $2,059 on a tax-adjusted basis. Of this amount, a gain of $244 is expected to be reclassified to earnings in 2007. As a result of the high correlation between the derivative instruments and the associated hedged transactions, ineffectiveness did not have a material impact on the Company's Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004.

10. STOCK-BASED PLANS

The Company utilizes various forms of share-based compensation within its stock-based programs which are summarized below. Awards are provided in the form of stock options, stock appreciation rights and restricted stock units. The majority of these awards are issued pursuant to the Company's 1991 Key Employee Stock Plan (the "Employee Stock Plan") and 1996 Non-Employee Directors' Stock Plan (the "Directors' Plan"). The Company's non-employee director stock-based awards have not been material. At December 31, 2006, a total of 3,552,064 shares remain available for future grant under these plans. The Company issues new shares for stock option and stock appreciation right exercises and stock unit conversions. The Company has from time to time repurchased shares to replace those issued under its stock compensation plans, however, there is no specific schedule or policy to do so.

Total compensation cost for share-based payment arrangements was $11,347, $4,554, and $5,144, for 2006, 2005, and 2004, respectively. The related tax benefit recognized in net income was $3,699, $1,475, and $1,714, for the same years, respectively. Share-based compensation expense is included in selling, general and administrative expense on the Condensed Consolidated Statements of Income.

ACCOUNTING FOR SHARE-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the fair value method of accounting for share-based compensation arrangements in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), 'Share-Based Payment' (FAS 123(R)), using the modified prospective method of transition. Under the modified prospective method, compensation expense is recognized beginning at the effective date of adoption of FAS 123(R) for all share-based payments (i) granted after the effective date of adoption and (ii) granted prior to the effective date of adoption and that remain unvested on the date of adoption. At the date of adoption, the Company had an estimated 436,301 unvested restricted stock units and performance contingent restricted stock units outstanding, with a total grant date fair value of approximately $10,000, and no unvested stock options outstanding. The Company recognizes share-based compensation cost ratably over the expected vesting period.

Prior to January 1, 2006, the Company accounted for share-based employee compensation plans using the intrinsic value method of accounting in accordance with

Accounting Principles Board Opinion No. 25, 'Accounting for Stock Issued to Employees' (APB 25), and its related interpretations. Under the provisions of APB 25, no compensation expense was recognized when stock options were granted with exercise prices equal to or greater than market value on the date of grant.

When the tax deduction for an exercised stock option, exercised stock appreciation right or converted stock unit exceeds the compensation cost that has been recognized in income, an "excess" tax benefit is created. The excess benefit is not recognized on the income statement, but rather on the balance sheet as additional paid-in capital. The additional excess tax benefit realized during 2006 was $10,580. Prior to the adoption of FAS 123(R), the Company presented all tax benefits resulting from share-based compensation as cash flows from operating activities in the condensed consolidated statements of cash flows. FAS 123(R) requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. The excess tax benefit of $10,580 recognized during 2006 has been included in cash flows from financing activities. In accordance with the adoption of FAS 123(R), the Company chose to adopt the short-cut method to determine the pool of windfall tax benefits as it relates to stock-based compensation.

The Company's Condensed Consolidated Financial Statements as of December 31, 2006, reflect the impact of its adoption of FAS 123(R). The effect of the change from applying the original provisions of FAS 123 is outlined in the table below:

	YEAR ENDED DECEMBER 31, 2006 INCREASE/(DECREASE)
Income before income taxes	$ (4,148)
Net income	(2,796)
Cash flow provided by operating activities	(10,580)
Cash flow used in financing activities	10,580
Earnings per share:	
Basic	(.03)
Diluted	(.03)

For purposes of calculating share-based compensation expense under FAS 123(R) for retiree-eligible employees, the service completion date is assumed to be the grant date; therefore, expense associated with share-based compensation to these employees is recognized at that time. The annual impact of recognizing this expense immediately versus over the nominal vesting period is not material because the Company's employee stock options and stock appreciation rights have one-year vesting periods.

Under the modified prospective method of transition, the Company is not required to restate its prior period financial statements. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation for the years ended December 31, 2005 and 2004:

	YEAR ENDED DECEMBER 31, 2005	2004
Net income, as reported	$161,877	$ 151,229
Add: Stock-based employee compensation cost, net of related tax effects, included in net income, as reported	3,078	3,430
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(7,534)	(6,449)
Pro forma net income	$157,421	$148,210
Earnings per share:		
Basic – as reported	$1.63	$1.54
Basic – pro forma	$1.58	$1.51
Diluted – as reported	$1.61	$1.53
Diluted – pro forma	$1.57	$1.50

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS (SARS)

The Company typically grants stock options or stock appreciation rights annually on a discretionary basis to its key employees. Prior to 2006, the Company also granted stock options to its non-employee directors. Options granted under the Employee Stock Plan and the Directors' Plan were at market (had an exercise price equal to the closing market price on the date of grant), had 10-year terms and vested over one year, except for the options granted in 2005, which vested immediately. In 2006, the Company began to grant stock appreciation rights (SARs) instead of stock options. SARs are at market, vest over one year, have seven-year terms and can be settled only in stock. Both stock options and SARs are exercisable upon vesting.

On January 31, 2006, the Company granted to employees 754,683 stock-settled SARs. An additional 14,500 SARs were granted over the remainder of the year. All SARs were granted at the closing market prices on the dates of grant. As of December 31, 2006, there was $270 of total unrecognized compensation cost related to nonvested SARs. This cost will be recognized over the remaining weighted-average vesting period, which is approximately one month.

The weighted-average fair values of options and SARs granted was $5.85, $5.42 and $4.97 in 2006, 2005 and

2004, respectively. The Company computed the estimated fair values of all options and SARs using the binomial option-pricing model applying the assumptions set forth in the following table:

	2006	2005	2004
Expected dividend yield	2.8%	3.5%	3.6%
Expected stock price volatility	20.8%	26.2%	27.4%
Risk-free interest rate	4.5%	3.7%	3.2%
Expected life of options	4 years	4.5 years	4.5 years

The assumptions employed in the calculation of the fair value of stock options and SARs were determined as follows:

- Expected dividend yield – the Company's annual dividend divided by the stock price at the time of grant.
- Expected stock price volatility – based on historical volatility of the Company's common stock measured weekly for a time period equal to the expected life.
- Risk-free interest rate – based on U.S. Treasury yields in effect at the time of grant for maturities equal to the expected life.
- Expected life – calculated using the simplified method as prescribed in Staff Accounting Bulletin No. 107, where the expected life is equal to the sum of the vesting period and the contractual term divided by two.

The following tables summarize information about stock options and SARs outstanding and exercisable at December 31, 2006:

		OPTIONS AND SARS VESTED AND EXPECTED TO VEST		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE
$17.25 - $23.80	2,237,476	4.7 years	$22.06	$35,806
$23.86 - $27.31	2,503,905	6.3 years	$25.45	$31,569
$27.35 - $37.10	2,343,505	4.1 years	$31.79	$ 15,529
$17.25 - $37.10	7,084,886	5.1 years	$26.48	$82,904

		OPTIONS AND SARS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE
$17.25 - $23.80	2,237,194	4.7 years	$22.06	$35,806
$23.86 - $27.31	2,503,905	6.3 years	$25.45	$31,569
$27.35 - $37.10	1,611,405	1.9 years	$31.07	$11,252
$17.25 - $37.10	6,352,504	5.3 years	$25.68	$78,627

The activity related to the Company's stock options and SARs is as follows:

	NONVESTED	VESTED	TOTAL	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding, December 31, 2005		9,373,305	9,373,305	$25.33
Granted	730,089	39,094	769,183	$33.34
Exercised		(3,030,365)	(3,030,365)	$24.68
Forfeited		(27,237)	(27,237)	$25.02
Outstanding, December 31, 2006	730,089	6,354,797	7,084,886	$26.48

The aggregate intrinsic value of options and SARs exercised during the years ended December 31, 2006, 2005, and 2004 was $27,827, $7,635, and $8,153, respectively. Cash received on option exercises was $74,413, $34,617, and $31,450 for the same years, respectively.

PERFORMANCE-BASED STOCK AWARDS

The Company typically grants performance contingent restricted stock units (PCSUs) annually on a discretionary basis to certain of its executives and other members of its management team. Both the ultimate number of PCSUs awarded and the vesting period are dependent upon the degree to which performance targets are achieved for three-year performance periods. Upon vesting, PCSUs are convertible into common shares on a one-for-one basis. These awards are granted under the Employee Stock Plan and vest over five years with accelerated vesting over three years if performance targets are met. For the awards outstanding at December 31, 2006, the ultimate number of PCSUs that could vest ranges from 185,730 to 557,190 and is tied to growth in earnings and improved capital effectiveness over a three-year period. The 2005 awards are tied to performance targets over the three-year period ending December 31, 2007, and can range from 86,450 to 259,350 units. The 2006 awards are tied to performance targets through fiscal year 2008, and can range from 99,280 to 297,840 units.

The three-year performance cycle for the 2004 awards was completed on December 31, 2006. Based on meeting performance goals established at the time of the award, participants to whom awards had been granted earned 181,157 stock units with a vested fair value of $6,895. While these stock units were eligible for conversion to common stock during the first quarter of 2007, most participants have elected to defer receipt of the shares. The Company's 2003 performance program completed its three-year performance cycle on December 31, 2005. Based on meeting performance goals established at the time of the award, participants earned 99,005 stock units with a vested fair value of $2,911. No PCSUs were earned in 2004 as the relevant performance targets were not achieved.

Noncash stock-based compensation associated with PCSUs totaled $6,654, $3,198 and $4,254 for 2006, 2005 and 2004, respectively. The adoption of FAS 123(R) did not materially change the expense recognition for PCSUs. As of December 31, 2006, there was approximately $7,654 of total unrecognized compensation cost related to nonvested PCSUs. This cost is expected to be recognized over a weighted-average period of eighteen months.

RESTRICTED STOCK AWARDS

Since 1994, the Company has from time to time granted awards of restricted stock units to certain of the Company's executives. These awards vest over a five-year period with one-third vesting on the third, fourth and fifth anniversaries of the grant. An executive must be actively employed by the Company on the vesting date for shares to be issued. Participants can elect to defer receipt. However, once vested these awards do not expire. As of December 31, 2006, a total of 363,338 restricted stock units remained outstanding, 289,420 of which were vested. Of the vested restricted stock units, 3,694 vested during 2006. No restricted stock units were granted during 2006. Noncash stock-based compensation associated with restricted stock grants totaled $419, $1,356 and $890 for 2006, 2005 and 2004, respectively. The adoption of FAS 123(R) did not materially change the expense recognition for the Company's restricted stock awards. As of December 31, 2006, there was $1,221 of total unrecognized compensation cost related to nonvested restricted stock units. This cost is expected to be recognized over a weighted-average period of three years.

The activity related to the PCSUs and restricted stock units is as follows:

	NONVESTED	VESTED	TOTAL	GRANT DATE FAIR VALUE PER SHARE
Outstanding, December 31, 2005	436,301	509,268	945,569	$23.48
Granted	198,560		198,560	$33.37
Vested	(184,851)	184,851		
Converted		(142,799)	(142,799)	$21.43
Performance adjustments/other	110,487	8,042	118,529	$30.00
Outstanding, December 31, 2006	560,497	559,362	1,119,859	$27.54

DEFERRED COMPENSATION PLANS

Certain officers of the Company may elect to defer a portion of their compensation in the form of stock units. Units are granted as of the day the cash compensation would have otherwise been paid using the closing price of the Company's common stock on that day. The units immediately vest and earn dividend equivalents. Units are distributed in the form of common stock upon retirement over a period elected by the employee. Cash compensation totaling $124 was deferred as stock units during 2006, resulting in 3,744 units being granted. There were no conversions to common stock during 2006.

Non-employee directors are required to defer a minimum of 50% of their fees into stock units. Units are granted as of the day the cash compensation would have otherwise been paid using the closing price of the Company's common stock on that day. The units immediately vest and earn dividend equivalents. Distributions begin after retirement from the board over a period elected by the director. Since distributions can be made in stock or cash, units granted under the director plan are accounted for as liability-classified awards.

11. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS AND RETIREE HEALTH AND LIFE INSURANCE PLANS

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

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

At December 31, 2006, the Company adopted the recognition and disclosure requirements of Financial

Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Retirement Plans" (FAS 158), which requires balance sheet recognition of the funded status of defined benefit plans. As such, the December 31, 2006, balance sheet reflects the funded status of these plans. Because FAS 158 prohibits retrospective application, the December 31, 2006, balance sheet and related footnote disclosure are presented in accordance with FAS 158 while prior years' balance sheets and footnotes continue to reflect benefit plan assets, liabilities and disclosure as previously reported.

The Company uses a December 31 measurement date for all its plans with the exception of its pension plan in the United Kingdom, which uses a September 30 measurement date.

The incremental effect of applying FAS 158 on individual line items in the Company's 2006 ending balance sheet is as follows:

	BEFORE APPLICATION OF FAS 158	ADJUSTMENTS	AFTER APPLICATION OF FAS 158
Prepaid Pension Costs	$269,366	$(260,315)	$ 9,051
Total Assets	$269,366	$(260,315)	$ 9,051
Accrued wages and other compensation	$ 8,917	$ 11,245	$ 20,162
Pension and other postretirement benefits	185,984	23,448	209,432
Deferred Income Taxes	(25,176)	(113,614)	(138,790)
Total Liabilities	$ 169,725	$ (78,921)	$90,804
Accumulated other comprehensive loss	$ (56,220)	$(181,396)	$ (237,616)
Total Shareholders' Equity	$ (56,220)	$(181,396)	$ (237,616)
Total Liabilities and Shareholders' Equity	$ 113,505	$(260,317)	$(146,812)

The components of net periodic benefit cost include the following:

Retirement Plans	2006	2005	2004
Service cost	$28,545	$25,994	$22,880
Interest cost	64,471	60,489	57,953
Expected return on plan assets	(81,332)	(72,316)	(65,967)
Amortization of net transition obligation	696	575	615
Amortization of prior service cost	1,615	1,770	1,558
Amortization of net actuarial loss	28,177	22,705	21,153
Special termination benefit cost	659	203	198
Other	13		
Net periodic benefit cost	$42,844	$39,420	$38,390

Retiree Health and Life Insurance Plans	2006	2005	2004
Service cost	$2,545	$3,487	$3,608
Interest cost	5,077	7,097	8,431
Expected return on plan assets	(2,310)	(2,881)	(3,543)
Amortization of prior service cost	(9,731)	(7,679)	(6,160)
Amortization of net actuarial loss	5,721	4,896	5,031
Effect of curtailment gain		(1,344)	
Net periodic benefit cost	$1,302	$3,576	$ 7,367

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

	RETIREMENT PLANS		RETIREE HEALTH AND LIFE INSURANCE PLANS	
	2006	2005	2006	2005
Change in Benefit Obligation				
Benefit obligation at January 1	$1,196,383	$1,080,525	$102,213	$146,764
Service cost	28,545	25,994	2,545	3,487
Interest cost	64,471	60,489	5,077	7,097
Plan participant contributions	2,080	1,557	4,263	4,586
Plan amendments	1,010	4,082	(2,790)	(38,132)
Actuarial (gain) loss	(18,263)	96,078	(7,166)	(2,396)
Benefits paid	(56,927)	(53,255)	(12,396)	(19,251)
Impact of foreign exchange rates	25,484	(19,869)	106	58
Special termination benefit cost	659	203		
Other	160	579		
Benefit obligation at December 31	$1,243,602	$1,196,383	$ 91,852	$102,213
Change in Plan Assets				
Fair value of plan assets at Jan. 1	$ 981,442	$ 893,384	$ 32,705	$ 42,347
Actual return on plan assets	131,118	75,435	4,068	2,270
Company contributions	13,915	82,163	1,532	2,930
Plan participant contributions	2,080	1,557	4,263	4,586
Benefits paid	(56,927)	(53,255)	(12,396)	(19,251)
Impact of foreign exchange rates	18,556	(14,093)		
Expenses paid	(5,397)	(4,245)	(156)	(177)
Other	(20)	496		
Fair value of plan assets at December 31	$1,084,767	$ 981,442	$ 30,016	$ 32,705

	RETIREMENT PLANS		RETIREE HEALTH AND LIFE INSURANCE PLANS	
	2006	2005	2006	2005
Reconciliation of Funded Status, December 31				
Funded status of plan	$(158,835)	$(214,941)	$(61,836)	$(69,508)
Unrecognized net actuarial loss		439,287		57,560
Unrecognized prior service cost		9,356		(37,917)
Unrecognized net transition obligation		5,627		
Net amount recognized		$239,329		$(49,865)

RETIREMENT PLANS 2005	
Total Recognized Amounts in the Consolidated Balance Sheets	
Prepaid benefit cost	$281,904
Accrued benefit liability	(133,545)
Intangible asset	6,486
Accumulated other comprehensive loss	84,484
Net amount recognized	$239,329

RETIREMENT PLANS 2006	
Total Recognized Amounts in the Consolidated Balance Sheets	
Noncurrent assets	$ 9,051
Current liabilities	(17,066)
Noncurrent liabilities	(150,820)
Net pension liability	$(158,835)

Items not yet recognized as a component of net periodic pension cost that are included in Accumulated Other Comprehensive Income as of December 31, 2006, are as follows:

	RETIREMENT PLANS	RETIREE HEALTH AND LIFE INSURANCE PLANS
Net actuarial loss	$349,997	$43,088
Prior service cost	8,824	(30,977)
Net transition obligation	5,478	
	$364,299	$12,111

Of the amounts included in Accumulated Other Comprehensive Income as of December 31, 2006, the portions that are expected to be recognized as components of net periodic benefit cost in 2007 are as follows:

	RETIREMENT PLANS	RETIREE HEALTH AND LIFE INSURANCE PLANS
Net actuarial loss	$19,518	$4,579
Prior service cost	1,428	(9,730)
Net transition obligation	478	
	$21,424	$(5,151)

The accumulated benefit obligation for all defined benefit plans was $1,143,897 and $1,099,747 at December 31, 2006 and 2005, respectively.

The projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were, $428,692, $401,560 and $261,100, respectively, as of December 31, 2006, and $375,655, $348,384 and $216,841, respectively, as of December 31, 2005. As of December 31, 2006, both the ABO and the PBO of the Company's U.S. qualified pension plan were fully funded.

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

	RETIREMENT PLANS	RETIREE HEALTH AND LIFE INSURANCE PLANS
2007	$ 55,358	$ 9,112
2008	$ 57,092	$ 8,525
2009	$ 58,780	$ 8,528
2010	$ 61,348	$ 8,454
2011	$ 64,194	$ 8,608
2012-2016	$371,688	$41,189

Assumptions

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

Weighted-average assumptions used to determine benefit obligations at Dec. 31	U.S. RETIREMENT PLANS	HEALTH AND LIFE INSURANCE PLANS	FOREIGN PLANS
Discount Rate			
2006	5.83%	5.68%	4.00-5.25%
2005	5.50%	5.50%	4.00-5.25%
Rate of Compensation Increase			
2006	4.88%	4.69%	1.00-4.00%
2005	4.80%	4.50%	3.00-5.50%

Weighted-average assumptions used to determine net periodic benefit costs for years ended Dec. 31	U.S. PLANS	U.S. RETIREE HEALTH AND RETIREMENT LIFE INSURANCE PLANS	FOREIGN PLANS
Discount Rate			
2006	5.50%	5.50%	4.00-5.25%
2005	5.75%	5.75%	4.25-6.00%
2004	6.25%	6.25%	5.00-6.50%
Expected Long-term Rate of Return			
2006	8.50%	8.50%	3.75-8.00%
2005	8.50%	8.50%	3.75-8.00%
2004	8.50%	8.50%	4.00-8.00%
Rate of Compensation Increase			
2006	4.80%	4.50%	1.00-4.00%
2005	4.60%	4.50%	3.00-5.50%
2004	4.60%	4.50%	1.50-4.00%

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

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

Medical Trends

The U.S. Retiree Health and Life Insurance Plan makes up approximately 99% of the Retiree Health liability. Therefore, the following information relates to the U.S. plan only.

HEALTHCARE COST TREND RATE	PRE-AGE 65	POST-AGE 65
2006	11.30%	12.30%
2005	13.30%	13.30%
ULTIMATE TREND RATE	**PRE-AGE 65**	**POST-AGE 65**
2006	5.0%	6.0%
2005	6.0%	6.0%
YEAR AT WHICH THE RATE REACHES THE ULTIMATE TREND RATE	**PRE-AGE 65**	**POST-AGE 65**
2006	2014	2014
2005	2014	2014

Increasing the assumed trend rate for healthcare costs by one percentage point would increase the accumulated postretirement benefit obligation (the APBO) and total service and interest cost component approximately $2,179 and $213, respectively. Decreasing the assumed trend rate for healthcare costs by one percentage point would decrease the APBO and total service and interest cost component approximately $1,995 and $190, respectively. Based on amendments to the U.S. plan approved in 1999, which became effective in 2003, cost increases borne by the Company are limited to the Urban CPI, as defined.

Retirement Plan Assets

The following table sets forth the weighted-average asset allocations of the Company's retirement plans at December 31, 2006 and 2005, by asset category.

ASSET CATEGORY	U.S.	U.K.	CANADA
Equity securities			
2006	61.8%	72.4%	68.3%
2005	56.0%	74.0%	62.6%
Debt securities			
2006	27.7%	21.8%	31.7%
2005	25.7%	20.7%	37.4%
Alternative			
2006	10.5%	4.8%	0.0%
2005	10.2%	4.4%	0.0%
Cash			
2006	0.0%	1.0%	0.0%
2005[1]	8.1%	0.9%	0.0%
Total			
2006	100.0%	100.0%	100.0%
2005	100.0%	100.0%	100.0%

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

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

U.S. Defined Benefit Plan

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

U.K. Plan

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

Canadian Plan

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

Retiree Health and Life Insurance Plan Assets

The following table sets forth the weighted-average asset allocations of the Company's retiree health and life insurance plans at December 31, 2006 and 2005, by asset category. As mentioned previously, the U.S. Retiree Health and Life Insurance Plan makes up approximately 99% of the Retiree Health liability. Therefore, the following information relates to the U.S. Plan only.

ASSET CATEGORY	
Equity securities	
2006	58.4%
2005	54.8%
Debt securities	
2006	32.6%
2005	30.4%
Alternative	
2006	6.9%
2005	6.9%
Cash	
2006	2.1%
2005	7.9%
Total	
2006	100.0%
2005	100.0%

Contributions

The Company estimates that it will make minimal voluntary contributions to its defined benefit retirement and retiree health and life insurance plans in 2007.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 106-2, 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' (FSP 106-2), which requires measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit costs to reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). FSP 106-2 was effective for interim or annual reporting periods beginning after June 15, 2004. The Company adopted and retroactively applied FSP 106-2 as of the effective date. In response to the Company's reflection of the effects of the Act and the adoption of FSP 106-2, the accumulated postretirement benefit obligation was reduced by $48,940 and net periodic benefit costs were reduced by $9,080 in 2004. The reduction in obligation directly related to the subsidy was $3,394 and $3,942 in 2006 and 2005, respectively. The projected subsidy as of December 31, 2006, was substantially less than the projected subsidy at the time of adoption because of changes the Company made during 2005 to the eligibility for retiree medical benefits. As part of these changes, prescription drug benefits for Medicare-eligible retirees were eliminated for those employees who retired after 1981 and for all future retirees, thereby significantly reducing the projected subsidy. These changes resulted in an overall reduction in the accumulated postretirement benefit obligation of $38,132 in 2005, which is being amortized over a period of 4.6 years. The benefit of this amortization will cease during 2010.

The following table sets forth the Company's projected subsidy from the government for the next ten years:

YEAR	PROJECTED SUBSIDY
2007	$156
2008	$162
2009	$166
2010	$170
2011	$171
2012-2016	$927

SONOCO SAVINGS PLAN

The Company sponsors the Sonoco Savings Plan for its U.S. employees, a defined contribution retirement plan. In accordance with the IRS "Safe Harbor" matching contributions and vesting provisions the plan provides 100% Company matching on the first 3% of pretax contributions, 50% Company matching on the next 2% of pretax contributions and 100% immediate vesting. The plan also provides for participant contributions of 1% to 30% of gross pay. The Company's expenses related to the plan for 2006, 2005 and 2004 were approximately $14,000, $13,000 and $11,000, respectively.

SONOCO INVESTMENT AND RETIREMENT PLAN

The Company also sponsors the Sonoco Investment and Retirement Plan, a defined contribution pension plan, for its salaried and non-union U.S. employees who were hired on or after January 1, 2004, the Plan's effective date. The Company makes an annual contribution of 4% of all eligible pay plus 4% of eligible pay in excess of the Social Security wage base to eligible participant accounts. The first such contribution was made in January 2005, in the amount of $35, for those participants eligible to participate in the plan during 2004, the 2005 expense was $414 and the 2006 expense was $1,244. Participants are fully vested after five years of service or upon reaching age fifty-five, if earlier.

12. INCOME TAXES

The Company provides for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting requirements and tax laws. Assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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

	2006	2005	2004
Pretax income			
Domestic	$210,444	$185,089	$151,707
Foreign	64,364	46,037	45,635
Total pretax income	$274,808	$231,126	$197,342
Current			
Federal	$ 83,845	$ 85,047	$ 30,427
State	(2,733)	4,311	199
Foreign	27,482	19,538	22,922
Total current	$108,594	$108,896	$ 53,548
Deferred			
Federal	$ (12,060)	$ (27,110)	$ 5,971
State	(1,207)	4,116	1,995
Foreign	(1,998)	(1,728)	(2,656)
Total deferred	$ (15,265)	$ (24,722)	$ 5,310
Total taxes	$ 93,329	$ 84,174	$ 58,858

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

	2006	2005
Depreciation	$109,824	$100,623
Employee benefits	2,942	116,090
Intangibles	45,776	28,486
Other		7,732
Gross deferred tax liabilities	158,542	252,931
Retiree health benefits	(24,433)	(20,431)
Foreign loss carryforwards	(49,984)	(39,023)
Capital loss carryforwards	(9,048)	(4,448)
Employee benefits	(85,996)	(78,779)
Accrued liabilities and other	(25,558)	(32,365)
Gross deferred tax assets	(195,019)	(175,046)
Valuation allowance on deferred tax assets	56,754	43,022
Total deferred taxes, net	$ 20,277	$120,907

The net increase in the valuation allowance in 2006 for deferred tax assets of $13,732 is primarily due to an increase of net operating and capital losses of foreign subsidiaries for which tax benefit has not been recognized. The net decrease to the deferred tax liability related to employee benefits is primarily due to the adoption of FAS 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans."

Approximately $187,148 of foreign subsidiary loss carryforwards remain at December 31, 2006. Their use is limited to future taxable earnings of the respective foreign subsidiaries. Of these loss carryforwards, approximately $153,012 have no expiration date. The remaining loss carryforwards expire at various dates in the future. Approximately $5,054 of state loss carryforwards and $3,153 of state credit carryforwards remain at December 31, 2006. The state loss and credit carryforwards expire at various dates in the future.

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

	2006		2005		2004	
Statutory tax rate	$96,183	35.0%	$80,894	35.0%	$69,070	35.0%
State income taxes, net of federal tax benefit	3,182	1.2	1,836	0.8	1,857	0.9
Repatriation			9,891	4.3		
Valuation allowance	9,175	3.3	5,001	2.2	7,777	3.9
IRS and state examinations and settlements	(5,354)	(1.9)	(632)	(0.3)	(9,693)	(4.9)
Other, net	(9,857)	(3.6)	(12,816)	(5.6)	(10,153)	(5.1)
Total taxes	$93,329	34.0%	$ 84,174	36.4%	$58,858	29.8%

Undistributed earnings of international subsidiaries totaled $131,766 at December 31, 2006. Deferred taxes have not been provided on the undistributed earnings, as the Company considers these amounts to be indefinitely reinvested to finance international growth and expansion. If such amounts were remitted, loaned to the Company, or the stock in the foreign subsidiaries sold, these earnings could become subject to tax.

During 2006, the Company entered into favorable tax agreements with state tax authorities and closed state tax examinations for less than originally anticipated, which resulted in the reversal of previously accrued taxes of $5,354. This was mostly offset by the impact of $4,867 resulting from restructuring charges for which a tax benefit could not be recognized.

During 2005, the Company repatriated $124,658 from foreign subsidiaries under the provisions of the American Jobs Creation Act of 2004 (AJCA). Under this temporary incentive, a portion of the repatriated funds qualified for an 85% dividends-received deduction. The Company recorded U.S. federal and state taxes on the repatriated funds of $10,074. The Company also closed state tax examinations resulting in the reversal of previously accrued taxes totaling approximately $632. During 2004, IRS and state tax examinations were concluded resulting in the reversal of previously accrued taxes totaling approximately $9,693.

The Company's income tax returns for 2003 through 2006 are open for examination by the IRS. The Company believes that it has made adequate provision for income taxes with respect to open years.

13. COMMITMENTS AND CONTINGENCIES

CONTINGENCIES

The Company is a party to various claims and legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings. The Company cannot currently determine the final outcome of the proceedings described below or the ultimate amount of potential losses. **Pursuant to Statement of Financial Accounting Standards No. 5, 'Accounting for Contingencies' (FAS 5), management records accruals for estimated losses at the time that information becomes available indicating that losses are probable and that the amounts can be reasonably estimable. Accrued amounts are not discounted.**

ENVIRONMENTAL MATTERS

During the fourth quarter of 2005, the United States Environmental Protection Agency (EPA) notified U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, that U.S. Mills and NCR Corporation (NCR) would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation, which the Company currently estimates to be between $24,000 and $26,000 for the project as a whole. Although project implementation began in 2006, most of the project cost is expected to be incurred in 2007. Although the agreement reached does not acknowledge responsibility or prevent the other party from seeking reimbursement from any other parties (including each other), the Company accrued $12,500 in the fourth quarter of 2005 as an estimate of the portion of costs that U.S. Mills expects to fund under the current agreement. This charge is included in "Selling, general and administrative expenses" in the Company's Consolidated Statements of Income. The actual costs associated with cleanup of this particular site are dependent upon many factors and it is reasonably possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition.

In June 2006, U.S. Mills became aware of the potential for further liability along a larger stretch of the lower Fox River, including the bay at Green Bay. Although it has not accepted any liability nor entered into any cost sharing agreements with interested parties, U.S. Mills is in the early stages of reviewing this new information and is discussing possible remediation scenarios with other potentially responsible parties and cannot reasonably estimate the amount of its liability, if any, at this time. Accordingly, no additional reserve for potential remediation costs has been recognized by U.S. Mills at December 31, 2006. Although U.S. Mills' liability could exceed its net worth, Sonoco Products Company believes the maximum exposure to its financial position is limited to the equity position of U.S. Mills which is approximately $90,000 as of December 31, 2006, excluding any tax benefits that may further reduce the net charge.

The Company has been named as a potentially responsible party at several other 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 potentially responsible parties with respect to a particular site. Such agreements relate to the sharing of legal defense costs or cleanup costs, or both. The Company has assumed, for purposes of estimating amounts to be accrued, that the other parties to such cost-sharing agreements will perform as agreed. It appears that final resolution of some of the sites is years away. Accordingly, the ultimate cost to the Company with respect to such sites cannot be determined.

As of December 31, 2006 and 2005, the Company had accrued $15,316 and $16,789, respectively, related to environmental contingencies. These accruals include $11,661 and $12,500 for U.S. Mills at December 31, 2006 and 2005, respectively. Actual costs to be incurred for these environmental matters in future periods may vary from current estimates because of the inherent uncertainties in evaluating environmental exposures.

Some, or all, of any costs incurred may be covered by insurance, or be subject to recoupment from other parties, but no amounts have been recognized in the financial statements of the Company for such recovery or recoupment. There can be no assurance, however, that such claims for recovery will be successful.

Income Taxes

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

COMMITMENTS

As of December 31, 2006, the Company had long-term obligations to purchase electricity and steam, which it uses in its production processes. The purchase contracts require the Company to make total payments of approximately $174,098 through 2021, as follows: $11,933 in 2007; $13,164 in 2008; $12,680 in 2009; $12,119 in 2010 and a total of $124,202 from 2011 through 2021.

14. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

STOCK REPURCHASES

In 2001, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to 5,000,000 shares of the Company's common stock, in addition to approximately 290,000 shares that were authorized for repurchase prior to 2001. Therefore, the Company had authorizations to repurchase approximately 5,290,000 shares of common stock as of December 31, 2005. From February 3, 2006 through April 4, 2006, the Company repurchased 2,500,000 shares of Sonoco common stock for $82,668. On April 19, 2006, the Company's Board of Directors rescinded all previously approved stock repurchase programs in conjunction with its approval of a new program, which authorizes the repurchase of up to 5,000,000 shares of the Company's common stock. On February 7, 2007, the Company's Board of Directors, in anticipation of a planned 1,500,000 share repurchase, authorized the reinstatement of those shares to its existing 5,000,000 authorization. On February 8, 2007, the Company completed the repurchase of 1,500,000 shares of its common stock for a total cost of $56,700; accordingly, 5,000,000 shares remain available for repurchase. The Company did not repurchase any of its common stock in 2005.

EARNINGS PER SHARE

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

	2006	2005	2004
Numerator:			
Net income	$195,081	$161,877	$151,229
Denominator:			
Weighted average common shares outstanding	100,073,000	99,336,000	98,018,000
Dilutive effect of stock-based compensation	1,461,000	1,082,000	929,000
Diluted outstanding shares	101,534,000	100,418,000	98,947,000
Net income per common share			
Basic	$1.95	$1.63	$1.54
Diluted	$1.92	$1.61	$1.53

The Company declared dividends totaling $.95 and $.91 per share in 2006 and 2005, respectively.

Certain options to purchase shares of the Company's common stock are not dilutive because the exercise price of the option is greater than the market price of the stock at the end of the fiscal year. Accordingly, the following shares were not included in the computations of diluted income per share amounts:

	2006	2005	2004
Anti-dilutive options	2,000	1,147,000	2,192,000

These options may become dilutive in future periods if the market price of the Company's common stock appreciates. No adjustments were made to reported net income in the computation of earnings per share.

15. FINANCIAL REPORTING FOR BUSINESS SEGMENTS

The Company identifies its reportable segments in accordance with Statement of Financial Accounting Standards No. 131, 'Disclosures about Segments of an Enterprise and Related Information' (FAS 131), by evaluating the level of detail reviewed by the chief operating decision maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods used to distribute product and nature of regulatory environment.

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

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

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

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

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

YEARS ENDED DECEMBER 31	CONSUMER PACKAGING	TUBES AND CORES/ PAPER	PACKAGING SERVICES	ALL OTHER SONOCO	CORPORATE	CONSOLIDATED
Total Revenue						
2006	$1,308,184	$1,614,721	$456,877	$407,411		$3,787,193
2005	1,250,916	1,569,170	456,161	377,968		3,654,215
2004	1,134,782	1,470,213	321,251	343,813		3,270,059
Intersegment Sales[1]						
2006	$ 3,430	$ 89,163	$ 44	$ 37,717		$ 130,354
2005	3,465	87,113	284	34,779		125,641
2004	2,712	81,701	206	30,007		114,626
Sales to Unaffiliated Customers						
2006	$1,304,754	$1,525,558	$456,833	$369,694		$3,656,839
2005	1,247,451	1,482,057	455,877	343,189		3,528,574
2004	1,132,070	1,388,512	321,045	313,806		3,155,433
Operating Profits[2]						
2006	$ 109,624	$ 148,177	$ 39,181	$ 49,106	$(71,280)	$ 274,808
2005	103,505	107,060	44,813	40,607	(64,859)	231,126
2004	83,111	113,032	30,266	31,978	(61,045)	197,342
Identifiable Assets[3]						
2006	$ 836,705	$1,388,453	$326,518	$185,287	$179,715	$2,916,678
2005	738,023	1,258,166	321,742	189,369	474,440	2,981,740
2004	735,162	1,107,223	320,401	191,975	686,558	3,041,319
Depreciation, Depletion and Amortization[4]						
2006	$ 55,074	$ 85,863	$ 11,942	$ 11,985		$ 164,864
2005	56,281	83,737	11,994	11,062		163,074
2004	59,413	85,153	8,236	11,126		163,928
Capital Expenditures[4]						
2006	$ 48,153	$ 63,290	$ 3,439	$ 8,397		$ 123,279
2005	50,802	62,312	4,913	11,085		129,112
2004	50,686	59,410	3,279	6,425		119,800

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

[2] Corporate 2006, 2005 and 2004 includes restructuring costs of $(1,912), $(4,617) and $(5,261) respectively, associated with the Consumer Packaging segment; $(23,655), $(16,020) and $(14,752), respectively, associated with the Tubes and Cores/Paper segment; $(77), $0 and $0, respectively, associated with the Packaging Services segment; $(453), $(600) and $(1,018), respectively, associated with All Other Sonoco; and a reversal of previously recorded restructuring charges of $127 in 2006 and $2,049 in 2004 related to Corporate. Interest expense and interest income are also shown under Corporate.

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

[4] Depreciation, depletion and amortization, as well as capital expenditures that are incurred at Corporate, are allocated to the reportable segments and all other Sonoco.

GEOGRAPHIC REGIONS

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

	2006	2005	2004
Sales to Unaffiliated Customers			
United States	$2,343,046	$2,291,302	$2,102,229
Europe	576,096	552,506	453,482
Canada	369,563	340,532	315,978
All other	368,134	344,234	283,744
Total	$3,656,839	$3,528,574	$ 3,155,433
Long-lived Assets			
United States	$ 1,217,462	$1,054,430	$1,090,187
Europe	353,841	342,601	277,088
Canada	165,796	165,243	164,550
All other	148,519	143,894	130,409
Total	$ 1,885,618	$1,706,168	$1,662,234

Sales are attributed to countries/regions based upon the plant location from which products are shipped. Long-lived assets are comprised of property, plant and equipment, goodwill, intangible assets and investment in affiliates (see Notes 6 and 7).

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the components of accumulated other comprehensive loss, and the changes in accumulated comprehensive loss, net of tax as applicable, for the years ended December 31, 2006 and 2005:

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	DEFINED BENEFIT PLANS	DERIVATIVE FINANCIAL INSTRUMENTS	ACCUMULATED OTHER COMPREHENSIVE LOSS
Balance at Dec. 31, 2004	$(46,989)	$ (58,305)	$ 2,139	$ (103,155)
Change during 2005	(12,844)	568	9,042	(3,234)
Balance at Dec. 31, 2005	(59,833)	(57,737)	11,181	(106,389)
Change during 2006	37,203	(179,879)	(13,240)	(155,916)
Balance at Dec. 31, 2006	$(22,630)	$(237,616)	$ (2,059)	$(262,305)

The 2006 tax effect on the Defined Benefit Plans and Derivative Financial Instruments was $112,059 and $7,453, respectively. The 2005 tax effect on the Defined Benefit Plans and Derivative Financial Instruments was $(142) and $(5,078), respectively.

The cumulative tax benefit of the Defined Benefit Plans was $138,790 and $26,746 in 2006 and 2005, respectively. Additionally, the cumulative tax effect of Derivative Financial Instruments was $1,164 and $(6,289) in 2006 and 2005, respectively.

17. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 required the Company to recognize the funded status of each of its defined benefit plans as an asset or liability on the December 31, 2006 balance sheet, the impact of which is discussed in Note 11. Under FAS 158 any future changes in funded status that are not reflected in net income will be recognized in other comprehensive income. FAS 158 does not change how pensions and other postretirement benefits plans are accounted for and reported in the income statement. FAS 158 will require the Company to measure the funded status of its plans as of year-end beginning with its December 31, 2008 balance sheet. Because the Company currently uses December 31 as the measurement date for most of its plans, including its major U.S.-based plans, this change will not have a material effect on the Company's financial statements.

In October 2006, the Financial Accounting Standards Board issued FASB Staff Position FAS 123(R)-5, "Amendment of FASB Staff Position FAS 123(R)-1." This FASB Staff Position (FSP) excludes from treatment as a modification a change to the terms of certain awards if that change is made solely to reflect an equity restructuring and certain other conditions are met. If an entity did not apply Statement 123(R) in a manner consistent with the provisions of this FSP, then that entity would be required to retrospectively apply the provisions in this FSP to prior periods when those periods' financial statements are included for comparative purposes with current-period financial statements. The provisions of this FASB Staff Position are effective for the Company beginning in the first quarter of 2007. Because Sonoco has not made any changes to the terms of previously granted stock-based awards, its implementation will have no effect on the Company's financial reporting.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). This interpretation modified the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, "Accounting for Income Taxes" (FAS 109). Specifically, FIN 48 changes the application of FAS 109 by establishing criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides new rules for measurement, derecognition, classification, interest and penalties, accounting for income taxes in interim periods, as well as disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and the liability for uncertain tax positions. The Company currently expects the impact of this adjustment will be an increase in the liability for uncertain tax positions of between $2 million and $5 million. The Company does not believe there will be any impact to the Income Statement at the time of adoption.

18. SELECTED QUARTERLY FINANCIAL DATA

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

(UNAUDITED)		FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2006					
Net sales		$818,769	$ 917,010	$ 931,522	$ 989,538
Gross profit		156,176	174,026	181,568	193,270
Net income[1]		45,144	49,342	61,091	39,504
Per common share					
Net income	- basic	$ .45	$ .50	$ .61	$ .39
	- diluted	.44	.49	.60	.39
Cash dividends	- common	.23	.24	.24	.24
Market price	- high	34.75	34.75	34.75	38.71
	- low	28.76	29.45	30.30	33.10
2005					
Net sales		$814,438	$878,170	$881,058	$954,908
Gross profit		148,316	160,744	163,392	188,499
Net income [2,3]		36,989	40,176	45,913	38,799
Per common share					
Net income	- basic	$ 37	$ .40	$ .46	$ .39
	- diluted	.37	.40	.46	.38
Cash dividends	- common	.22	.23	.23	.23
Market price	- high	30.24	29.13	28.84	30.64
	- low	25.58	25.46	25.79	25.43

[1] *Includes restructuring charges of $2,355 ($1,473 after tax), $2,565 ($1,669 after tax), $1,064 ($713 after tax) and $19,987 ($17,473 after tax) in the first, second, third and fourth quarter, respectively. The first, second, third and fourth quarters also include income of $100, $121, $142 and $53 after tax, respectively, associated with the allocation of restructuring charges to the minority interest shareholder of Sonoco-Alcore and Sonoco For Plas do Brazil Ltda.*

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

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

19. VALUATION AND QUALIFYING ACCOUNTS

	COLUMN A	COLUMN B – ADDITIONS		COLUMN C	COLUMN D
	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER	DEDUCTIONS	BALANCE AT END OF YEAR
2006					
Allowance for Doubtful Accounts	$ 8,325	$2,263	$1,169 [2]	$2,774 [1]	$ 8,983
LIFO Reserve	11,568	3,034 [3]			14,602
Valuation Allowance on Deferred Tax Assets	43,022	9,175	4,557 [6]		56,754
2005					
Allowance for Doubtful Accounts	$ 8,286	$3,661 [2]	$ (162) [2]	$3,460 [1]	$ 8,325
LIFO Reserve	10,701	867 [3]			11,568
Valuation Allowance on Deferred Tax Assets	43,192	5,001 [5]		5,171 [2,4]	43,022
2004					
Allowance for Doubtful Accounts	$ 8,199	$4,186 [2]		$4,099 [1]	$ 8,286
LIFO Reserve	10,462	239 [3]			10,701
Valuation Allowance on Deferred Tax Assets	26,941	7,777 [4]	8,474 [2,4]		43,192

[1] *Includes amounts written off.*

[2] *Includes translation adjustments and other insignificant adjustments.*

[3] *Includes adjustments based on pricing and inventory levels.*

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

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

[6] *Includes translation adjustments.*

SELECTED ELEVEN-YEAR Financial Data (unaudited)

DOLLARS AND SHARES IN THOUSANDS EXCEPT PER SHARE

YEARS ENDED DECEMBER 31	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Operating Results[1]											
Net sales	**$3,656,839**	$3,528,574	$3,155,433	$2,758,326	$2,701,419	$2,464,445	$2,570,708	$2,391,666	$2,409,045	$2,702,700	$2,638,414
Cost of sales and operating expenses	**3,310,751**	3,232,590	2,897,046	2,549,726	2,455,357	2,204,874	2,250,793	2,085,434	2,149,853	2,382,327	2,344,455
Other expense, net [2]	**25,970**	21,237	18,982	50,056	10,409	51,175	5,543	(3,500)	(100,354)	226,358	
Interest expense	**51,952**	51,559	47,463	52,399	54,196	52,217	59,604	52,466	54,779	57,194	55,481
Interest income	**(6,642)**	(7,938)	(5,400)	(2,188)	(1,649)	(3,800)	(3,794)	(5,314)	(5,916)	(4,971)	(6,191)
Income before income taxes	**274,808**	231,126	197,342	108,333	183,106	159,979	258,562	262,580	310,683	41,792	244,669
Provision for income taxes [3]	**93,329**	84,174	58,858	37,698	65,075	77,269	107,463	98,333	142,857	51,647	93,837
Equity in earnings of affiliates/minority interest [4]	**13,602**	14,925	12,745	7,543	7,437	(1,214)	7,702	6,830	6,387	(991)	(1,771)
Income from continuing operations	**195,081**	161,877	151,229	78,178	125,468	81,496	158,801	171,077	174,213	(10,846)	149,061
Income from discontinued operations, net of income taxes				60,771	9,848	10,113	7,497	16,728	17,783	13,463	21,810
Income before extraordinary loss	**195,081**	161,877	151,229	138,949	135,316	91,609	166,298	187,805	191,996	2,617	170,871
Extraordinary loss, net of income tax benefit									(11,753)		
Net income	**195,081**	161,877	151,229	138,949	135,316	91,609	166,298	187,805	180,243	2,617	170,871
Preferred dividends										(3,061)	(7,196)
Net income available to common shareholders	**$ 195,081**	$ 161,877	$ 151,229	$ 138,949	$ 135,316	$ 91,609	$ 166,298	$ 187,805	$ 180,243	$ (444)	$ 163,675
Per common share											
Net income available to common shareholders:											
Basic	**$ 1.95**	$ 1.63	$ 1.54	$ 1.44	$ 1.40	$ .96	$ 1.67	$ 1.84	$ 1.76	$ .00	$ 1.64
Diluted	**1.92**	1.61	1.53	1.43	1.39	.96	1.66	1.83	1.73	.00	1.58
Cash dividends – common	**.95**	.91	.87	.84	.83	.80	.79	.75	.704	.641	.586
Average common shares outstanding:											
Basic	**100,073**	99,336	98,018	96,819	96,373	95,370	99,725	101,886	102,632	100,981	99,564
Diluted	**101,534**	100,418	98,947	97,129	97,178	95,807	99,900	102,780	104,275	107,350	108,487
Actual common shares outstanding at December 31	**100,550**	99,988	98,500	96,969	96,380	95,453	94,681	101,134	101,683	105,417	98,850
Financial Position											
Net working capital	**$ 282,974**	$ 265,014	$ 282,226	$ 75,671	$ 104,671	$ 204,899	$ 258,713	$ 306,450	$ 225,347	$ 438,896	$ 262,533
Property, plant and equipment, net	**1,019,594**	943,951	1,007,295	923,569	975,368	1,008,944	973,470	1,032,503	1,013,843	939,542	995,415
Total assets	**2,916,678**	2,981,740	3,041,319	2,520,633	2,436,439	2,352,197	2,212,611	2,297,020	2,082,983	2,159,932	2,365,896
Long-term debt	**712,089**	657,075	813,207	473,220	699,346	885,961	812,085	819,540	686,826	696,669	791,026
Total debt	**763,992**	781,605	906,961	674,587	833,846	921,810	857,641	904,137	783,632	796,359	893,088
Shareholders' equity	**1,219,068**	1,263,314	1,152,879	1,014,160	867,425	804,122	801,471	901,220	821,592	848,819	920,613
Current ratio	**1.4**	1.4	1.4	1.1	1.2	1.4	1.6	1.7	1.5	2.0	1.6
Total debt to total capital [5]	**37.5%**	35.7%	40.7%	36.4%	44.5%	49.3%	48.5%	47.5%	46.7%	46.1%	47.2%
Other Data											
Depreciation, depletion and amortization expense [1]	**$ 164,863**	$ 163,074	$ 163,928	$ 153,538	$ 145,923	$ 144,709	$ 137,041	$ 130,945	$ 131,103	$ 140,166	$ 129,825
Cash dividends declared – common	**94,745**	90,126	85,060	81,128	79,768	76,080	78,718	76,434	72,028	64,639	58,480
Market price per common share (ending)	**38.06**	29.40	29.65	24.62	22.93	26.58	21.63	22.75	29.63	31.54	23.53
Return on total equity (including preferred stock) [1,2]	**15.7%**	13.5%	14.2%	15.0%	16.0%	11.5%	19.1%	21.9%	22.0%	.3%	18.3%
Return on net sales[1,2]	**5.3%**	4.6%	4.8%	5.0%	5.0%	3.7%	6.5%	7.9%	7.5%	.0%	6.2%

[1] *Operating results for 2000-2002 have been restated to reclassify the High Density Film business, which was sold in 2003, as discontinued operations.*

[2] *2006 data reflects net charges of $25,970 pretax, $21,330 after tax, for restructuring charges. 2005 data reflects net charges of $21,237 pretax, $14,343 after tax for restructuring cost. 2004 data reflects net charges of $18,982 pretax, $16,154 after tax, for restructuring costs. 2003 data reflects net charges of $50,056 pretax, $35,329 after tax, for restructuring costs. 2002 data reflects net charges of $10,409 pretax, $6,663 after tax, for restructuring costs. 2001 data reflects net charges of $51,175 pretax, $49,028 after tax, for the net gain from legal settlements, corporate-owned life insurance (COLI) and restructuring costs. 2000 data reflects net charges of $5,543 pretax, $1,372 after tax, for the net gain on the sales of divested businesses, restructuring costs and executive severance charges. 1999 data reflects the gain on the sale of divested businesses of $(3,500). 1998 data reflects the net gain on the sale of divested businesses of $(100,354) pretax, or $(41,554) after tax. 1997 data reflects the asset impairment charges of $226,358 pretax, or $174,500 after tax.*

[3] *The provision for income taxes in 2001 and 2000 includes $14,613 and $12,000, respectively, related to COLI.*

[4] *2006, 2005, 2004, 2003 and 2001 data includes restructuring charges of $(416), $(1,260), $(1,778), $1,455 and $6,591, respectively.*

[5] *Debt levels for 1998 through 2000 have been adjusted for cash related to the issuance of restricted-purpose bonds.*

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

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

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

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

Charles J. Hupfer
Chief Financial Officer

CERTIFICATIONS

The Certification of the Company's chief executive officer required to be submitted to the New York Stock Exchange pursuant to Section 303A.12(a) of the Listed Company Manual for the year ended 2005 was submitted to the New York Stock Exchange.

The Certifications of the Company's principal executive officer and principal financial officer required by Section 302 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 13a-14(a) have been filed as Exhibit 31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which report has been filed with the Securities and Exchange Commission.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2006. PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, as evidenced by their attestation report, which appears on page 81 of this report.

Harris E. DeLoach Jr.
Chief Executive Officer

Charles J. Hupfer
Chief Financial Officer

Barry L. Saunders
Chief Accounting Officer

TO THE SHAREHOLDERS AND DIRECTORS OF SONOCO PRODUCTS COMPANY:

We have completed integrated audits of Sonoco Products Company's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements appearing on pages 50 through 77 of this report present fairly, in all material respects, the financial position of Sonoco Products Company and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 10 and 11 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation as a result of the adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment;" and adopted the provisions of Statement of Financial Accounting Standards No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans," effective December 31, 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 80 of this report, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

Charlotte, North Carolina
February 28, 2007

ADDRESS

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

INVESTOR INFORMATION

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

SONOCO ON THE INTERNET

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

TRANSFER AGENT AND REGISTRAR

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

Address shareholder inquiries to:
The Bank of New York
Investor Services Department
P.O. Box 11258
New York, NY 10286-1258
E-mail: shareowners@bankofny.com

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

Send certificates for transfer and address changes to:
The Bank of New York
Receive and Deliver Department
P.O. Box 11002
New York, NY 10286-1002
Featuring:
- Automated voice-response system available 24/7
- Service representatives are available during normal business hours
- Registered shareholder account access via the Internet at www.stockbny.com.

SHAREHOLDER SERVICES

Sonoco – B01
1 North Second Street
Hartsville, SC 29550-3305

ELECTRONIC PAYMENT OF DIVIDENDS

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

SHAREHOLDER INVESTMENT PROGRAM

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

DUPLICATE ANNUAL REPORTS

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

SONOCO PUBLICATIONS

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

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

GENERAL INFORMATION

ANNUAL MEETING

The annual meeting of shareholders' will be held at 11 a.m. Eastern time on Wednesday, April 18, at:

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

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

LEGAL COUNSEL

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

INTELLECTUAL CAPITAL MANAGEMENT

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

125 West Home Avenue
Hartsville, SC 29550-4123

EQUAL OPPORTUNITY EMPLOYER

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

REFERENCES TO WEB SITE ADDRESSES

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