

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Second Quarters Ended June 30, 2015 and 2014

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, 2015 and 2014. The information in this interim MD&A is current to July 31, 2015, and should be read in conjunction with the Company's July 31, 2015, unaudited second quarter consolidated condensed interim financial statements released on July 31, 2015, and the 2014 Annual MD&A document and consolidated financial statements, which form part of the CCL Industries Inc. 2014 Annual Report, dated February 26, 2015.

### **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, Brazilian real, Chilean peso, Chinese renminbi, Danish krone, Japanese yen, Mexican peso, Polish zloty, Russian rouble, 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 2015; 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; 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 after-effects of 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 Canadian Container operation; the Company's expectation to gain market share in 'every-day use' binders with the

Avery Segment; the Company's expectation that the Avery Segment financial performance for 2015 will exceed the annual results of 2014; the Company's expectation that its new operation in the Philippines and new joint venture in Thailand will not post profitable returns until 2016; the Company's expectations that the acquisitions of Bandfix and Dekopak and other acquired operations will provide future opportunities for margin expansion; the Company's expectation that its new start-up operation in Korea and Argentina will be completed by early 2016; the Company's acquisitions of LCL, Nilles, INTA and PCN will provide incremental growth opportunities; the Company's investment in Rheinfelden will result in a qualified alternate supply of aluminum slugs in North America; 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 2014 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 2015 was the nineteenth consecutive quarter of year-over-year improvement in quarterly adjusted basic earnings per Class B share (a non-IFRS financial measure; refer to definition in Section 13) for CCL. This result was driven by strong quarterly results in all the Company's operating segments. The Label, Avery and Container Segments posted increases in operating income (a non-IFRS financial measure; refer to definition in Section 13) of 28.4%, 59.5% and 12.5%, respectively. Accordingly, second quarter adjusted basic earnings per Class B share for the Company was an all-time best of \$2.12 compared to adjusted basic earnings per Class B share of \$1.63 in the 2014 second quarter. Basic earnings per Class B share were \$2.12 for the second quarter of 2015 compared to basic earnings per Class B share of \$1.61 in the prior year second quarter.

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

The following acquisitions affected the financial comparisons to 2014:

- In February 2014, Sancoa and TubeDec ("Sancoa"), privately owned companies with a common controlling shareholder based in New Jersey, USA, for \$73.1 million. Sancoa produces labels and tubes and forms a vital part of the North American Home & Personal Care business.
- In February 2014, DekoPak Ambalaj SAN. Ve Tic. A.S. ("Dekopak"), a privately owned company based in Istanbul, Turkey, \$4.7 million, plus contingent consideration payable in 2017 subject to incremental EBITDA improvement.

Dekopak is a leading producer of shrink sleeve labels for global and domestic customers in Turkey.

- In September 2014, Bandfix AG (“Bandfix”), a privately owned company based in Zurich, Switzerland, for \$17.9 million. Bandfix produces Specialty labels for European customers, complementing CCL’s Healthcare & Specialty business.
- In November 2014, Label Connections Ltd. (“LCL”), a privately owned company based in St. Neots, England, for \$2.8 million. LCL is a leading supplier to the commercial graphic arts sector and was the first acquisition within the Avery Segment.
- In December 2014, Druckerei Nilles GmbH (“Nilles”), a privately owned company based in Trittenheim, Germany, for \$16.2 million. The Nilles wine label business was added to CCL’s growing Food & Beverage operations and the Nilles e-commerce platform will become a new business unit within the Avery Segment.
- In February 2015, INT America LLC (“INTA”), a privately owned company based in Michigan, USA, for \$3.5 million, subject to typical post-closing adjustments. INTA will expand CCL Design North America’s product offering in the 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 approximately \$37.6 million, subject to typical post-closing adjustments. PCN will be an important addition to Avery North America, adding depth to its meeting supplies and promotional materials product offerings.

Sales for the second quarter of 2015 were \$721.5 million, an increase of 10.9% compared to \$650.4 million recorded in the second quarter of 2014. The increase in sales can be attributed to organic growth of 2.2%, acquisition-related growth of 4.6% and positive impact from foreign currency translation of 4.1%. For the six-month period ended June 30, 2015, sales were \$1,427.4 million, an increase of 13.3% compared to \$1,260.1 million. The six-month improvement in sales can be attributed to 3.8% organic growth, a 5.2% impact of the aforementioned acquisitions and a 4.3% positive impact from foreign currency translation.

Selling, general and administrative expenses (“SG&A”) were \$97.2 million and \$191.7 million for the three-month and six-month periods ended June 30, 2015, compared to \$92.3 million and \$170.9 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 seven above mentioned acquisitions. Furthermore, executive short-term and long-term variable compensation expense together with director equity-linked compensation expenses increased compared to the 2014 periods.

The Company did not incur expenses for restructuring and other items in the second quarter of 2015. The second quarter of 2014 included restructuring and other items of \$1.1 million (\$0.7 million after tax) related to the Sancoa acquisition as well as severance costs related to the DES acquisition. For the six-month period ended June 30, 2015, the Company recorded \$0.9 million (\$0.8 million after tax) in restructuring and other items predominantly related to Bandfix. For the corresponding period ended June 30, 2014, the Company recorded \$2.0 million (\$1.4 million after tax) in restructuring and other items predominantly related to Sancoa and DES.

Operating income for the second quarter of 2015 increased 37.4% to \$122.6 million, compared to \$89.2 million for the second quarter of 2014. Operating income increased for all three of the Company's business Segments, Label, Avery and Container, 28.4%, 59.5% and 12.5%, respectively, compared to the second quarter of 2014. Foreign currency translation contributed an improvement of 4.5% to the consolidated operating income. For the six months ended June 30, 2015, operating income increased 34.9%, with the Label, Avery and Container Segments recording increases in operating income of 22.6%, 73.0% and 30.6%, respectively, compared to the same six-month period in 2014. Foreign currency translation had a positive impact of 4.4% for the comparable six-month periods

Earnings before net finance cost, taxes, earnings in equity accounted investments, depreciation and amortization, restructuring and other items ("EBITDA," a non-IFRS financial measure; refer to definition in Section 13) was \$148.9 million for the second quarter of 2015, an increase of 25.3% compared to \$118.8 million for the second quarter of 2014. Foreign currency translation had a positive impact of 4.2% on EBITDA for the second quarter of 2015, although this was partly offset by challenges with the stronger U.S. dollar and weaker euro on transactions in certain markets. For the six months ended June 30, 2015, EBITDA was \$292.0 million, an increase of 23.3% compared to \$236.8 million in the comparable 2014 period. Foreign currency translation has a positive impact of 4.4% for the comparable six-month periods.

Net finance cost was \$6.2 million for the second quarter of 2015 compared to \$6.3 million for the second quarter of 2014. For the six-month period ended June 30, 2015, net finance cost was \$12.5 million compared to \$13.0 million in the corresponding six month period of 2014. The decrease in net finance cost for the three-month and six-month periods ended June 30, 2015, was attributable to lower funded debt partially offset by the foreign currency impact on U.S. dollar interest expense for the comparative three-month and six-month periods.

The overall effective income tax rate was 29.4% for the second quarter of 2015 compared to 27.0% for the second quarter of 2014, reflecting a higher portion of CCL taxable income being earned in higher tax jurisdictions in the quarter. The overall effective income tax rate was 29.6% for the six-month period of 2015 compared to 28.3% for the six-month period of 2014. 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 2015 were \$73.3 million, an increase of 32.5% compared to \$55.3 million for the second quarter of 2014. This resulted in basic and diluted earnings of \$2.12 and \$2.09 per Class B share, respectively, in the 2015 second quarter compared to basic and diluted earnings of \$1.61 and \$1.58 per Class B share, respectively, for the prior year second quarter.

Net earnings for the six-month period of 2015 were \$141.4 million, an increase of 31.0% compared to \$107.9 million for the same period a year ago. This resulted in basic and diluted earnings of \$4.09 and \$4.02 per Class B share, respectively, for the 2015 six-month period compared to basic and diluted earnings of \$3.15 and \$3.09 per Class B share, respectively, for the prior year six-month period. The weighted average number of shares for the 2015 six-month period were 34.6 million basic and 35.2 million diluted shares compared to 34.3 million basic and 35.0 million diluted shares for the comparable period of 2014. Diluted shares include weighted average in-the-money stock options and other equity settled obligation totaling 0.6 million shares.

Adjusted basic earnings per Class B share (a non-IFRS financial measure – see Section 13) were \$2.12 and \$4.11 for the three-month and six-month periods of 2015, respectively, compared to \$1.63 and \$3.19 for the same periods of 2014.

The following table is presented to provide context to the comparative change in the financial performance of the business.

<b><u>(in Canadian dollars)</u></b>	<b>Second Quarter</b>		<b>Year-to-Date</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Adjusted Basic Earnings per Class B Share</b>				
Basic earnings	\$ 2.12	\$ 1.61	\$ 4.09	\$ 3.15
Net loss from restructuring and other items	-	0.02	0.02	0.04
Adjusted basic earnings <sup>(1)</sup>	\$ 2.12	\$ 1.63	\$ 4.11	\$ 3.19

(1) Adjusted Basic Earnings per Class B Share is a non-IFRS financial measure. Refer to definition in Section 13.

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>					
2015	\$ 705.9	\$ 721.5	\$ -	\$ -	\$ 1,427.4
2014	609.7	650.4	689.7	635.8	2,585.6
2013	363.7	361.4	606.6	557.7	1,889.4
<b>Net earnings</b>					
2015	68.1	73.3	-	-	141.4
2014	52.6	55.3	63.1	45.6	216.6
2013	34.1	26.4	23.6	19.5	103.6
<b>Net earnings per Class B share</b>					
<b>Basic</b>					
2015	1.97	2.12	-	-	4.09
2014	1.54	1.61	1.83	1.33	6.31
2013	1.01	0.77	0.68	0.58	3.04
<b>Diluted</b>					
2015	1.93	2.09	-	-	4.02
2014	1.51	1.58	1.79	1.31	6.19
2013	0.99	0.76	0.67	0.57	2.99
<b>Adjusted basic net earnings per Class B share</b>					
2015	1.99	2.12	-	-	4.11
2014	1.56	1.63	1.83	1.51	6.53
2013	1.04	0.82	1.38	1.19	4.43

The quarterly financial results above are affected by the seasonality of the business Segments. 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 a 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. The increase in sales in the third quarter of 2013 was primarily due to CCL's acquisition of the Avery and DES businesses from Avery Dennison Corporation, the most significant acquisition in the Company's history.

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

#### **Label Segment**

(\$ millions)	<u>Second Quarter</u>			<u>Year-to-Date</u>		
	<u>2015</u>	<u>2014</u>	<u>+/-</u>	<u>2015</u>	<u>2014</u>	<u>+/-</u>
Sales	\$ 468.9	\$ 423.8	10.6%	\$ 955.0	\$ 847.5	12.7%
Operating Income <sup>(1)</sup>	\$ 71.9	\$ 56.0	28.4%	\$ 153.8	\$ 125.4	22.6%
Return on Sales <sup>(1)</sup>	15.3%	13.2%		16.1%	14.8%	
Capital Spending	\$ 31.6	\$ 19.2	64.6%	\$ 79.7	\$ 65.6	21.5%
Depreciation and Amortization	\$ 31.4	\$ 30.0	4.7%	\$ 63.6	\$ 58.5	8.7%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

Sales for the Label Segment were \$468.9 million for the second quarter of 2015, compared to \$423.8 million for the same quarter last year. The 10.6% increase in sales can be attributed to organic growth of 4.0%, the impact from the Bandfix, Nilles and INTA acquisitions of 4.0% and the positive effect from foreign currency translation of 2.6%.

**North American** sales were flat, excluding currency translation and the acquisition of INTA, compared to the second quarter of 2014. Home & Personal Care sales benefited from currency translation, but declined organically in a soft consumer market compared to a strong prior year period; however, profitability improved as restructuring initiatives took root at the acquired Sancoa businesses. Sales for CCL Design, excluding the INTA acquisition were flat to the second quarter of 2014 as strong demand remained consistent with the comparative period. Profitability, including a small loss at INTA for the period, exceeded the prior year second quarter results as further operational achievements were realized in the automotive-related businesses. Healthcare & Specialty results were mixed with significant improvement in Healthcare, partially offset by a soft Ag-Chem market affected by the hard winter and slow promotional sales compared to a World Cup influenced prior year. Sales and profits improved appreciably in the Food & Beverage category on market share wins in the Wine & Spirits and Sleeve businesses. Overall, profitability improved significantly in North America including the impact of acquisitions and currency translation. Return on sales (“Return on sales,” a non-IFRS financial measure; refer to definition in Section 13) improved due to the aforementioned advances at CCL Design and Food & Beverage as well as the continued profitability improvements at Sancoa.

Sales in **Europe** were up mid-single digits for the second quarter of 2015, excluding currency translation and acquisitions, compared to the second quarter of 2014. Home & Personal Care sales increased with improvements in Poland and the United Kingdom and steady results in Germany. Sales in Healthcare & Specialty, excluding foreign currency translation, were up compared to the second quarter of 2014 and profitability improved notably with solid gains across the region other than the Scandinavian Healthcare business which suffered from an influential customer’s production relocation outside the region. Results in Food & Beverage, excluding currency translation, were strong on continued solid performance in Sleeves augmented by a swing into profit at the new film extrusion plant compared to a prior year loss; results in pressure sensitive labels for Beverage were also solid. CCL Design sales increased due to market share gains on new model launches; profitability improved substantially as the prior year period was impacted by a large German customer’s insolvency that resulted in a receivable write-off of \$1.7 million. Overall, European operating income, excluding incremental acquisitions, increased significantly compared to the prior year second quarter but was partly offset by currency translation on the weaker euro. The recently acquired businesses in Switzerland and Germany met management expectations for the quarter and provide opportunities for margin expansion in future periods.

Sales in **Latin America** increased double digits for the second quarter of 2015, excluding the impact of currency translation, compared to the second quarter of 2014. Sales improved in both Mexico and Brazil in all lines of business. Operating income increased significantly in absolute terms and as a percent of sales, despite currency

challenges due to the decline in the real and peso against the U.S. dollar and the subsequent impact on raw material costs as well as start-up costs in Mexico for CCL Design and in Argentina for the Home & Personal Care business.

**Asia Pacific** sales, excluding currency translation, declined mid-single digits for the second quarter of 2015, compared to a robust second quarter in 2014. Home & Personal Care operations in China posted a decline in both sales and operating income compared to a very strong 2014 second quarter; before the customer inventory corrections in the second half of last year. Other business lines in China continued to build revenue and profitability. ASEAN profitability expanded with improved results in both Thailand and Vietnam for the comparative quarters. Australia delivered improved revenue and profitability in the Wine and Spirits business but this was offset by ongoing poor results in Healthcare. Sales volume for beverage labels in South Africa was strong. Overall profitability in the Asia Pacific region improved due to aforementioned gains in the ASEAN region and a decline in start-up costs in the Philippines.

Operating income for the second quarter of 2015 improved 28.4% to \$71.9 million, compared to \$56.0 million for the second quarter of 2014. Operating income as a percentage of sales was 15.3%, ahead of the 13.2% recorded for the same period in 2014. All global business lines contributed to the increase with especially improved results for Food & Beverage and CCL Design.

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 \$79.7 million in capital spending for the six-month period ended June 30, 2015, compared to \$65.6 million for the six-month period in 2014. The investments for the first six months of 2015 are in line with Company's planned capital expenditures for this year. The major expenditures for the six-month period ended June 30, 2015, were related to equipment installations to support the Home & Personal Care business in North America, capacity additions for Food & Beverage in Europe, building and capacity expansion for CCL Design in the United States and to add more digital printing capabilities throughout the Label Segment footprint. 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 \$63.6 million for the six-month period of 2015, compared to \$58.5 million for the same six-month period of 2014.

## Avery Segment

(\$ millions)	Second Quarter			Year-to-Date		
	<u>2015</u>	<u>2014</u>	<u>+/-</u>	<u>2015</u>	<u>2014</u>	<u>+/-</u>
Sales	\$ 198.2	\$ 174.2	13.8%	\$ 358.4	\$ 307.1	16.7%
Operating Income <sup>(1)</sup>	\$ 45.3	\$ 28.4	59.5%	\$ 71.8	\$ 41.5	73.0%
Return on Sales <sup>(1)</sup>	22.9%	16.3%		20.0%	13.5%	
Capital Spending	\$ 2.3	\$ 1.9	21.1%	\$ 8.7	\$ 5.7	52.6%
Depreciation and Amortization	\$ 3.8	\$ 3.3	15.2%	\$ 7.1	\$ 6.7	6.0%

<sup>1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

The Avery Segment was acquired July 1, 2013 from Avery Dennison Corporation. The Segment has two primary product groups, Printable Media and Binders, Organization & Presentation and Writing Instruments (“BOPWI”).

Sales for the Avery Segment were \$198.2 million for the second quarter of 2015, compared to \$174.2 million for the same quarter last year. The 13.8% increase in sales can be attributed to the positive impact from the LCL, Nilles, and PCN acquisitions of 7.2% and the positive effect from foreign currency translation of 7.6% partially offset by a decline in sales in the North American BOPWI category for the quarter.

Sales in **North America** for the second quarter of 2015, excluding the PCN acquisition, discontinued product lines and currency translation, were flat compared to the second quarter of 2014. Market share gains in Printable Media were offset by sales declines in the BOPWI category and especially in low margin ring binders. Profitability improved dramatically due to the mix impact of increased volume in the higher margin Printable Media product lines. However, results improved across all categories due to new product and marketing initiatives, price increases, cost cutting and productivity programs implemented in 2013 and 2014. PCN operating for its first full quarter within the Segment, recorded sales and profits above management expectations. Operating income for North America increased substantially in absolute terms and as a percent of sales.

**International** sales, principally generated in the Printable Media category, represented 20% of the Avery Segment sales for the quarter. Sales, excluding acquisitions and currency translation, declined in Europe but improved in Asia Pacific and Latin America. The recently acquired LCL and Nilles operations met management expectations for second quarter of 2015. Profitability improved significantly compared to the second quarter of 2014 due to cost reduction initiatives and productivity enhancements taking hold.

Operating income for the second quarter of 2015 improved 59.5% to \$45.3 million, compared to \$28.4 million for the second quarter of 2014. Operating income as a percentage of sales was 22.9%, compared to 16.3% recorded for the same quarter in 2014.

The Avery Segment invested \$8.7 million in capital spending for the six-month period of 2015 compared to \$5.7 million in the same six-month period a year ago. The majority of the expenditures were for equipment additions in North America to improve manufacturing efficiencies within the BOPWI category as well as equipment to support digital print capabilities for Avery.com. Depreciation and amortization for the Avery Segment was \$7.1 million for the six-month period ended June 30, 2015, compared to \$6.7 million for the same six-month period in 2014.

### **Container Segment**

(\$ millions)	Second Quarter			Year-to-Date		
	<u>2015</u>	<u>2014</u>	<u>+/-</u>	<u>2015</u>	<u>2014</u>	<u>+/-</u>
Sales	\$ 54.4	\$ 52.4	3.8%	\$ 114.0	\$ 105.5	8.1%
Operating Income <sup>(1)</sup>	\$ 5.4	\$ 4.8	12.5%	\$ 14.1	\$ 10.8	30.6%
Return on Sales <sup>(1)</sup>	9.9%	9.2%		12.4%	10.2%	
Capital Spending	\$ 1.0	\$ 3.2	(68.8%)	\$ 3.2	\$ 12.8	(75.0%)
Depreciation and Amortization	\$ 3.8	\$ 3.5	8.6%	\$ 7.5	\$ 7.0	7.1%

<sup>(1)</sup> Operating Income and Return on Sales are non-IFRS financial measures. Refer to definitions in Section 13.

Sales for the Container Segment in the 2015 second quarter were \$54.4 million, an increase of 3.8% compared to \$52.4 million in the second quarter of 2014 driven almost entirely by the positive effect of currency translation. Volume declines in North America, principally from the Canadian plant, were partially offset by favourable price and mix from the U.S. operation. Volumes for the Mexican operations were flat for the comparative quarter but solid export demand to the United States and local market price increases supported improved profitability. As a result the Container Segment posted a 12.5% improvement in operating income to \$5.4 million compared to \$4.8 million for the 2014 second quarter.

The planned closure of the Canadian operation and redistribution of its manufacturing equipment to the continuing operations in the U.S. and Mexico is now not expected to be completed until the end of 2016; consequently, there were no equipment relocation expenses incurred in the first half of 2015 compared to \$0.5 million in the first six months of 2014.

The Container Segment invested \$3.2 million for the six-month period ended June 30, 2015, compared to \$12.8 million for the six-month period ended June 30, 2014. The majority of the expenditures for the six-month period of 2015 were final expenditures for the announced facility expansion and equipment purchases at the U.S. operation to facilitate the efficient redistribution of part of the Canadian plant's equipment.

Depreciation and amortization for the Container Segment was \$7.5 million for the six-month period ended June 30, 2015, compared to \$7.0 million for the comparable period of 2014.

The Container Segment continues to hedge some of its anticipated future aluminum purchases through futures contracts and has hedged 12.7% of its expected 2015 requirements. All of these hedges are specifically tied to customer contracts. Existing hedges are priced in the US\$1,700 to US\$2,000 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 2015 ranged from US\$1,600 to US\$1,920 per metric ton compared to US\$1,700 to US\$1,900 in the second quarter of 2014. The mid-West premiums paid over these prices returned to historic norms after a speculative rise in 2014 and the early months of 2015.

## **Joint Ventures**

(\$ millions)	Second Quarter			Year-to-Date		
	<u>2015</u>	<u>2014</u>	<u>+/-</u>	<u>2015</u>	<u>2014</u>	<u>+/-</u>
Sales (at 100%)						
Label joint ventures	\$ 25.2	\$ 20.8	21.2%	\$ 48.5	\$ 39.5	22.8%
Rheinfelden	-	-	n.m.	-	-	n.m.
	\$ 25.2	\$ 20.8	21.2%	\$ 48.5	\$ 39.5	22.8%
Earnings (losses) in equity accounted investments						
Label joint ventures	\$ 0.7	\$ 1.0	(30.0%)	\$ 1.5	\$ 1.0	50.0%
Rheinfelden	(0.5)	-	n.m.	(0.7)	-	n.m.
	\$ 0.2	\$ 1.0	(80.0%)	\$ 0.8	\$ 1.0	(20.0%)

The following investments affected the financial comparisons for the three-month and six-month periods ended June 30, 2015:

- In January 2014, the Company acquired an additional 12.5% interest in Acrus-CCL, the Chilean wine label joint venture, for US\$1.2 million increasing its total ownership to 62.5%.
- In December 2014, CCL contributed a 50% investment in Rheinfelden Americas, LLC (“Rheinfelden”), a newly established joint venture with Rheinfelden Semis GmbH, a leading German producer of aluminum slugs. The initial equity investment was \$4.5 million in total from the partners. Debt financing will provide the balance of the funding necessary to create an alternate source of aluminum slugs in North America.

Results from the joint ventures in CCL-Kontur, Russia; Pacman-CCL, Middle East; Acrus-CCL, Chile; CCL-Taisei, Thailand; and Rheinfelden, 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. Sales and profits at CCL-Kontur improved considerably for the 2015 second quarter compared to the prior year three-month period as interest rate increases following the ruble's depreciation negatively affected the liquidity of many local competitors. Pacman-CCL posted improved profitability and contributed meaningfully to overall earnings for the 2015 second quarter. For the second quarter of 2015, Acrus-CCL posted strong sales gains and solid earnings compared to a small profit in the second quarter of 2014. The construction of CCL-Taisei's new tube plant is complete and trading commenced during the quarter, however start-up losses offset profitability improvements at the other label joint ventures. Rheinfelden, established late in the fourth quarter of 2014, also incurred expected start-up losses for the current quarter. The plant is not expected to be profitable until 2017. Earnings in equity accounted investments amounted to \$0.2 million for the 2015 second quarter compared to \$1.0 million for the 2014 second quarter with most of the difference related to the startup costs at Rheinfelden.

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

Approximately 95% of sales made in the second quarter of 2015 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 2015 were positively impacted by the depreciation of the Canadian dollar against the U.S. dollar, sterling and Thai baht, 12.8%, 2.7% and 10.0%, respectively. This positive impact was partially offset by a strengthening of the Canadian dollar relative to the euro, Mexican peso and Brazilian real, 9.0% 4.4% and 18.2%, respectively, when comparing the rates in the second quarters of 2015 and 2014. For the second quarter of 2015, currency translation had a \$0.06 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, 2015	December 31, 2014	June 30, 2014
Current debt	\$ 200.5	\$ 59.1	\$ 52.2
Long-term debt	495.3	600.0	722.4
Total debt	695.8	659.1	774.6
Cash and cash equivalents	(234.7)	(221.9)	(208.3)
Net debt <sup>(1)</sup>	\$ 461.1	\$ 437.2	\$ 566.3
Total equity	\$ 1,380.8	\$ 1,216.2	\$ 1,135.5
Net debt to total book capitalization <sup>(1)</sup>	25.0%	26.4%	33.3%

<sup>(1)</sup> Net Debt and Net Debt to Total Book Capitalization are non-IFRS financial measures. Refer to definitions in Section 13.

Net debt (a non-IFRS financial measure; refer to definition in Section 13) was \$461.1 million at June 30, 2015, \$23.9 million higher than the net debt of \$437.2 million at December 31, 2014. The increase in net debt is due to the additional debt to acquire PCN on February 27, 2015, and the exchange impact the devalued Canadian dollar has had on the Company's primarily U.S. dollar debt. This increase has been partially offset by the principal repayments funded by operational cash inflows. Net debt as at June 30, 2015, is \$105.2 million lower than the net debt of \$566.3 million at June 30, 2014, due to significant principal repayments in the trailing twelve-month period and an increase in cash and cash equivalents.

Net debt to total book capitalization (a non-IFRS financial measure; refer to definition in Section 13) at June 30, 2015, was 25.0% down from 33.3% at the end of June 30, 2014, reflecting the reduction in net debt and record profitability over the past twelve months.

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 a bank syndicated US\$286.6 million (C\$358.0 million) non-revolving credit and \$300.0 million revolving facility. During the six-month period ended June 30, 2015, the Company made payments of US\$20.0 million on the non-revolving credit facility and net borrowings of US\$17.0 million on the revolving credit facility. Including the \$3.6 million of outstanding letters of credit, the Company had approximately \$275.0 million of available capacity within its revolving credit facility as at June 30, 2015. On March 7, 2016, US\$110.0 million of private placement debt comes to maturity; consequently, the current portion of long-term debt has increased compared to December 31, 2014, and June 30, 2014.

The Company's overall average finance rate was 3.6% as at June 30, 2015, compared to 3.2% as at June 30, 2014. The increase in the average finance rate was primarily caused by the Company's reduction in its lower cost variable rate revolving syndicated debt, compared to the outstanding debt at June 30, 2014.

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>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Cash provided by operating activities	\$ 111.3	\$ 85.0	\$ 158.7	\$ 112.0
Cash provided (used) by financing activities	(49.0)	(40.0)	(25.6)	51.3
Cash used for investing activities	(32.9)	(24.0)	(127.8)	(165.4)
Translation adjustments on cash and cash equivalents	(0.7)	(6.5)	7.5	1.3
Increase (decrease) in cash and cash equivalents	\$ 28.7	\$ 14.5	\$ 12.8	\$ (0.8)
Cash and cash equivalents – end of period	\$ 234.7	\$ 208.3	\$ 234.7	\$ 208.3
Free cash flow from operations <sup>(1)</sup>	\$ 78.2	\$ 60.9	\$ 69.5	\$ 33.6

<sup>(1)</sup> Free Cash Flow from Operations is non-IFRS financial measure. Refer to definition in Section 13.

During the second quarters of 2015 and 2014, the Company generated cash from operating activities of \$111.3 million and \$85.0 million, respectively. Free cash flow from operations (a non-IFRS financial measure; refer to definition in Section 13) was \$78.2 million in the 2015 second quarter compared to \$60.9 million in the prior year second quarter. The change in operating cash flow and free cash flow from operations was due to the increase in net earnings, reduction in income taxes paid and the changes in working capital balances.

Capital spending in the second quarter of 2015 amounted to \$34.9 million compared to \$24.3 million in the 2014 second quarter. Depreciation and amortization for the second quarters of 2015 and 2014 were \$39.3 million and \$37.0 million, respectively. Plans for capital spending in 2015 are expected to be approximately \$150.0 million, which is 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 2015 and 2014 were \$13.0 million and \$8.6 million, respectively. The total number of shares issued and outstanding as at June 30, 2015, and 2014, were 34.9 million and 34.6 million, respectively. Since the Company's current cash flow and financial position are strong and its outlook for the remainder of 2015 continues to be positive, the Board of Directors has approved a continuation of the dividend paid in June 2015 of \$0.3625 per Class A share and \$0.375 per Class B share

to shareholders of record as of September 16, 2015, and payable on September 30, 2015. The annualized dividend rate is \$1.45 per Class A share and \$1.50 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 term credit facility. The effect of the IRSA increased finance cost nominally in the second quarters of 2015 and 2014.

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.

## **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 2014 annual audited consolidated financial statements and notes thereto, as well as the 2014 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, 2015, there are no changes to the critical accounting policies and estimates from those described in the 2014 annual MD&A.

### **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. These inter-company structures are established on terms typical of arm's length agreements. 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, 2014.

## **9. Commitments and Contingencies**

The Company has no material “off-balance sheet” financing obligations, except for long-term operating lease agreements. The nature of these commitments is described in note 25 of the annual consolidated financial statements for the year ended December 31, 2014. There are no defined benefit plans funded with CCL stock.

## **10. Controls and Procedures**

There were no material changes in internal controls over financial reporting in the six-month period ended June 30, 2015.

## **11. Risks and Strategies**

The 2014 MD&A in the annual report detailed risks to the Company’s business and the strategies that were planned for 2015 and beyond. There have been no material changes to those risks and strategies during the first six months of 2015.

## **12. Outlook**

The second quarter of 2015 was an outstanding quarter for CCL, the second consecutive quarterly record, with basic and adjusted basic earnings per Class B share of \$2.12, exceeding the previous record by 6.5% set in the first quarter of 2015. All three Segments posted strong improvements in operating income; most notably Avery, which posted a 59.5% increase in operating income due to cost cutting programs and efficiency initiatives taking root. CCL’s more recent acquisitions, Bandfix, LCL, Nilles, INTA and PCN, all met expectations for the current quarter.

Order intake in the Label Segment remains steady so far into the third quarter. Management continues to see low growth opportunities in developed economies as soft demand for consumer staples prevails despite solid consumer durables demand globally. Emerging Markets growth for CCL has outpaced developed economies notwithstanding currency challenges in Latin America and unstable consumer demand within the Asian countries, especially in China. Expansion initiatives, such as CCL’s new Home & Personal Care operations in the Philippines and CCL’s new joint venture in Thailand have completed construction, and commenced trading but are not expected to post profitable returns until 2016. CCL has also commenced construction of a new start-up Specialty operation in South Korea and has started the installation of machinery for its new Home & Personal Care operation in Argentina, neither of which are expected to be completed until early 2016. The effect of foreign currency rates remains positive into the third quarter of 2015 on translated results if current levels of the Canadian dollar prevail or weaken.

At Avery, new product initiatives, consumer digital print opportunities and cross selling programs with the three recent acquisitions provide incremental potential for growth for the Segment. In the shorter term, CCL expects the strong results in the first six months of 2015 to be tempered by a slower back-to-school season than in the prior year as management focuses on building the Printable Media business. Focus in the binder product line has been around cost reduction, new higher margin products and gaining

share in the 'every-day use' commercial channel. All this is at the expense of low margin, high volume, commodity binders prevalent in retail channels during the back-to-school period, where Avery has been willing to give up market share in a price sensitive market. So far into the third quarter, sales in the BOPWI category have been restrained due to this strategic undertaking. Consequently, management believes that it will be very challenging to match the performance of the back-to-school season in 2014, but remains confident that the Segment will still exceed the financial performance for 2014 in its entirety, excluding any positive impacts from currency translation and acquisitions.

The Container Segment posted a strong start to 2015 while reducing the pace and related risk of the closure and redistribution of manufacturing equipment from its Canadian operation to the U.S. and Mexican facilities. Given the weaker Canadian dollar, time is not currently of the essence. 2015 will continue as a year of transition for the Container Segment, which still expects to be within its announced \$25.0 million infrastructure investment budget to deliver the \$10.0 million of incremental annual cash flow when this initiative is completed in late 2016. Lastly, with the investment in Rheinfelden, the Segment plans on developing a sustainable secondary source of aluminum slugs for its North American manufacturing requirements.

Unused credit lines stand at \$275 million; with additional cash-on-hand, the Company has the capacity to execute its 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 \$150 million, in line with annual depreciation expense.

### **13. 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, 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, 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)

	<u>Second Quarter</u>		<u>Year-to-Date</u>	
	2015	2014	2015	2014
<b>EBITDA</b> (earnings before net finance cost, taxes, depreciation and amortization, goodwill impairment loss, earnings in equity accounted investments, and restructuring and other items)				
Net earnings	\$ 73.3	\$ 55.3	\$ 141.4	\$ 107.9
Corporate expense	13.0	7.4	26.4	13.5
Earnings in equity accounted investments	(0.2)	(1.0)	(0.8)	(1.0)
Finance cost, net	6.2	6.3	12.5	13.0
Restructuring and other items – net loss	-	1.1	0.9	2.0
Income taxes	30.3	20.1	59.3	42.3
Operating income (a non-IFRS measure)	\$ 122.6	\$ 89.2	\$ 239.7	\$ 177.7
Less: Corporate expense	(13.0)	(7.4)	(26.4)	(13.5)
Add: Depreciation and amortization	39.3	37.0	78.7	72.6
EBITDA (a non-IFRS measure)	\$ 148.9	\$ 118.8	\$ 292.0	\$ 236.8

**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.

(in millions of Canadian dollars)	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
Free Cash Flow from Operations				
Cash provided by operating activities	\$ 111.3	\$ 85.0	\$ 158.7	\$ 112.0
Less: Additions to property, plant and equipment	(34.9)	(24.3)	(91.6)	(84.1)
Add: Proceeds on disposal of property, plant and equipment	1.8	0.2	2.4	5.7
Free Cash Flow from Operations	\$ 78.2	\$ 60.9	\$ 69.5	\$ 33.6

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 Total Book Capitalization – A measure that indicates the financial leverage of the Company. It measures the relative use of debt versus equity in the book capital of the Company. Net debt to total book capitalization is defined as Net Debt (see definition above) divided by Net Debt plus total equity, expressed as a percentage.

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 Second Quarter		Return on Sales Second Quarter	
	2015	2014	2015	2014	2015	2014
Label	\$ 468.9	\$ 423.8	\$ 71.9	\$ 56.0	15.3%	13.2%
Avery	198.2	174.2	45.3	28.4	22.9%	16.3%
Container	54.4	52.4	5.4	4.8	9.9%	9.2%
Total Operations	\$ 721.5	\$ 650.4	\$ 122.6	\$ 89.2	17.0%	13.7%

### Supplemental Financial Information

#### Sales Change Analysis

#### Revenue Growth Rates (%)

	Three Months Ended June 30, 2015				Six Months Ended June 30, 2015			
	Organic Growth	Acquisition Growth	FX Translation	Total	Organic Growth	Acquisition Growth	FX Translation	Total
Label	4.0	4.0	2.6	10.6	3.9	5.6	3.2	12.7
Avery	(1.0)	7.2	7.6	13.8	3.8	6.0	6.9	16.7
Container	(1.0)	-	4.8	3.8	2.9	-	5.2	8.1
CCL	2.2	4.6	4.1	10.9	3.8	5.2	4.3	13.3