Consolidated Financial Statements
(In millions of Canadian dollars)

# CCL INDUSTRIES INC.

Years ended December 31, 2018 and 2017

# CCL Industries Inc.

## Consolidated statements of financial position

*In millions of Canadian dollars*

| | Note | | As at December 31, 2018 | | As at December 31, 2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 6 | **$** | **589.1** | $ | 557.5 |
| Trade and other receivables | 7 | | **938.0** | | 821.3 |
| Inventories | 8 | | **524.6** | | 425.1 |
| Prepaid expenses | | | **34.8** | | 33.6 |
| Income taxes recoverable | | | **38.7** | | 13.1 |
| Derivative instruments | 23 | | **-** | | 1.0 |
| **Total current assets** | | | **2,125.2** | | 1,851.6 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | | **1,797.5** | | 1,514.7 |
| Goodwill | 11,12 | | **1,830.3** | | 1,580.7 |
| Intangible assets | 11,12 | | **1,138.9** | | 1,082.7 |
| Deferred tax assets | 14 | | **32.5** | | 28.8 |
| Equity accounted investments | 9 | | **59.8** | | 54.0 |
| Other assets | | | **34.3** | | 31.5 |
| Derivative instruments | 23 | | **9.1** | | - |
| **Total non-current assets** | | | **4,902.4** | | 4,292.4 |
| **Total assets** | | **$** | **7,027.6** | $ | 6,144.0 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 13 | **$** | **1,223.4** | $ | 1,018.4 |
| Current portion of long-term debt | 17 | | **71.8** | | 230.6 |
| Income taxes payable | | | **51.2** | | 50.7 |
| Derivative instruments | 23 | | **0.5** | | - |
| **Total current liabilities** | | | **1,346.9** | | 1,299.7 |
| **Non-current liabilities** | | | | | |
| Long-term debt | 17 | | **2,419.8** | | 2,100.8 |
| Deferred tax liabilities | 14 | | **216.6** | | 183.5 |
| Employee benefits | 19 | | **320.0** | | 333.6 |
| Provisions and other long-term liabilities | | | **10.6** | | 17.8 |
| Derivative instruments | 23 | | **40.6** | | 50.7 |
| **Total non-current liabilities** | | | **3,007.6** | | 2,686.4 |
| **Total liabilities** | | | **4,354.5** | | 3,986.1 |
| **Equity** | | | | | |
| Share capital | 15 | | **306.3** | | 279.4 |
| Contributed surplus | | | **92.7** | | 78.0 |
| Retained earnings | | | **2,238.9** | | 1,853.4 |
| Accumulated other comprehensive income (loss) | 28 | | **35.2** | | (52.9) |
| **Total equity attributable to shareholders of the Company** | | | **2,673.1** | | 2,157.9 |
| Commitments and contingencies | 25 | | | | |
| Acquisitions | 5 | | | | |
| Subsequent events | 30 | | | | |
| **Total liabilities and equity** | | **$** | **7,027.6** | $ | 6,144.0 |

*See accompanying explanatory notes to the consolidated financial statements.*

On behalf of the Board:

Donald G. Lang
Director

Geoffrey T. Martin
Director

# CCL Industries Inc.
**Consolidated income statements**

**Years ended December 31**

| *In millions of Canadian dollars, except per share information* | **Note** | | **2018** | | 2017 |
|---|---|---|---|---|---|
| Sales | | **$** | **5,161.5** | $ | 4,755.7 |
| Cost of sales | | | **3,662.7** | | 3,319.4 |
| Gross profit | | | **1,498.8** | | 1,436.3 |
| Selling, general and administrative expenses | | | **785.8** | | 751.5 |
| Restructuring and other items | 29 | | **14.8** | | 11.3 |
| Earnings in equity accounted investments | | | **(5.3)** | | (3.7) |
| | | | **703.5** | | 677.2 |
| Finance cost | 18 | | **92.9** | | 87.4 |
| Finance income | 18 | | **(12.2)** | | (12.2) |
| **Net finance cost** | | | **80.7** | | 75.2 |
| **Earnings before income tax** | | | **622.8** | | 602.0 |
| Income tax expense | 21 | | **156.0** | | 127.9 |
| **Net earnings** | | **$** | **466.8** | $ | 474.1 |
| | | | | | |
| **Earnings per share** | | | | | |
| Basic earnings per Class B share | 2,16 | **$** | **2.64** | $ | 2.70 |
| Diluted earnings per Class B share | 2,16 | **$** | **2.61** | $ | 2.66 |

*See accompanying explanatory notes to the consolidated financial statements.*

# CCL Industries Inc.

**Consolidated statements of comprehensive income**

**Years ended December 31**

| *In millions of Canadian dollars* | | **2018** | | 2017 |
|---|---|---|---|---|
| **Net earnings** | **$** | **466.8** | $ | 474.1 |
| **Other comprehensive income (loss), net of tax:** | | | | |
| **Items that may subsequently be reclassified to income:** | | | | |
| Foreign currency translation adjustment for foreign operations, net of tax expense of $8.7 for the year ended December 31, 2018 (2017 – tax recovery of $6.4) | | **206.5** | | (84.9) |
| Net gains (losses) on hedges of net investment in foreign operations, net of tax recovery of $14.9 for the year ended December 31, 2018 (2017 – tax expense of $4.0) | | **(112.7)** | | 27.6 |
| Effective portion of changes in fair value of cash flow hedges, net of tax recovery of $0.2 for the year ended December 31, 2018 (2017 – tax expense of $0.8) | | **(0.6)** | | 3.8 |
| Net change in fair value of cash flow hedges transferred to the income statement, net of tax expense of $1.1 for the year ended December 31, 2018 (2017 – tax recovery of $0.3) | | **(5.1)** | | 1.5 |
| Actuarial gains on defined benefit post-employment plans, net of tax expense of $2.6 for the year ended December 31, 2018 (2017 – tax expense of $1.8) | | **10.6** | | 9.6 |
| **Other comprehensive income (loss), net of tax** | | **98.7** | | (42.4) |
| **Total comprehensive income** | **$** | **565.5** | $ | 431.7 |

*See accompanying explanatory notes to the consolidated financial statements.*

# CCL Industries Inc.
## Consolidated statements of changes in equity

***(In millions of Canadian dollars)***

| | Class A Shares (note 15) | Class B Shares (note 15) | Shares Held in Trust (note 15) | Total Share Capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Equity Attributable to Shareholders |
|---|---|---|---|---|---|---|---|---|
| Balances, January 1, 2017 | $ 4.5 | $ 286.6 | $ (29.7) | $ 261.4 | $ 64.2 | $ 1,450.5 | $ (0.9) | $ 1,775.2 |
| Net earnings | - | - | - | - | - | 474.1 | - | 474.1 |
| Dividends declared | | | | | | | | |
| Class A | - | - | - | - | - | (5.3) | - | (5.3) |
| Class B | - | - | - | - | - | (75.5) | - | (75.5) |
| Defined benefit plan actuarial gains, net of tax | - | - | - | - | - | 9.6 | - | 9.6 |
| Stock-based compensation plan | - | 3.4 | - | 3.4 | 7.9 | - | - | 11.3 |
| Shares redeemed from trust | - | - | 0.3 | 0.3 | - | - | - | 0.3 |
| Shares purchased and held in trust | - | - | (0.3) | (0.3) | 0.3 | - | - | - |
| Stock option expense | - | - | - | - | 8.1 | - | - | 8.1 |
| Stock options exercised | - | 14.6 | - | 14.6 | (2.5) | - | - | 12.1 |
| Other comprehensive loss | - | - | - | - | - | - | (52.0) | (52.0) |
| Balances, December 31, 2017 | $ 4.5 | $ 304.6 | $ (29.7) | $ 279.4 | $ 78.0 | $ 1,853.4 | $ (52.9) | $ 2,157.9 |
| Net earnings | - | - | - | - | - | 466.8 | - | 466.8 |
| Dividends declared | | | | | | | | |
| Class A | - | - | - | - | - | (6.0) | - | (6.0) |
| Class B | - | - | - | - | - | (85.9) | - | (85.9) |
| Defined benefit plan actuarial gains, net of tax | - | - | - | - | - | 10.6 | - | 10.6 |
| Stock-based compensation plan | - | 4.2 | - | 4.2 | 8.9 | - | - | 13.1 |
| Shares purchased and held in trust | - | - | (0.3) | (0.3) | 0.3 | - | - | - |
| Stock option expense | - | - | - | - | 9.6 | - | - | 9.6 |
| Stock options exercised | - | 23.0 | - | 23.0 | (3.9) | - | - | 19.1 |
| Income tax effect related to stock options | - | - | - | - | (0.2) | - | - | (0.2) |
| Other comprehensive income | - | - | - | - | - | - | 88.1 | 88.1 |
| Balances, December 31, 2018 | **$ 4.5** | **$ 331.8** | **$ (30.0)** | **$ 306.3** | **$ 92.7** | **$ 2,238.9** | **$ 35.2** | **$ 2,673.1** |

*See accompanying explanatory notes to the consolidated financial statements.*

# CCL Industries Inc.
**Consolidated statements of cash flows**

| **Years ended December 31** | | |
|---|---|---|
| *In millions of Canadian dollars* | **2018** | 2017 |
| **Cash provided by (used for)** | | |
| **Operating activities** | | |
| Net earnings | **$ 466.8** | $ 474.1 |
| Adjustments for: | | |
| Depreciation and amortization | **278.0** | 259.2 |
| Earnings in equity accounted investments, net of dividends received | **(1.5)** | (1.2) |
| Net finance costs | **80.7** | 75.2 |
| Current income tax expense | **139.4** | 155.2 |
| Deferred tax expense (recovery) | **16.6** | (27.3) |
| Equity-settled share-based payment transactions | **22.9** | 19.7 |
| Gain on sale of property, plant and equipment | **(3.6)** | (0.9) |
| | **999.3** | 954.0 |
| Change in inventories | **(62.1)** | 8.1 |
| Change in trade and other receivables | **(58.5)** | (36.1) |
| Change in prepaid expenses | **(1.1)** | (7.5) |
| Change in trade and other payables | **149.4** | 3.6 |
| Change in income taxes receivable and payable | **(8.6)** | 8.4 |
| Change in employee benefits | **(13.6)** | 10.7 |
| Change in other assets and liabilities | **1.4** | (8.1) |
| | **1,006.2** | 933.1 |
| Net interest paid | **(76.8)** | (67.3) |
| Income taxes paid | **(156.7)** | (154.6) |
| **Cash provided by operating activities** | **772.7** | 711.2 |
| **Financing activities** | | |
| Proceeds on issuance of long-term debt | **888.5** | 1,186.6 |
| Repayment of long-term debt | **(882.7)** | (384.5) |
| Proceeds from issuance of shares | **19.1** | 12.1 |
| Dividends paid | **(92.2)** | (81.2) |
| **Cash provided by (used for) financing activities** | **(67.3)** | 733.0 |
| **Investing activities** | | |
| Additions to property, plant and equipment | **(352.9)** | (285.7) |
| Proceeds on disposal of property, plant and equipment | **22.7** | 12.8 |
| Business acquisitions and other long-term investments (note 5) | **(365.9)** | (1,191.4) |
| **Cash used for investing activities** | **(696.1)** | (1,464.3) |
| Net increase (decrease) in cash and cash equivalents | **9.3** | (20.1) |
| Cash and cash equivalents at beginning of year | **557.5** | 585.1 |
| Translation adjustments on cash and cash equivalents | **22.3** | (7.5) |
| **Cash and cash equivalents at end of year** | **$ 589.1** | $ 557.5 |

*See accompanying explanatory notes to the consolidated financial statements.*

## 1. Reporting entity

CCL Industries Inc. (the “Company”) is a public company, listed on the Toronto Stock Exchange, and is incorporated and domiciled in Canada. These consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017, comprise the results of the Company, its subsidiaries and its interest in joint ventures and associates. The Company has manufacturing facilities around the world and is primarily involved in the manufacture of labels, consumer printable media products, technology-driven label solutions, polymer banknote substrates and specialty films.

## 2. Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on February 21, 2019.

### (b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following items in the statements of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value; and
- assets related to the defined benefit plans are measured at fair value and liabilities related to the defined benefit plans are calculated by qualified actuaries using the projected unit credit method.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information, except per share information, is presented in millions of Canadian dollars, unless otherwise noted.

## 2. Basis of preparation (continued)

### (d) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of sales and expenses during the year and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances.

In the process of applying the Company's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the financial statements.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Company has applied judgment in its assessment of the classification of financial instruments, the recognition and derecognition of tax losses and provisions, the determination of cash-generating units ("CGUs"), the identification of the indicators of impairment for property and equipment and intangible assets, the level of componentization of property and equipment and the allocation of purchase price adjustments on business combinations.

Estimates are used when determining the amounts recorded for depreciation and amortization of property, plant and equipment and intangible assets, outstanding self-insurance claims, pension and other post-employment benefits, income and other taxes, provisions, certain fair value measures including those related to the valuation of business combinations, share-based payments and financial instruments and also in the valuation of goodwill and intangible assets.

### (e) Stock split

On June 5, 2017, the Company effected a 5:1 stock split on its shares of common stock (Class A and Class B). Unless otherwise noted, impacted amounts and share information included in the financial statements and notes thereto have been retroactively adjusted for the stock split as if such stock split occurred on the first day of the first period presented. Certain amounts in the notes to the financial statements may be slightly different than previously reported due to rounding of fractional shares as a result of the stock split.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all comparative information presented in these consolidated financial statements.

### (a) Basis of consolidation

#### (i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Company elects to measure, on a transaction-by-transaction basis, non-controlling interest either at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

#### (ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed, when necessary, to align them with the policies adopted by the Company.

#### (iii) Associates and joint arrangements

The Company’s interests in equity accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

The Company classifies its interest in joint arrangements as either joint operations (if the Company has rights to the assets and has obligations for the liabilities relating to an arrangement) or joint ventures (if the Company has the rights only to the net assets of an arrangement). When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Investments in associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that it ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (iv) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency using the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the income statement, except for differences arising on the translation of a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in other comprehensive income (see note 3(b)(iii)). Foreign currency-denominated non-monetary items, measured at historical cost, have been translated at the rate of exchange at the transaction date.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (b) Foreign currency (continued)

#### (ii) Foreign operations

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars using exchange rates at the reporting date. The income and expenses of foreign operations are translated into Canadian dollars using the average exchange rates for the period.

Foreign currency differences are recognized directly in other comprehensive income and presented within the foreign currency translation adjustment.

When a foreign operation is disposed of, the amount in other comprehensive income related to the foreign operation is fully transferred to the income statement. A disposal occurs when the entire interest in the foreign operation is disposed of, or, in the case of a partial disposal, the partial disposal results in the loss of control of a subsidiary or the loss of significant influence. For any partial disposal of the Company's interest in a subsidiary that includes a foreign operation, the Company re-attributes the proportionate share of the relevant amounts in other comprehensive income to non-controlling interests. For any other partial disposal of a foreign operation, the Company reclassifies to the income statement only the proportionate share of the relevant amount in other comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from, or payable to, a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in other comprehensive income and presented within the foreign currency translation adjustment.

#### (iii) Hedge of net investment in a foreign operation

The Company applies hedge accounting to the foreign currency exposure arising between the functional currency of the foreign operation and the parent entity's functional currency, regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the income statement. When the hedged part of a net investment is disposed of or partially disposed of, the associated cumulative amount in equity is transferred to the income statement as an adjustment to the income statement on disposal in accordance with the policy described in note 3(b)(ii).

## 3. Significant accounting policies (continued)

### (c) Financial instruments

#### (i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on the following classifications:

*Amortized cost:*
The Company classifies financial assets held to collect contractual cash flows at amortized cost, including cash and cash equivalents and trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

*Fair value through profit or loss ("FVTPL"):*
Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term are classified as FVTPL. This category includes derivative assets and derivative liabilities that do not qualify for hedge accounting, if any. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated income statements. Transaction costs incurred are expensed in the consolidated income statements. The Company does not currently hold any liabilities designated as FVTPL.

*Fair value through other comprehensive income ("FVTOCI"):*
This category includes the Company's investments in securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is not transferred to the consolidated income statement.

*Other financial liabilities:*
This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

### (ii) Derivative financial instruments, including hedge accounting

The Company uses derivative financial instruments to manage its foreign currency and interest-rate-risk exposure and price-risk exposure related to the purchase of raw materials. Embedded derivatives are separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the income statement. Changes in the fair value of separable embedded derivatives are recognized immediately in the income statement.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes periodic assessments of prospective hedge effectiveness.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty when appropriate.

*Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period that the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the income statement.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (ii) Derivative financial instruments, including hedge accounting (continued)

If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in unrealized gains or losses on cash flow hedges in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases, the amount recognized in other comprehensive income is transferred to the income statement in the same period that the hedged item affects profit or loss.

*Fair value hedges*

Fair value hedges are hedges of the fair value of recognized assets, liabilities or unrecognized firm commitments. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

### (d) Property, plant and equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The fair value of property, plant and equipment recognized as a result of a business combination is based on the amount for which a property could be exchanged on the date of valuation between knowledgeable, willing parties in an arm’s length transaction.

Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of the assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (i) Recognition and measurement (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within selling, general and administrative expenses in the income statement.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

#### (ii) Depreciation

Depreciation is calculated based on the cost of the asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings — Up to 40 years
- Machinery and equipment — Up to 20 years
- Fixtures and fittings — Up to 10 years
- Minor components — Up to 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (e) Intangible assets

#### (i) Goodwill

Goodwill arises on the acquisition of subsidiaries and is tested for impairment annually or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. For measurement of goodwill at initial recognition, see note 3(a)(i).

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investments, the carrying amount of goodwill is included in the carrying amount of the investment.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (e) Intangible assets (continued)

#### (ii) Other intangible assets

Intangible assets consist of patents, trademarks, brands, software and the value of acquired customer relationships. Impairment losses for intangible assets where the carrying value is not recoverable are measured based on fair value. Fair value is calculated by using discounted cash flows.

The fair values of customer relationships acquired in a business combination are determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair values of brands acquired in a business combination are determined using the multi-period excess earnings method or the relief of royalty method, whereby the value of the brand is equal to the royalty savings from having ownership as opposed to licensing the brand.

Amortization is recognized in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than indefinite-life intangible assets, such as brands and goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

- Patents, trademarks and other — Up to 15 years
- Customer relationships — Up to 20 years

### (f) Leases

Leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under operating leases are not recognized in the Company’s statement of financial position.

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in, first-out principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling.

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Estimates regarding obsolete and slow-moving inventory are also computed.

### (h) Impairment

#### (i) Financial assets, including receivables

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after the initial recognition of the asset that have a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for financial assets measured at amortized cost at both a specific asset and a collective level. All individually significant financial assets measured at amortized cost are assessed for specific impairment. All individually significant financial assets measured at amortized cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current and expected future economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate and reflected in an allowance account against accounts receivable. Losses are recognized in the income statement. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## 3. Significant accounting policies (continued)

### (h) Impairment (continued)

#### (ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the impairment would be recognized in the income statement.

Impairments are recorded when the recoverable amount of assets is less than their carrying amount. The recoverable amount is the higher of an asset's or a cash-generating unit's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

The carrying values of finite-life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying values of goodwill and indefinite life intangibles are tested annually for impairment.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an equity accounted investment is not recognized separately and therefore is not tested for impairment separately. Instead, the entire amount of the equity accounted investment is tested for impairment as a single asset when there is objective evidence that the equity accounted investment may be impaired.

### (i) Employee benefits

#### (i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the income statement in the period that the service is rendered by the employee.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (i) Employee benefits (continued)

#### (ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit post-employment plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value using a discount rate comparable to high-quality corporate bonds. Any unrecognized past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

The Company recognizes all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income immediately and reports them in retained earnings.

The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of the contributions and benefit balances. Net interest expense and other expenses related to the defined benefit plans are recognized in profit or loss. Previously, interest income on plan assets was based on their long-term expected return.

#### (iii) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

#### (iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (i) Employee benefits (continued)

#### (v) Share-based payment transactions

For equity-settled share-based plans, the grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are expected to be met. The fair value of employee stock options is measured using the Black-Scholes model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instrument, the expected dividends, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

For equity-settled share-based deferred share unit ("DSU") plans, the grant date fair value of deferred share units is recognized as an employee expense with a corresponding increase in equity. The grant date fair value is not subsequently remeasured. The value of DSUs received in lieu of dividends is also recognized as a personnel expense in the income statement.

For cash-settled share-based DSU plans, the fair value of the amount payable for deferred share units is recognized as an expense with a corresponding increase in liabilities when they are issued. The fair value of a DSU is measured using the average of the high and low trading prices of the Class B shares for the five trading days immediately preceding the date of issue and is remeasured, using a similar five-day average, at the financial statement date and at the settlement date. Any changes in the fair value of the liability are recognized as a personnel expense in the income statement. The value of DSUs received in lieu of dividends is also recognized as a personnel cost in the income statement.

### (j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

### (k) Revenue

Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognized as performance obligations are satisfied and it transfers control over a product to a customer. For performance obligations satisfied at a point in time, revenue is recognized when the Company has a present right to payment, the buyer has legal title to the asset, physical possession of the asset has transferred to the buyer, the buyer has the significant risks and rewards of ownership and the buyer has accepted the asset. Generally, the buyer obtains control at the time goods are shipped, the product is delivered or services are rendered. For performance obligations satisfied over time, revenue is recognized by measuring the progress towards complete satisfaction of that performance obligation. For customer contracts that contain multiple performance obligations, each element is treated separately for revenue recognition purposes. For these contracts, the total transaction price is allocated to each obligation based on its relative stand-alone selling price. Revenue is then recognized for each obligation when the relevant recognition criteria are met.

## 3. Significant accounting policies (continued)

### (k) Revenue (continued)

Certain contracts with customers contain incentives, including the payment of discounts based on quantities purchased. These incentives represent variable consideration and are estimated and recognized as a deduction of related revenues.

### (l) Finance income and costs

Finance income comprises interest income on invested funds, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in the income statement. Interest income is recognized as it accrues in the income statement, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in the income statement. All borrowing costs are recognized in the income statement using the effective interest method, except for those amounts capitalized as part of the cost of qualifying property, plant and equipment.

### (m) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized either in other comprehensive income or directly in equity. In such cases, the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### (i) Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period and includes any adjustments to taxes payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 3. Significant accounting policies (continued)

### (m) Taxation (continued)

#### (ii) Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

#### (iii) Deferred tax liabilities

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the reversal of the temporary difference can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (iv) Deferred tax assets

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill or in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and that affect neither accounting nor taxable profit or loss.

### (n) Share capital

All shares are recorded as equity. When share capital is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effect, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When repurchased shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

### (o) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its Class B shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding for the effects of all potentially dilutive shares, which primarily comprise share options granted to employees.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (p) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products (business segment) or in providing products within a particular economic environment (geographical segment) and that is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Company's business and geographical segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets, other than goodwill.

### (q) New standards effective in 2018

IFRS 9 *Financial Instruments* ("IFRS 9")

In July 2014, the complete IFRS 9 was issued by the IASB. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces changes relating to financial liabilities and amends the impairment model by introducing a new "expected credit loss" model for calculating financial asset impairment. IFRS 9 also includes a new general hedge accounting standard that aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness but introduces more judgment to assess the effectiveness of a hedging relationship. This standard became effective for the Company on January 1, 2018 and did not have a material impact on its financial statements.

*i. Classification and measurement of financial assets and financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

IFRS 9 contains four primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") – debt investment, FVTOCI – equity investment, and fair value through profit and loss ("FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. Significant accounting policies (continued)

### (q) New standards effective in 2018 (continued)

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. See (iii) below for derivatives designated as hedging instruments. |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gains or losses on derecognition are recognized in profit or loss. |
| Debt investments at FVTOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVTOCI | These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. |

Below is a summary showing the classification and measurement bases of the Company's financial assets as at January 1, 2018, as a result of adopting IFRS 9 (along with a comparison to IAS 39).

| Financial Assets | IAS 39 | IFRS 9 |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Trade and other receivables | Loans and receivables | Amortized cost |
| Other assets | Available-for-sale | FVTOCI |

**3. Significant accounting policies (continued)**

**(q) New standards effective in 2018 (continued)**

*ii. Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVTOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

There was no material effect on the carrying value of the Company's financial assets under IFRS 9 related to this new requirement.

*iii. Hedge accounting*

The Company has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

Changes to hedge accounting policies have been applied prospectively. All hedging relationships designated under IAS 39 at December 31, 2017, met the criteria for hedge accounting under IFRS 9 at January 1, 2018, and are therefore regarded as continuing hedging relationships.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

In May 2014, IFRS 15 was issued and provides guidance on the timing and amount of revenue that should be recognized and also requires more informative and relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. This standard became effective for the Company on January 1, 2018, and did not have a material impact on its consolidated financial statements. See note 3 (k).

IFRS 2 *Share-based Payment* ("IFRS 2")

In June 2016, the amendments to IFRS 2 were issued by the IASB. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligation, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments became effective for the Company on January 1, 2018, and did not have a material impact on the consolidated financial statements.

*(In millions of Canadian dollars, except per share information)*

## 3. Significant accounting policies (continued)

### (r) New standards and interpretations not yet effective

IFRS 16 *Leases* ("IFRS 16")

In January 2016, IFRS 16 was issued by the IASB. This standard introduces a single-lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on or after January 1, 2019.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019, using the modified retrospective approach and the practical expedients related to, i. grandfather previous assessments of which existing contracts are, or contain, leases, ii. short-term leases, and, iii. leases of low-value items. The Company has completed an impact analysis of the new standard and upon adoption of IFRS 16, the Company will recognize $167.6 million for right-of-use assets, a corresponding $171.7 million of lease liabilities and a reduction in other liabilities of $4.1 million in its statement of financial position.

Impacts on financial statements

| | | January 1, 2019 |
|---|---|---|
| Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statement | $ | 204.8 |
| Discounted using the incremental borrowing rate at January 1, 2019 | $ | 171.7 |
| Financial lease liabilities recognized as at December 31, 2018 | | 6.0 |
| Recognition exception for | | |
| Short-term leases | | (2.6) |
| Leases of low-value assets | | (0.8) |
| Lease Liabilities recognized at January 1, 2019 | $ | 174.3 |

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23")

In June 2017, IFRIC 23 was issued by the IASB. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution, to determine if it is probable that the tax authorities will accept the uncertain tax treatment and, if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The interpretation is effective for annual periods beginning on or after January 1, 2019. The Company intends to adopt the IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019. The impact of adoption of the interpretation is immaterrial on the Company's consolidated financial statements.

## 4. Segment reporting

### Business segments

The Company has four reportable segments, as described below, which are the Company's main business units. The business units offer different products and services, and are managed separately as they require different technology and marketing strategies. For each of the business units, the Company's CEO, the chief operating decision maker, reviews internal management reports regularly.

Effective January 1, 2018, the Company changed its reportable segments to incorporate all the entities previously reported within the Container Segment into the CCL Segment, to more closely represent the current management structure and reporting. Comparative segment information has been restated to conform with the current year presentation.

The Company's reportable segments are:

- CCL is a converter of pressure sensitive and specialty extruded film materials for a wide range of decorative, instructional, functional and security applications for government institutions and large global customers in the consumer packaging, healthcare & chemicals, consumer electronic device and automotive markets. Extruded & laminated plastic tubes, aluminum aerosols & specialty bottles, folded instructional leaflets, precision decorated & die cut components, electronic displays, polymer banknote substrate and other complementary products and services are sold in parallel to specific end-use markets.

- Avery is a supplier of labels, specialty converted media and software solutions to enable short-run digital printing in businesses and homes alongside complementary office products sold through distributors and mass market retailers. The products are split into three primary lines: (1) Printable Media, including address labels, shipping labels, marketing and product identification labels, business cards, and name badges supported by customized software solutions; (2) Organizational Products Group, including binders, sheet protectors, indexes & dividers and writing instruments; (3) Direct-to-Consumer digitally imaged media including labels, business cards, name badges, and family-oriented identification labels supported by unique web-enabled e-commerce URLs.

- Checkpoint is a manufacturer of technology-driven loss-prevention, inventory-management and labeling solutions, including radio frequency and radio frequency identification ("RFID") solutions, to the retail and apparel industry. The Segment has three primary product lines: Merchandise Availability Solutions ("MAS"), Apparel Labeling Solutions ("ALS") and "Meto". The MAS line focuses on electronic-article-surveillance ("EAS") systems; hardware, software, labels and tags for loss prevention and inventory control systems including RFID solutions. ALS products are apparel labels and tags, some of which are RFID capable. Meto supplies hand-held pricing tools and labels and promotional in-store displays.

- Innovia supplies specialty, high-performance, multi-layer, surface engineered biaxially oriented polypropylene ("BOPP") films from facilities in Australia, Belgium, Mexico and the United Kingdom to customers in the pressure sensitive label materials, flexible packaging and consumer packaged goods industries worldwide. Additionally a small percentage of the total volume is sold internally to CCL Secure while the smaller legacy facilities produce almost their entire output for CCL Label.

*(In millions of Canadian dollars, except per share information)*

## 4. Segment reporting (continued)

### Business segments (continued)

| | Sales | | Operating Income | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| CCL | **$ 3,255.1** | $ 3,019.4 | **$ 511.3** | $ 471.0 |
| Avery | **711.9** | 752.9 | **145.5** | 164.5 |
| Checkpoint | **712.9** | 675.2 | **101.3** | 87.4 |
| Innovia | **481.6** | 308.2 | **17.6** | 14.6 |
| | **$ 5,161.5** | $ 4,755.7 | **$ 775.7** | $ 737.5 |
| Corporate expenses | | | **(62.7)** | (52.7) |
| Restructuring and other items | | | **(14.8)** | (11.3) |
| Earnings in equity accounted investments | | | **5.3** | 3.7 |
| Finance cost | | | **(92.9)** | (87.4) |
| Finance income | | | **12.2** | 12.2 |
| Income tax expense | | | **(156.0)** | (127.9) |
| Net earnings | | | **$ 466.8** | $ 474.1 |

| | Total Assets | | Total Liabilities | | Depreciation and Amortization | | Capital Expenditures | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| CCL | **$ 3,645.8** | $ 3,313.0 | **$ 947.5** | $ 821.6 | **$ 194.9** | $ 185.8 | **$ 280.0** | $ 237.3 |
| Avery | **637.4** | 593.4 | **237.3** | 197.1 | **17.6** | 16.1 | **11.6** | 13.8 |
| Checkpoint | **978.0** | 941.0 | **451.2** | 417.4 | **27.9** | 29.0 | **37.9** | 23.3 |
| Innovia | **1,140.7** | 751.5 | **225.2** | 160.5 | **36.6** | 27.4 | **22.7** | 10.9 |
| Equity accounted investments | **59.8** | 54.0 | **-** | - | **-** | - | **-** | - |
| Corporate | **565.9** | 491.1 | **2,493.3** | 2,389.5 | **1.0** | 0.9 | **0.7** | 0.4 |
| Total | **$ 7,027.6** | $ 6,144.0 | **$ 4,354.5** | $ 3,986.1 | **$ 278.0** | $ 259.2 | **$ 352.9** | $ 285.7 |

*(In millions of Canadian dollars, except per share information)*

## 4. Segment reporting (continued)

### Geographical segments

The CCL, Avery, Checkpoint and Innovia Segments are managed on a worldwide basis but operate in the following geographical areas:

- Canada;
- United States and Puerto Rico;
- Mexico, Brazil, Chile and Argentina;
- Europe; and
- Asia, Australia, Africa and New Zealand.

| | Sales | | Property, Plant and Equipment, Goodwill and Intangibles | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Canada | **$ 152.6** | $ 159.6 | **$ 78.8** | $ 40.8 |
| United States and Puerto Rico | **1,995.5** | 1,876.7 | **1,162.6** | 997.3 |
| Mexico, Brazil, Chile and Argentina | **398.2** | 293.5 | **586.0** | 308.0 |
| Europe | **1,682.3** | 1,597.9 | **1,643.0** | 1,590.1 |
| Asia, Australia, Africa and New Zealand | **932.9** | 828.0 | **1,296.3** | 1,241.9 |
| Consolidated | **$ 5,161.5** | $ 4,755.7 | **$ 4,766.7** | $ 4,178.1 |

The geographical segment is determined based on the location from which the sale is made.

*(In millions of Canadian dollars, except per share information)*

## 5. Acquisitions

### (a) Acquisition of Treofan America Inc. and Trespaphan Mexico Holdings GmbH

In July 2018, the Company acquired Treofan America Inc. and Trespaphan Mexico Holdings GmbH ("Treofan") from their ultimate parent, M&C S.p.A., an Italian public company listed on the Milan stock exchange. Treofan, based in Zacapu, Mexico, is a leading producer of BOPP film for the North American market. The purchase price, net of cash acquired, is approximately $307.6 million inclusive of $43.6 million of capital additions incurred between announcement date and closing date for the construction of its new film line. Treofan immediately commenced trading as Innovia Films.

| | | |
|---|---|---|
| Cash consideration, net of cash acquired | $ | 307.6 |
| Trade and other receivables | $ | 37.0 |
| Inventories | | 34.5 |
| Other current assets | | 16.9 |
| Property, plant and equipment | | 90.4 |
| Other long-term assets | | 3.8 |
| Goodwill | | 140.1 |
| Intangible assets | | 47.7 |
| Trade and other payables | | (48.9) |
| Deferred tax liabilities | | (13.9) |
| Net assets acquired | $ | 307.6 |

Goodwill is comprised of the excess fair value of the consideration paid over the fair value of the net assets acquired. Factors that make up the amount of goodwill recognized include expected synergies and employee knowledge of operations. The total amount of goodwill and intangibles for Treofan is $187.8 million and is not deductible for tax purposes.

### (b) Other acquisitions

In January 2018, the Company acquired Fascia Graphics Ltd. ("Fascia"), a privately owned company in the United Kingdom for approximately $9.3 million, net of cash acquired. Fascia is a manufacturer of graphic overlays, membrane-switch control panels and nameplates for large European OEM customers in the electronics and durables sector and brings expertise in printed electronics to the Company's product lines. Fascia was added to the CCL Segment.

In February and May 2018, the Company and its joint-venture partner each invested an additional $1.3 million and $1.9 million, respectively, in Rheinfelden Americas, LLC, a supplier of aluminum slugs for aerosol cans.

In April 2018, the Company acquired Imprint Plus, a group of privately owned companies with common shareholders, based in Richmond, British Columbia, Canada, for approximately $24.3 million, net of cash. Imprint Plus expands Avery's printable media depth in custom name badge systems, signage systems and accessories in North America.

*(In millions of Canadian dollars, except per share information)*

## 5. Acquisitions (continued)

### (b) Other acquisitions (continued)

In May 2018, the Company acquired Nortec International Inc. ("Nortec"), a privately owned company in Israel for approximately $8.8 million in net cash and assumed debt. Nortec is a manufacturer of high performance labels and marking systems for the high technology sector and expands CCL Design's presence in Israel. Nortec was added to the CCL Segment.

In May 2018, the Company acquired the remaining 50.0% interest in CCL-Korsini ("Korsini") in-mould label joint venture in the United States from its partner for $3.1 million in net cash and $6.7 million assumed debt.

In December 2018, the Company acquired assets of Unilogo in Poland for approximately $10.7 million in net cash and acquired lease obligations. Unilogo is a supplier of digitally printed, pressure sensitive and sleeve labels for consumer products customers. Unilogo was added to the CCL Segment.

The following table summarizes the allocation of the consideration to the fair value of the assets acquired and liabilities assumed for the Fascia, Imprint Plus, Nortec, Korsini and Unilogo acquisitions:

| | | |
|---|---|---|
| Cash consideration, net of cash acquired | $ | 55.1 |
| Assumed debt | | 7.8 |
| | | 62.9 |
| Fair market value of previously held interest | | 3.1 |
| | $ | 66.0 |
| | | |
| Trade and other receivables | $ | 7.9 |
| Inventories | | 2.9 |
| Other current assets | | 0.1 |
| Property, plant and equipment | | 11.7 |
| Other long-term assets | | 0.3 |
| Goodwill and intangibles | | 49.2 |
| Trade and other payables | | (5.4) |
| Deferred tax liabilities | | (0.3) |
| Provisions and other long-term liabilities | | (0.4) |
| Net assets acquired | $ | 66.0 |

### (c) Revenue and profit from acquirees

The following table summarizes the combined sales and net earnings that the newly acquired Fascia, Imprint Plus, Nortec, Korsini, Treofan and Unilogo have contributed to the Company for the current reporting period.

| | Twelve months ended December 31, 2018 | |
|---|---|---|
| Sales | $ | 143.8 |
| Net earnings | $ | 1.7 |

*(In millions of Canadian dollars, except per share information)*

## 5. Acquisitions (continued)

### (d) Pro forma information

The pro forma consolidated financial information below has been prepared following the accounting policies of the Company as if the acquisitions took place January 1, 2018.

The pro forma consolidated financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations or financial position of the consolidated company. Future results may vary significantly from the pro forma results presented.

The historical consolidated financial information has been adjusted in preparing the pro forma consolidated financial information to give effect to events that are: (i) directly attributable to the acquisitions; (ii) factually supportable; and (iii) with respect to revenues and earnings, expected to have a continuing impact on the results of CCL Industries Inc. As such, the impact from acquisition-related expenses is not included in the accompanying pro forma consolidated financial information. The pro forma consolidated financial information does not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies, synergies or other restructuring that could result from the acquisitions.

The following table summarizes the sales and earnings of the Company combined with Fascia, Imprint Plus, Nortec, Korsini, Treofan and Unilogo as though the acquisitions took place on January 1, 2018:

| | | Twelve months ended December 31, 2018 |
|---|---|---|
| Sales | $ | 5,296.8 |
| Net earnings | $ | 474.1 |

### (e) Acquisition of Innovia Group of Companies

In February 2017, the Company completed the share acquisition of Innovia Group of Companies (“Innovia”) for approximately $1.15 billion. Innovia is a leading global manufacturer of BOPP films supplying highly differentiated specialty products to the packaging, labels, and securities markets. The Innovia acquisition expands the Company’s security products, customers, markets and technology. Innovia’s film operation is included within the newly created Innovia segment. Innovia’s security operation is included within the CCL Segment.

*(In millions of Canadian dollars, except per share information)*

## 5. Acquisitions (continued)

### (e) Acquisition of Innovia Group of Companies (continued)

| | | |
|---|---|---|
| Total cash consideration, net of cash acquired of $28.4 | $ | 1,153.2 |
| Trade and other receivables | $ | 106.2 |
| Inventories | | 78.5 |
| Property, plant and equipment | | 227.9 |
| Other assets | | 11.7 |
| Intangible assets | | 466.4 |
| Goodwill | | 545.6 |
| Trade and other payables | | (151.2) |
| Derivative instruments | | (5.3) |
| Employee benefits | | (43.8) |
| Deferred tax liabilities | | (82.8) |
| Net assets acquired | $ | 1,153.2 |

Goodwill is comprised of the excess fair value of the consideration paid over the fair value of the net assets required. Factors that make up the amount of goodwill recognized include expected synergies and employee knowledge of operations. The total amount of goodwill and intangibles for Innovia is $1,012.0 million and is not deductible for tax purposes.

### (f) Summary of 2017 acquisitions:

In April 2017, the Company acquired Goed Gemerkt B.V. and Goed Gewerkt B.V. (collectively referred to as “GGW”), two privately owned companies with common shareholders in Utrecht, Netherlands, for approximately $23.0 million, net of cash acquired. GGW has expanded Avery’s depth in the personalized “kids labels” sector.

In April 2017, the Company acquired badgepoint GmbH, badgetech GmbH and Name Tag Systems Inc. (collectively referred to as “Badgepoint”), three privately owned companies with common shareholders based in Hamburg, Germany, for approximately $5.6 million, net of cash acquired. Badgepoint has expanded Avery’s portfolio in web-to-print technologies internationally.

In October 2017, the Company announced it had acquired the remaining 37.5% minority interest in its Acrus CCL venture for approximately $6.3 million in cash.

In 2017, the Company and its joint-venture partner invested an additional $3.3 million in Rheinfelden Americas, LLC, a supplier of aluminum slugs for aerosol cans.

*(In millions of Canadian dollars, except per share information)*

## 6. Cash and cash equivalents

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Bank balances | **$ 577.7** | $ 513.0 |
| Restricted cash | **8.1** | 7.3 |
| Short-term investments | **3.3** | 37.2 |
| Cash and cash equivalents | **$ 589.1** | $ 557.5 |

## 7. Trade and other receivables

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Trade receivables | **$ 847.3** | $ 754.8 |
| Other receivables | **90.7** | 66.5 |
| Trade and other receivables | **$ 938.0** | $ 821.3 |

## 8. Inventories

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Raw material | **$ 210.7** | $ 161.2 |
| Work in progress | **58.3** | 50.5 |
| Finished goods | **255.6** | 213.4 |
| Total inventories | **$ 524.6** | $ 425.1 |

The total amount of inventories recognized as an expense in 2018 was $3,662.7 million (2017 - $3,319.4 million), including depreciation of $223.3 million (2017 - $209.7 million).

## 9. Equity accounted investments

Summary financial information for equity accounted investments, including joint ventures and associates, not adjusted for the percentage ownership held by the Company is as follows:

| **At December 31, 2018** | **Associates** | **Joint Ventures** | **Total** |
|---|---|---|---|
| Net earnings | **$ 5.6** | **$ 5.1** | **$ 10.7** |
| Other comprehensive income | **0.7** | **9.1** | **9.8** |
| Total comprehensive income | **$ 6.3** | **$ 14.2** | **$ 20.5** |
| Carrying amount of investments in associates and joint ventures | **$ 26.6** | **$ 33.2** | **$ 59.8** |

| **At December 31, 2017** | Associates | Joint Ventures | Total |
|---|---|---|---|
| Net earnings | $ 4.0 | $ 3.3 | $ 7.3 |
| Other comprehensive loss | (1.2) | (4.2) | (5.4) |
| Total comprehensive income (loss) | $ 2.8 | $ (0.9) | $ 1.9 |
| Carrying amount of investments in associates and joint ventures | $ 25.4 | $ 28.6 | $ 54.0 |

*(In millions of Canadian dollars, except per share information)*

## 10. Property, plant and equipment

| | Land and Buildings | Machinery and Equipment | Fixtures, Fittings and Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at January 1, 2017 | $ 577.0 | $ 1,805.5 | $ 31.4 | $ 2,413.9 |
| Acquisitions through business combinations | 64.4 | 177.7 | 1.5 | 243.6 |
| Other additions | 42.8 | 238.1 | 4.8 | 285.7 |
| Disposals | (1.9) | (77.7) | (0.1) | (79.7) |
| Effect of movements in exchange rates | 1.0 | (56.1) | (0.8) | (55.9) |
| Balance at December 31, 2017 | $ 683.3 | $ 2,087.5 | $ 36.8 | $ 2,807.6 |
| Acquisitions through business combinations | 19.5 | 82.0 | 0.6 | 102.1 |
| Other additions | 62.7 | 285.6 | 4.6 | 352.9 |
| Disposals | (22.7) | (60.7) | (1.0) | (84.4) |
| Effect of movements in exchange rates | 63.0 | 89.7 | 3.4 | 156.1 |
| **Balance at December 31, 2018** | **$ 805.8** | **$ 2,484.1** | **$ 44.4** | **$ 3,334.3** |
| **Accumulated depreciation and impairment losses** | | | | |
| Balance at January 1, 2017 | $ 155.1 | $ 1,023.6 | $ 18.3 | $ 1,197.0 |
| Depreciation for the year | 27.2 | 178.5 | 4.0 | 209.7 |
| Disposals | (1.5) | (66.1) | (0.2) | (67.8) |
| Effect of movements in exchange rates | (1.5) | (43.4) | (1.1) | (46.0) |
| Balance at December 31, 2017 | $ 179.3 | $ 1,092.6 | $ 21.0 | $ 1,292.9 |
| Depreciation for the year | 30.5 | 188.4 | 4.4 | 223.3 |
| Disposals | (12.5) | (51.9) | (0.9) | (65.3) |
| Effect of movements in exchange rates | 18.9 | 65.1 | 1.9 | 85.9 |
| **Balance at December 31, 2018** | **$ 216.2** | **$ 1,294.2** | **$ 26.4** | **$ 1,536.8** |
| **Carrying amounts** | | | | |
| At December 31, 2017 | $ 504.0 | $ 994.9 | $ 15.8 | $ 1,514.7 |
| **At December 31, 2018** | **$ 589.6** | **$ 1,189.9** | **$ 18.0** | **$ 1,797.5** |

*(In millions of Canadian dollars, except per share information)*

### 11. Intangible assets

| | Customer Relationships | Patents, Trademarks and Other | Brands | Total | Goodwill |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at January 1, 2017 | $ 361.3 | $ 33.6 | $ 268.6 | $ 663.5 | $ 1,131.8 |
| Acquisitions through business combinations | 280.0 | 157.5 | 169.4 | 606.9 | 475.6 |
| Effect of movements in exchange rates | (4.1) | (9.1) | (13.0) | (26.2) | (26.7) |
| Balance at December 31, 2017 | $ **637.2** | $ **182.0** | $ **425.0** | $ **1,244.2** | $ **1,580.7** |
| Acquisitions through business combinations | 49.3 | 6.1 | - | 55.4 | 181.6 |
| Effect of movements in exchange rates | 23.1 | 8.3 | 28.5 | 59.9 | 68.0 |
| **Balance at December 31, 2018** | **$ 709.6** | **$ 196.4** | **$ 453.5** | **$ 1,359.5** | **$ 1,830.3** |
| **Amortization and impairment losses** | | | | | |
| Balance at January 1, 2017 | $ 93.7 | $ 20.2 | $ - | $ 113.9 | $ - |
| Amortization for the year | 40.3 | 9.2 | - | 49.5 | - |
| Effect of movements in exchange rates | 0.4 | (2.3) | - | (1.9) | - |
| Balance at December 31, 2017 | $ 134.4 | $ 27.1 | $ - | $ 161.5 | $ - |
| Amortization for the year | 43.2 | 11.5 | - | 54.7 | - |
| Effect of movements in exchange rates | 3.2 | 1.2 | - | 4.4 | - |
| **Balance at December 31, 2018** | **$ 180.8** | **$ 39.8** | **$ -** | **$ 220.6** | **$ -** |
| **Carrying amounts** | | | | | |
| At December 31, 2017 | $ 502.8 | $ 154.9 | $ 425.0 | $ 1,082.7 | $ 1,580.7 |
| **At December 31, 2018** | **$ 528.8** | **$ 156.6** | **$ 453.5** | **$ 1,138.9** | **$ 1,830.3** |

*(In millions of Canadian dollars, except per share information)*

## 12. Goodwill and indefinite-life intangible assets

### Impairment testing for cash-generating units containing goodwill and indefinite-life intangible assets

For the purpose of impairment testing, goodwill and indefinite-life intangible assets are allocated to the Company's operating segments, which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill and indefinite-life intangible assets allocated to each unit are as follows:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Goodwill | | |
| CCL | **$ 1,127.9** | $ 1,065.2 |
| Avery | **139.5** | 118.7 |
| Checkpoint | **207.3** | 192.8 |
| Innovia | **355.6** | 204.0 |
| | **$ 1,830.3** | $ 1,580.7 |
| Indefinite-life intangible assets – brands | | |
| Avery | **$ 202.4** | $ 188.4 |
| Checkpoint | **194.8** | 181.6 |
| Innovia | **56.3** | 55.0 |
| | **$ 453.5** | $ 425.0 |

Impairment testing for goodwill and indefinite-life intangible assets was done by a comparison of the asset's carrying amount to its estimated value in use, determined by discounting the CGUs future cash flows. Key assumptions used in the determination of the value in use include a growth rate of 2%-8%, and a pre-tax discount rate of 10%-17%. Discount rates reflect current market assumptions and risks related to the CGUs and are based upon the weighted average cost of capital. The Company's historical growth rates are used as a basis in determining the growth rate applied for impairment testing.

The Company completed its impairment testing as at September 30, 2018.

The estimated value in use of CCL, Avery, Checkpoint and Innovia assets exceeded their carrying values. As a result, no goodwill and indefinite-life intangible assets impairment was recorded.

*(In millions of Canadian dollars, except per share information)*

## 13. Trade and other payables

| | | **December 31, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| Trade payables | **$** | **673.0** | $ | 551.7 |
| Other payables | | **550.4** | | 466.7 |
| Trade and other payables | **$** | **1,223.4** | $ | 1,018.4 |

## 14. Deferred tax

### (a) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

| | | **December 31, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| Deductible temporary differences | **$** | **16.9** | $ | 16.4 |
| Tax losses | | **72.9** | | 77.6 |
| Income tax credits | | **7.7** | | 7.1 |
| | **$** | **97.5** | $ | 101.1 |

The unrecognized deferred tax assets on tax losses of $15.1 million will expire between 2019 and 2028, $8.4 million will expire beyond 2028 and $49.4 million may be carried forward indefinitely. The deductible temporary differences do not expire under current tax legislation. Income tax credits of $7.7 million will expire between 2019 and 2027 and relate mainly to foreign tax credits in the United States. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available against which the Company can utilize the benefits therefrom.

*(In millions of Canadian dollars, except per share information)*

## 14. Deferred tax (continued)

### (b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net (Assets) Liabilities | |
|---|---|---|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | **December 31, 2018** | December 31, 2017 | **December 31, 2018** | December 31, 2017 |
| Property, plant and equipment | **$ 6.2** | $ 6.4 | **$ 68.2** | $ 52.4 | **$ 62.0** | $ 46.0 |
| Intangible assets | **-** | - | **269.4** | 253.2 | **269.4** | 253.2 |
| Derivatives | **8.0** | 1.4 | **-** | 0.4 | **(8.0)** | (1.0) |
| Inventory reserves | **12.8** | 11.5 | **0.5** | 0.3 | **(12.3)** | (11.2) |
| Employee benefit plans | **57.7** | 56.0 | **-** | - | **(57.7)** | (56.0) |
| Share-based payments | **14.3** | 13.5 | **-** | - | **(14.3)** | (13.5) |
| Capitalized research and development | **12.6** | 14.6 | **-** | - | **(12.6)** | (14.6) |
| Provisions and other items | **32.4** | 31.2 | **7.8** | 5.7 | **(24.6)** | (25.5) |
| Tax loss carry-forwards | **17.8** | 22.7 | **-** | - | **(17.8)** | (22.7) |
| Foreign tax credit | **-** | - | **-** | - | **-** | - |
| Balance before offset | **161.8** | 157.3 | **345.9** | 312.0 | **184.1** | 154.7 |
| Offset of tax | **(129.3)** | (128.5) | **(129.3)** | (128.5) | **-** | - |
| Balance after offset | **$ 32.5** | $ 28.8 | **$ 216.6** | $ 183.5 | **$ 184.1** | $ 154.7 |

*(In millions of Canadian dollars, except per share information)*

## 14. Deferred tax (continued)

### (b) Recognized deferred tax assets and liabilities (continued)

| | Balance at December 31, 2017 Liability (Asset) | Recognized in Income Statement | Acquisitions | Translation and Others | Recognized in Other Comprehensive Income/Equity | **Balance at December 31, 2018 Liability (Asset)** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | $ 46.0 | $ 5.2 | $ 6.6 | $ 4.2 | $ - | **$ 62.0** |
| Intangible assets | 253.2 | (0.8) | 13.9 | 3.1 | - | **269.4** |
| Derivatives | (1.0) | (0.4) | - | (0.2) | (6.4) | **(8.0)** |
| Inventory reserves | (11.2) | (0.8) | 0.2 | (0.5) | - | **(12.3)** |
| Employee benefit plans | (56.0) | (0.7) | (0.7) | (2.9) | 2.6 | **(57.7)** |
| Share-based payments | (13.5) | (0.2) | - | (0.8) | 0.2 | **(14.3)** |
| Capitalized research and development | (14.6) | 3.1 | - | (1.1) | - | **(12.6)** |
| Provisions and other items | (25.5) | 2.9 | (2.6) | 0.6 | - | **(24.6)** |
| Tax loss carry-forwards | (22.7) | 8.3 | (1.9) | (1.5) | - | **(17.8)** |
| Foreign tax credit | - | - | - | - | - | **-** |
| | $ 154.7 | $ 16.6 | $ 15.5 | $ 0.9 | $ (3.6) | **$ 184.1** |

*(In millions of Canadian dollars, except per share information)*

## 14. Deferred tax (continued)

### (b) Recognized deferred tax assets and liabilities (continued)

| | Balance at December 31, 2016 Liability (Asset) | Recognized in Income Statement | Acquisitions | Translation and Others | Recognized in Other Comprehensive Income/Equity | Balance at December 31, 2017 Liability (Asset) |
|---|---|---|---|---|---|---|
| Property, plant and equipment | $ 67.4 | $ (20.5) | $ 1.1 | $ (2.0) | $ - | $ 46.0 |
| Intangible assets | 150.8 | (60.1) | 164.4 | (1.9) | - | 253.2 |
| Derivatives | 6.7 | (5.4) | (1.3) | - | (1.0) | (1.0) |
| Inventory reserves | (15.6) | 4.7 | (0.6) | 0.3 | - | (11.2) |
| Employee benefit plans | (57.9) | 14.5 | (15.6) | 1.2 | 1.8 | (56.0) |
| Share-based payments | (18.7) | (0.6) | - | 0.3 | 5.5 | (13.5) |
| Capitalized research and development | (29.5) | 13.0 | 0.4 | 1.5 | - | (14.6) |
| Provisions and other items | (15.6) | 6.2 | (15.6) | (0.5) | - | (25.5) |
| Tax loss carry-forwards | (31.6) | 26.3 | (18.5) | 1.1 | - | (22.7) |
| Foreign tax credit | (9.4) | (5.4) | 14.2 | 0.6 | - | - |
| | $ 46.6 | $ (27.3) | $ 128.5 | $ 0.6 | $ 6.3 | $ 154.7 |

The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures for which deferred tax liabilities were not recognized as at December 31, 2018 is $1,727.1 million (2017 - $1,344.9 million).

The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures for which deferred tax assets were not recognized as at December 31, 2018, is $26.9 million (2017 - $14.4 million).

## 15. Share capital

Shares issued (in millions)

| | Class A | | | Class B | | | |
|---|---|---|---|---|---|---|---|
| | Shares | | Amount | Shares | | Amount | **Total** |
| Balance, January 1, 2017 | 11.8 | $ | 4.5 | 164.1 | $ | 286.6 | **$ 291.1** |
| Stock options exercised | - | | - | 0.8 | | 14.6 | **14.6** |
| Director share units exercised | - | | - | 0.1 | | 3.4 | **3.4** |
| Balance, December 31, 2017 | 11.8 | $ | 4.5 | 165.0 | $ | 304.6 | **$ 309.1** |
| Stock options exercised | - | | - | 0.8 | | 23.0 | **23.0** |
| Director share units exercised | - | | - | 0.1 | | 4.2 | **4.2** |
| **Balance, December 31, 2018** | 11.8 | $ | 4.5 | 165.9 | $ | 331.8 | **$ 336.3** |

At December 31, 2018, the authorized share capital comprised an unlimited number of Class A voting shares and an unlimited number of Class B non-voting shares. The Class A and Class B shares have no par value. All issued shares are fully paid. Both Class A and Class B shares are classified as equity.

### (i) Class A

The holders of Class A shares receive dividends set at $0.01 per share per annum less than Class B shares, are entitled to one vote per share at meetings of the Company and their shares are convertible at any time into Class B shares.

### (ii) Class B

Class B shares rank equally in all material respects with Class A shares, except as follows:

(a) Holders of Class B shares are entitled to receive material and attend, but not to vote at, regular shareholder meetings.

(b) Holders of Class B shares are entitled to voting privileges when consideration for the Class A shares, under a takeover bid when voting control has been acquired, exceeds 115% of the market price of the Class B shares.

(c) Holders of Class B shares are entitled to receive, or have set aside for payment, dividends declared by the Board of Directors from time to time, set at $0.01 per share per annum greater than Class A shares.

### Dividends

The annual dividends per share were as follows:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Class A share | **$** | **0.51** | $ | 0.45 |
| Class B share | **$** | **0.52** | $ | 0.46 |

### Shares held in trust

During 2016, the Company granted awards totalling 124,500 Class B shares of the Company. Shares to be used to satisfy this obligation were purchased in the open market and are restricted in nature. These share awards are dependent on the Company's performance and continuing employment. The grant date fair value of these stock awards is being amortized over the vesting period and recognized as compensation expense.

## 16. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share for the year ended December 31, 2018, was based on profit attributable to Class A shares of $31.1 million (2017 - $31.8 million) and Class B shares of $435.7 million (2017 - $442.3 million) and a weighted average number of Class A shares outstanding of 11.8 million (2017 - 11.8 million) and Class B shares outstanding of 165.0 million (2017 – 164.0 million).

**Weighted average number of shares (in millions)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Class A Shares** | **Class B Shares** | **Class A Shares** | **Class B Shares** |
| Issued and outstanding shares at January 1 | 11.8 | 164.3 | 11.8 | 163.3 |
| Effect of stock options exercised | - | 0.6 | - | 0.6 |
| Effect of deferred share units exercised | - | 0.1 | - | 0.1 |
| Weighted average number of shares at December 31 | 11.8 | 165.0 | 11.8 | 164.0 |

### Diluted earnings per share

The calculation of diluted earnings per share for the year ended December 31, 2018, was based on profit attributable to Class A shares of $30.8 million (2017 - $31.4 million) and Class B shares of $436.0 million (2017 - $442.7 million) and a diluted weighted average number of Class A shares outstanding of 11.8 million (2017 – 11.8 million) and Class B shares outstanding of 166.9 million (2017 – 166.4 million).

**Weighted average number of shares - diluted (in millions)**

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Weighted average number of shares (basic) | **176.8** | 175.8 |
| Effect of deferred share units on issue | **0.3** | 0.4 |
| Effect of reciprocal shareholdings | **0.7** | 0.7 |
| Effect of share options on issue | **0.9** | 1.3 |
| Weighted average number of shares (diluted) | **178.7** | 178.2 |

The average market value of the Company’s shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the year that the options were outstanding.

*(In millions of Canadian dollars, except per share information)*

## 17. Loans and borrowings

| | | **December 31, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Current portion of unsecured notes (i) | **$** | **-** | $ | 162.0 |
| Current portion of unsecured syndicated bank credit facilities (ii) | | **65.5** | | 60.3 |
| Current portion of finance lease liabilities | | **1.6** | | 2.2 |
| Current portion of other loans (iv) | | **4.7** | | 6.1 |
| | **$** | **71.8** | $ | 230.6 |
| Short-term operating credit lines available (v) | **$** | **27.7** | $ | 20.1 |
| Short-term operating credit lines used | **$** | **10.5** | $ | 6.8 |
| **Non-current liabilities** | | | | |
| Unsecured syndicated bank credit facilities (ii) | **$** | **1,445.5** | $ | 1,474.8 |
| Unsecured bonds (iii) | | **972.7** | | 620.3 |
| Finance lease liabilities | | **1.0** | | 4.0 |
| Other loans (iv) | | **0.6** | | 1.7 |
| | **$** | **2,419.8** | $ | 2,100.8 |

### (i) Unsecured notes

As at December 31, 2018, the Company had nil private debt placements outstanding. Two private debt placements completed in 1998 and 2008 for a total of US$129.0 million ($162.0 million) were outstanding at December 31, 2017. US$51.0 million with an interest rate of 7.09% and US$78.0 million with an interest rate of 6.62% were repaid on their maturities of July 8, 2018, and September 26, 2018, respectively.

### (ii) Unsecured syndicated bank credit facilities

As at December 31, 2018, the Company had an unsecured US$1.2 billion revolving credit facility with a syndicate of banks. The facility bears interest at the applicable benchmark interest rate plus an interest rate margin linked to the Company’s net debt to EBITDA and matures March 29, 2023. As at December 31, 2018, US$352.0 million ($480.0 million; LIBOR plus 1.45%), €223.2 million ($349.0 million; EURIBOR plus 1.45%), ₤60.3 million ($104.9 million; GBP LIBOR plus 1.45%), $79.5 million (BA plus 1.45%) and $3.2 million of contingent letters of credits were drawn on this syndicated bank credit facility.

As at December 31, 2017, US$271.0 million ($340.7 million; LIBOR plus 1.45%), €155.8 million ($235.0 million; EURIBOR plus 1.45%), ₤60.3 million ($102.4 million; GBP LIBOR plus 1.45%), $337.0 million (BA plus 1.45%) and $3.5 million of contingent letters of credits were drawn on the syndicated bank credit facility.

As at December 31, 2018, the Company had an unsecured US$366 million ($499.1 million; LIBOR plus 1.45%; 2017: $520.4 million; LIBOR plus 1.45%) non-revolving amortizing term loan facility with a syndicate of banks. This facility, maturing in February 2020 with quarterly principal repayments of US$12.0 million that started on June 30, 2017, bears interest at the applicable domestic rate plus an interest rate margin linked to the Company’s net debt to EBITDA consistent with the existing syndicated revolving facility.

The unused portion of the revolving syndicated bank credit facility was US$454.5 million at December 31, 2018 (December 31, 2017 – US$397.7 million).

As at December 31, 2018, transaction costs related to the unsecured syndicated bank credit facilities were $1.5 million (December 31, 2017 - $0.4 million).

*(In millions of Canadian dollars, except per share information)*

## 17. Loans and borrowings (continued)

### (iii) Unsecured bonds

Unsecured bonds as at December 31, 2018, consisted of $298.2 million (2017 – nil) principal amount of 3.864% bonds, issued by offering memorandum in Canada on April 13, 2018, maturing April 13, 2028, and US$500 million ($674.5 million; 2017 - $620.3 million) principal amount of 3.25% bonds, offered under a Rule 144A private placement in the United States on September 20, 2016, maturing on October 1, 2026. These notes bear interest payable semi-annually. The net proceeds of both bond offerings were used to partially repay amounts borrowed under the unsecured syndicated bank credit facility.

As at December 31, 2018, the Company utilized a cross-currency interest rate swap agreement to effectively convert notional US$376.2 million (2017 – US$264.7 million) of the 3.25% fixed rate debt into €340.0 million (2017 - €250.0 million) 1.16% and 1.23% fixed rate debt in order to hedge its euro-based assets and cash flows (note 23(a)).

### (iv) Other loans

Other loans include term bank loans at various rates and repayment terms.

### (v) Operating credit lines

Interest rates charged on the credit lines are based on rates varying with LIBOR, the prime rate and similar market rates for other currencies.

### (vi) Reconciliation of changes in liabilities arising from financing activities

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as financing activities. Changes in the Company's liabilities arising from financing activities are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Balance at January 1 | $ | 2,331.4 | $ | 1,601.3 |
| Financing cash flows | | 5.8 | | 802.1 |
| Acquisitions | | 7.8 | | 8.3 |
| Foreign exchange | | 148.2 | | (81.8) |
| Other | | (1.6) | | 1.5 |
| Balance at December 31 | $ | 2,491.6 | $ | 2,331.4 |

As at December 31, 2018, the carrying amount of financial and non-financial assets pledged as collateral, against $2.7 million (2017 - $5.0 million) of long-term debt, amounted to $19.9 million (2017 - $20.3 million).

*(In millions of Canadian dollars, except per share information)*

## 18. Finance income and cost

**Recognized in income statement**

| | 2018 | 2017 |
|---|---|---|
| Interest expense on financial liabilities measured at amortized cost | **$ 82.3** | $ 71.4 |
| Fees and interest recognized on other financial instruments | **(5.2)** | (1.0) |
| Interest expense on post-employment defined benefit plans | **15.8** | 17.0 |
| Finance cost | **92.9** | 87.4 |
| Interest income on cash and cash equivalents | **3.7** | 3.3 |
| Interest income on other assets | **0.8** | 0.2 |
| Interest income on post-employment defined benefit plans | **7.7** | 8.7 |
| Finance income | **12.2** | 12.2 |
| Net finance cost recognized in income statement | **$ 80.7** | $ 75.2 |

The above finance income and expense are all with respect to assets (liabilities) not at fair value through profit or loss.

## 19. Employee benefits

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Present value of wholly unfunded defined benefit obligations | **$ 274.9** | $ 260.9 |
| Present value of partially funded defined benefit obligations | **432.3** | 435.7 |
| Total present value of obligations | **707.2** | 696.6 |
| Fair value of plan assets | **(378.7)** | (376.9) |
| Recognized liability for defined benefit obligations | **328.5** | 319.7 |
| Liability for long-service leave and jubilee plans | **13.4** | 11.7 |
| Liability for long-term incentive plan | **28.9** | 13.2 |
| Total employee benefits | **370.8** | 344.6 |
| Total employee benefits reported in other payables | **50.8** | 11.0 |
| Total employee benefits reported in non-current liabilities | **$ 320.0** | $ 333.6 |

### (i) Defined contribution post-employment plans

The Company sponsors defined contribution post-employment plans in Canada, the U.S., Thailand and the U.K. A post-employment plan is classified as a defined contribution plan if the Company pays fixed contributions into a fund at a separate entity and the Company has no further obligation to pay any further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The expense for company-sponsored defined contribution post-employment plans was $24.5 million in 2018 (2017 - $23.6 million) of which $0.1 million (2017 - $0.1 million) was for key management personnel. Company contributions into defined contribution state plans are included in the line "Compulsory social security contributions" of the table in note 20.

## 19. Employee benefits (continued)

### (ii) Defined benefit post-employment plans

The Company also has defined benefit post-employment plans in various countries of the world. Although some of these plans have elements common to defined contribution plans, the Company has accounted for these as defined benefit plans as they are not fully funded at a separate entity.

### Partially funded defined benefit obligations

The Company's defined benefit post-employment plans are not fully funded. The obligation of these plans, net of any assets, is recorded in non-current liabilities on the Statement of Financial Position in employee benefits or, for payments expected to be made within the next twelve months, in trade and other payables in current liabilities. Fluctuations in the pension liabilities resulting from actuarial gains or losses due to changes in risk factors are recorded in other comprehensive income. The primary partially funded plans are in Canada, the United Kingdom, Switzerland and the Netherlands. Details of these plans are as follows:

(a) In Canada, the Company has a registered partially funded defined benefit pension plan for seven retired executives and one active employee. The Company makes all required contributions to the plans. Benefits are based on employee earnings. An actuary is involved in measuring the obligation of the plan and in calculating the expense and any contributions required. The plan is closed to new members. The primary risk factors for this plan are longevity of plan beneficiaries, discount rate volatility for the value of the obligation and market risk on the assets. The Company has determined that any surplus in the plan after all obligations have been covered is fully available to the Company.

(b) In the U.K., the Company has two registered partially funded defined benefit pension plans. The Company's plan has no active members and is closed to new members. Benefits are based on final salary. All members of the plan are either deferred or retired and benefits are provided to spouses or dependents in the event of a member's death before or after retirement. The Company is required to make payments of £0.7 million in deficit funding contributions annually. An actuary is involved in measuring the obligation of the plan and in calculating the expense and any contributions required. The primary risk factors for this plan are longevity of plan beneficiaries and discount rate volatility for the value of the obligation, and market risk on the assets. The Company has determined that any surplus in the plan after all obligations have been covered is fully available to the Company. While the Innovia plan does have active members, it is closed to new members. Benefits are based on a member's final pensionable salaries and length of service at retirement. Benefits are provided to spouses in the event of a member's death before or after retirement. Contributions are required by active members and the Company. The Company is required to make payments of £1.0 million in deficit funding contributions annually. An actuary is involved in measuring the obligation of the plan and in calculating the expense and any contributions required. The primary risk factors for this plan are longevity of plan beneficiaries and discount rate volatility for the value of the obligation, and market risk on the assets. The Company has determined that any surplus in the plan after all obligations have been covered is available to the Company if the plan is wound up. However, any surplus while the plan is ongoing is under the authority of the trustees.

## 19. Employee benefits (continued)

### (ii) Defined benefit post-employment plans (continued)

(c) In Switzerland, the Company provides a mandatory legislated contribution-based cash balance plan for employees that is accounted for as a post-employment defined benefit plan. Benefits from the plan are paid out at retirement, disability or death. If an employee terminates from the Company prior to retirement, the vested benefit equal to the accumulated savings account balance is transferred to the pension plan of the new employer. The plan is governed by a foundation board that is legally responsible for the operation of the plan and includes employer and employee representation, in equal numbers. A legally required minimum level of retirement benefit is based on age-related savings contributions, an insured salary defined by law and a required rate of return set annually by the Swiss government. Contributions from both employers and employees are compulsory and vary according to age and salary. The primary risk factors for this plan are longevity of plan beneficiaries, discount rate volatility for the value of the obligation and market risk on the assets. Under Swiss pension law, any surplus assets technically belong to the pension plan and any reduction in contributions is at the discretion of the Board.

(d) In the Netherlands, the Company provides a defined benefit career average pay plan for a small number of employees. An actuary is involved in measuring the obligation of the plan. Benefits from the plan are paid through retirement and at death, before or during retirement, to the spouse or dependents. If a member of the plan leaves the Company, the member may choose to have the benefits of the plan transferred into the plan of the new employer. The benefit formula is based on a percentage of each year's pensionable salary up to a set maximum salary less a social security offset. Benefits are guaranteed by an insurance company and the Company is required to pay annual premiums on the insurance contract based on a contract interest rate. There are no employee contributions to the plan. The primary risk factors for this plan are longevity of plan beneficiaries and discount rate volatility. This plan has been frozen as of December 31, 2018.

The most recent actuarial valuation for funding purposes for the executive defined pension plan in Canada was as of January 1, 2018. The next required actuarial valuation will be as of January 1, 2021. The most recent actuarial valuation of the U.K. defined benefit pension plan for funding purposes was as of January 1, 2017. The next required valuation is as of January 1, 2020. The most recent actuarial valuation of the U.K. Innovia defined benefit pension plan for funding purposes was as of January 1, 2017. The next required valuation is as of January 1, 2020.

**Wholly unfunded defined benefit obligations**

For defined benefit post-employment plans that have no assets, the Company simply funds the plans as benefits are paid. The primary wholly unfunded plans are in Canada, the U.S. and Germany. Details of these plans are as follows:

## 19. Employee benefits (continued)

### Wholly unfunded defined benefit obligations (continued)

(a) In Canada, the Company maintains non-registered, wholly unfunded supplemental retirement arrangements for one active Canadian executive, eight retired Canadian executives and two retired U.S. executives or their widows. The Company makes all required contributions to the plans. Benefits are based on employee earnings. An actuary is involved in measuring the obligation of the plans and in calculating the expense and any contributions required. The plans are closed to new members. The primary risk factors for these plans are longevity of plan beneficiaries and discount rate volatility.

(b) In the U.S., the Company has a post-employment wholly unfunded deferred compensation plan for designated executives (“NQP”). Liabilities are based strictly on the contributions made to the plan, an established rate of return and are not subject to actuarial adjustments. It allows executives to elect to defer specified portions of salary, cash bonuses and long-term incentive plan payments. The Company contributes a matching portion of the executive’s NQP deferred amount to a maximum of 8% of the executive’s base salary plus bonus. The Company may also contribute a discretionary annual company contribution based on a percentage of base salary and annual bonus. Contributions to the NQP for one of the executives vest immediately. For the other executives, immediate vesting of discretionary Company contributions and interest occurs on death, disability or change of control with normal vesting occurring at age 60 with 10 years' service. The Company’s match portion and interest vest in the same manner as Company contributions in the 401k plan. Elective deferrals by the executive vest immediately.

(c) In Germany, the Company has several wholly unfunded defined benefit plans. There are four salary-based annuity plans that are closed to new members, but currently have approximately 130 active members. All contributions and benefits are funded by the Company. The primary risk factors for these plans are longevity of plan beneficiaries and discount rate volatility. There are also three cash balance plans for current employees. Two of those plans require the Company to match a specific portion of employee contributions. Upon retirement, lump sum payments are made unless an employee requests an annuity. The third cash balance plan has employer and employee contributions and pays out in three instalments upon retirement. The primary risk factor for these three plans is discount rate volatility.

(d) The Company has wholly unfunded post-employment defined benefit plans in Austria, France, Italy, Mexico and Thailand. Benefits are paid out in lump sums upon retirement, disability or death. There are no employee contributions in these plans. Benefits are based on salary and length of service with the Company.

*(In millions of Canadian dollars, except per share information)*

## 19. Employee benefits (continued)

The following table shows the reconciliation from the opening balances to the closing balances for the defined benefit post-employment plans, including the defined benefit pension plans, supplemental retirement plans and other post-employment defined benefit plans.

| 2018 | Partially Funded | Wholly Unfunded | Total |
|---|---|---|---|
| Accrued benefit obligation: | | | |
| Balance, beginning of year | $ 435.7 | $ 260.9 | $ 696.6 |
| Opening balance from current year acquisitions | 4.5 | - | 4.5 |
| Current service cost | 5.7 | 4.7 | 10.4 |
| Past service cost | 3.3 | 0.2 | 3.5 |
| Interest cost | 10.7 | 6.6 | 17.3 |
| Employee contributions | 1.1 | 2.4 | 3.5 |
| Benefits paid | (12.5) | (10.0) | (22.5) |
| Actuarial (gains) losses – experience | 2.4 | (0.8) | 1.6 |
| Actuarial losses – demographic assumptions | 0.9 | 1.7 | 2.6 |
| Actuarial gains – financial assumptions | (31.6) | (4.3) | (35.9) |
| Reinstatements and transfers | - | 0.9 | 0.9 |
| Effect of curtailment | (0.5) | - | (0.5) |
| Settlement gain | - | 0.2 | 0.2 |
| Effect of movements in exchange rates | 12.6 | 12.4 | 25.0 |
| Balance, end of year | $ 432.3 | $ 274.9 | $ 707.2 |
| Plan assets: | | | |
| Fair value, beginning of year | $ 376.9 | $ - | $ 376.9 |
| Opening balance from current year acquisitions | 2.7 | - | 2.7 |
| Expected return on plan assets | 9.2 | - | 9.2 |
| Actuarial losses | (18.4) | - | (18.4) |
| Employee contributions | 1.1 | - | 1.1 |
| Employer contributions | 10.3 | 10.0 | 20.3 |
| Benefits paid | (12.5) | (10.0) | (22.5) |
| Administrative expenses | (1.4) | - | (1.4) |
| Settlements | (0.2) | - | (0.2) |
| Effect of movements in exchange rates | 11.0 | - | 11.0 |
| Fair value, end of year | $ 378.7 | $ - | $ 378.7 |
| Funded status, net deficit of plans | $ (53.6) | $ (274.9) | $ (328.5) |
| Accrued benefit liability | $ (53.6) | $ (274.9) | $ (328.5) |

*(In millions of Canadian dollars, except per share information)*

## 19. Employee benefits (continued)

| 2017 | | Partially Funded | | Wholly Unfunded | | Total |
|---|---|---|---|---|---|---|
| Accrued benefit obligation: | | | | | | |
| Balance, beginning of year | $ | 92.3 | $ | 249.7 | $ | 342.0 |
| Opening balance from current year acquisitions | | 320.5 | | 1.3 | | 321.8 |
| Current service cost | | 7.5 | | 4.3 | | 11.8 |
| Interest cost | | 10.4 | | 6.6 | | 17.0 |
| Employee contributions | | 1.1 | | 0.5 | | 1.6 |
| Benefits paid | | (13.8) | | (8.3) | | (22.1) |
| Actuarial (gains) losses – experience | | 1.4 | | (2.8) | | (1.4) |
| Actuarial (gains) losses – demographic assumptions | | (3.5) | | 0.1 | | (3.4) |
| Actuarial loss – financial assumptions | | 10.1 | | 3.2 | | 13.3 |
| Reinstatements and transfers | | (2.5) | | - | | (2.5) |
| Effect of curtailment | | (0.2) | | - | | (0.2) |
| Settlement gain | | (1.5) | | - | | (1.5) |
| Effect of movements in exchange rates | | 13.9 | | 6.3 | | 20.2 |
| Balance, end of year | $ | 435.7 | $ | 260.9 | $ | 696.6 |
| Plan assets: | | | | | | |
| Fair value, beginning of year | $ | 66.6 | $ | - | $ | 66.6 |
| Opening balance from current year acquisitions | | 276.4 | | - | | 276.4 |
| Expected return on plan assets | | 8.7 | | - | | 8.7 |
| Actuarial gains | | 19.9 | | - | | 19.9 |
| Employee contributions | | 1.1 | | - | | 1.1 |
| Employer contributions | | 10.5 | | 8.3 | | 18.8 |
| Benefits paid | | (13.8) | | (8.3) | | (22.1) |
| Administrative expenses | | (2.5) | | - | | (2.5) |
| Settlements | | (1.5) | | - | | (1.5) |
| Effect of movements in exchange rates | | 11.5 | | - | | 11.5 |
| Fair value, end of year | $ | 376.9 | $ | - | $ | 376.9 |
| Funded status, net deficit of plans | $ | (58.8) | $ | (260.9) | $ | (319.7) |
| Accrued benefit liability | $ | (58.8) | $ | (260.9) | $ | (319.7) |

The Company’s net defined benefit plan expense is as follows:

| 2018 | | Partially Funded | | Wholly Unfunded | | Total |
|---|---|---|---|---|---|---|
| Current service cost | $ | 5.7 | $ | 4.7 | $ | 10.4 |
| Past service cost | | 3.3 | | 0.2 | | 3.5 |
| Net interest cost on accrued benefit liability | | 1.5 | | 6.6 | | 8.1 |
| Curtailment gain | | (0.5) | | - | | (0.5) |
| Net defined benefit plan expense | $ | 10.0 | $ | 11.5 | $ | 21.5 |
| Net defined benefit plan expense is recorded in: | | | | | | |
| Cost of sales | $ | 3.5 | $ | 1.1 | $ | 4.6 |
| Selling, general and administrative expenses | | 1.7 | | 3.8 | | 5.5 |
| Restructuring and other items | | 3.3 | | - | | 3.3 |
| Finance cost | | 1.5 | | 6.6 | | 8.1 |
| Net defined benefit plan expense | $ | 10.0 | $ | 11.5 | $ | 21.5 |

*(In millions of Canadian dollars, except per share information)*

## 19. Employee benefits (continued)

| **2017** | | **Partially Funded** | | **Wholly Unfunded** | | **Total** |
|---|---|---|---|---|---|---|
| Current service cost | $ | 7.5 | $ | 4.3 | $ | 11.8 |
| Net interest cost on accrued benefit liability | | 1.7 | | 6.6 | | 8.3 |
| Curtailment gain | | (0.2) | | - | | (0.2) |
| Net defined benefit plan expense | $ | 9.0 | $ | 10.9 | $ | 19.9 |
| Net defined benefit plan expense is recorded in: | | | | | | |
| Cost of sales | $ | 5.5 | $ | 1.0 | $ | 6.5 |
| Selling, general and administrative expenses | | 1.8 | | 3.3 | | 5.1 |
| Finance cost | | 1.7 | | 6.6 | | 8.3 |
| Net defined benefit plan expense | $ | 9.0 | $ | 10.9 | $ | 19.9 |

Actuarial gains (losses) recognized directly in equity are as follows:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Actuarial gains (losses) – experience | $ | **(1.6)** | $ | 1.4 |
| Actuarial gains (losses) – demographic assumptions | | **(2.6)** | | 3.4 |
| Actuarial gains (losses) – financial assumptions | | **35.9** | | (13.3) |
| Experience gains (losses) on plan assets | | **(18.4)** | | 19.9 |
| Recognized during the year in other comprehensive income | $ | **13.3** | $ | 11.4 |

Plan assets consist of the following:

| **2018** | **Partially Funded** | **Wholly Unfunded** | **Total** |
|---|---|---|---|
| Equity securities | 61% | - | 61% |
| Debt securities | 31% | - | 31% |
| Real estate | 2% | - | 2% |
| Other | 6% | - | 6% |
| Total | 100% | - | 100% |

| **2017** | **Partially Funded** | **Wholly Unfunded** | **Total** |
|---|---|---|---|
| Equity securities | 61% | - | 61% |
| Debt securities | 29% | - | 29% |
| Real estate | 3% | - | 3% |
| Other | 7% | - | 7% |
| Total | 100% | - | 100% |

No plan assets are directly invested in the Company's own shares or directly in any property occupied by, or other assets used by, the Company.

*(In millions of Canadian dollars, except per share information)*

## 19. Employee benefits (continued)

The actual returns on plan assets are as follows:

| | Partially Funded | Wholly Unfunded | Total |
|---|---|---|---|
| 2018 | $ (9.2) | - | $ (9.2) |
| 2017 | $ 28.6 | - | $ 28.6 |

The weighted average economic assumptions used to determine post-employment benefit obligations are as follows:

| | Partially Funded | Wholly Unfunded | Total |
|---|---|---|---|
| December 31, 2018 | | | |
| Discount rate | 2.80% | 2.36% | 2.63% |
| Expected rate of compensation increase | 1.44% | 1.83% | 1.59% |
| December 31, 2017 | | | |
| Discount rate | 2.36% | 2.00% | 2.33% |
| Expected rate of compensation increase | 1.38% | 1.87% | 1.56% |

The weighted average economic assumptions used to determine post-employment plan expenses are as follows:

| | Partially Funded | Wholly Unfunded | Total |
|---|---|---|---|
| December 31, 2018 | | | |
| Discount rate | 2.41% | 1.97% | 2.25% |
| Expected rate of compensation increase | 1.42% | 1.86% | 1.58% |
| December 31, 2017 | | | |
| Discount rate | 2.50% | 1.94% | 2.29% |
| Expected rate of compensation increase | 1.38% | 1.89% | 1.57% |

The sensitivity analysis on the defined benefit obligation is as follows, and is prepared by altering one assumption at a time and keeping the other assumptions unchanged. The resulting defined benefit obligation is then compared to the defined benefit obligation in the disclosures:

| | Partially Funded | Wholly Unfunded |
|---|---|---|
| Discount rate (increase 1%) | $ (75.7) | $ (25.3) |
| Discount rate (decrease 1%) | $ 90.7 | $ 28.3 |
| Longevity (+1 year) | $ 17.1 | $ 8.8 |
| Inflation (+0.25%) | $ 10.0 | $ - |
| Inflation (-0.25%) | $ (10.2) | $ - |
| Salary (increase 1%) | $ 17.8 | $ 2.6 |
| Salary (decrease 1%) | $ (16.1) | $ (2.4) |
| Duration (years) | 20 | 11 |

The Company expects to contribute $4.9 million to the partially funded defined benefit plans and pay $20.3 million in benefits for the wholly unfunded plans in 2019.

*(In millions of Canadian dollars, except per share information)*

## 19. Employee benefits (continued)

### (iii) Long-term incentive, long-service leave, jubilee and other plans

The Company has long-term incentive plans with cash and share-based payments, long-service leave plans and jubilee plans in various countries around the world. As at December 31, 2018, $30.0 million (2017 - $0.3 million) of the total obligation of $42.3 million (2017 – $24.9 million) is classified as current, and reported in other payables. The expense for these plans was $27.4 million in 2018 (2017 - $18.1 million).

## 20. Personnel expenses

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Wages and salaries | **$** | **932.2** | $ | 907.8 |
| Compulsory social security contributions | | **119.2** | | 131.1 |
| Contributions to company-sponsored defined contribution plans | | **24.5** | | 23.6 |
| Expenses related to defined benefit plans | | **22.0** | | 20.1 |
| Equity-settled share-based payment transactions | | **22.7** | | 19.7 |
| | **$** | **1,120.6** | $ | 1,102.3 |

## 21. Income tax expense

| **Current tax expense** | | **2018** | | 2017 |
|---|---|---|---|---|
| Current tax on earnings before earnings in equity accounted investments for the year | **$** | **139.4** | $ | 155.2 |
| **Deferred tax expense (benefit)** (note 14) | | | | |
| Origination and reversal of temporary differences | **$** | **21.5** | $ | 21.3 |
| Impact of tax rate changes | | **-** | | (44.3) |
| Recognition of previously unrecognized tax losses and deductible temporary differences | | **(4.9)** | | (4.3) |
| | **$** | **16.6** | $ | (27.3) |
| Total income tax expense | **$** | **156.0** | $ | 127.9 |

*(In millions of Canadian dollars, except per share information)*

## 21. Income tax expense (continued)

### Reconciliation of effective tax rate

| | 2018 | 2017 |
|---|---|---|
| Combined Canadian federal and provincial income tax rates | **25.8%** | 25.27% |
| The income tax expense on the Company's earnings differs from the amount determined by the Company's statutory rates as follows: | | |
| Net earnings for the year | **$ 466.8** | $ 474.1 |
| Add: income tax expense | **156.0** | 127.9 |
| Deduct: earnings in equity accounted investments | **5.3** | 3.7 |
| Earnings before income tax and equity accounted investments | **617.5** | 598.3 |
| Income tax using the Company's domestic combined Canadian federal and provincial income tax rates | **159.3** | 151.2 |
| Effect of tax rates in foreign jurisdictions | **(3.4)** | 27.4 |
| Impact of tax rate changes | **-** | (44.3) |
| Recognition of previously unrecognized tax losses and deductible temporary differences | **(4.9)** | (4.3) |
| Losses and deductible temporary differences for which no deferred tax asset was recognized | **5.9** | 4.6 |
| Non-deductible expenses and other items | **(0.9)** | (6.7) |
| | **$ 156.0** | 127.9 |

### Income tax recovery recognized directly in other comprehensive income

| | 2018 | 2017 |
|---|---|---|
| Derivatives and foreign currency translation adjustments | **$ (7.5)** | $ (1.3) |
| Actuarial gains and losses | **2.6** | 1.8 |
| Total income tax expense (recovery) recognized directly in other comprehensive income | **$ (4.9)** | $ 0.5 |

On December 22, 2017, the Tax Cuts and Jobs Act was substantively enacted. The legislation, which was generally effective for tax years beginning on January 1, 2018, results in significant U.S. tax reform and revises the Internal Revenue Code by, among other things, lowering the corporate federal income tax rate from 35% to 21% and modifying how the U.S. taxes multinational entities. In 2017, the net impact of the revaluation of deferred tax balances due to the lowering of the corporate federal income tax rate from 35% to 21% resulted in a deferred income tax recovery recognized in the income statement of $40.0 million and a deferred tax expense recognized directly in the statement of changes in equity of $3.0 million.

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. If the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

*(In millions of Canadian dollars, except per share information)*

## 22. Share-based payments

At December 31, 2018, the Company had four share-based compensation plans, which are described below:

### (i) Employee stock option plan

Under the employee stock option plan, the Company may grant options to employees, officers and directors of the Company. The Company does not grant options to independent directors. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Current options vest 25% one year from the grant date and 25% each subsequent year. The term of these options is five years from the grant date. In general, the grants are conditional upon continued employment. No market conditions affect vesting. Granted options are not entitled to dividends and may not be transferred or assigned by the option holder.

For options and share awards granted for stock-based compensation, $22.2 million (2017 - $18.8 million) has been recognized in the financial statements as an expense with a corresponding offset to contributed surplus. The fair value of options granted has been estimated using the Black-Scholes model and the following assumptions:

| | **2018** | 2017 |
|---|---|---|
| Risk-free interest rate | **1.90%** | 1.12% |
| Expected life | **3.5 years** | 4.5 years |
| Expected volatility | **28%** | 28% |
| Expected dividends | **$ 0.52** | $ 0.46 |

## 22. Share-based payments (continued)

### (i) Employee stock option plan (continued)

A summary of the status of the Company's Employee Stock Option Plan as of December 31, 2018 and 2017, and changes during the years ended on those dates, is presented below:

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Shares (in millions)** | | **Weighted average exercise price** | Shares (in millions) | | Weighted average exercise price |
| Outstanding at beginning of year | **3.1** | **$** | **36.81** | 3.1 | $ | 26.26 |
| Granted | **0.8** | | **66.87** | 0.8 | | 58.03 |
| Exercised | **(0.8)** | | **21.95** | (0.8) | | 15.83 |
| Outstanding at end of year | **3.1** | **$** | **48.94** | 3.1 | $ | 36.81 |
| Options exercisable at end of year | **1.0** | **$** | **36.78** | 0.9 | $ | 25.35 |

The weighted average share price at the date of exercise in 2018 was $64.99 (2017 - $58.01).

The following table summarizes information about the employee stock options outstanding at December 31, 2018.

| | Options outstanding | | | | Options exercisable | | |
|---|---|---|---|---|---|---|---|
| Range of exercisable prices | Options outstanding (in millions) | Weighted average remaining contractual life | | Weighted average exercise price | Options exercisable (in millions) | | Weighted average exercise price |
| $17.43 - $34.00 | 0.7 | 0.9 years | $ | 24.82 | 0.5 | $ | 23.46 |
| $34.01 - $51.00 | 0.7 | 2.2 years | $ | 43.90 | 0.3 | $ | 43.90 |
| $51.01 - $66.87 | 1.7 | 3.7 years | $ | 62.52 | 0.2 | $ | 58.03 |
| $17.43 - $66.87 | 3.1 | 2.6 years | $ | 48.94 | 1.0 | $ | 36.78 |

*(In millions of Canadian dollars, except per share information)*

## 22. Share-based payments (continued)

### (ii) Deferred share units ("DSU")

The Company maintains a deferred share unit plan. Under this plan, non-employee members of the Company's Board of Directors may elect to receive DSUs, in lieu of cash remuneration, for director fees that would otherwise be payable to such directors or any portion thereof until DSU holdings of three times the base retainer have been achieved. The number of units received is equivalent to the fees earned and is based on the fair market value of a Class B non-voting share of the Company's capital stock on the date of issue of the DSU. When dividends are paid on Class B non-voting shares of the Company, the equivalent value per DSU is calculated and the holder receives additional DSUs in lieu of actual cash dividends based on the fair market value of a Class B non-voting share of the Company. DSUs cannot be redeemed or paid out until such time as the director ceases to be a director. A DSU entitles the holder to receive, on a deferred payment basis, the number of Class B non-voting shares of the Company equating to the number of his or her DSUs on the redemption date. The Company accounts for the DSU plan as an equity-settled share-based payment transaction.

The Company had 0.3 million DSUs outstanding as at December 31, 2018. The amount recognized as an expense in 2018 totalled $0.8 million (2017 – $0.9 million).

### (iii) Restricted share units ("RSU")

The Company has shares held in trust to be used to satisfy future employee benefits related to its long-term incentive plan as outlined in note 15.

### (iv) Long-term retention plan ("LTRP")

In 2017, the Company instituted a long-term retention plan. Under the plan, the Company provided a one-time retention incentive to four key executives totalling 0.3 million shares to be issued from treasury. The incentive vests 25% in each year beginning 2022 and ending 2025, inclusive. For LTRP, $2.3 million has been recognized as an expense with a corresponding offset to contributed surplus.

## 23. Financial instruments

### (a) Hedges of net investment in self-sustaining operations

US$0.0 million (2017 - US$129.0 million) of unsecured notes, US$123.8 million (2017 – US$235.3 million) of unsecured Rule 144A bonds and US$718.0 million (2017 - US$685.0 million) of the unsecured syndicated bank credit facilities (hedging items) have been used to hedge the Company's exposure to its net investment in self-sustaining U.S. dollar-denominated operations (hedged items) with a view to reducing foreign exchange fluctuations. The foreign exchange effect of the unsecured notes, the unsecured Rule 144A bonds, the unsecured syndicated bank credit facilities and the net investment in U.S. dollar-denominated subsidiaries is reported in other comprehensive income. These have been and continue to be 100% fully effective hedges as the notional amounts of the hedging items equal the portion of the net investment balance being hedged. No ineffectiveness has been recognized in the income statement.

£60.3 million (2017 – £60.3 million) of the unsecured syndicated bank credit facilities (hedging item) have been used to hedge the Company’s exposure to its net investment in self-sustaining UK pound sterling-denominated operations (hedged items) with a view to reducing foreign exchange fluctuations. The foreign exchange effect of both the unsecured syndicated bank credit facilities and the net investment in UK pound sterling-denominated subsidiaries is reported in other comprehensive income. This has been and continues to be a 100% fully effective hedge as the notional amount of the hedging item equals the portion of the net investment balance being hedged. No ineffectiveness has been recognized in the income statement.

€223.2 million (2017 - €155.8 million) of the unsecured syndicated bank credit facilities (hedging item) have been used to hedge the Company’s exposure to its net investment in self-sustaining euro-denominated operations (hedged items) with a view to reducing foreign exchange fluctuations. The foreign exchange effect of both the unsecured syndicated bank credit facilities and the net investment in euro-denominated subsidiaries is reported in other comprehensive income. This has been and continues to be a 100% fully effective hedge as the notional amount of the hedging item equals the portion of the net investment balance being hedged. No ineffectiveness has been recognized in the income statement.

In February 2017, the Company converted US$264.7 million of the 3.25% unsecured Rule 144A bonds (note 17) into €250.0 million 1.23% fixed rate debt using cross-currency interest rate swap agreements (hedging items; “CCIRSAs”) in order to hedge its euro-based assets and cash flows. In February 2018, a further US$111.5 million of the 3.25% unsecured Rule 144A bonds (note 17) was converted into €90.0 million 1.16% fixed rate debt using CCIRSAs in order to hedge additional euro-based assets and cash flow. Fair value of these CCIRSAs was recorded in non-current liabilities when negative in value and non-current assets when positive in value. The offset was recorded in other comprehensive income. These have been and continue to be 100% fully effective hedges as the notional amounts of the hedging items equal the portion of the net investment balance being hedged. No ineffectiveness was recognized in the income statement in 2018.

*(In millions of Canadian dollars, except per share information)*

## 23. Financial instruments (continued)

### (a) Hedges of net investment in self-sustaining operations (continued)

| Notional Principal Amount | | Interest Rate | | Fair Value December 31 | | | |
|---|---|---|---|---|---|---|---|
| Fixed Rate | Fixed Rate | Paid (U$) | Received (€) | 2018 (C$) | 2017 (C$) | Maturity | Effective Date |
| USD105.8 million | €100.0 million | 3.25% | 1.24% | $(16.3) million | $(20.7) million | October 1, 2026 | February 28, 2017 |
| USD84.8 million | €80.0 million | 3.25% | 1.20% | $(12.7) million | $(15.1) million | October 1, 2026 | February 28, 2017 |
| USD42.3 million | €40.0 million | 3.25% | 1.21% | $(6.6) million | $(8.5) million | October 1, 2026 | February 28, 2017 |
| USD31.8 million | €30.0 million | 3.25% | 1.29% | $(5.0) million | $(6.4) million | October 1, 2026 | February 28, 2017 |
| USD62.1 million | €50.0 million | 3.25% | 1.16% | $5.5 million | - | October 1, 2026 | February 21, 2018 |
| USD49.4 million | €40.0 million | 3.25% | 1.15% | $3.6 million | - | October 1, 2026 | February 22, 2018 |

### (b) Credit risk

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | **$ 589.1** | $ 557.5 |
| Trade and other receivables | **938.0** | 821.3 |
| Other assets | **18.8** | 15.5 |
| Derivative instruments | **9.1** | 1.0 |
| | **$ 1,555.0** | $ 1,395.3 |

**Impairment losses**

The aging of trade receivables at the reporting date was as follows:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Under 31 days | **$ 468.9** | $ 411.9 |
| Between 31 and 90 days | **336.0** | 299.1 |
| Greater than 90 days | **60.6** | 60.4 |
| | **$ 865.5** | $ 771.4 |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Balance at January 1 | **$ 16.6** | $ 17.8 |
| Increase (decrease) during the year | **1.5** | (1.2) |
| Balance at December 31 | **$ 18.1** | $ 16.6 |

The Company believes that no impairment allowance is necessary in respect of trade receivables not past due.

*(In millions of Canadian dollars, except per share information)*

## 23. Financial instruments (continued)

### (c) Liquidity risk

**Exposure to liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | December 31, 2017 | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Payments Due by Period | | | | |
| | Carrying Amount | Carrying Amount | Contractual Cash Flows | 0-6 Months | 6-12 Months | 1-2 Years | 2-5 Years | More than 5 Years |
| Non-derivative financial liabilities | | | | | | | | |
| Secured bank loans | $ 1.3 | $ 1.4 | $ 1.4 | $ 0.5 | $ 0.5 | $ 0.4 | $ - | $ - |
| Unsecured bank loans | 6.5 | 2.9 | 2.9 | 1.4 | 1.3 | 0.2 | - | - |
| Unsecured notes | 162.0 | 1.0 | 1.0 | 1.0 | - | - | - | - |
| Finance lease liabilities | 6.2 | 2.6 | 2.6 | 0.8 | 0.8 | 0.6 | 0.4 | - |
| Unsecured Rule 144A bonds | 620.3 | 674.5 | 681.8 | - | - | - | - | 681.8 |
| Unsecured Canadian bonds | - | 298.2 | 300.0 | - | - | - | - | 300.0 |
| Unsecured syndicated bank credit facility | 1,015.1 | 1,012.2 | 1,013.5 | - | - | - | 1,013.5 | - |
| Unsecured syndicated bank term credit facility | 520.0 | 498.8 | 499.1 | 32.7 | 32.7 | 433.7 | - | - |
| Interest on unsecured bank credit facilities | * | * | 153.6* | 24.5 | 25.6 | 34.1 | 69.4 | - |
| Interest on unsecured Rule 144A bonds | * | * | 188.4* | 5.6 | 11.0 | 22.2 | 66.5 | 83.1 |
| Interest on unsecured Canadian bonds | * | * | 104.7* | 3.3 | 5.7 | 11.6 | 34.8 | 49.3 |
| Interest on other long-term debt | * | * | 0.3 | 0.2 | 0.1 | - | - | - |
| Trade and other payables | 1,018.4 | 1,223.4 | 1,223.4 | 1,223.4 | - | - | - | - |
| Accrued post-employment benefit liabilities | * | * | 149.5* | 2.1 | 2.1 | 15.4 | 42.3 | 87.6 |
| Operating leases | - | - | 204.8 | 21.0 | 21.1 | 34.5 | 59.4 | 68.8 |
| Total contractual cash obligations | $ 3,349.8 | $ 3,715.0 | $ 4,527.0 | $ 1,316.5 | $ 100.9 | $ 552.7 | $ 1,286.3 | $ 1,270.6 |

*Accrued long-term employee benefit and post-employment benefit liability of $50.8 million, accrued interest of $9.2 million on unsecured notes, unsecured bonds, unsecured two-year term loan and unsecured syndicated credit facilities, and accrued interest of $1.6 million on derivatives are reported in trade and other payables in 2018 (2017: $10.1 million, $9.3 million and $1.2 million, respectively).

*(In millions of Canadian dollars, except per share information)*

## 23. Financial instruments (continued)

### (d) Currency risk

**Exposure to currency risk**

The Company's exposure to foreign currency risk was as follows based on notional amounts:

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **U.S. Dollar** | **U.K. Pound** | **Euro** | U.S. Dollar | U.K. Pound | Euro |
| Cash and cash equivalents | **167.1** | **16.4** | **110.2** | 127.0 | 19.1 | 112.7 |
| Trade and other receivables | **250.9** | **31.5** | **133.7** | 241.2 | 28.4 | 138.1 |
| Trade and other payables | **318.0** | **33.8** | **158.4** | 277.5 | 27.0 | 156.9 |
| Long-term debt | **841.9** | **60.3** | **565.1** | 1,314.1 | 60.3 | 159.0 |

**Sensitivity analysis**

A five percent weakening of the Canadian dollar, as indicated below, against the following currencies at December 31 would have increased (decreased) equity and income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | **Equity** | | **Income Statement** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Euro | **(24.8)** | (11.8) | **0.6** | 0.2 |
| U.S. dollar | **(21.2)** | 5.2 | **6.5** | 4.0 |
| U.K. pound | **0.9** | 0.9 | **0.4** | 0.3 |

A five percent strengthening of the Canadian dollar against the above currencies at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

*(In millions of Canadian dollars, except per share information)*

## 23. Financial instruments (continued)

### (e) Interest rate risk

An increase of 100 basis points in interest rates on the floating rate debt and cash equivalents as at the reporting date would decrease net income by $9.7 million (2017 - $11.4 million decrease). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

### (f) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Assets carried at fair value: | | | | |
| Other assets | **$ 18.8** | **$ 18.8** | $ 15.5 | $ 15.5 |
| Derivative financial assets | **9.1** | **9.1** | 1.0 | 1.0 |
| | **$ 27.9** | **$ 27.9** | $ 16.5 | $ 16.5 |
| Assets carried at amortized cost: | | | | |
| Trade and other receivables | **$ 938.0** | **$ 938.0** | $ 821.3 | $ 821.3 |
| Cash and cash equivalents | **589.1** | **589.1** | 557.5 | 557.5 |
| | **$ 1,527.1** | **$ 1,527.1** | $ 1,378.8 | $ 1,378.8 |
| Liabilities carried at fair value: | | | | |
| Derivative financial liabilities | **$ 41.1** | **$ 41.1** | $ 50.7 | $ 50.7 |
| | **$ 41.1** | **$ 41.1** | $ 50.7 | $ 50.7 |
| Liabilities carried at amortized cost: | | | | |
| Trade and other payables | **$ 1,223.4** | **$ 1,223.4** | $ 1,018.4 | $ 1,018.4 |
| Unsecured Rule 144A bonds | **674.5** | **636.7** | 620.3 | 591.8 |
| Unsecured bonds | **298.2** | **300.7** | - | - |
| Unsecured syndicated bank credit facilities | **1,511.0** | **1,511.0** | 1,535.1 | 1,535.1 |
| Unsecured notes | **-** | **-** | 162.0 | 168.3 |
| Other loans | **5.3** | **5.3** | 7.8 | 7.8 |
| Finance lease liabilities | **2.6** | **2.6** | 6.2 | 6.2 |
| | **$ 3,715.0** | **$ 3,679.7** | $ 3,349.8 | $ 3,327.6 |

The basis for determining fair values is disclosed in note 3.

The interest rates used to discount estimated cash flows for the unsecured senior notes are based on the government yield curve at the reporting date plus an adequate credit spread.

*(In millions of Canadian dollars, except per share information)*

## 23. Financial instruments (continued)

### (g) Fair value hierarchy

The table below summarizes the levels of hierarchy for financial assets and liabilities.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| Other assets | $ - | $ 18.8 | $ - | $ 18.8 |
| Derivative financial assets | - | 9.1 | - | 9.1 |
| Long-term debt | - | - | (2,456.3) | (2,456.3) |
| Derivative financial liabilities | - | (41.1) | - | (41.1) |
| | $ - | $ (13.2) | $ (2,456.3) | $ (2,469.5) |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2017** | | | | |
| Other assets | $ - | $ 15.5 | $ - | $ 15.5 |
| Derivative financial assets | - | 1.0 | - | 1.0 |
| Long-term debt | | - | (2,309.2) | (2,309.2) |
| Derivative financial liabilities | - | (50.7) | - | (50.7) |
| | $ - | $ (34.2) | $ (2,309.2) | $ (2,343.4) |

## 24. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## 24. Financial risk management (continued)

### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from senior management; these limits are reviewed quarterly. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Company is potentially exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations. These counterparties are large international financial institutions and, to date, no such counterparty has failed to meet its financial obligations to the Company. As at December 31, 2018, the Company's exposure to credit risk arising from derivative financial instruments amounted to $9.1 million (2017 - $1.0 million).

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by monitoring expected cash flows and ensuring the availability of credit to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due. The financial obligations of the Company include trade and other payables, long-term debts and other long-term items. The contractual maturity of trade payables is six months or less. Long-term debts have varying maturities extending to 2026. The Company has capacity to discharge its current liabilities from the continued cash flows from operations of the business, and an additional $589.1 million of cash-on-hand and $619.8 million of available capacity within its syndicated bank credit facility at December 31, 2018.

### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company uses derivatives to manage market risks. Generally, the Company seeks to apply hedge accounting in order to manage volatility in profit or loss. The Company does not utilize derivative financial instruments for speculative purposes.

#### (i) Currency risk

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company partially manages these exposures by contracting primarily in Canadian dollars, euros, U.K. pounds and U.S. dollars. Additionally, each subsidiary's sales and expenses are primarily denominated in its local currency, further minimizing the foreign exchange impact on the operating results.

### 24. Financial risk management (continued)

#### (i) Currency risk (continued)

In other cases, borrowings are done by non-Canadian dollar-based subsidiaries in their own functional currencies such that the principal and interest are denominated in a currency that matches the cash flows generated by those subsidiaries. These provide natural hedges that do not require the application of hedge accounting.

#### (ii) Interest rate risk

The Company is exposed to market risk related to interest rate fluctuations on its debt. To mitigate this risk, the Company maintains a combination of fixed and floating rate debt.

#### (iii) Commodity price risk

Polypropylene is the most significant input cost for the Innovia Segment. It is traded in the market, with prices linked to the market price of natural gas and refining capacity. The Segment does not use derivative financial instruments to hedge its exposure to the volatility of polypropylene prices; therefore, movements must be managed and, where possible, passed along to the Segment's customers.

#### (d) Capital management

The Company's objective is to maintain a strong capital base throughout the economic cycle so as to maintain investor, creditor and market confidence and to sustain the future development of the business. This capital structure supports the Company's objective to provide an attractive financial return to its shareholders equal to that of its leading specialty packaging peers.

The Company defines capital as total equity and measures the return on capital (or return on equity) by dividing annual net earnings before goodwill impairment loss and restructuring and other items by the average of the beginning and the end-of-year shareholders' equity. In 2018, the return on capital was 20.0% (2017 – 24.0%) and was well within the range of the Company's leading specialty packaging peers.

Management and the Board maintain a balance between the expected higher return on capital that might be possible with a higher level of financial debt and the advantages and security afforded by a lower level of financial leverage.

*(In millions of Canadian dollars, except per share information)*

## 24. Financial risk management (continued)

### (d) Capital management (continued)

The Company has provided a growing level of dividends to its shareholders over the last few years, generally related to its growth in earnings. Dividends are declared bearing in mind the Company's current earnings, cash flow and financial leverage.

There were no changes in the Company's approach to capital management during the year.

The Company is subject to certain financial covenants on its unsecured syndicated bank credit facility. The Company monitors the ratios on a quarterly basis and, at December 31, 2018, was in compliance with all its covenants.

## 25. Commitments and contingencies

(i) Commitments

Non-cancellable operating lease rentals are payable as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Less than one year | **$** | **42.1** | $ | 37.2 |
| Between one and five years | | **93.9** | | 62.8 |
| More than five years | | **68.8** | | 39.1 |
| | **$** | **204.8** | $ | 139.1 |

The Company enters into operating leases in the ordinary course of business, primarily for real property and equipment. Payments and other terms for these leases vary per agreement. During the year ended December 31, 2018, $29.2 million was recognized as an expense in the income statement in respect of operating leases (2017 - $30.9 million).

As at December 31, 2018, the Company had uncollateralized surety bonds of $74.2 million primarily to the Brazilian Tax Authority in order to facilitate the appeal of tax reassessments. The Company intends to vigorously defend this claim, which the Company considers to be without merit and, accordingly, the Company has made no provision for the matter.

(ii) Contingencies

In the normal course of operations, the Company and its subsidiaries may be subject to lawsuits, investigations and other claims, including environmental, labour, product, customer disputes and other matters.

During 2018, the Federal Court of Australia awarded a judgment and costs against a subsidiary of the Company, CCL Secure Pty Ltd. (formerly Innovia Security Pty Ltd.) ("ISPL"), totalling A$70.0 million (C$67 million) finding a wrongful termination of an agency agreement with Benoy Berry and a company controlled by him, Global Secure Currency Ltd. (collectively "Berry"), an arm's length third party in Nigeria. ISPL is appealing the judgment. As part of the appeals process, the Australian court mandated that the Company guarantee the entire judgment in order to stay execution of the judgment pending resolution of the appeal. The Company maintains a provision in its accounts of its estimate of the likely final award and liability of ISPL.

*(In millions of Canadian dollars, except per share information)*

## 25. Commitments and contingencies (continued)

(ii) Contingencies (continued)

In the first quarter of 2019, a hearing on a jurisdictional issue is expected to be heard in respect of a lawsuit launched in 2011 by Berry in Nigerian Federal Court against ISPL and Innovia Films Ltd. (collectively "IFL"), as well as other defendants not affiliated with ISPL. The lawsuit alleges that IFL and the co-defendants committed to building a banknote substrate plant in Nigeria and Berry seeks an order requiring IFL and the co-defendants to build the plant or, in lieu thereof, grant an award of total damages in the amount of €1.5 billion (C$2.3 billion). IFL intends to vigorously defend this claim, which the Company considers to be without merit and, accordingly, the Company has made no provision for the matter.

Events surrounding these cases occurred at a time when the Reserve Bank of Australia had a 50% equity interest in ISPL.

Management believes that adequate provisions for legal claims have been recorded in the accounts where required. Although it is not always possible to accurately estimate the result or magnitude of legal claims due to the various uncertainties involved in the legal process, management believes that the ultimate resolution of all such pending matters, individually and in the aggregate, will not have a material adverse impact on the Company, its business, financial position or liquidity.

## 26. Related parties

**Beneficial ownership**

The directors and officers of CCL Industries Inc. as a group beneficially own, control, or direct, directly or indirectly, approximately 11.2 million of the issued and outstanding Class A voting shares, representing 94.7% of the issued and outstanding Class A voting shares.

**Loan guarantee**

The Company has provided various loan guarantees for its joint ventures and associates totalling $46.3 million.

## 27. Key management personnel compensation

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Short-term employee compensation and benefits | **$** | **14.5** | $ | 12.1 |
| Share-based compensation | | **6.4** | | 20.8 |
| Post-employment benefits | | **0.9** | | 0.9 |
| | **$** | **21.8** | $ | 33.8 |

## 28. Accumulated other comprehensive income (loss)

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Unrealized foreign currency translation gains (losses), net of tax recovery of $10.2 million (2017 – tax recovery of $3.9 million) | **$** | **35.5** | $ | (58.3) |
| Gains (losses) on derivatives designated as cash flow hedges, net of tax recovery of $0.1 million (2017 – tax expense of $1.1 million) | | **(0.3)** | | 5.4 |
| | **$** | **35.2** | **$** | (52.9) |

*(In millions of Canadian dollars, except per share information)*

## 29. Restructuring and other items

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Restructuring costs (i) | **$** | **7.8** | $ | 24.3 |
| Acquisition costs (ii) | | **3.7** | | 2.6 |
| Other items (iii) | | **3.3** | | (15.6) |
| Total restructuring and other items | **$** | **14.8** | $ | 11.3 |

(i) In 2018, the CCL Segment recorded $0.6 million, income increase, representing $0.9 million for severance related expenditures for the security part of the Innovia acquisition offset by the reversal of $1.5 million of over accrued reorganization costs. In 2017, the CCL Segment recorded $6.5 million in restructuring costs, primarily related to severance costs for Innovia.

In 2018, the Avery Segment recorded $2.7 million (2017 – nil) in restructuring costs, which was for severance and other reorganization costs in the European operations.

In 2018, the Checkpoint Segment recorded $4.6 million in restructuring costs, which was for severance and other reorganization costs globally. In 2017, the Checkpoint Segment recorded $14.8 million in restructuring costs, primarily related to severance costs.

In 2018, the Innovia Segment recorded $1.1 million in restructuring costs, for severance related costs in their European operations. In 2017, the Innovia Segment recorded $3.0 million in restructuring costs, primarily related to severance costs.

(ii) In 2018, acquisition costs totalled $3.7 million, primarily for the Treofan acquisition. In 2017, acquisition costs of $2.6 million were recorded primarily for the Innovia acquisition.

(iii) In 2018, other expenses totalled $3.3 million, predominantly related to actuarial pension accruals at Innovia and legacy CCL U.K. operations. This non-cash expense is the result of a milestone legal judgement equalizing certain historical guaranteed minimum obligations for all U.K. defined benefit pension schemes.

In 2017, Checkpoint recognized $15.6 million of income due to the reversal of a pre-acquisition legal accrual.

## 30. Subsequent events

The Board of Directors has declared a dividend of $0.17 per Class B non-voting share and $0.1675 per Class A voting share, which will be payable to shareholders of record at the close of business on March 15, 2019, to be paid on March 29, 2019.

In January 2019, the Company announced it had completed two transactions, one for the CCL Segment, which acquired privately owned Olympic Holding B.V. and its related subsidiaries (“Olympic”), based in Venray, Netherlands, for approximately $13.5 million, and the second for the Avery Segment, which acquired privately owned Easy2Name Limited (“E2N”) based near Newbury in the UK for approximately $4.3 million.

On November 15, 2018, the Company agreed to acquire the privately owned Hinsitsu Screen (Vietnam) Company Limited, based in Hanoi, for approximately $12.4 million which is expected to complete by the end of 2019 first quarter.