

Consolidated Condensed Interim Financial Statements  
(In thousands of Canadian dollars)

# **CCL INDUSTRIES INC.**

Interim periods ended June 30, 2016 and 2015  
Unaudited

# CCL Industries Inc.

## Consolidated condensed interim statements of financial position

Unaudited

In thousands of Canadian dollars

	As at June 30	As at December 31
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 421,683	\$ 405,692
Trade and other receivables	727,777	524,621
Inventories	426,318	260,600
Prepaid expenses	31,826	20,562
Income tax recoverable	4,661	18,389
<b>Total current assets</b>	<b>1,612,265</b>	<b>1,229,864</b>
Property, plant and equipment	1,203,869	1,085,506
Goodwill	1,050,496	876,838
Intangible assets	575,090	285,340
Deferred tax assets	38,431	12,293
Equity accounted investments	62,246	61,502
Other assets	35,532	30,962
<b>Total non-current assets</b>	<b>2,965,664</b>	<b>2,352,441</b>
<b>Total assets</b>	<b>\$ 4,577,929</b>	<b>\$ 3,582,305</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 979	\$ -
Trade and other payables	789,973	710,999
Current portion of long-term debt (note 8)	61,927	167,103
Income taxes payable	62,351	33,652
Derivative instruments	352	1,095
<b>Total current liabilities</b>	<b>915,582</b>	<b>912,849</b>
Long-term debt	1,630,998	838,416
Deferred tax liabilities	71,042	59,860
Employee benefits	257,990	135,216
Provisions and other long-term liabilities	59,233	13,833
Derivative instruments	-	253
<b>Total non-current liabilities</b>	<b>2,019,263</b>	<b>1,047,578</b>
<b>Total liabilities</b>	<b>2,934,845</b>	<b>1,960,427</b>
<b>Equity</b>		
Share capital	255,141	276,882
Contributed surplus	53,917	50,584
Retained earnings	1,309,946	1,182,686
Accumulated other comprehensive income (note 5)	21,939	111,726
<b>Total equity attributable to shareholders of the Company</b>	<b>1,640,943</b>	<b>1,621,878</b>
Non-controlling interest (note 3(e))	2,141	-
<b>Total equity</b>	<b>1,643,084</b>	<b>1,621,878</b>
Acquisitions (note 3)		
Subsequent events (note 9)		
<b>Total liabilities and equity</b>	<b>\$ 4,577,929</b>	<b>\$ 3,582,305</b>

See accompanying selected explanatory notes to the consolidated condensed interim financial statements.

# CCL Industries Inc.

## Consolidated condensed interim income statements

### Unaudited

In thousands of Canadian dollars, except per share data

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Sales	\$ 960,208	\$ 721,494	\$ 1,827,026	\$ 1,427,364
Cost of sales	678,781	514,706	1,294,287	1,022,354
Gross profit	281,427	206,788	532,739	405,010
Selling, general and administrative	152,393	97,216	264,623	191,705
Restructuring and other items (note 6)	18,950	-	21,930	940
Earnings in equity accounted investments	(1,057)	(245)	(1,865)	(763)
	<b>111,141</b>	<b>109,817</b>	<b>248,051</b>	<b>213,128</b>
Finance cost	8,388	6,718	17,170	13,424
Finance income	(594)	(505)	(1,473)	(901)
Net finance cost	7,794	6,213	15,697	12,523
<b>Earnings before income taxes</b>	<b>103,347</b>	<b>103,604</b>	<b>232,354</b>	<b>200,605</b>
Income tax expense	31,169	30,336	70,452	59,191
<b>Net earnings</b>	<b>\$ 72,178</b>	<b>\$ 73,268</b>	<b>\$ 161,902</b>	<b>\$ 141,414</b>
<b>Attributable to:</b>				
Shareholders of the Company	\$ 72,317	\$ 73,268	\$ 162,236	\$ 141,414
Non-controlling interest (note 3(e))	(139)	-	(334)	-
<b>Net earnings for the period</b>	<b>\$ 72,178</b>	<b>\$ 73,268</b>	<b>\$ 161,902</b>	<b>\$ 141,414</b>
Basic earnings per Class B share	\$ 2.06	\$ 2.12	\$ 4.63	\$ 4.09
Diluted earnings per Class B share	\$ 2.03	\$ 2.09	\$ 4.57	\$ 4.02

See accompanying selected explanatory notes to the consolidated condensed interim financial statements.

# CCL Industries Inc.

## Consolidated condensed interim statements of comprehensive income

### Unaudited

*In thousands of Canadian dollars*

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Net earnings</b>	\$ 72,178	\$ 73,268	\$ 161,902	\$ 141,414
<b>Other comprehensive income (loss), net of tax:</b>				
Items that may subsequently be reclassified to income:				
Foreign currency translation adjustment for foreign operations, net of tax recovery of \$13 and \$4,801 for the three-month and six-month periods ending June 30, 2016 (2015 - tax recovery of \$645 and tax expense of \$3,688)	(42,211)	(11,996)	(165,054)	72,297
Net gains (losses) on hedges of net investment in foreign operations, net of tax expense of \$3,453 and \$9,545 for the three-month and six-month periods ending June 30, 2016 (2015 - tax expense of \$860 and tax recovery of \$5,219)	11,012	5,945	74,562	(36,085)
Effective portion of changes in fair value of cash flow hedges, net of tax expense of \$135 and \$191 for the three-month and six-month periods ending June 30, 2016 (2015 - tax recovery of \$130 and \$367)	343	(214)	503	(790)
Net change in the fair value of cash flow hedges transferred to the income statement, net of tax recovery of \$15 and \$100 for the three-month and six-month periods ending June 30, 2016 (2015 - tax recovery of \$68 and \$131)	29	136	202	264
<b>Other comprehensive income (loss), net of tax</b>	<b>(30,827)</b>	<b>(6,129)</b>	<b>(89,787)</b>	<b>35,686</b>
<b>Total comprehensive income</b>	<b>\$ 41,351</b>	<b>\$ 67,139</b>	<b>\$ 72,115</b>	<b>\$ 177,100</b>
<b>Attributable to:</b>				
Shareholders of the Company	\$ 41,490	\$ 67,139	\$ 72,449	\$ 177,100
Non-controlling interest	(139)	-	(334)	-
<b>Total comprehensive income</b>	<b>\$ 41,351</b>	<b>\$ 67,139</b>	<b>\$ 72,115</b>	<b>\$ 177,100</b>

See accompanying selected explanatory notes to the consolidated condensed interim financial statements.

# CCL Industries Inc.

## Consolidated condensed interim statements of changes in equity

### Unaudited

In thousands of Canadian dollars

	Attributable to Shareholders of the Company									
	Class A shares	Class B shares	Shares held in trust	Total share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interest	Total equity
Balances, January 1, 2015	\$ 4,504	\$ 257,521	\$ (13,938)	\$ 248,087	\$ 26,241	\$ 938,526	\$ 3,365	\$ 1,216,219	\$ -	\$ 1,216,219
Net earnings	-	-	-	-	-	141,414	-	141,414	-	141,414
Dividends declared	-	-	-	-	-	(1,716)	-	(1,716)	-	(1,716)
Class A	-	-	-	-	-	(1,716)	-	(1,716)	-	(1,716)
Class B	-	-	-	-	-	(24,205)	-	(24,205)	-	(24,205)
Stock-based compensation plan	-	-	-	-	4,197	-	-	4,197	-	4,197
Shares purchased and held in trust	-	-	(144)	(144)	-	-	-	(144)	-	(144)
Stock option expense	-	-	-	-	2,077	-	-	2,077	-	2,077
Stock options exercised	-	7,344	-	7,344	(1,339)	-	-	6,005	-	6,005
Income tax effect related to stock options	-	-	-	-	1,225	-	-	1,225	-	1,225
Other comprehensive income	-	-	-	-	-	-	35,686	35,686	-	35,686
<b>Balances, June 30, 2015</b>	<b>\$ 4,504</b>	<b>\$ 264,865</b>	<b>\$ (14,082)</b>	<b>\$ 255,287</b>	<b>\$ 32,401</b>	<b>\$ 1,054,019</b>	<b>\$ 39,051</b>	<b>\$ 1,380,758</b>	<b>\$ -</b>	<b>\$ 1,380,758</b>

	Attributable to Shareholders of the Company									
	Class A shares	Class B shares	Shares held in trust	Total share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interest	Total equity
Balances, January 1, 2016	\$ 4,504	\$ 279,807	\$ (7,429)	\$ 276,882	\$ 50,584	\$ 1,182,686	\$ 111,726	\$ 1,621,878	\$ -	\$ 1,621,878
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	-	-	2,475	2,475
Net earnings	-	-	-	-	-	162,236	-	162,236	(334)	161,902
Dividends declared	-	-	-	-	-	(2,308)	-	(2,308)	-	(2,308)
Class A	-	-	-	-	-	(2,308)	-	(2,308)	-	(2,308)
Class B	-	-	-	-	-	(32,668)	-	(32,668)	-	(32,668)
Stock-based compensation plan	-	-	-	-	5,062	-	-	5,062	-	5,062
Shares redeemed from trust	-	-	6,618	6,618	(6,618)	-	-	-	-	-
Shares purchased and held in trust	-	-	(28,904)	(28,904)	68	-	-	(28,836)	-	(28,836)
Stock option expense	-	545	-	545	2,838	-	-	3,383	-	3,383
Income tax effect related to stock options	-	-	-	-	1,983	-	-	1,983	-	1,983
Other comprehensive income	-	-	-	-	-	-	(89,787)	(89,787)	-	(89,787)
<b>Balances, June 30, 2016</b>	<b>\$ 4,504</b>	<b>\$ 280,352</b>	<b>\$ (29,715)</b>	<b>\$ 255,141</b>	<b>\$ 53,917</b>	<b>\$ 1,309,946</b>	<b>\$ 21,939</b>	<b>\$ 1,640,943</b>	<b>\$ 2,141</b>	<b>\$ 1,643,084</b>

See accompanying selected explanatory notes to the consolidated condensed interim financial statements.

# CCL Industries Inc.

## Consolidated condensed interim statements of cash flows

### Unaudited

In thousands of Canadian dollars

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net earnings	\$ 72,178	\$ 73,268	\$ 161,902	\$ 141,414
Adjustments for:				
Depreciation and amortization	48,491	39,279	95,311	78,684
Earnings in equity accounted investments, net of dividends received	(835)	(34)	(1,643)	(552)
Net finance cost	7,794	6,213	15,697	12,523
Current income tax expense	45,513	34,340	72,666	56,780
Deferred taxes	(14,344)	(4,004)	(2,214)	2,411
Equity-settled share-based payment transactions	6,187	3,851	7,659	6,274
Gain on sale of property, plant and equipment	(105)	(642)	(833)	(958)
	164,879	152,271	348,545	296,576
Change in inventories	(3,063)	(16,382)	(10,006)	(36,469)
Change in trade and other receivables	(29,699)	(15,042)	(40,072)	(94,014)
Change in prepaid expenses	(14,505)	(13,422)	(10,486)	(12,652)
Change in trade and other payables	(21,348)	24,219	(149,451)	36,999
Change in income taxes receivable and payable	4,593	445	5,453	(292)
Change in employee benefits	(7,239)	3,309	(4,238)	11,186
Change in other assets and liabilities	31,680	(7,427)	26,415	(5,927)
	125,298	127,971	166,160	195,407
Net interest paid	(4,860)	(1,394)	(17,792)	(11,840)
Income taxes paid	(30,929)	(15,228)	(44,006)	(24,905)
<b>Cash provided by operating activities</b>	<b>89,509</b>	<b>111,349</b>	<b>104,362</b>	<b>158,662</b>
<b>Financing activities</b>				
Proceeds on issuance of long-term debt	598,500	341	831,894	47,023
Repayment of debt	(11,358)	(38,686)	(159,600)	(52,519)
Proceeds from issuance of shares	446	2,403	446	6,005
Purchase of shares held in trust	(28,836)	-	(28,836)	-
Dividends paid	(17,525)	(13,044)	(35,044)	(26,065)
<b>Cash provided by (used for) financing activities</b>	<b>541,227</b>	<b>(48,986)</b>	<b>608,860</b>	<b>(25,556)</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(75,128)	(34,928)	(145,636)	(91,593)
Proceeds on disposal of property, plant and equipment	277	1,834	5,863	2,445
Business acquisitions and other long-term investments (note 3)	(441,741)	189	(527,825)	(38,623)
<b>Cash used for investing activities</b>	<b>(516,592)</b>	<b>(32,905)</b>	<b>(667,598)</b>	<b>(127,771)</b>
Net increase in cash and cash equivalents	114,144	29,458	45,624	5,335
Cash and cash equivalents at beginning of period	320,140	205,993	405,692	221,873
Translation adjustment on cash and cash equivalents	(12,601)	(731)	(29,633)	7,512
<b>Cash and cash equivalents at end of period</b>	<b>\$ 421,683</b>	<b>\$ 234,720</b>	<b>\$ 421,683</b>	<b>\$ 234,720</b>

See accompanying selected explanatory notes to the consolidated condensed interim financial statements.

# CCL Industries Inc.

## Notes to consolidated condensed interim financial statements (continued) Unaudited

In thousands of Canadian dollars, unless otherwise noted

### 1. Reporting entity

CCL Industries Inc. ("CCL" or "Company") is a public company, listed on the Toronto Stock Exchange, and is incorporated and domiciled in Canada. These consolidated condensed interim financial statements of the Company as at and for the interim period ended June 30, 2016, comprise 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, containers, consumer printable media products and technology driven label solutions.

### 2. Basis of preparation

#### (a) Statement of compliance

These consolidated condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting.

These consolidated condensed interim financial statements should be read in conjunction with the Company's 2015 annual financial statements.

The accounting policies and methods of computation followed in the preparation of these consolidated condensed interim financial statements are consistent with those used in the preparation of the most recent annual report, unless otherwise noted.

These consolidated condensed interim financial statements were authorized for issue by the Board of Directors on August 4, 2016.

#### (b) Basis of measurement

These consolidated condensed interim financial statements have been prepared on the historical cost basis except for the following items in the statement 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
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- 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 condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise noted.

### 3. Acquisitions

- (a) In May 2016, the Company completed the share acquisition of Checkpoint Systems, Inc. ("CSI") for approximately \$531.9 million. CSI is a leading manufacturer of technology-driven, loss prevention, inventory management and labeling solutions, including radio-frequency ("RF") and radio-frequency identification-based ("RFID"), to the retail and apparel industry. The CSI acquisition was a strategic opportunity leveraging the Company's deep capabilities in labels.

(in millions of Canadian dollars)

Cash consideration, net of cash acquired	\$	440.5
Assumed debt		91.4
<b>Total consideration</b>	<b>\$</b>	<b>531.9</b>

(in millions of Canadian dollars)

Trade and other receivables	\$	146.5
Inventories		143.4
Property, plant and equipment		104.5
Other assets		4.3
Goodwill and intangible assets		468.8
Deferred tax assets		31.8
Trade and other payables		(203.3)
Income taxes payable		(13.8)
Employee benefits		(127.0)
Provisions and other long-term liabilities		(23.3)
<b>Net assets acquired</b>	<b>\$</b>	<b>531.9</b>

As a result of the timing of the CSI acquisition in relation to the date of issuance of the financial statements for the second quarter, the availability of information and the inherent complexity associated with the valuations, the allocation of the consideration paid has not yet been completed. The determination of the fair value of assets and liabilities acquired is based upon preliminary estimates and assumptions as the Company continues to collect information. The Company will continue to review information prior to finalizing the fair value of the assets acquired and liabilities assumed. The actual fair values of the assets acquired and liabilities assumed may differ from the amounts noted above.

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 from combining operations and expertise in smart-label products. The total amount of goodwill and intangibles for CSI \$468.8 million and is not deductible for tax purposes.

# CCL Industries Inc.

## Notes to consolidated condensed interim financial statements (continued) Unaudited

In thousands of Canadian dollars, unless otherwise noted

### 3. Acquisitions (continued)

- (b) In January 2016, the Company acquired Woelco AG ("Woelco"), a privately owned company in Stuttgart, Germany, with subsidiaries in China and the United States, for approximately \$21.4 million, net of cash acquired. Woelco will expand CCL Label's depth in the industrial and automotive durable goods market.

In January 2016, the Company acquired Label Art Ltd. and Label Art Digital Ltd. (collectively referred to as "LAL"), two privately owned companies with common shareholders based in Dublin, Ireland for approximately \$13.5 million, net of cash acquired. LAL expands CCL Label's business in Ireland and the UK.

In February 2016, the Company acquired Zephyr Company Limited of Singapore, and its Malaysian subsidiaries in Penang and Johor (collectively referred to as "Zephyr"), from multiple private shareholders for approximately \$39.4 million, net of cash acquired. Zephyr expands CCL's presence within the electronics industry to southeast Asia.

In March 2016, the Company acquired the shares of Powerpress Rotulos & Etiquetas Adesivas LTDA ("Powerpress"), a privately owned company in Sao Paolo, Brazil for approximately \$11.3 million, net of cash acquired. Powerpress enhances CCL Label's product offering in South America.

The following table summarizes the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed for the Woelco, LAL, Zephyr and Powerpress acquisitions:

(in millions of Canadian dollars)		
Cash consideration	\$	85.6

(in millions of Canadian dollars)		
Trade and other receivables	\$	15.0
Inventories		12.3
Other current assets		0.7
Property, plant and equipment		16.8
Other long-term assets		0.2
Goodwill and intangible assets		59.3
Trade and other payables		(14.8)
Current portion of long-term debt		(0.2)
Long-term debt		(0.2)
Deferred tax liabilities		(2.6)
Provisions and other long-term liabilities		(0.9)
Net assets acquired	\$	85.6

The determination of the fair value of assets and liabilities acquired is based upon preliminary estimates and assumptions as the Company continues to collect information. The Company will continue to review information prior to finalizing the fair value of the assets acquired and liabilities assumed. The actual fair values of the assets acquired and liabilities assumed may differ from the amounts noted above.

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 from combining operations, the expertise of the assembled workforce and cost saving opportunities in the delivery of certain shared administrative and other services. The total amount of goodwill and intangible assets for the Woelco, LAL, Zephyr and Powerpress acquisitions amounted to \$59.3 million and is not deductible for tax purposes.

- (c) The following table summarizes the combined sales and net earnings that CSI, Woelco, LAL, Zephyr and Powerpress have contributed to the Company for the current reporting period:

(in millions of Canadian dollars)	Six months ended	
	June 30, 2016	
Sales	\$	127.5
Net loss	\$	(11.1)

### (d) Pro Forma Information

The unaudited pro forma consolidated financial information below has been prepared following the accounting policies of the Company as if the acquisitions took place January 1, 2016.

The unaudited 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 unaudited pro forma consolidated financial information to give effect to events that are: (i) directly attributable to the acquisition; (ii) factually supportable; and (iii) with respect to revenues and earnings, expected to have a continuing impact on the results of the Company. As such, the impact from acquisition related expenses is not included in the accompanying unaudited pro forma consolidated financial information. The unaudited 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 CSI, Woelco, LAL, Zephyr and Powerpress as though the acquisitions took place on January 1, 2016:

(in millions of Canadian dollars)	Six months ended	
	June 30, 2016	
Sales	\$	2,111.7
Net earnings	\$	209.3

## CCL Industries Inc.

### Notes to consolidated condensed interim financial statements (continued)

#### Unaudited

In thousands of Canadian dollars, unless otherwise noted

#### 3. Acquisitions (continued)

- (e) In January 2016, the Company invested \$6.0 million in cash to increase its interest from 50% to 75% in its tube manufacturing joint venture in Bangkok, Thailand with Taisei Kako Co. Ltd of Japan, resulting in Taisei becoming a subsidiary of the Company as a result of the change in control.
- (f) In January, 2016, the Company completed its initial capital investment of \$1.6 million cash into its North American 'in-mould' label joint venture, Korsini-SAF.
- (g) In February 2015, the Company acquired pc/nametag Inc. and Meetings Direct, LLC ("PCN"); two privately owned companies that supply name badges and meeting registration supplies to professional meeting planners and distributors of promotional material in North America. The final purchase price was \$37.6 million (US\$30.1 million) net of cash acquired and inclusive of a \$2.5 million (US\$2.0 million) promissory note paid in February 2016.

During the first quarter of 2016, the Company finalized the valuation of intangible assets, which resulted in an increase in brands of \$6.8 million, a decrease in other intangible assets of \$3.3 million, an increase in deferred taxes of \$1.4 million and a decrease in goodwill of \$2.2 million. The following table summarizes the final allocation of the consideration to the fair value of the assets acquired and liabilities assumed in February 2015:

(in millions of Canadian dollars)

Cash consideration	\$	35.1
Promissory note		2.5
<b>Total consideration</b>	<b>\$</b>	<b>37.6</b>

(in millions of Canadian dollars)

Trade and other receivables	\$	1.8
Inventories		2.1
Other current assets		0.3
Property, plant and equipment		5.3
Other long-term assets		0.2
Goodwill		17.8
Brands		6.8
Other intangible assets		13.1
Trade and other payables		(2.1)
Deferred taxes		(7.7)
<b>Net assets acquired</b>	<b>\$</b>	<b>37.6</b>

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 from combining operations, the expertise of the assembled workforce and cost saving opportunities in the delivery of certain shared administrative and other services. The total amount of goodwill is \$17.8 million of which \$5.0 million is deductible for tax purposes.

- (h) During 2016, a more detailed analysis of inventory acquired during the Worldmark Ltd. ("Worldmark") acquisition was completed, resulting an increase to the fair value of inventory of \$2.0 million. The purchase accounting is not yet finalized and adjustments may need to be made to the recorded amounts of assets and liabilities. Specifically, the Company is in the process of finalizing the valuation of property, plant and equipment and intangible assets. Consequently future adjustments may be made to the amounts at acquisition date.

# CCL Industries Inc.

## Notes to consolidated condensed interim financial statements (continued) Unaudited

In thousands of Canadian dollars, unless otherwise noted

### 4. Segment reporting

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.

The Company is comprised of the following main business segments:

- **Label** – Includes the production of pressure sensitive and extruded film materials for a wide range of decorative, instructional and functional applications for large global customers in the consumer packaging, healthcare, automotive and consumer durables markets. Extruded and laminated plastic tubes, folded instructional leaflets, precision printed and die cut metal components with LED displays and other complementary products and services are sold in parallel to specific end-user markets.
- **Checkpoint** – Includes the manufacturing and selling of technology-driven, loss prevention, inventory management and labeling solutions, including RF and RFID-based, to the retail & apparel industry.
- **Avery** – Includes the manufacturing and selling of various consumer products, including labels, binders, dividers, sheet protectors and writing instruments in North America, Latin America, Asia Pacific and Europe.
- **Container** – Includes the manufacturing of specialty containers for the consumer products industry in North America, including Mexico. The key product line is recyclable aluminum aerosol cans and bottles for the personal care, home care and cosmetic industries, plus shaped aluminum bottles for the beverage market.

	Three Months Ended June 30				Six Months Ended June 30			
	Sales		Operating income (loss)		Sales		Operating income (loss)	
	2016	2015	2016	2015	2016	2015	2016	2015
Label	\$ 603,962	\$ 468,900	\$ 89,390	\$ 72,001	\$ 1,226,273	\$ 955,031	\$ 193,251	\$ 153,793
Avery	207,384	198,168	50,590	45,277	387,009	358,358	85,985	71,837
Checkpoint	92,635	-	(4,743)	-	92,635	-	(4,743)	-
Container	56,227	54,426	7,868	5,354	121,109	113,975	18,483	14,068
Total operations	<u>\$ 960,208</u>	<u>\$ 721,494</u>	<u>143,105</u>	<u>122,632</u>	<u>\$ 1,827,026</u>	<u>\$ 1,427,364</u>	<u>292,976</u>	<u>239,698</u>
Corporate expense			(14,071)	(13,060)			(24,860)	(26,393)
Restructuring and other items			(18,950)	-			(21,930)	(940)
Earnings in equity accounted investments			1,057	245			1,865	763
Finance cost			(8,388)	(6,718)			(17,170)	(13,424)
Finance income			594	505			1,473	901
Income tax expense			(31,169)	(30,336)			(70,452)	(59,191)
Net earnings			<u>\$ 72,178</u>	<u>\$ 73,268</u>			<u>\$ 161,902</u>	<u>\$ 141,414</u>

	Total Assets		Total Liabilities		Depreciation and Amortization		Capital Expenditures	
	June 30	December 31	June 30	December 31	Six Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015	2016	2015	2016	2015
Label	\$ 2,319,885	\$ 2,285,169	\$ 567,385	\$ 596,902	\$ 76,239	\$ 63,588	\$ 118,435	\$ 79,729
Avery	647,000	615,893	212,973	230,293	7,873	7,098	11,983	8,676
Checkpoint	909,713	-	451,723	-	3,338	-	1,130	-
Container	167,707	173,688	43,782	50,929	7,364	7,520	14,088	3,188
Equity accounted investments	62,246	61,502	-	-	-	-	-	-
Corporate	471,378	446,053	1,658,982	1,082,303	497	478	-	-
Total	<u>\$ 4,577,929</u>	<u>\$ 3,582,305</u>	<u>\$ 2,934,845</u>	<u>\$ 1,960,427</u>	<u>\$ 95,311</u>	<u>\$ 78,684</u>	<u>\$ 145,636</u>	<u>\$ 91,593</u>

Due to the seasonality of CCL's business, the Company's operating results for the six months ended June 30, 2016, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016. The first and second quarters are traditionally higher sales periods for the Label and Container Segments as a result of the greater number of work days and various customer activities undertaken during this period versus the third and fourth quarters of the year. For Avery, the third quarter has historically been its strongest, as it benefits from the increased demand related to back-to-school activities in North America. CSI is subject to seasonal influences, which generally results in higher levels of sales and income in the second half of the year. The seasonality of this segment substantially follows the retail cycle of our customers, which historically has revenues weighted toward the last half of the calendar year in preparation for the holiday season.

# CCL Industries Inc.

## Notes to consolidated condensed interim financial statements (continued) Unaudited

In thousands of Canadian dollars, unless otherwise noted

### 5. Accumulated other comprehensive income

	June 30 <u>2016</u>	December 31 <u>2015</u>
Unrealized foreign currency translation gains, net of tax recovery of \$152 (2015 – tax recovery of \$4,896)	\$ 22,092	\$ 112,584
Losses on derivatives designated as cash flow hedges, net of tax recovery of \$83 (2015 – tax recovery of \$374)	(153)	(858)
	<u>\$ 21,939</u>	<u>\$ 111,726</u>

### 6. Restructuring and other items

	Three months ended June 30		Six months ended June 30	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Label segment restructuring	\$ 700	\$ -	\$ 2,223	\$ 940
Checkpoint Segment restructuring	12,997	-	12,997	-
Acquisition costs	5,253	-	6,710	-
Total restructuring and other items	<u>\$ 18,950</u>	<u>\$ -</u>	<u>\$ 21,930</u>	<u>\$ 940</u>

In 2016, the Label Segment recorded \$2.2 million (\$1.8 million, net of tax) in restructuring, primarily related to severance costs for Worldmark.

In 2016, the Checkpoint Segment recorded \$13.0 million (\$8.0 million, net of tax) in restructuring, primarily related to severance costs.

In 2016, acquisition costs of \$6.7 million (\$6.6 million, net of tax) were recorded primarily for the CSI and 2015 Worldmark acquisitions.

In the first quarter of 2015, the Label segment recorded \$0.9 million (\$0.8 million, net of tax) in restructuring and other items primarily related to the acquisition of Bandfix AG. There were no restructuring and other costs recorded in the second quarter of 2015.

### 7. Financial instruments

#### (a) Fair value hierarchy

The table below summarizes level of hierarchy for financial assets and liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

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)
- 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
<b>June 30, 2016</b>				
Available-for-sale financial assets	\$ -	\$ 19,296	\$ -	\$ 19,296
Derivative financial liabilities	-	352	-	352
Unsecured senior notes	-	-	186,107	186,107
	<u>\$ -</u>	<u>\$ 352</u>	<u>\$ 186,107</u>	<u>\$ 186,459</u>
<b>December 31, 2015</b>				
Available-for-sale financial assets	\$ -	\$ 21,016	\$ -	\$ 21,016
Derivative financial liabilities	\$ -	\$ 1,348	\$ -	\$ 1,348
Unsecured senior notes	-	-	355,170	355,170
	<u>\$ -</u>	<u>\$ 1,348</u>	<u>\$ 355,170</u>	<u>\$ 356,518</u>

#### (b) Fair values versus carrying amounts

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate fair values due to the short-term maturities of these financial instruments.

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

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 1,692,925	\$ 1,712,427	\$ 1,005,519	\$ 1,030,217

The interest rates used to discount estimated cash flows for the long-term debt are based on the government yield curve at the reporting date plus an adequate credit spread.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

### 8. Long-term debt

During the first quarter of 2016, the Company made a drawdown of US\$110.0 million (\$146.3 million) on its syndicated revolving credit facility to fund a US\$110.0 million repayment of private placement debt on March 7, 2016. Further drawdowns of \$85.6 million on the revolving credit facility in the first quarter were primarily made to fund the business acquisitions completed during the quarter.

During the second quarter of 2016, the Company made a drawdown of US\$455.1 million (\$588.9 million) on its syndicated revolving credit facility to fund the acquisition of CSI.

## **CCL Industries Inc.**

### **Notes to consolidated condensed interim financial statements (continued)**

#### **Unaudited**

*In thousands of Canadian dollars, unless otherwise noted*

#### **9. Subsequent events**

In July 2016, CCL acquired Eukerdruck GmbH & Co. KG and Pharma Druck CDM GmbH, ("Euker") privately held companies with common shareholders and the associated facilities in Marburg and Dresden, Germany. Euker is a leading supplier of folded leaflets, specialty booklets and pressure sensitive labels to pharmaceutical companies in German-speaking Europe. The acquisition is strategically important as it provides the Company with a leading presence within the healthcare market in German-speaking countries. The purchase price consideration, including debt assumed was approximately \$31.0 million.

In August 2016, CCL acquired the remaining 25% interest in its tube manufacturing joint venture in Bangkok, Thailand, from its former partner Taisei Kako Co., Ltd. of Japan for proceeds of \$1.9 million.

The Board of Directors has declared a dividend of \$0.5000 for the Class B non-voting shares and \$0.4875 on the Class A voting shares that will be payable to shareholders of record at the close of business on September 16, 2016, to be paid on September 30, 2016.

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Second Quarters Ended June 30, 2016 and 2015**

This Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") of CCL Industries Inc. ("CCL" or the "Company") relates to the second quarters ended June 30, 2016 and 2015. The information in this interim MD&A is current to August 4, 2016, and should be read in conjunction with the Company's August 4, 2016, unaudited second quarter consolidated condensed interim financial statements released on August 4, 2016, and the 2015 Annual MD&A document and consolidated financial statements, which form part of the CCL Industries Inc. 2015 Annual Report, dated February 24, 2016.

### **Basis of Presentation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and unless otherwise noted, both the financial statements and this interim MD&A are expressed in Canadian dollars as the reporting currency. The major measurement currencies of CCL's operations are the Canadian dollar, U.S. dollar, euro, Argentine peso, Australian dollar, Bangladeshi taka, Brazilian real, Chilean peso, Chinese renminbi, Danish krone, Indian rupee, Japanese yen, Malaysian ringgit, Mexican peso, Polish zloty, Russian ruble, Singaporean dollar, South African rand, Swiss franc, Thai baht, U.K. pound sterling and Vietnamese dong. All per Class B non-voting share ("Class B share") amounts in this document are expressed on an undiluted basis, unless otherwise indicated. CCL's Audit Committee and its Board of Directors have reviewed this interim MD&A to ensure consistency with the approved strategy of the Company and the financial results of the Company.

### **Cautionary Statement Regarding Forward-Looking Statements**

This MD&A contains forward-looking information and forward-looking statements, as defined under applicable securities laws, (hereinafter collectively referred to as "forward-looking statements") that involve a number of risks and uncertainties. Forward-looking statements include all statements that are predictive in nature or depend on future events or conditions. Forward-looking statements are typically identified by the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions. Statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of the Company, other than statements of historical fact, are forward-looking statements. Specifically, this MD&A contains forward-looking statements regarding the anticipated growth in sales, income and profitability of the Company's segments; the Company's anticipated improvement in market share; the Company's capital spending levels and planned capital expenditures in 2016; the adequacy of the Company's financial liquidity; earnings per share and EBITDA growth rates; the Company's effective tax rate; the Company's ongoing business strategy; the Company's planned restructuring expenditures; and the Company's expectations regarding general business and economic conditions.

Forward-looking statements are not guarantees of future performance. They involve known and unknown risks and uncertainties relating to future events and conditions including, but not limited to, the uncertainty of the recovery from the global financial crisis and its impact on the world economy and capital markets; the impact of competition; consumer confidence and spending preferences; general economic and geopolitical conditions; currency exchange rates; interest rates and credit availability; technological change; changes in government regulations; risks associated with operating and product hazards; and CCL's ability to attract and retain qualified employees. Do not unduly rely on forward-looking statements as the Company's actual results could differ materially from those anticipated in these forward-looking statements. Forward-looking statements are also based on a number of assumptions, which may prove to be incorrect, including, but not limited to, assumptions about the following: global economic recovery and higher consumer spending; improved customer demand for the Company's products; continued historical growth trends, market growth in specific sectors and entering into new markets; the Company's ability to provide a wide range of products to multinational customers on a global basis; the benefits of the Company's focused strategies and operational approach; the achievement of the Company's plans for improved efficiency and lower costs, including stable aluminum costs; the availability of cash and credit; fluctuations of currency exchange rates; the Company's continued relations with its customers; the

Company's ability to realize targeted operational synergies and cash flows from restructuring the Canadian Container operation; the Company's expectation that the reorganization of the Canadian Container operation will be complete at the end of 2017; the Company's expectation that the Avery Segment's new product innovations, consumer digital e-commerce opportunities and cross selling programs with recent acquisitions will provide incremental growth opportunities; the Company's expectation that its new operations in Argentina, Philippines, Thailand and Turkey, will not post profitable returns until 2017; the Company's expectations that recent acquisitions will provide future opportunities for margin expansion; the Company's recent acquisitions will continue to meet management expectations and will provide incremental growth opportunities; the Company's continued capital investment in Rheinfelden will result in full production capability and a qualified alternate supply of aluminum slugs in North America; the Company's expectation that the North American in-mould label joint venture will commence trading in late 2016; the Company's expectation that there will be more restructuring within CCL Design that will lead to optimal financial returns; the Company's expectation that the Avery Segment will have another tempered back-to-school season for 2016; the Company's expectation that \$40 million in restructuring initiatives at the Checkpoint Segment will lead to \$40 million in annual savings; the Company's expectation that the non-cash acquisition accounting adjustment to finished goods inventory will turn over in the third quarter of 2016; the Company's expectation that strong results for the first six months indicate potential for a very good year at the Container Segment; the Company's expected order intake levels; and general business and economic conditions. Should one or more risks materialize or should any assumption prove incorrect, then actual results could vary materially from those expressed or implied in the forward-looking statements. Further details on key risks can be found throughout this report and particularly in Section 4: "Risks and Uncertainties" of the 2015 Annual MD&A.

Except as otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on CCL's business. Such statements do not, unless otherwise specified by the Company, reflect the impact of dispositions, sales of assets, monetizations, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them and therefore cannot be described in a meaningful way in advance of knowing specific facts.

The forward-looking statements are provided as of the date of this MD&A and the Company does not assume any obligation to update or revise the forward-looking statements to reflect new events or circumstances, except as required by law.

## **1. Overview**

The second quarter of 2016 was another successful quarter for CCL, reflecting strong performance from the legacy CCL segments, and on May 13, 2016, the closure of the Checkpoint Systems, Inc. ("CSI") acquisition. The legacy business segments Label, Avery and Container posted increases in operating income (a non-IFRS financial measure; refer to definition in Section 14) of 24.2%, 11.7% and 46.3% respectively. The new Checkpoint Segment posted an anticipated operating loss of \$4.7 million that included a \$14.6 million non-cash acquisition accounting adjustment relating to finished goods inventory, all in line with management expectations. Significant restructuring and other charges of \$19.0 million were also recorded in the quarter reflecting the sizable cost of acquiring a public company and the anticipated reorganization charges that ensued. Accordingly, second quarter adjusted basic earnings per Class B share (a non-IFRS financial measure; refer to definition in Section 14) for the Company was a record of \$2.80 compared to adjusted basic earnings per Class B share of \$2.12 in the 2015 second quarter. Furthermore, the second quarter of 2016 marked the twenty-third consecutive quarter of year-over-year improvement in quarterly adjusted basic earnings per Class B share for CCL.

## **2. Review of Consolidated Financial Results**

The following acquisitions affected the financial comparisons to 2015:

- In February 2015, INT America LLC (“INTA”), a privately owned company based in Michigan, USA, for \$2.9 million. INTA expanded CCL Design North America’s product offering in the automotive durable labels sector.
- In February 2015, pc/nametag Inc. and Meetings Direct, LLC (“PCN”), privately owned companies with common shareholders, based in Wisconsin, USA, for \$37.6 million. PCN added to Avery North America’s printable media depth in the meetings and events planning industry.
- In July 2015, Fritz Brunnhofer GmbH (“FritzB”), a privately owned company based in Nurnburg, Germany, for \$7.6 million. This new business expanded CCL Design’s presence in the German industrial and aerospace durable goods markets.
- In October 2015, the assets of privately owned Sennett Security Products LLC and its wholly owned subsidiary Banknote Corporation of America Inc. (“BCA”) based in North Carolina, USA, for \$45.7 million. This acquisition broadened the Label Segment’s technology base and product offering to include security labels, cards and document components.
- In November 2015, the global operations of private equity owned Worldmark, Ltd. (“Worldmark”) headquartered in East Kilbride, Scotland, for approximately \$252.6 million. Worldmark is a leading supplier of functional labels for the electronics sector.
- In December 2015, Mabel’s Labels Inc. and Mabel’s Labels Retail Inc. (“Mabel’s”), privately owned companies with common shareholders, based in Ontario, Canada, for approximately \$12.0 million. Mabel’s expanded the Avery Segment’s printable media platform into web-to-print personalized identification labels for children and families.
- In January 2016, Woelco AG (“Woelco”), a privately owned company in Stuttgart, Germany, with subsidiaries in China and the United States for approximately \$21.4 million. Woelco has integrated into CCL Design and has expanded its depth in the industrial and automotive durable goods markets.
- In January 2016, Label Art Ltd. and Label Art Digital Ltd. (collectively “LAL”), privately owned companies with common shareholders, based in Dublin, Ireland, for approximately \$13.5 million. LAL expands CCL Label’s Healthcare & Specialty business in Ireland and the U.K.
- In January 2016, CCL invested \$6.0 million in cash to increase its stake from 50% to 75% in its tube manufacturing joint venture in Bangkok, Thailand, with Taisei Kako Co. Ltd of Japan. As a result of the change in control, 2016

financial results will be consolidated with CCL Label's Home & Personal Care business, with a portion of the earnings attributable to the non-controlling interest.

- In February 2016, Zephyr Company Limited of Singapore, and its Malaysian subsidiaries in Penang and Johor (collectively "Zephyr"), privately owned companies with multiple shareholders, for approximately \$39.4 million. Zephyr expands CCL Design's presence within the electronics industry to southeast Asia.
- In March 2016, Powerpress Rotulo & Etiquetas Adesivas LTDA ("Powerpress"), a privately owned company based in Sao Paulo, Brazil, for approximately \$11.3 million. Powerpress enhances CCL Label's product offering in the Healthcare & Specialty business in South America.
- In May 2016, the Company acquired all the outstanding shares of CSI (NYSE:CKP) valued at approximately \$531.9 million, including estimated net cash of \$44.3 million. CSI is a leading global manufacturer and provider of hardware and software systems plus security labels and tags providing inventory control and loss prevention solutions to world leading retailers. CSI will form the new retail and apparel Checkpoint Segment of CCL.

Sales for the second quarter of 2016 were \$960.2 million, an increase of 33.1% compared to \$721.5 million recorded in the second quarter of 2015. The increase in sales can be attributed to organic growth of 6.9%, acquisition-related growth of 23.4% and positive impact from foreign currency translation of 2.8%. For the six-month period ended June 30, 2016, sales were \$1,827.0 million, an increase of 28.0% compared to \$1,427.4 million for the same six-month period a year ago. This improvement in sales can be attributed to 6.0% organic growth, a 17.4% impact of the twelve aforementioned acquisitions and a 4.6% positive impact from foreign currency translation.

Selling, general and administrative expenses ("SG&A") were \$152.4 million and \$264.6 million for the three-month and six-month periods ended June 30, 2016, compared to \$97.2 million and \$191.7 million for same periods in the prior year, respectively. The increases in SG&A for the aforementioned comparative periods can be attributed to additional SG&A expenses associated with the twelve above mentioned acquisitions.

The Company recorded restructuring and other items (a non-IFRS financial measure; refer to definition in Section 14) of \$19.0 million (\$13.7 million after tax) in the second quarter of 2016. Severance related restructuring costs of \$13.0 million and other transaction costs of \$4.6 million were expensed in the quarter for the CSI acquisition while severance costs and other expenses associated with the November 2015 acquisition of Worldmark were \$1.4 million. For the six-month period ending June 30, 2016, the Company recorded \$21.9 million (\$16.5 million after tax) in restructuring and other items primarily related to the Worldmark and CSI acquisitions. There were no expenses for restructuring and other items for the 2015 second quarter. For six-month period of 2015, restructuring and other items included \$0.9 million (\$0.8 million after tax) primarily related to the Bandfix acquisition completed in September 2014.

Operating income (a non-IFRS financial measure; refer to definition in Section 14) for the second quarter of 2016 was \$143.1 million, compared to \$122.6 million for the second quarter of 2015. Excluding a \$16.6 million non-cash acquisition accounting adjustment related to finished goods inventory for the acquisitions of Worldmark and CSI, operating income improved 30.3% to \$159.7 million. For the second quarter of 2016 compared to the same period in 2015, the legacy CCL Label, Avery and Container Segments recorded increases in operating income of 24.2%, 11.7% and 46.3%, respectively. The new Checkpoint Segment, which represents the acquired CSI business, generated an expected operating loss of \$4.7 million, including its \$14.6 million share of the non-cash acquisition accounting adjustment related to finished goods inventory recorded for the first seven weeks of CCL ownership. The first half of the calendar year is a seasonally slow period for the Checkpoint Segment as its profitability substantially follows the retail cycle of its customers, which traditionally experience a surge after the summer. Foreign currency translation contributed an improvement of 2.9% to the consolidated operating income. For the six months ended June 30, 2016, operating income increased 22.2%, including the aforementioned non-cash acquisition accounting adjustment related to finished goods inventory for the acquisitions of Worldmark and CSI. The Label, Avery and Container Segments recording increases in operating income of 25.6%, 19.8% and 31.2%, respectively, compared to the same six-month period in 2015. Foreign currency translation had a positive impact of 4.5% for the comparable six-month periods

Earnings before net finance cost, taxes, earnings in equity accounted investments, depreciation and amortization, non-cash acquisition accounting adjustments to finished goods inventory, restructuring and other items ("EBITDA," a non-IFRS financial measure; refer to definition in Section 14) was \$194.1 million for the second quarter of 2016, an increase of 30.4% compared to \$148.9 million for the second quarter of 2015. Foreign currency had a positive impact of 2.6% on EBITDA for the second quarter of 2016. For the six months ended June 30, 2016, EBITDA was \$380.0 million, an increase of 30.1% compared to \$292.0 million in the comparable 2015 six-month period. Foreign currency translation has a positive impact 4.2% for the comparable six-month periods.

Net finance cost was \$7.8 million and \$15.7 million for the three-month and six-month periods ended June 30, 2016, compared to \$6.2 million and \$12.5 million for same periods in the prior year, respectively. The increase in net finance cost for the three-month and six-month periods ended June 30, 2016, was attributable to higher total debt balances, augmented by the foreign currency translation impact on U.S. dollar interest expense partially offset by an increase in finance income attributable to higher cash balances.

The overall effective income tax rate was 30.5% for the second quarter of 2016 compared to 29.4% for the second quarter of 2015, reflecting a higher portion of CCL taxable income being earned in higher tax jurisdictions in the quarter. The overall effective income tax rate was 30.6% for the six-month period of 2016 compared to 29.6% for the six-month period of 2015. The effective tax rate may increase in future periods if a higher portion of the Company's taxable income is earned in higher tax jurisdictions.

Net earnings for the second quarter of 2016 were \$72.2 million compared to \$73.3 million for the second quarter of 2015. Net earnings were impacted by the aforementioned non-cash acquisition accounting adjustment related to finished goods inventory and restructuring and other items for the acquisitions of Worldmark and CSI. This resulted in basic and diluted earnings of \$2.06 and \$2.03 per Class B share, respectively, in the 2016 second quarter compared to basic and diluted earnings of \$2.12 and \$2.09 per Class B share, respectively, for the prior year second quarter.

Net earnings for the six-month period of 2016 were \$161.9 million, an increase of 14.5% compared to \$141.4 million for the same period a year ago. This resulted in basic and diluted earnings of \$4.63 and \$4.57 per Class B share, respectively, for the 2016 six-month period compared to basic and diluted earnings of \$4.09 and \$4.02 per Class B share, respectively, for the prior year six-month period. The weighted average number of shares for the 2016 six-month period were 35.0 million basic and 35.5 million diluted shares compared to 34.6 million basic and 35.2 million diluted shares for the comparable period of 2015. Diluted shares include weighted average in-the-money stock options totaling 0.5 million shares.

Adjusted basic earnings per Class B share (a non-IFRS financial measure – see Section 14) were \$2.80 and \$5.45 for the three-month and six-month periods of 2016, respectively, compared to \$2.12 and \$4.11 for the same periods of 2015.

The following table is presented to provide context to the comparative change in the adjusted basic earnings per share.

<b><u>(in Canadian dollars)</u></b>	<b>Second Quarter</b>		<b>Year-to-Date</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Adjusted Basic Earnings per Class B Share</b>				
Basic earnings	\$ 2.06	\$ 2.12	\$ 4.63	\$ 4.09
Restructuring and other items	0.39	-	0.47	0.02
Non-cash acquisition accounting adjustment related to finished goods inventory	0.35	-	0.35	-
<b>Adjusted basic earnings <sup>(1)</sup></b>	<b>\$ 2.80</b>	<b>\$ 2.12</b>	<b>\$ 5.45</b>	<b>\$ 4.11</b>

(1) Adjusted Basic Earnings per Class B Share is a non-IFRS financial measure. Refer to definition in Section 14.

The following is selected financial information for the ten most recently completed quarters:

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

	<u>Qtr 1</u>	<u>Qtr 2</u>	<u>Qtr 3</u>	<u>Qtr 4</u>	<u>Total</u>
<b>Sales</b>					
2016	\$ 866.8	\$ 960.2	\$ -	\$ -	\$ 1,827.0
2015	705.9	721.5	812.9	798.8	3,039.1
2014	609.7	650.4	689.7	635.8	2,585.6
<b>Net earnings</b>					
2016	89.7	72.2	-	-	161.9
2015	68.1	73.3	81.8	71.9	295.1
2014	52.6	55.3	63.1	45.6	216.6
<b>Net earnings per Class B share</b>					
<b>Basic</b>					
2016	2.57	2.06	-	-	4.63
2015	1.97	2.12	2.36	2.05	8.50
2014	1.54	1.61	1.83	1.33	6.31
<b>Diluted</b>					
2016	2.54	2.03	-	-	4.57
2015	1.93	2.09	2.33	2.03	8.38
2014	1.51	1.58	1.79	1.31	6.19
<b>Adjusted basic net earnings per Class B share</b>					
2016	2.65	2.80	-	-	5.45
2015	1.99	2.12	2.34	2.16	8.61
2014	1.56	1.63	1.83	1.51	6.53

The quarterly financial results above are affected by the seasonality of the business Segments. The first and second quarters of a year are traditionally higher sales periods for the Label and Container Segments as a result of the greater number of work days and various customer activities undertaken during this period versus the third and fourth quarters. For Avery, the third quarter has historically been its strongest, as it benefits from the increased demand related to back-to-school activities in North America. For the Checkpoint Segment the second half of the calendar year is healthier as the business substantially follows the retail cycle of its customers, which traditionally experiences more consumer activity from September through the end of the year.

### **3. Business Segment Review**

#### **Label Segment**

(\$ millions)	<u>Second Quarter</u>			<u>Year-to-Date</u>		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales	\$ 604.0	\$ 468.9	28.8%	\$ 1,226.3	\$ 955.0	28.4%
Operating Income <sup>(1)</sup>	\$ 89.3	\$ 71.9	24.2%	\$ 193.2	\$ 153.8	25.6%
Return on Sales <sup>(1)</sup>	14.8%	15.3%		15.8%	16.1%	
Capital Spending	\$ 64.5	\$ 31.6	104.1%	\$ 118.4	\$ 79.7	48.6%
Depreciation and Amortization	\$ 37.5	\$ 31.4	19.4%	\$ 76.2	\$ 63.6	19.8%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.

Sales for the Label Segment were \$604.0 million for the second quarter of 2016, compared to \$468.9 million for the same quarter last year. The 28.8% increase in sales can be attributed to organic growth of 10.4%, the impact from the FritzB, BCA, Worldmark, Woelco, LAL, Zephyr and Powerpress acquisitions of 15.8% and the positive effect from foreign currency translation of 2.6%.

**North American** sales were up high-single digit for the second quarter of 2016, excluding currency translation and the acquisitions of BCA, Worldmark and Woelco, compared to a slow growth second quarter of 2015. Home & Personal Care sales and profitability improved substantially on meaningful market share gains in tubes supplemented by foreign currency translation, compared to the prior year quarter. CCL Design sales growth, excluding the Worldmark acquisition, moderated but profitability improved due to mix and productivity gains. Healthcare & Specialty results were solid with flat Healthcare performance compared to a strong prior year augmented by Ag-Chem and Specialty markets recovering from a weak prior year. Sales and profits improved appreciably in Food & Beverage on solid results in Wine and Spirits and robust growth and profitability improvement in the Sleeve business. The acquired BCA, Worldmark and Woelco businesses delivered results in line with management's seasonal expectations. Overall, profitability and return on sales ("Return on Sales," a non-IFRS financial measure; refer to definition in Section 14) increased significantly in North America including the impact of acquisitions and currency translation.

Sales in **Europe** were up double digits for the second quarter of 2016, excluding currency translation and acquisitions, compared to a strong second quarter of 2015. Results were positively comparatively impacted by the timing of Easter falling in March 2016. Home & Personal Care sales and profits declined in tough industry conditions and end markets for customers compounded by start-up costs of a new facility in Turkey. Sales increased modestly at Healthcare & Specialty, excluding foreign currency translation and the LAL acquisition, but profits were up significantly on mix and improved operating performance. Results in Food & Beverage, excluding currency translation, improved significantly on an exceptional prior year in Sleeves influenced by a fire at a major competitor's plant. Pressure sensitive labels posted strong results on new applications and growth in export sales. Robust results in the Closure business more than offset reduced profitability in Wine & Spirits. The new German film extrusion plant continued to post solid profitability. Excluding the impact of acquisitions, CCL Design sales increased in strong automotive markets but profitability was flat to the prior year second quarter due to operational difficulties with a challenging new program for one OEM. Overall, European operating income, excluding incremental acquisitions, was up meaningfully compared to the prior year second quarter driving an uptick in return on sales ("Return on Sales," a non-IFRS financial measure; refer to definition in Section 14). The recently acquired businesses in FritzB, Worldmark, Woelco and LAL, met management expectations for the quarter and provide opportunities for margin expansion in future periods.

Sales in **Latin America**, excluding the Worldmark and Powerpress acquisitions and currency translation, increased strong double digits for the second quarter of 2016, compared to the second quarter of 2015. Sales increased in both Mexico, and most notably in Brazil, although a significant portion of the latter was price-driven, recovering

foreign exchange related inflation on imported materials. Cost pressures subdued considerably for the immediate future as the Brazilian real firmed sequentially to the U.S. dollar. Start-up operations in Argentina posted a small loss for the second quarter and a modest profit for the half year. Including acquired operations, the negative impact of currency translation and start-up costs for the new CCL Design automotive plant in Mexico, operating income increased significantly, and return on sales (“Return on Sales,” a non-IFRS financial measure; refer to definition in Section 14) remained above the Segment average.

**Asia Pacific** sales, excluding acquisitions and currency translation, increased high single digit for the second quarter of 2016, compared to a soft second quarter in 2015. Sales in China increased slightly with improvements in Healthcare and Beverage offsetting softness in Home & Personal Care, profitability improved overall. Despite strong sales gains across the ASEAN region profits were lower than a prior year period benefiting from foreign exchange gains on strong export sales from Thailand. The new operation in Korea continued to post start-up losses for the second quarter of 2016. Australian results were mixed with increased sales and profitability in Wine & Spirits offset by ongoing poor performance in Healthcare. Beverage sales in South Africa were strong. The recently acquired Worldmark, Woelco and Zephyr businesses representing CCL Design in Asia met sales and profitability expectations. Operating income increased significantly but declined as a percentage of sales in the Asia Pacific region due to the margin dilution impact of acquisitions, start-up costs and prior year foreign exchange gains.

Operating income for the second quarter of 2016 improved 24.2% to \$89.3 million, compared to \$71.9 million for the second quarter of 2015. Operating income for second quarter would have been \$91.3 million but was impacted by the \$2.0 million non-cash acquisition accounting adjustment related to the Worldmark finished goods inventory. Operating income as a percentage of sales was 14.8%, compared to the 15.3% recorded for the same period in 2015, driven by the non-cash acquisition accounting adjustment to the Worldmark finished goods inventory and the dilutive mix impact of recent acquisitions.

Sales backlogs for the label business rarely exceed one month of sales, making forecasts one quarter ahead difficult. Management continues to watch the global economic situation closely along with associated volatility in foreign exchange rates.

The Label Segment invested \$118.4 million in capital spending for the six-month period ended June 30, 2016, compared to \$79.7 million in the same period in 2015. The investments for the first six months of 2016 are in line with Company’s planned capital expenditures for 2016. The major expenditures for six-month period ended June 30, 2016, related to equipment installations to support the Home & Personal Care and Healthcare businesses in North America, capacity additions for Food & Beverage in Europe and capacity expansion for CCL Design in the United States and Asia. As in the past, investments in the Label Segment are expected to continue in order to increase its capabilities, expand geographically, and replace or upgrade existing plants and equipment. Depreciation and amortization for the Label Segment was \$76.2 million for the six-month period ended June 30, 2016, compared to \$63.6 million for the same period of 2015.

## Avery Segment

(\$ millions)	Second Quarter			Year-to-Date		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales	\$ 207.4	\$ 198.2	4.6%	\$ 387.0	\$ 358.4	8.0%
Operating Income <sup>(1)</sup>	\$ 50.6	\$ 45.3	11.7%	\$ 86.0	\$ 71.8	19.8%
Return on Sales <sup>(1)</sup>	24.4%	22.9%		22.2%	20.0%	
Capital Spending	\$ 4.0	\$ 2.3	73.9%	\$ 12.0	\$ 8.7	37.9%
Depreciation and Amortization	\$ 3.9	\$ 3.8	2.6%	\$ 7.9	\$ 7.1	11.3%

<sup>1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14).

Avery Segment has two primary product groups, Printable Media and Binders, Organization & Presentation and Writing Instruments (“BOPWI”).

Sales for the Avery Segment were \$207.4 million for the second quarter of 2016, compared to \$198.2 million for the same quarter last year. The 4.6% increase in sales can be attributed to the positive 1.1% impact from the Mabel’s acquisition and the positive 4.5% effect from foreign currency translation partially offset by a 1.0% organic decline in sales.

Sales in **North America** for the second quarter of 2016, excluding acquisitions and currency translation, were down low single digit compared to the prior year period driven by a decline in index sales, offsetting gains in labels, cards and name badges within the Printable Media category. BOPWI sales improved slightly on share gains in the commercial channel while profitability was in line with the prior year second quarter. Mabel’s results improved significantly compared to their seasonally slow first quarter. Canadian sales and profitability improved meaningfully on solid organic growth. Operating income, excluding the impact of currency translation and the Mabel’s acquisition, increased for the second quarter of 2016 compared to the same period a year ago on improved mix. Return on sales (“Return on Sales,” a non-IFRS financial measure; refer to definition in Section 14) for this region remains above the Segment average.

**International** sales, principally generated in the Printable Media category, represented 20% of the Avery Segment sales for the quarter. Sales increased mid-single digits overall with European sales and profits up due to the timing of Easter in 2016 and improvements in the challenging UK wholesaler channel. Australian sales were in line with the 2015 second quarter however, cost reductions and strong operational execution resulted in significant operating profit improvement. Latin American sales were down due to currency translation but underlying organic growth resulted in operating profit improvement.

Operating income for the second quarter of 2016 improved 11.7% to \$50.6 million, compared to \$45.3 million for the second quarter of 2015. Operating income as a

percentage of sales was 24.4%, compared to 22.9% recorded for the same quarter in 2015.

The Avery Segment invested \$12.0 million in capital spending for the six-month period ended June 30, 2016, compared to \$8.7 million in the same period a year ago. The majority of the expenditures were for Printable Media capacity additions in North America to support the planned consolidation of label manufacturing in Tijuana. Depreciation and amortization for the Avery Segment was \$7.9 million for the six-month period ended June 30, 2016, compared to \$7.1 million for the period of 2015.

### **Checkpoint Segment**

(\$ millions)	Second Quarter		Year-to-Date	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Sales	\$ 92.6	\$ -	\$ 92.6	\$ -
Operating Income (loss) <sup>(1)</sup>	\$ (4.7)	\$ -	\$ (4.7)	\$ -
Return on Sales <sup>(1)</sup>	n.m.		n.m.	
Capital Spending	\$ 1.1	\$ -	\$ 1.1	\$ -
Depreciation and Amortization	\$ 3.3	\$ -	\$ 3.3	\$ -

n.m. – not meaningful

<sup>1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14).

The Checkpoint Segment represents the results of CSI since the May 13, 2016 acquisition date. This Segment has operations in North America, Europe, Asia, Australia and Latin America. The Segment has three primary product lines, Merchandise Availability Solutions (“MAS”), Apparel Labeling Solutions (“ALS”) and Retail Merchandising Solutions (“RMS”). The MAS line focuses on hardware and software for loss prevention and inventory control systems including radio frequency identification (“RFID”) solutions. ALS includes RFID labels as well as apparel labels and tags. RMS, a European centric product line includes hand-held labeling applicators and tags and promotional displays. All MAS and ALS products are sold under the Checkpoint brand.

Sales for the Checkpoint Segment were \$92.6 million for the period May 13, 2016, the acquisition date, to June 30, 2016. Financial comparatives for this seven-week period to 2015 do not provide indicative information due to the abbreviated nature of the period.

Sales for the seven week period in the **Americas**, including the Segment’s emerging business in Latin America represented 29% of total sales, **Europe** generated approximately 38% while **Asia Pacific**, including Australia, represented 33%. Profitability was in line with management expectations.

Operating income for the period May 13, 2016, to June 30, 2016, was a loss of \$4.7 million. However, Checkpoint would have reported operating income of \$9.9 million for the period but was impacted by the initial estimate of \$14.6 million for the non-cash acquisition accounting adjustment related to finished goods inventory.

The Checkpoint Segment invested \$1.1 million in capital spending since May 13, 2016. Depreciation and amortization for the Checkpoint Segment was \$3.3 million for the period May 13, 2016, to June 30, 2016.

## **Container Segment**

(\$ millions)	Second Quarter			Year-to-Date		
	2016	2015	+/-	2016	2015	+/-
Sales	\$ 56.2	\$ 54.4	3.3%	\$ 121.1	\$ 114.0	6.2%
Operating Income <sup>(1)</sup>	\$ 7.9	\$ 5.4	46.3%	\$ 18.5	\$ 14.1	31.2%
Return on Sales <sup>(1)</sup>	14.1%	9.9%		15.3%	12.4%	
Capital Spending	\$ 5.5	\$ 1.0	450.0%	\$ 14.1	\$ 3.2	340.6%
Depreciation and Amortization	\$ 3.6	\$ 3.8	(5.3%)	\$ 7.4	\$ 7.5	(1.3%)

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 14.

Sales for the Container Segment in the 2016 second quarter were \$56.2 million compared to \$54.4 million in the 2015 second quarter. The 3.3% increase in sales can be attributed to organic growth of 4.6% partially offset by 1.3% negative currency translation. North American volume was up significantly but lower aluminum cost pass-through pricing held back organic sales growth. Lower operating expenses augmented higher profitability. Mexican volume was also up with rich mix, significant U.S. dollar priced sales and excellent operating performance driving strong profit improvement. Foreign exchange transactions were a meaningful tailwind in Mexico and a modest headwind in Canada compared to the prior year second quarter. As a result, the Container Segment posted a 46.3% improvement in operating income to \$7.9 million compared to \$5.4 million for the 2015 second quarter.

At current exchange rates and volume loading, the planned closure of the Canadian operation, and redistribution of its manufacturing equipment to existing operations in the U.S. and Mexico, has been postponed until at least the second half of 2017. Consequently, there were no equipment relocation expenses incurred in the first six months of 2016.

The Container Segment invested \$14.1 million for the six-month period ended June 30, 2016, compared to \$3.2 million for the six-month period ended June 30, 2015. The majority of the expenditures for the first six months of 2016 were for the installation of a new manufacturing line in the U.S. operation to facilitate the efficient redistribution of the Canadian plant's equipment. Depreciation and amortization for the Container Segment was \$7.4 million for the six-month period ended June 30, 2016, compared to \$7.5 million for the comparable period of 2015.

The Container Segment continues to hedge some of its anticipated future aluminum purchases through futures contracts and has hedged 13.2% and 4.7% of its expected 2016 and 2017 requirements, respectively. All of these hedges are specifically tied to customer contracts. Existing hedges are priced in the US\$1,500 to US\$1,900 range per

metric ton. The Company is encouraging customers to adopt 90-day pass-through pricing for changes in aluminum cost and is only adopting long-term hedges to stabilize input prices with large blue-chip multinationals willing to accept responsibility for the hedge.

Prices for aluminum in the second quarter of 2016 ranged from US\$1,400 to US\$1,700 per metric ton compared to US\$1,600 to US\$1,900 in the second quarter of 2015. The mid-West premiums paid over these prices fell below historic norms after a speculative rise in 2014 and the early months of 2015.

## **Joint Ventures**

(\$ millions)	Second Quarter			Year-to-Date		
	<u>2016</u>	<u>2015</u>	<u>+/-</u>	<u>2016</u>	<u>2015</u>	<u>+/-</u>
Sales (at 100%)						
Label joint ventures	\$ 30.5	\$ 25.2	21.0%	\$ 58.0	\$ 48.5	19.6%
Rheinfelden*	-	-	-	-	-	-
*primarily sales to CCL	\$ 30.5	\$ 25.2	21.0%	\$ 58.0	\$ 48.5	19.6%
Earnings (losses) in equity accounted investments						
Label joint ventures	\$ 1.4	\$ 0.7	100.0%	\$ 2.6	\$ 1.5	73.3%
Rheinfelden	(0.3)	(0.5)	40.0%	(0.7)	(0.7)	-
	\$ 1.1	\$ 0.2	450.0%	\$ 1.9	\$ 0.8	137.5%

The following investments affected the financial comparisons to 2015:

- In July 2015, the Company signed a binding agreement with Korsini-SAF to create a North American "in-mould" label joint venture. The partners will invest approximately \$20.0 million between them, in a combination of debt and equity, each owning 50% of the new company.
- In January 2016, CCL invested \$6.0 million in cash to increase its stake from 50% to 75% in its tube manufacturing joint venture in Bangkok, Thailand, with Taisei Kako Co. Ltd of Japan. As a result of the change in control, 2016 financial results will be no longer included in equity investments but consolidated with CCL Label's Home & Personal Care business, with a portion of the earnings attributable to non-controlling interest.

Results from the joint ventures in CCL-Kontur, Russia; Pacman-CCL, Middle East; Acrus-CCL, Chile; Rheinfelden and Korsini-CCL in the United States, are not proportionately consolidated into a Segment but instead are accounted for as equity investments. CCL's share of the joint ventures' net earnings is disclosed in "Earnings in Equity Accounted Investments" in the consolidated condensed interim income statements. CCL-Kontur posted robust sales growth and profitability on market share gains from new production capacity. Sales and profits at Pacman-CCL improved

significantly and contributed meaningfully to overall earnings for the 2016 second quarter. For the second quarter of 2016, Acrus-CCL posted solid sales growth and profitability nearly doubled. Rheinfelden continues to incur expected start-up losses, however, with its output improving, and an additional tranche of capital invested, profitable production capacity is targeted for 2017. Korsini-CCL completed their initial capital investment in January 2016 and site development is underway. Earnings in equity accounted investments amounted to \$1.9 million for the 2016 second quarter compared to \$0.8 million for the 2015 second quarter as notable profitability improvements offset start-up losses.

#### **4. Currency Transaction Hedging and Currency Translation**

Approximately 95% of sales made in the second quarter of 2016 to end-use customers were denominated in foreign currencies leaving the Company exposed to potentially significant translation variances when reporting results publicly in Canadian dollars. The Company does not hedge or manage such translation movements but does actively manage transaction exposures. Where possible, the Company contracts its business in local currencies with both customers and suppliers of raw materials.

The results of the second quarter of 2016 were positively impacted by the depreciation of the Canadian dollar against the U.S. dollar and euro, 4.8% and 7.0%, respectively, compared to the rates in the same period in 2015. This positive impact was partially offset by a strengthening of the Canadian dollar relative to the British pound, Mexican peso and Brazilian real, 1.9%, 11.2% and 8.2%, respectively, when comparing the rates in the second quarters of 2016 and 2015. For the second quarter of 2016, currency translation had a \$0.04 positive impact on earnings per Class B share compared to last year's second quarter.

## **5. Liquidity and Capital Resources**

The Company's capital structure is as follows:

(\$ Millions)

	June 30, 2016	December 31, 2015	June 30, 2015
Current debt	\$ 62.9	\$ 167.1	\$ 200.5
Long-term debt	1,631.0	838.4	495.3
Total debt	1,693.9	1,005.5	695.8
Cash and cash equivalents	(421.7)	(405.7)	(234.7)
Net debt <sup>(1)</sup>	\$ 1,272.2	\$ 599.8	\$ 461.1
EBITDA <sup>(1)(2)</sup>	\$ 696.4	\$ 608.4	\$ 536.8
Net debt to EBITDA <sup>(1)</sup>	1.83	0.99	0.86

<sup>(1)</sup> Net debt, EBITDA and net debt to EBITDA are non-IFRS financial measures. Refer to definitions in Section 14.

<sup>(2)</sup> EBITDA is calculated on a trailing twelve month basis. Refer to definitions in Section 14.

In December 2015, the Company signed an amended five-year US\$1.2 billion revolving credit facility with a syndicate of banks. Outstanding debt on the previous revolving and non-revolving syndicated credit facilities were rolled into this amended facility. This amended facility incurs interest at the applicable domestic rate plus an interest rate margin linked to the Company's net debt to EBITDA.

The Company's debt structure at June 30, 2016, was primarily comprised of two private debt placements completed in 1998 and 2008 for a total of US\$129.0 million (C\$166.6 million), outstanding debt totaling \$1,417.5 million under the syndicated revolving credit facility and a term loan of US\$70.0 million (C\$90.4 million) expiring November 2017. The Company's debt structure at June 30, 2015, was comprised of three private debt placements completed in 1998, 2006 and 2008 for a total of US\$239.0 million (C\$298.5 million) and outstanding debt under the syndicated credit facilities of \$379.2 million.

During the six-month period ended June 30, 2016, the Company drew down US\$110.0 million (C\$146.3 million) on its syndicated revolving credit facility to fund a US\$110.0 million repayment of private placement debt on March 7, 2016. Consequently, the current portion of long-term debt decreased compared to December 31, 2015, and June 30, 2015. Further drawdowns of US\$ 513.9 million and EUR 12.0 million on the revolving credit facility in the first six months of 2016 were primarily made to fund the six business acquisitions completed during the period.

Net debt (a non-IFRS financial measure; refer to definition in Section 14) was \$1,272.2 million at June 30, 2016, \$672.4 million higher than the net debt of \$599.8 million at December 31, 2015. The increase in net debt is due to the increased borrowings to fund the acquisitions during the first six months of 2016 partially offset by the impact of the strengthening of the Canadian dollar on period end exchange rates on the Company's primarily U.S. dollar-denominated debt. Net debt as at June 30, 2016, is \$811.1 million

higher than the net debt of \$461.1 million at June 30, 2015, primarily due to increased borrowings to fund acquisitions.

Net debt to EBITDA (a non-IFRS financial measure; refer to definition in Section 14) at June 30, 2016, was 1.83 times, compared to 0.99 times at December 31, 2015, reflecting the increase in net debt, primarily to fund the CSI acquisition, but partially offset by record profitability over the past twelve months. EBITDA does not include the pro forma trailing twelve month EBITDA for the Worldmark and CSI acquisitions, only the EBITDA generated since the acquisition date of each business.

Including \$3.6 million of outstanding letters of credit, the Company had approximately \$118.8 million of available capacity within its revolving credit facility as at June 30, 2016.

The Company's overall average finance rate was 2.1% as at June 30, 2016, compared to 3.6% as at June 30, 2015. The decrease in the average finance rate was primarily caused by the Company's higher proportion of debt in its lower cost variable rate revolving syndicated credit facility subsequent to the repayment in aforementioned private placement debt, compared to the outstanding debt at June 30, 2015. Since the Company's interest rate margin is linked to the above noted increased Net Debt to EBITDA ratio (a non-IFRS financial measure; refer to definition in Section 14), the overall average finance rate for CCL will increase in future quarters.

The Company believes that it has sufficient cash on hand, unused credit lines and the ability to generate cash flow from operations to fund its expected financial obligations for the next few years.

## **6. Cash Flow**

<b>Summary of Cash Flows</b>	<b>Second Quarter</b>		<b>Year-to-Date</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Cash provided by operating activities	\$ 89.5	\$ 111.3	\$ 104.4	\$ 158.7
Cash provided by (used in) financing activities	541.2	(49.0)	608.8	(25.6)
Cash used for investing activities	(516.6)	(32.9)	(667.6)	(127.8)
Translation adjustments on cash and cash equivalents	(12.6)	(0.7)	(29.6)	7.5
Increase in cash and cash equivalents	\$ 101.5	\$ 28.7	\$ 16.0	\$ 12.8
Cash and cash equivalents – end of period	\$ 421.7	\$ 234.7	\$ 421.7	\$ 234.7
Free cash flow from operations <sup>(1)</sup>	\$ 14.7	\$ 78.2	\$ (35.3)	\$ 69.5

<sup>(1)</sup> Free Cash Flow from Operations is non-IFRS financial measure. Refer to definition in Section 14.

During the second quarters of 2016 and 2015, the Company generated cash from operating activities of \$89.5 million and \$111.3 million, respectively. Free cash flow from operations (a non-IFRS financial measure; refer to definition in Section 14) was \$14.7 million in the 2016 second quarter compared to \$78.2 million in the prior year second quarter. The change in free cash flow from operations was primarily due to the increase in net earnings offset by the change in non-cash working capital items and an increase in capital expenditures for the comparative quarters.

Capital spending in the second quarter of 2016 amounted to \$75.1 million compared to \$34.9 million in the 2015 second quarter. Depreciation and amortization for the second quarters of 2016 and 2015 were \$48.5 million and \$39.3 million, respectively. Plans for capital spending in 2016 are now expected to be in the \$210 million range due to recent acquisitions, approximately in line with annualized depreciation expense. The Company is continuing to seek investment opportunities to expand its business geographically, add capacity in its facilities and improve its competitiveness.

Dividends in the second quarters of 2016 and 2015 were \$17.5 million and \$13.0 million, respectively. The total number of shares issued and outstanding as at June 30, 2016 and 2015, were 35.1 million and 34.9 million, respectively. Since the Company's current cash flow and financial position are strong and its outlook for the remainder of 2016 continues to be positive, the Board of Directors has approved a continuation of the dividend paid in March 2016 of \$0.4875 per Class A share and \$0.50 per Class B share to shareholders of record as of September 16, 2016, and payable September 30, 2016. The annualized dividend rate is \$1.95 per Class A share and \$2.00 per Class B share.

## **7. Interest rate and Foreign Exchange Management**

The Company has an interest rate swap agreement ("IRSA") to convert US\$80 million notional debt from floating interest rates to a fixed interest rate since all of the underlying debt is floating rate debt within the syndicated bank credit facility. The effect of the IRSA increased finance cost nominally in the second quarters of 2016 and 2015.

As at June 30, 2016 the Company had US\$1,121.3 million, EUR 73.6 million and GBP 70.0 million drawn under the private placement, term loan and syndicated bank credit facility, which are hedging a portion of its US\$-based, euro-based and GBP-based investments and cash flows.

Since the Company has developed into a global business with a significant asset base in the United States and Europe, the majority of the Company's debt is drawn in United States dollars and euros. The Company continues to evaluate the appropriate levels of fixed versus floating interest rate and underlying currency of its drawn debt.

## **8. Accounting Policies**

### **A) Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company evaluates these estimates and assumptions on a regular basis, based upon historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The critical accounting policies are impacted by judgments, assumptions and estimates used in the preparation of the consolidated condensed interim financial statements. The material impact on reported results and the potential

impact and any associated risk related to these estimates are discussed throughout this MD&A and in the notes to the consolidated condensed interim financial statements.

The 2015 annual audited consolidated financial statements and notes thereto, as well as the 2015 annual MD&A, have identified the accounting policies and estimates that are critical to the understanding of CCL's business operations and results of operations. For the six months ended June 30, 2016, there are no changes to the critical accounting policies and estimates from those described in the 2015 annual MD&A. The determination of the fair value of the assets acquired and liabilities assumed, including the non-cash fair market value adjustment related to finished goods inventory, is based on preliminary estimates and have been included in the opening balance for the acquired CSI business.

## **B) Inter-Company and Related Party Transactions**

The Company has entered into a number of agreements with its subsidiaries that govern the management and commercial and cost-sharing arrangements with and among the subsidiaries. A summary of the Company's related party transactions are set out in note 26 of the annual consolidated financial statements for the year ended December 31, 2015.

## **9. Commitments and Contingencies**

The Company has no material "off-balance sheet" financing obligations, except for long-term operating lease agreements and loan guarantees. The nature of these commitments is described in note 25 and note 26 of the annual consolidated financial statements for the year ended December 31, 2015. There are no defined benefit plans funded with CCL stock. There have been no material changes during the first six months of 2016.

## **10. Controls and Procedures**

There were no material changes in internal control over financial reporting in the six-month period ended June 30, 2016.

## **11. Risks and Strategies**

The 2015 MD&A in the annual report detailed risks to the Company's business and the strategies that were planned for 2016 and beyond. There have been no material changes to those strategies during the first six months of 2016. Additional risks to consider resulting from the CSI acquisition are listed below.

### ***Risks in integrating and restructuring Checkpoint.***

CCL acquired the global operations of Checkpoint on May 13, 2016, and immediately commenced detailed investigations and analysis of the restructuring that will be required at Checkpoint. Checkpoint has 4,700 employees with operations in 29 countries including 21 manufacturing plants and 46 go-to market units. The size, geographic

scope and complexity of Checkpoint's operations exceeds the typical acquisition of CCL and therefore the integration and restructuring initiative is more complex and time consuming. The initial assessment has resulted in a severance related restructuring charges of \$13.0 million during the second quarter of 2016. The restructuring and integration initiative will continue through 2017. A failure to integrate and restructure the acquired business in a timely and effective manner could have a material adverse effect on CCL's business, financial condition and results of operations.

***A lower than anticipated demand by retailers and slower commitments of retail customers to chain-wide installations may adversely affect the Checkpoint Segment.***

The Checkpoint Segment is heavily dependent on the retail marketplace. Changes in the economic environment including the liquidity and financial condition of its customers, the impact of online customer spending, or reductions in retailer spending and new store openings could adversely affect the Segment's sales. A reduction in the commitment for chain-wide installations due to decreased consumer spending that results in reduced spending on loss prevention by retail customers, CCL's failure to develop new technology that entices the customer to maintain their commitment to Checkpoints loss prevention products and services, may also have a material adverse effect on CCL's business, financial condition and results of operations.

***New product developments by others could negatively impact our business.***

The packaging and printable media industries are continually evolving based on the ingenuity of CCL's competitors, consumer preferences and new product identification and information technologies. To the extent that any such new developments result in a decrease in the use of any of Checkpoints products, a material adverse effect on CCL's business, financial condition and results of operations could occur.

Also, within the Checkpoint Segment, CCL's ability to create new products and to sustain existing products is affected by whether CCL can develop and fund technological innovations, such as those related to the next generation of product solutions, evolving RFID technologies, and other innovative security device, software, and systems initiatives. The failure to develop and launch successful new products could have a material adverse effect on the Company's business, financial condition and results of operations.

***The inability to obtain sufficient quantities of raw materials and component parts at reasonable prices.***

Checkpoint purchases materials and component parts from third parties for use in its manufacturing operations. CCL's ability to grow earnings will be affected by inflationary and other increases in the cost of component parts and raw materials, including electronic components, circuit boards, aluminum foil, resins, paper, ferric chloride, hydrochloric acid solutions and rare earth magnets. Inflationary and other increases in the costs of raw materials, labour and energy have occurred in the past and are expected to recur, and CCL's performance depends in part on its ability to pass these

cost increases on to customers in the price of its products and to effect improvements in productivity. CCL may not be able to fully offset the effects of higher component parts and raw material costs through price increases, productivity improvements or cost reduction programs. If the Company cannot obtain sufficient quantities of these items at competitive prices and quality and on a timely basis, CCL may not be able to produce sufficient quantities of product to satisfy market demand, product shipments may be delayed, or CCL's material or manufacturing costs may increase. A disruption to Checkpoints supply chain could adversely affect CCL's sales and profitability. Any of these problems could result in the loss of customers and revenue, provide an opportunity for competing products to gain market acceptance and have a material adverse effect on CCL's business, financial condition and results of operations.

## **12. Outlook**

The second quarter of 2016 was another record, generating adjusted basic earnings per Class B share of \$2.80, topping the previous record set in the first quarter of 2016 by 5.7%. All three legacy business Segments posted significant increases in operating income driven by solid organic growth at the Label and Container Segments, further strengthened by the business acquisitions since January 1, 2015, as well as continued margin expansion at the Avery Segment. The new Checkpoint Segment performed to management expectations as much focus was given to right-sizing the operation and developing an operating approach akin to CCL's other businesses.

The Label Segment continues to capitalize on its strategic global footprint and breadth of label products, evidenced by its 10.4% organic growth rate for the current quarter. Consumer markets in developed economies improved in the United States and Europe while Emerging Markets continued to expand at lower rates of growth compared to pre-2015 periods. Although the immediate financial impact of BREXIT had no negative effect on CCL's results in the quarter, political and economic instability have returned to Europe and may dampen macroeconomic momentum in the region. Global acquisition initiatives remained intact so far in 2016 with Zephyr and Woelco enhancing CCL Design's product capabilities and LAL, Powerpress and Eukerdruck GmbH & Co. KG and Pharma Druck CDM GmbH ("Euker") expanding the Healthcare operations geographic presence.

CCL Design's construction of its new plant to service major global automotive OEM and Tier 1 customers in Mexico remains on track. Restructuring costs were recorded for the Worldmark acquisition with expenses expected in the second half of 2016 as CCL Design solidifies its acquired global operating footprint and optimizes financial returns. Expansion initiatives, such as the new Specialty plant in Korea are in the construction phase and, while new Home & Personal Care operations in the Philippines, Argentina, Turkey and Thailand are now trading, overall profitability is not expected until 2017.

At the Avery Segment, another tempered back-to-school season for 2016 is expected on share loss of low margin, mass market, back-to-school binders as Avery focuses on new product innovations, consumer digital e-commerce opportunities and cross-selling programs with the recent acquisitions to provide incremental potential for growth. Activity for the Mabel's business should increase as it moves into its seasonally strongest period in the back half of a calendar year. Operating focus for the binder and

label product lines surrounds the October 2015 announced consolidation of label production in Tijuana, Mexico, and the relocation plan for North American binder manufacturing from Meridian, Mississippi, to a new facility to be constructed in Guanajuato, Mexico, and subsequent relocation of the U.S. distribution centre to Dallas, Texas. These supply chain changes will be staggered, completing after the “back-to-school” season concludes in 2017.

The Container Segment posted strong results for the first six months of 2016 indicating the potential for a very good year with returns now similar to the rest of the CCL consumer packaging businesses. Additional capacity is being commissioned in the U.S. operation, and a facility expansion is underway in Mexico to allow the eventual redistribution of manufacturing equipment from Canada to the U.S. and Mexican operations. This restructuring is unlikely to complete before mid-2017. Another tranche of capital investments for Rheinfelden in 2016 will enable this new operation to realize its full production capability, move into profit and ensure a sustainable second source of aluminum slugs for the North American market.

CCL commenced the reorganization process for the Checkpoint Segment during the second quarter and expects to largely complete its \$40 million of restructuring initiatives by mid-2017. The Company remains committed to the \$40 million in annual savings for 2017. The remainder of the non-cash acquisition accounting adjustment to finished goods inventory should largely turn over in the third quarter of 2016. So far sales levels for the third quarter look stable.

Early into the third quarter, order intake remains solid across the board. Unused credit lines stand at \$118.8 million and with \$421.7 million additional cash-on-hand, the Company has the capacity to execute its global growth strategy or the flexibility to reduce its bank leverage. The Company remains focused on vigilantly managing working capital and prioritizing capital to higher-growth organic opportunities or unique acquisitions that are expected to enhance shareholder value. The Company’s capital spending for the year is expected to be approximately \$210 million due to 2016’s acquisitions, although still approximately in line with annual depreciation expense. If Canadian dollar exchange rates remain at current levels, foreign currency translation will be a headwind on reported results for the second half of the year.

### **13. Subsequent Events**

On July 1, 2016 CCL acquired Euker, privately held companies with common shareholders, and the associated facilities in Marburg and Dresden, Germany. Euker is a leading supplier of folded leaflets, specialty booklets and pressure sensitive labels to pharmaceutical companies in German-speaking Europe. The purchase price consideration, including debt assumed was approximately \$31.0 million.

On August 4, 2016, CCL acquired the remaining minority 25% interest in its tube manufacturing joint venture in Bangkok, Thailand, from its former partner Taisei Kako Co., Ltd. of Japan for proceeds of \$1.9 million. From this point forward the entity will be a fully consolidated subsidiary of CCL.

### **14. Key Performance Indicators and Non-IFRS Financial Measures**

CCL measures the success of the business using a number of key performance indicators, many of which are in accordance with IFRS as described throughout this report. The following performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative to or replacement of net earnings or any other measure of performance under IFRS. These non-IFRS measures do not have any standardized meaning and may not be comparable to similar measures presented by other issuers. In fact, these additional measures are used to provide added insight into CCL's results and are concepts often seen in external analysts' research reports, financial covenants in banking agreements and note agreements, purchase and sales contracts on acquisitions and divestitures of the business, and in discussions and reports to and from the Company's shareholders and the investment community. These non-IFRS measures will be found throughout this report and are referenced alphabetically in the definition section below.

Adjusted Basic Earnings per Class B Share – An important non-IFRS measure to assist in understanding the ongoing earnings performance of the Company excluding items of a one-time or non-recurring nature. It is not considered a substitute for basic net earnings per Class B share, but it does provide additional insight into the ongoing financial results of the Company. This non-IFRS measure is defined as basic net earnings per Class B share excluding gains on business dispositions, goodwill impairment loss, non-cash acquisition accounting adjustments to finished goods inventory, restructuring and other items and tax adjustments.

EBITDA - A critical financial measure used extensively in the packaging industry and other industries to assist in understanding and measuring operating results. It is also considered as a proxy for cash flow and a facilitator for business valuations. This non-IFRS measure is defined as earnings before net finance cost, taxes, depreciation and amortization, goodwill impairment loss, non-cash acquisition accounting adjustments to finished goods inventory, earnings in equity accounted investments, and restructuring and other items. The Company believes that EBITDA is an important measure as it allows the assessment of CCL's ongoing business without the impact of net finance cost, depreciation and amortization and income tax expenses, as well as non-operating factors and one-time items. As a proxy for cash flow, it is intended to indicate the Company's ability to incur or service debt and to invest in property, plant and

equipment, and it allows comparison of CCL's business to that of its peers and competitors who may have different capital or organizational structures. EBITDA is a measure tracked by financial analysts and investors to evaluate financial performance and is a key metric in business valuations. EBITDA is considered an important measure by lenders to the Company and is included in the financial covenants for CCL's bank lines of credit.

The following table reconciles EBITDA measures to IFRS financial measures reported in the consolidated income statements for the periods ended as indicated.

(in millions of Canadian dollars)

EBITDA	<u>Second Quarter</u>		<u>Year-to-Date</u>	
	2016	2015	2016	2015
Net earnings	\$ 72.2	\$ 73.3	\$ 161.9	\$ 141.4
Corporate expense	14.1	13.0	24.9	26.4
Earnings in equity accounted investments	(1.1)	(0.2)	(1.9)	(0.8)
Finance cost, net	7.8	6.2	15.7	12.5
Restructuring and other items – net loss	19.0	-	21.9	0.9
Income taxes	31.1	30.3	70.5	59.3
Operating income (a non-IFRS measure)	\$ 143.1	\$ 122.6	\$ 293.0	\$ 239.7
Less: Corporate expense	(14.1)	(13.0)	(24.9)	(26.4)
Add: Depreciation and amortization	48.5	39.3	95.3	78.7
Add: Non-cash acquisition accounting adjustment to finished goods inventory	16.6	-	16.6	-
EBITDA (a non-IFRS measure)	\$ 194.1	\$ 148.9	\$ 380.0	\$ 292.0
			<b>2016</b>	<b>2015</b>
EBITDA for 12 months ended December 31, 2015 and 2014, respectively			\$ 608.4	\$ 481.6
less: EBITDA for six months ended June 30, 2015 and 2014, respectively			(292.0)	(236.8)
add: EBITDA for six months ended June 30, 2016 and 2015 respectively			380.0	292.0
<b>EBITDA for 12 months ended June 30</b>			<b>\$ 696.4</b>	<b>\$ 536.8</b>

Free Cash Flow from Operations – A measure indicating the relative amount of cash generated by the Company during the period and available to fund dividends, debt repayments and acquisitions. It is calculated as cash flow from operations less capital expenditures, net of proceeds from the sale of property, plant and equipment.

The following table reconciles the free cash flow from operations measure to IFRS measures reported in the consolidated statements of cash flows for the periods ended as indicated.

<b>(in millions of Canadian dollars)</b>	<b>Second Quarter</b>		<b>Year-to-Date</b>	
Free Cash Flow from Operations	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Cash provided by operating activities	\$ 89.5	\$ 111.3	\$ 104.4	\$ 158.7
Less: Additions to property, plant and equipment	(75.1)	(34.9)	(145.6)	(91.6)
Add: Proceeds on disposal of property, plant and equipment	0.3	1.8	5.9	2.4
<b>Free Cash Flow from Operations</b>	<b>\$ 14.7</b>	<b>\$ 78.2</b>	<b>\$ (35.3)</b>	<b>\$ 69.5</b>

**Net Debt** – A measure indicating the financial indebtedness of the Company assuming that all cash on hand is used to repay a portion of the outstanding debt. It is defined as current debt, which includes bank advances, plus long-term debt, less cash and cash equivalents.

**Net Debt to EBITDA** (or leverage ratio) – A measure that indicates the Company's ability to service its existing debt. Net Debt to EBITDA is calculated as net debt divided by EBITDA.

**Operating Income** – A measure indicating the profitability of the Company's business units defined as income before corporate expenses, net finance cost, goodwill impairment loss, earnings in equity-accounted investments, restructuring and other items and tax.

See EBITDA definition above for a reconciliation of Operating Income measures to IFRS financial measures reported in the consolidated income statements for the periods ended as indicated.

**Restructuring and Other Items** – A measure of significant non-recurring items that are included in net earnings. The impact of restructuring and other items on a per share basis is measured by dividing the after-tax effect of the restructuring and other items by the average number of shares outstanding in the relevant period. Management will continue to disclose the impact of these items on the Company's results because the timing and extent of such items do not reflect or relate to the Company's ongoing operating performance. Management evaluates the operating income of its segments before the effect of these items.

**Return on Sales** - A measure indicating relative profitability of sales to customers. It is defined as Operating Income (see definition above) divided by sales, expressed as a percentage.

The following table reconciles the Return on Sales measure to IFRS financial measures reported in the consolidated income statements in the industry segment information as per note 4 of the Company's consolidated condensed interim financial statements for the periods ended as indicated.

(in millions of Canadian dollars)

Industry Segments	Sales Second Quarter		Operating Income (loss) Second Quarter		Return on Sales Second Quarter	
	2016	2015	2016	2015	2016	2015
Label	\$ 604.0	\$ 468.9	\$ 89.3	\$ 71.9	14.8%	15.3%
Avery	207.4	198.2	50.6	45.3	24.4%	22.9%
Checkpoint	92.6	-	(4.7)	-	n.m.	-
Container	56.2	54.4	7.9	5.4	14.1%	9.9%
Total Operations	\$ 960.2	\$ 721.5	\$ 143.1	\$ 122.6	14.9%	17.0%

### Supplemental Financial Information

#### Sales Change Analysis Revenue Growth Rates (%)

	Three Months Ended June 30, 2016				Six Months Ended June 30, 2016			
	Organic Growth	Acquisition Growth	FX Translation	Total	Organic Growth	Acquisition Growth	FX Translation	Total
Label	10.4%	15.8%	2.6%	28.8%	8.9%	15.1%	4.4%	28.4%
Avery	(1.0%)	1.1%	4.5%	4.6%	(1.4%)	3.1%	6.3%	8.0%
Checkpoint	-	100.0%	-	100.0%	-	100.0%	-	100.0%
Container	4.6%	-	(1.3%)	3.3%	5.1%	-	1.1%	6.2%
CCL	6.9%	23.4%	2.8%	33.1%	6.0%	17.4%	4.6%	28.0%