management's discussion and analysis

food service distributor channel. Higher costs for certain raw materials including vanilla, cheese and soy oil were passed through in higher pricing. In Europe, sales rose 12.3% with foreign exchange contributing 12.0% of increase. A favorable price and product mix increase of 4.2% offset a 3.9% volume decline. A shift in emphasis from lower to higher margin products resulted in reduced sales of certain lower margin products. In the Asia/Pacific region, sales increased 8.8%, with 5.5% of increase from foreign exchange and 4.3% from higher volume, partially offset by a 1.0% unfavorable price and product mix. The volume increase related to higher sales to quick service restaurants and of snack seasonings.

Operating income for the industrial business rose 4.3% to $113.6 million, despite a $6.1 million increase in research and development costs. Operating income margin was 9.6% in 2004 down from 9.8% in 2003. Increases in operating margin due to emphasis on more value-added, higher margin products and cost reduction efforts were more than offset by certain cost increases. In the fourth quarter of 2004, a $6.2 million adjustment, which arose in prior quarters, was recorded after the Company identified and corrected the operational accounting at an industrial plant in Scotland. Higher fuel, employee benefit costs and special charges as well as international reorganization costs also contributed to the decline. Special charges in the industrial business increased to $3.0 million in 2004 from $2.3 million in 2003. Special charges in the industrial business for 2004 consisted of additional costs associated with the consolidation of production facilities in Canada and additional costs related to the consolidation of manufacturing facilities in the U.K. Special charges in the industrial business for 2003 consisted of costs associated with the consolidation of production facilities in Canada and severance and other costs related to the consolidation of industrial manufacturing in the U.K.

Results of Operations – 2003 compared to 2002

for the year ended November 30 (millions except per share data)	2003	2002
Net sales	$2,269.6	$2,044.9
Gross profit	898.6	799.5
Gross profit margin	39.6%	39.1%
Selling, general and administrative expense	597.6	529.6
Percentage of sales	26.3%	25.9%
Operating income	295.5	262.4
Operating income margin	13.0%	12.8%
Earnings per share from continuing operations – diluted	1.40	1.22

In June of 2003, the Company acquired Zatarain's, the leading U.S. brand of authentic New Orleans-style food. In January of 2003, Uniqsauces was acquired, which expanded condiment flavors and packaging formats for the Company.

During the third quarter of 2003, the Company sold its packaging business and the U.K. brokerage operation. As a result, prior period sales and related expenses for these discontinued operations have been reclassified and reported as "Net income from discontinued operations" in the consolidated statement of income. The consolidated balance sheet and consolidated statement of cash flows were also reclassified to present separately the assets, liabilities and cash flows of the discontinued operations.

For the year ended November 30, 2003, McCormick reported sales from continuing operations of $2.3 billion, an increase of 11.0% above 2002. Sales benefited from the acquisition of the Zatarain's and Uniqsauces businesses, which accounted for 4.4% of the increase. Favorable foreign exchange rates added another 4.2%, and higher sales, particularly in the U.S. consumer business, contributed an additional 2.4% to sales.

Gross profit margin increased to 39.6% in 2003 from 39.1% in 2002. Gross profit margin was favorably impacted by global procurement efficiencies, cost reduction initiatives and a mix of more consumer sales, which generally have a higher gross profit margin, compared to industrial sales. Increases in commodity costs such as vanilla were offset by price increases, and higher margins from the Zatarain's business were offset by a lower gross profit margin from Uniqsauces.

Selling, general and administrative expenses were higher in 2003 than 2002 on both a dollar basis and as a percentage of net sales. These increases were primarily due to increased distribution expenses, decreased royalty income, increased employee benefit costs and higher advertising and promotional expenses. The increase in distribution expenses was primarily due to the addition of higher distribution costs associated with the Zatarain's business, higher fuel costs and higher costs necessary to service customers during the consolidation of facilities in Canada. The decrease in royalty income is due to lower sales in the McCormick de Mexico joint venture. The increase in employee benefit costs was mainly the result of higher pension costs in 2003 compared to 2002. In the consumer business, advertising and promotional expenses increased in support of the launch of several new products.

Pension expense was $22.1 million and $13.0 million for the years ended November 30, 2003 and 2002, respectively. In connection with the valuation performed at the