

Company Registration No. 005059427

Innovia Group (Holding 1) Limited

Annual report and financial statements

For the year ended 31 December 2015



Innovia Group (Holding 1) Limited

Annual report and financial statements 2015

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Innovia Group (Holding 1) Limited

Annual report and financial statements 2015

Company information

Directors

M J Fallen
J A Arney
R J Booth
O S Khan
W Priestley
M Robertshaw
Sir N E Sheinwald

Company Secretary

D Horton

Registered Office

The Coach House
West Street
Wigton
Cumbria
CA7 9PD

Innovia Group (Holding 1) Limited

Strategic report

The Directors present their Strategic report for the year ended 31 December 2015.

The business model

Innovia Group (Holding 1) Limited and its subsidiaries (the 'Group') operates three divisions: Innovia Films, Innovia Security and Innovia Systems. Across these three divisions the Group operates seven production centres at five sites in Australia, Belgium, Mexico, the United Kingdom and the USA and 17 regional sales offices servicing customers in more than 100 countries around the world. Worldwide the Group employs over 1,600 people with a focus on high quality speciality products, strong customer relationships and service ethic together with research & development.

Innovia Films

Innovia Films is a major producer of Biaxially Oriented Polypropylene (BOPP) and cellulose (NatureFlex™ and Cellophane™) films with production sites in the UK, USA, Belgium and Australia. It holds a leading global position in the markets for labels and security films, coated packaging, overwrap and renewable and compostable films.

Innovia Security

Innovia Security is the producer of Guardian® the world's most sophisticated banknote substrate which is currently issued by 24 countries on 80 denominations worldwide. We have production sites in the UK, Mexico and Australia.

Innovia Systems

Innovia Systems is focused on offering the banking industry a range of services, machines and software that can authenticate banknotes, assess the quality of banknotes in circulation and assist in the general public's acceptance of Guardian® polymer banknotes.

The subsidiary undertakings of the Group in the year are listed in note 13 to the financial statements.

Strategy and objectives

The Group's strategy involves the following key elements:

- Pursuit of attractive growth opportunities across our business segments;
- Increasing production capacity in order to serve growing demand in new and existing markets;
- Continued focus on new product development;
- Continued emphasis on maintaining and developing our customer relationships; and
- On-going implementation of raw material, other cost reduction and production efficiency initiatives.

Review of the Group's business

Review of operations

The operational highlights are:

- **Films Division**

The new 'bubble' BOPP Film production line in the UK was successfully commissioned and is providing the additional capacity expected, including for research and development work.

- **Security Division**

On 12 March 2014 it was announced that the Group had signed a contract with the Bank of England regarding the production of polymer substrate for use in the production of £5 and £10 notes from 2016. The Group consequently committed to build a production facility in the UK to support its contractual obligations and as anticipated the plant was substantially complete at 31 December 2015 with manufacturing expected to commence in 2016. On 23 June 2015 the Group acquired an equity investment for a minority stake and a Board seat in a technology and design company specialising in security features on polypropylene film.

Innovia Group (Holding 1) Limited

Strategic report (continued)

Review of the Group's business (continued)

- Systems Division

With effect from January 2015, Innovia Systems Limited was established as the new Systems Division, focussing on offering the banking industry a range of services, equipment and software relating to banknote authentication and quality assessment. During 2015 the division has focused on establishing manufacturing arrangements and securing initial orders with sales commencing to third parties in 2016.

Financial performance

Full details of the Group's results are shown in the attached financial statements.

Group turnover increased by 2.3% to €508.5m in 2015 compared to the prior year. Sales by the Films Division increased largely due to favourable foreign exchange movements. This was partly offset by a decrease in the sales of the Security Division following a record first half of sales in 2014.

Operating profit developed as follows:

	2015 €m	2014 €m
Existing operations	43.5	49.1
Exceptional items - existing operations	(12.3)	(15.1)
	<u>31.2</u>	<u>34.0</u>

Operating profit before exceptional items decreased by 11.4% to €43.5m in 2015.

Exceptional costs of €12.3m (2014: €15.1m) incurred in the year to 31 December 2015 relate to the change in ownership of the Group as well as one-off costs primarily linked to the commercialisation of new security features for bank note substrate in the Security division, see note 4 for further details.

Finance charges (net) decreased by 19.7% to €39.5m in the year ended 31 December 2015 from €49.2m in the year ended 31 December 2014. The main constituents of the decrease were a gain realised on the termination of the AUD cross currency swap, lower interest costs as a consequence of the 2014 refinancing and reduced non-cash foreign exchange differences.

The tax charge for 2015 amounted to €3.5m (2014: €12.7m), with the effective tax rate higher than the UK standard rate of corporation tax due to the distribution of profits globally.

Taking into account finance charges and tax the Group transferred €11.8m from reserves (2014: €27.9m transferred from reserves) in respect of the loss for the year.

Innovia Group (Holding 1) Limited

Strategic report (continued)

Key performance indicators

The financial key performance indicators that are considered necessary for an understanding of the development, performance or position of the business, as they relate to the business's ability to generate cash from operating performance and deploy it efficiently in maintaining working capital requirements in normal conditions, are set out below:

	2015 €m	2014 €m
Underlying EBITDA (a)	74.2	78.0
Free cash flow (b)	19.6	8.7

- a) Underlying EBITDA = Earnings before exceptional items, interest, pension adjustments, tax, depreciation and amortisation of the Group.
- b) Free Cash flow = Cash flow from Underlying EBITDA, amended for capital expenditure, working capital movements, cash tax paid, cash interest expense and excluding expenditure on acquisitions.

Underlying EBITDA decreased primarily due to the mix of sales between the Divisions.

Free cash flow improved year on year primarily due to favourable working capital movements, with several initiatives being undertaken in the Group.

Principal risks and uncertainties

Factors that particularly impact upon the performance of the business include:

- Price volatility of specialised and commodity raw materials and energy – these prices can be subject to significant cyclical movements driven by the price of oil and general economic conditions. The Group has some ability to pass on higher input prices to its customers but this ability is, to a large extent, dependent on regional and specific market conditions. In addition the Group has the ability in certain cases to hedge volatility through fixed price contracts and financial derivatives.
- Competition – sales volumes are subject to evolving competitive pressure. The Group responds to this pressure by maintaining very close contact with its customers and through product innovation.
- Supplier dependency and supplier credit availability – we depend upon a very low number of single-source suppliers for certain raw materials. In addition a reduction in supplier credit could impact on our valued relationships with our suppliers and on the degree of financial liquidity available to the Group.
- Customer concentration – a limited number of customers account for a significant proportion of our sales revenues, and our revenue in some segments and profits could decrease if we lost one or more of these customers or suffered reputational damage in any way which reduced their desire to contract with the Group.
- Foreign currency and interest rate fluctuations – the Group's operations are conducted in a range of different currencies and changes in exchange rates and interest rates can impact financial results.
- Pension funding rates – as set out in the notes to the financial statements, the Group is subject to risk in respect of its defined benefit schemes arising from changing life expectancy assumptions and a variety of market factors beyond its control.

Innovia Group (Holding 1) Limited

Strategic report (continued)

Corporate and social responsibility

Environmental matters

The Group is committed to conduct its business in a manner which will protect the environment, in accordance with all legal requirements and sound environmental management practices. The Group has practices in place for the continual review and improvement of its operations in order to reduce their environmental impact and use of resources.

Employee matters

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the Group. This is achieved through formal and informal meetings and regular briefings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Innovia's people are its greatest asset. The Group welcomes and values diversity and difference and its employees come from a wide range of backgrounds. Innovia also has a distinct company culture and seeks out people who share its values, commitment and determination to be the best. Working in a variety of roles, its staff share a common goal: to deliver the innovative products demanded by its customers worldwide.

Going concern basis

Having considered the matters outlined above, the Group's business and financial forecasts, the impact on those forecasts of uncertainties and reasonably possible changes in the trading and prospects of the Group, together with the terms of the existing finance facilities, which remain in place throughout the forecast period, the Directors are of the view that it is appropriate to adopt the going concern basis in the preparation of the financial statements. Further details are included in in the Statement of Accounting Policies.

Approved by the Board and signed on its behalf by



O S Khan
Director

30 March 2016

Innovia Group (Holding 1) Limited

Directors' report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2015.

Elective resolutions exempting the Directors from the requirement to lay financial statements and annual report before the Company in General Meetings and exempting the Company from annually re-appointing the auditor are in force.

Transition in accounting standards

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The last financial statements under previous UK GAAP were for the period ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. For more details on transition please refer to note 29.

Results and dividends

A review of the results can be found on pages 2 and 3 within the Strategic report. The Directors recommend that no final ordinary dividend shall be paid (2014: €nil).

Employment consultation

The Company places considerable value on the contribution of its employees and further details can be found in the Strategic report.

Corporate Governance

The Group has central banks in its customer base, who along with other customers, stakeholders and employees expect certain standards of corporate governance. The Group is committed to high standards of corporate governance and has developed a set of values that it has communicated to all employees. The Group's policy framework provides a set of practical rules and procedures which staff are expected to adhere to and comply with.

Directors

The directors, who served throughout the year except as noted, were as follows:

M J Fallen	(Chairman)
J A Arney	
D G Beeby	(resigned 31 March 2015)
R J Booth	
O S Khan	(appointed 1 May 2015)
W Priestley	
M Robertshaw	(appointed 29 January 2015)
Sir N Sheinwald	(appointed 29 January 2015)
D F Tilston	(resigned 31 March 2015)

Mr Robertshaw was appointed Group Chief Executive Officer with effect from 26 January 2015. Mr Khan was appointed Group Chief Financial Officer with effect from 20 April 2015.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Innovia Group (Holding 1) Limited

Directors' report (continued)

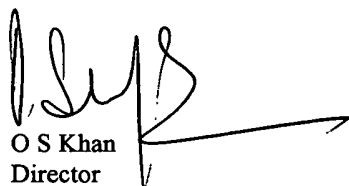
Auditor

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

- So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- Each of the Directors has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by:



O S Khan
Director

30 March 2016

Innovia Group (Holding 1) Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS102 the Financial Reporting standard applicable in the UK and Republic of Ireland. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Innovia Group (Holding 1) Limited

We have audited the financial statements of Innovia Group (Holding 1) Limited for the year ended 31 December 2015 which comprise the Consolidated profit and loss account, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated cash flow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2015 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

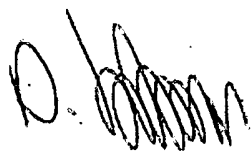
In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Innovia Group (Holding 1) Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group and Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records or returns; or
- certain disclosures of the Directors' remuneration specified by law are not made; or
- we have not received all information and explanations we require for our audit.



David Johnson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne, United Kingdom
30 March 2016

Innovia Group (Holding 1) Limited

Consolidated profit and loss account For the year ended 31 December 2015

	Note	2015 €m	2014 €m
Turnover	3	508.5	497.0
Cost of sales	4	<u>(375.9)</u>	<u>(367.6)</u>
Gross profit		132.6	129.4
Other operating expenses (net)	4	<u>(101.4)</u>	<u>(95.4)</u>
Operating profit		<u>31.2</u>	<u>34.0</u>
- Existing operations		43.5	49.1
- Exceptional items	4	<u>(12.3)</u>	<u>(15.1)</u>
Operating profit		<u>31.2</u>	<u>34.0</u>
Profit on ordinary activities before finance charges		31.2	34.0
Finance charges (net)	5	<u>(39.5)</u>	<u>(49.2)</u>
Loss on ordinary activities before tax	6	(8.3)	(15.2)
Tax on loss on ordinary activities	9	<u>(3.5)</u>	<u>(12.7)</u>
Loss for the financial year		<u><u>(11.8)</u></u>	<u><u>(27.9)</u></u>

All the Group's activities are from continuing operations.

Innovia Group (Holding 1) Limited

Consolidated statement of comprehensive income As at 31 December 2015

	Notes	2015 €m	2014 €m
Loss for the financial year		(11.8)	(27.9)
Foreign currency gain on translation of overseas entities		9.8	18.6
Remeasurement of defined benefit liability	23	6.7	(24.4)
Deferred tax on remeasurement of defined benefit liability	18	(1.7)	5.6
Other comprehensive gain/(loss)		14.8	(0.2)
Total comprehensive profit/(loss)		3.0	(28.1)


Innovia Group (Holding 1) Limited

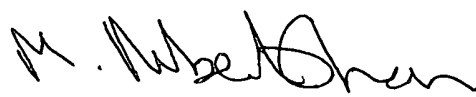
Consolidated balance sheet As at 31 December 2015

	Notes	2015 €m	2014 €m
Fixed assets			
Goodwill	11	19.0	20.3
Negative goodwill	11	(18.8)	(15.9)
Total goodwill		0.2	4.4
Other Intangible assets	11	25.4	27.1
Total intangible assets		25.6	31.5
Tangible assets	12	224.9	202.0
Investments	13	4.6	-
Total fixed assets		255.1	233.5
Current assets			
Stocks	14	78.4	82.4
Debtors	15	93.3	96.6
Cash and short term deposits		28.0	30.2
		199.7	209.2
Creditors: amounts falling due within one year	16	(92.8)	(95.8)
Net current assets		106.9	113.4
Total assets less current liabilities		362.0	346.9
Creditors: amounts falling due after more than one year	17	(370.3)	(356.9)
Net liabilities before pension liability		(8.3)	(10.0)
Pension liability	23	(25.6)	(30.5)
Net liabilities including pension liability		(33.9)	(40.5)
Capital and reserves			
Called-up share capital	19	6.1	6.1
Share premium	19	27.5	27.5
Hedging reserves		(2.6)	(6.2)
Profit and loss account		(64.9)	(67.9)
Shareholder's deficit		(33.9)	(40.5)

The financial statements of Innovia Group (Holding 1) Limited (registered number 005059427) were approved by the Board of Directors and authorised for issue on 30 March 2016.

Signed on behalf of the Board of Directors


O S Khar
Director


M Robertshaw
Director


Innovia Group (Holding 1) Limited

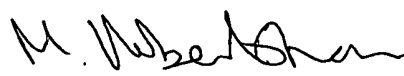
Company balance sheet As at 31 December 2015

	Notes	2015 €m	2014 €m
Fixed assets			
Investments	13	21.0	21.0
		<u>21.0</u>	<u>21.0</u>
Current assets			
Debtors	15	12.7	11.6
Cash and short term deposits		1.4	1.4
Creditors: amounts falling due within one year	16	(0.6)	(0.6)
Net current assets		<u>13.5</u>	<u>12.4</u>
Total assets less current liabilities		<u>34.5</u>	<u>33.4</u>
Capital and reserves			
Called-up share capital	19	6.1	6.1
Share premium		27.5	27.5
Profit and loss account		0.9	(0.2)
Shareholder's funds		<u>34.5</u>	<u>33.4</u>

The financial statements of Innovia Group (Holding 1) Limited (registered number 005059427) were approved by the Board of Directors and authorised for issue on 30 March 2016.

Signed on behalf of the Board of Directors


O S Khan
Director


M Robertshaw
Director

Innovia Group (Holding 1) Limited

Consolidated statement of changes in equity For the year ended 31 December 2015

	Notes	Called-up share capital €m	Share premium account €m	Hedging reserves €m	Profit and loss account €m	Total €m
At 31 December 2013		6.1	-	-	(43.7)	(37.6)
Changes on transition to FRS 102	29	-	-	0.9	3.9	4.8
At 1 January 2014		6.1	-	0.9	(39.8)	(32.8)
Loss for the financial year		-	-	-	(27.9)	(27.9)
Foreign currency gain on translation of overseas entities		-	-	-	18.6	18.6
Hedges of variable foreign exchange and commodity price risk		-	-	(7.1)	-	(7.1)
Actuarial loss relating to pension schemes	23	-	-	-	(24.4)	(24.4)
Deferred tax on actuarial loss		-	-	-	5.6	5.6
Total comprehensive loss		-	-	(7.1)	(28.1)	(35.2)
Issue of share capital		-	27.5	-	-	27.5
At 31 December 2014		6.1	27.5	(6.2)	(67.9)	(40.5)
Loss for the financial year		-	-	-	(11.8)	(11.8)
Foreign currency gain on translation of overseas entities		-	-	-	9.8	9.8
Hedges of variable foreign exchange and commodity price risk		-	-	3.6	-	3.6
Actuarial gain relating to pension Schemes	23	-	-	-	6.7	6.7
Deferred tax on actuarial loss	18	-	-	-	(1.7)	(1.7)
Total comprehensive income		-	-	3.6	3.0	6.6
At 31 December 2015		6.1	27.5	(2.6)	(64.9)	(33.9)

Innovia Group (Holding 1) Limited

Company statement of changes in equity For the year ended 31 December 2015

	Called-up share capital €m	Share premium account €m	Profit and loss account €m	Total €'000
At 1 January 2014	6.1	-	(0.6)	5.5
Profit for the financial year and total comprehensive income	-	-	0.4	0.4
Issue of share capital	-	27.5	-	27.5
At 31 December 2014	6.1	27.5	(0.2)	33.4
Profit for the financial year and total comprehensive income	-	-	1.1	1.1
At 31 December 2015	6.1	27.5	0.9	34.5

Innovia Group (Holding 1) Limited

Consolidated cash flow statement For the year ended 31 December 2015

	Note	2015 €m	2014 €m
Net cash flows from operating activities	20	66.3	35.3
Cash flows from investing activities			
Proceeds from sale of fixed assets		1.4	0.3
Purchase of equipment		(43.7)	(32.7)
Acquisition of subsidiary		(5.4)	(9.8)
Acquisition of investment		(3.5)	-
Interest received		0.1	0.8
Net cash flows from investing activities		<u>(51.1)</u>	<u>(41.4)</u>
Cash flows from financing activities			
Issue of called up share capital		-	12.6
Repayment of unsecured loan notes		-	(85.0)
Drawdown of senior secured floating rate notes		-	340.3
Repayment of bank loans		-	(296.4)
Fees and costs incurred on issue of senior secured floating rate loans		(0.2)	(13.1)
Cross currency swap settlement		3.4	-
Interest paid		(24.3)	(21.0)
Net cash flows from financing activities		<u>(21.1)</u>	<u>(62.6)</u>
Net decrease in cash and cash equivalents		<u>(5.9)</u>	<u>(68.7)</u>
Cash and cash equivalents at beginning of year		30.2	93.0
Effect of foreign exchange rate changes		3.7	5.9
Cash and cash equivalents at end of year		<u>28.0</u>	<u>30.2</u>

Innovia Group (Holding 1) Limited

Notes to the financial statements For the year ended 31 December 2015

1. Statement of accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

General information and basis of accounting

Innovia Group (Holding 1) Limited is a company limited by shares and is incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the Strategic report on pages 2 to 5.

These financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council.

The consolidated prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 29. No adjustments were made to the Company prior year financial statements. FRS102 grants certain first-time adoption exemptions from the full requirements of FRS102. The following exemptions have been taken in these financial statements:

-Business combinations: Business combinations that took place prior to the date of transition have not been restated.

The functional currency of Innovia Group (Holding 1) Limited is considered to be Euros, being the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in Euros. Foreign operations are included in accordance with the policies set out below.

The parent company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a separate cash flow statement, intra-group transactions and remuneration of key management personnel.

Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Group's business activities, together with factors that are likely to affect its future development, financial performance and financial position are set out in the Strategic report and the Directors' report on pages 2 to 7. In addition, the material financial and operational risks and uncertainties that impact upon the Group's performance are outlined in the strategic report.

The Group has continued to operate within the terms of its finance facilities throughout the year. At the date of approval of the 2015 financial statements the Group's internal forecasts indicate that it has sufficient profitability and liquidity such that it will remain in compliance with the terms of its new finance facilities, for the foreseeable future being at least twelve months from the date of signing of the 2015 financial statements.

Having considered the above matters, the Group's business and financial forecasts, the impact on those forecasts of reasonably possible changes in the trading and prospects of the Group, together with the terms of the existing finance facilities, which remain in place throughout the forecast period, the Directors are of the view that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2015. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. In the parent company's financial statements, investments in subsidiaries are carried at cost less impairment.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

1. Statement of accounting policies (continued)

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life which is 20 years. Provision is made for any impairment.

Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Intangible assets – patents and trade secrets, trademarks and proprietary software

Patents and trade secrets, trademarks and proprietary software are included at cost and amortised in equal instalments over their expected useful economic life as follow:

Patents and trade secrets	12 to 20 years
Trademarks	20 years
Proprietary software	5 years

Provision is made for any impairment.

Intangible assets – research and development

Research is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any impairment

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	20 to 33 years
Plant, machinery and motor vehicles	3 to 20 years

Assets under the course of construction are not depreciated until available for use.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

1. Statement of accounting policies (continued)

Tax (continued)

profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Turnover

Turnover represents amounts receivable for goods provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Turnover is recognised when the risks and rewards of ownership are transferred to the customer.

Pension costs

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Statement of accounting policies (continued)

Foreign currency (continued)

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the Balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the Statement of comprehensive income. All other exchange differences are included in the Profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

1. Statement of accounting policies (continued)

Financial instruments (continued)

(i) *Financial assets and liabilities (continued)*

- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) *Equity instruments*

Equity instruments issued by the Group are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) *Derivative financial instruments*

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, interest rate movements and commodity price movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

1. Statement of accounting policies (continued)

Financial instruments (continued)

(iv) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(v) Hedge accounting

The Group designates certain derivatives as hedging instruments as cash flow hedges.

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents causes for hedge ineffectiveness.

Note 25 sets out details of the fair values of the derivative instruments used for hedging purposes.

(vi) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in the Statement of accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Depreciation and amortisation

The Group exercises judgement to determine useful lives and residual values of intangibles, property, plant and equipment. The assets are depreciated down to their residual values over the estimated useful lives.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment

The Group tests annually whether its assets have suffered any impairment. Where required, recoverable amounts are calculated using the higher of the fair value less cost to sell and value in use. These tests require the use of judgements and estimates.

Pensions

The Group has a post-employment benefit obligation, the present value of which depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the post-employment benefit obligations. Key assumptions for post-employment benefit obligations are disclosed in note 23.

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. The Group uses management's expectations of future revenue growth, operating costs and profit margins to determine the extent to which the future taxable profits will be generated to consume the deferred tax assets.

Key sources of estimation uncertainty-inventories

An inventory provision is booked for cases where the realisable value from sale of inventory is estimated to be lower than the inventory carrying value. The inventory provision is based on the age of stock and management experience of realisable values.

3. Turnover

An analysis of the Group's turnover by destination is as follows:

	2015	2014
	€m	€m
United Kingdom	54.3	35.7
Europe	188.2	183.2
USA	74.6	61.0
Rest of the World	191.4	217.1
	<u>508.5</u>	<u>497.0</u>

Disclosure of information on a divisional basis would in the opinion of the Directors be seriously prejudicial to the interests of the Group and hence this information has not been provided in this report.

All turnover relates to the sale of goods.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) **For the year ended 31 December 2015**

4. Cost of sales and other operating expenses (net)

Cost of sales

Included in cost of sales is €2.8m (2014: €nil) in respect of one-off costs incurred in the remaining phase of the commercialisation of new security product features.

Other operating expenses (net)

	2015 €m	2014 €m
Distribution costs	<u>(44.4)</u>	<u>(40.2)</u>
Administrative expenses:		
Other	(47.5)	(40.1)
Exceptional items	<u>(9.5)</u>	<u>(15.1)</u>
	<u>(57.0)</u>	<u>(55.2)</u>
	<u><u>(101.4)</u></u>	<u><u>(95.4)</u></u>

Exceptional items included in other operating expenses (net) relate to:

- a) Reorganisation costs arising from the change in ownership of the Group, professional fees in respect of corporate restructuring and legal fees incurred in connection with the legacy contractual arrangements €2.3m (2014: €8.8m).
- b) One-off costs incurred in the remaining phase of the commercialisation of new security product features €7.2m (2014: €6.3m).

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

5. Finance charges (net)

Interest receivable and similar income

	2015 €m	2014 €m
Interest receivable	0.1	0.8
Foreign exchange gains	3.0	0.3
Net finance credit re pension scheme returns (see note 23)	7.4	8.4
	<u>10.5</u>	<u>9.5</u>

Interest payable and similar charges

	2015 €m	2014 €m
Bank loans and overdrafts	-	(8.0)
Interest on unsecured loan notes	-	(3.4)
Interest on senior secured floating rate notes	(24.3)	(15.5)
	<u>(24.3)</u>	<u>(26.9)</u>
Amortisation of debt issue costs and accretion of bond discount	(2.5)	(3.4)
Net finance charge re pension scheme returns (see note 23)	(8.6)	(8.3)
	<u>(35.4)</u>	<u>(38.6)</u>
Interest payable and similar charges before exchange losses	(35.4)	(38.6)
Foreign exchange losses	(14.6)	(20.1)
	<u>(50.0)</u>	<u>(58.7)</u>
Total interest payable	(50.0)	(58.7)
Total finance charges (net)	<u>(39.5)</u>	<u>(49.2)</u>

Interest on unsecured loan notes and an element of the bank interest was payment in kind in nature. These amounts were settled in 2014 as outlined in note 17. The foreign exchange losses mainly relate to cross-currency swaps that are also described in note 17.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

6. Loss on ordinary activities before tax

Loss on ordinary activities before tax is stated after charging/(crediting):

	2015 €m	2014 €m
Depreciation and amounts written off tangible fixed assets		
- owned	25.2	23.3
- loss on disposal of tangible fixed assets	0.1	1.7
Research and development		
- current period expenditure	10.6	8.4
Amortisation of positive goodwill – Group	1.8	2.0
Amortisation of negative goodwill – Group	(0.5)	(1.0)
Amortisation of patents and trademarks	1.9	1.9
Amortisation of development costs	1.9	1.0
Exchange (gains)/losses on trading	(3.5)	(3.5)
Operating lease rentals		
- plant and machinery	0.4	0.5
- other	0.8	0.7
- land and buildings	0.8	0.8
Audit fees		
- for audit services with respect to subsidiary undertakings	0.5	0.4
Auditor's remuneration for other services		
- for services relating to taxation compliance	0.4	0.4
- for services relating to taxation advisory	0.3	0.4
- for services relating to corporate finance activities	0.1	0.8

Auditor's remuneration for other services relates to the refinancing and sale of the Group. Audit fees for services with respect to the Company, paid by subsidiary were €21,000 (2014: €18,000).

7. Staff costs

The average monthly number of employees (including Executive Directors) was

	2015 Numbers	2014 Numbers
Hourly Paid	868	897
Monthly Paid	718	709
	<u>1,586</u>	<u>1,606</u>

Their aggregate remuneration comprised:

	2015 €m	2014 €m
Wages and salaries	99.5	90.9
Social security costs	9.2	9.2
Pension costs (see note 23)	6.1	5.8
	<u>114.8</u>	<u>105.9</u>

There were no staff costs paid by the Company (2014: €nil).

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

8. Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2015 €'000	2014 €'000
Emoluments including benefits in kind	2,079	1,196
Fees paid to third parties	210	128
	<u>2,289</u>	<u>1,324</u>

The number of Directors to whom retirement benefits are accruing in respect of each of:

	2015 Numbers	2014 Numbers
Money purchase schemes	2	-
	<u>2</u>	<u>-</u>

Highest paid Director

	2015 €'000	2014 €'000
The emoluments of the highest paid Director were	1,098	585
Pension contributions amounted to	37	-

Directors' transactions

Fees paid to third parties include €140,000 (2014: €85,000) paid to Arle Services Limited under an agreement to provide the Group with the services of Mr R J Booth and Mr J A Arney. Fees paid to third parties also include €70,000 (2014: €43,000) paid to Electra Services Limited under an agreement to provide the Group with the services of Mr W Priestley.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

9. Tax on loss on ordinary activities

The tax charge comprises:

	2015 €m	2014 €m
Current tax		
Overseas tax	6.5	10.1
Adjustments to tax charge in respect of previous periods	(1.6)	(0.1)
Total current tax charge	<u>4.9</u>	<u>10.0</u>
Deferred tax		
Origination and reversal of timing differences	(2.7)	0.6
Adjustments in respect of prior periods	0.5	-
Deferred tax not recognised	(0.2)	2.1
Difference in deferred tax rates	1.0	-
Total deferred tax credit	<u>(1.4)</u>	<u>2.7</u>
Total tax on loss on ordinary activities	<u>3.5</u>	<u>12.7</u>
Total current and deferred tax relating to items of other comprehensive income	<u>1.7</u>	<u>(5.6)</u>
Total tax charge	<u>5.2</u>	<u>7.1</u>

The standard rate of tax applied to the reported loss on ordinary activities is 20.25% (2014: 21.49%). The applicable tax rate changed to 20% from 1 April 2015.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

9. Tax on loss on ordinary activities (continued)

The difference between the total tax charge shown above and the amount calculated by applying Standard rate of UK Corporation Tax to the loss before tax is as follows:

	2015 €m	2014 €m
Group loss on ordinary activities before tax	(8.3)	(15.2)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%)	(1.7)	(3.3)
Effects of:		
Expenses not deductible for tax purposes	3.0	8.2
Losses arising in the year	-	3.3
Unprovided deferred tax movement	(0.2)	1.0
Withholding tax and other income taxes	0.4	0.8
Higher rates on overseas earnings	2.1	2.8
Deferred tax rate differences	1.0	-
Adjustments to tax charge in respect of previous periods	(1.1)	(0.1)
Group total tax charge for year	3.5	12.7

10. Result attributable to the Company

The result for the financial year dealt with in the financial statements of the parent company was a profit of €1.1m (2014: profit of €0.4m). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent Company.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

11. Intangible fixed assets

	Development costs €m	Patents and trade secrets €m	Trademarks €m	Proprietary software €m	Total €m
Group Cost					
At 1 January 2015	12.9	22.1	3.8	0.5	39.3
Additions	1.4	-	-	-	1.4
Exchange differences	0.9	-	(0.1)	-	0.8
	<u>15.2</u>	<u>22.1</u>	<u>3.7</u>	<u>0.5</u>	<u>41.5</u>
At 31 December 2015					
Amortisation					
At 1 January 2015	8.3	3.3	0.4	0.2	12.2
Charge for the year	1.9	1.9	-	-	3.8
Exchange differences	0.2	-	(0.1)	-	0.1
	<u>10.4</u>	<u>5.2</u>	<u>0.3</u>	<u>0.2</u>	<u>16.1</u>
At 31 December 2015					
Net book value					
At 31 December 2015	<u>4.8</u>	<u>16.9</u>	<u>3.4</u>	<u>0.3</u>	<u>25.4</u>
At 31 December 2014	<u>4.6</u>	<u>18.8</u>	<u>3.4</u>	<u>0.3</u>	<u>27.1</u>
Goodwill					
			Positive goodwill €m	Negative goodwill €m	Total €m
Group Cost					
At 1 January 2015			41.6	(22.8)	18.8
Additions			-	(3.4)	(3.4)
Exchange differences			0.9	-	0.9
			<u>42.5</u>	<u>(26.2)</u>	<u>16.3</u>
At 31 December 2015					
Amortisation					
At 1 January 2015			21.3	(6.9)	14.4
Charge/(credit) for the year			1.8	(0.5)	1.3
Exchange adjustments			0.4	-	0.4
			<u>23.5</u>	<u>(7.4)</u>	<u>16.1</u>
At 31 December 2015					
Net book value					
At 31 December 2015			<u>19.0</u>	<u>(18.8)</u>	<u>0.2</u>
At 31 December 2014			<u>20.3</u>	<u>(15.9)</u>	<u>4.4</u>

Negative goodwill addition relates to a previous acquisition.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

12. Tangible fixed assets

Group	Freehold land and buildings €m	Plant, machinery and motor vehicles €m	Assets in course of construction €m	Total €m
Cost				
At 1 January 2015	47.3	290.0	21.8	359.1
Additions in year	0.2	3.2	38.2	41.6
Disposals in year	-	(8.5)	-	(8.5)
Transfers in year	0.9	25.2	(26.1)	-
Exchange adjustment	1.9	17.0	1.2	20.1
At 31 December 2015	50.3	326.9	35.1	412.3
Depreciation				
At 1 January 2015	15.6	141.5	-	157.1
Charge for the year	1.9	23.3	-	25.2
Disposals in year	-	(6.9)	-	(6.9)
Exchange adjustment	1.1	10.9	-	12.0
At 31 December 2015	18.6	168.8	-	187.4
Net book value				
At 31 December 2015	31.7	158.1	35.1	224.9
At 31 December 2014	31.7	148.5	21.8	202.0

Assets in course of construction mainly relates to the construction of the new polymer substrate production facility for the Security Division in Wigton, UK.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

13. Fixed asset investments

Principal Group investments

At 31 December 2015 the Company and the Group have investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	Holding	Class of shares
Innovia Group (Holding 2) Limited	UK	Holding Company	100%	Ordinary
Innovia Group (Holding 2014) Limited	UK	Holding Company	100%	Ordinary
Innovia Group (Holding 3) Limited	UK	Holding and management services	100%	Ordinary
Innovia Group (Finance) PLC	UK	Treasury and financing company	100%	Ordinary
Innovia Films (Holding) Limited	UK	Holding Company	100%	Ordinary
Innovia Security (Holding) Limited	UK	Holding Company	100%	Ordinary
Innovia Group (Finance 1) Limited	UK	Group treasury and financing company	100%	Ordinary
Innovia Group (Finance 2) Limited	UK	Group treasury and financing company	100%	Ordinary
Innovia Systems Limited	UK	Development and sales of devices and systems complimentary to the core business	100%	Ordinary
Innovia Films Inc	USA	Manufacture and sale of cellulose films/sales of polypropylene film	100%	Ordinary
Innovia Films (Holding) Pty Limited	Australia	Holding Company	100%	Ordinary
Innovia Films BVBA	Belgium	Manufacture and sale of polypropylene film	100%	Ordinary
Innovia Films Limited	UK	Manufacture, sales and marketing of cellulose and polypropylene film.	100%	Ordinary and Preference
Innovia Films SA de CV	Mexico	Sales and marketing of cellulose and polypropylene film	100%	Ordinary
Innovia Films (Commercial) Limited	UK	Marketing and support services	100%	Ordinary
Innovia Films Ltda	Brazil	Marketing and support services	100%	Ordinary
Innovia Films Sarl	Switzerland	Marketing and support services	100%	Ordinary
Innovia Films (Asia Pacific) Pty Limited	Australia	Manufacture and sale of polypropylene films/sales of cellulose film.	100%	Ordinary and redeemable Preference

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued)

For the year ended 31 December 2015

13. Fixed asset investments (continued)

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	Holding	Class of shares
Innovia Cellophane Limited	UK	Dormant	100%	Ordinary
Innovia Sidac Limited	UK	Dormant	100%	Ordinary and cumulative Preference
Innovia Sidex Limited	UK	Dormant	100%	Ordinary and redeemable cumulative Preference
Innovia Security (Holding) Pty Limited	Australia	Holding Company	100%	Ordinary
Innovia Security Limited	UK	Marketing, sales and distribution of polymer substrates for security printing	100%	Ordinary
Innovia Security Pty Limited	Australia	Holding Company and manufacture, marketing, sales and distribution of polymer substrates for security printing	100%	Ordinary
Innovia Security (Australia) Pty Limited	Australia	Dormant	100%	Ordinary
Innovia Security SAS	Columbia	Marketing and support services	100%	Ordinary
Innovia Security SA de CV	Mexico	Manufacture, marketing, sales and distribution of polymer substrates for security printing	100%	Ordinary
Prestadora De Servicios Queretanos SA de CV	Mexico	Marketing and support services	100%	Ordinary
Innovia Security (Commercial) Limited	UK	Marketing and support services	100%	Ordinary

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

13. Fixed asset investments (continued)

All of the above investments are held by subsidiary undertakings with the exception of Innovia Group (Holding 2) Limited which is held by the Company.

Subsidiary undertakings

	Group €m	Company €m
Cost		
At 1 January 2015	-	21.0
Additions	-	-
	<hr/>	<hr/>
At 31 December 2015	-	21.0
	<hr/>	<hr/>
Net book value		
At 31 December 2015	-	21.0
	<hr/>	<hr/>
At 31 December 2014	-	21.0
	<hr/>	<hr/>

Other investments

	Group €m	Company €m
Cost		
At 1 January 2015	-	-
Additions	4.6	-
	<hr/>	<hr/>
At 31 December 2015	4.6	-
	<hr/>	<hr/>
Net book value		
At 31 December 2015	4.6	-
	<hr/>	<hr/>
At 31 December 2014	-	-
	<hr/>	<hr/>

The additions in the year relate to an equity investment for a minority stake and a Board seat in a technology and design company specialising in security features on polypropylene film.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

14. Stocks

	Group	
	2015	2014
	€m	€m
Raw materials and consumables	37.5	39.7
Work in progress	7.9	9.3
Finished goods and goods for resale	33.0	33.4
	<u>78.4</u>	<u>82.4</u>

15. Debtors

	2015		2014	
	Group	Company	Group	Company
	€m	€m	€m	€m
Amounts falling due after more than one year:				
Deferred tax (see note 18)	10.9	-	10.9	-
Other debtors	0.5	-	3.7	-
	<u>11.4</u>	<u>-</u>	<u>14.6</u>	<u>-</u>
Amounts falling due within one year :				
Trade debtors	60.4	-	64.5	-
Amounts owed by Group undertakings	-	12.7	-	11.6
VAT	3.7	-	4.1	-
Other debtors	13.5	-	11.0	-
Prepayments and accrued income	3.6	-	1.8	-
Derivative financial instruments	0.6	-	0.5	-
Defined contribution pension scheme prepayments	0.1	-	0.1	-
	<u>81.9</u>	<u>12.7</u>	<u>82.0</u>	<u>11.6</u>
Total debtors	<u>93.3</u>	<u>12.7</u>	<u>96.6</u>	<u>11.6</u>

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

16. Creditors: amounts falling due within one year

	2015		2014	
	Group €m	Company €m	Group €m	Company €m
Senior secured floating rate notes – debt issue costs	(2.5)	-	(2.5)	-
Trade creditors	63.0	-	64.8	-
Amounts owed to Group undertakings	-	0.6	-	0.6
Corporation tax	(0.8)	-	1.6	-
Other tax and social security	1.8	-	1.3	-
Other creditors	8.5	-	13.8	-
Accruals and deferred income	18.9	-	13.2	-
Defined contribution pension scheme accrual	0.3	-	0.5	-
Derivative financial instruments	3.6	-	3.1	-
	<u>92.8</u>	<u>0.6</u>	<u>95.8</u>	<u>0.6</u>

Details of charges on assets to secure bank loans and the senior secured floating rate notes are included in note 17. Other creditors include €0.6m (2014: €9.4m) in relation to contingent consideration to comply with obligations of the sale and purchase agreement in respect of the 50% acquisition of Innovia Security from the Reserve Bank of Australia. The estimated amounts due, which have been discounted to reflect the time value of money, are €0.6m (2014: €5.6m) in other creditors falling due in less than one year above and €nil (2014: €3.8m) in other creditors falling due after more than one year below.

17. Creditors: amounts falling due after more than one year

	Group	
	2015 €m	2014 €m
Bank loans	334.0	331.7
Accruals and deferred income	0.1	-
Other creditors	-	3.8
Derivative financial instruments	36.2	21.4
	<u>370.3</u>	<u>356.9</u>

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

17. Creditors: amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	Group	
	2015	2014
	€m	€m
Between one and two years	(2.5)	(2.5)
Between two and five years	336.5	334.2
	<hr/>	<hr/>
	334.0	331.7
On demand or within one year	(2.5)	(2.5)
	<hr/>	<hr/>
	331.5	329.2
	<hr/>	<hr/>

On 21 February 2014 the Group completed the issue of €342m Senior Secured Floating Rate Notes maturing in 2020 with an issue price of 99.5% and with interest at three month EURIBOR plus 5% per annum, payable quarterly.

Total borrowings at 31 December 2015 of €331.5m (2014: €329.2m) consist of Senior Secured Floating Rate Notes less accretion of discount on issue and amortised debt issue costs.

The Senior Secured Floating Rate Notes, are secured on the tangible and intangible fixed assets and investments of the Group. Senior Secured Floating Rate Notes are stated net of debt issue costs of €13.3m (2014: €13.1m) which are being amortised over the life of the Senior Secured Floating Rate Notes with amortisation of €2.2m (2014: €1.8m) in 2015.

On 16 June 2014 the Group entered into cross currency swaps maturing on 15 March 2019 secured on a super senior basis whereby €85.0m was swapped for AUD125.3m and €120.0m was swapped for USD163.6m. Interest is incurred on a floating rate basis linked to the relative market benchmarks being BBSW for AUD and LIBOR for USD. The AUD cross currency swap was terminated on 28 October 2015. Included in derivatives is an amount of €35.3m (2014: €18.7m) in respect of the USD cross currency swap market valuation.

In addition on 16 June 2014 the Group entered into interest rate swaps to pay fixed rates of interest on principal amounts of EUR68.5m, USD81.8m and AUD62.6m. These swaps mature on 15 March 2017. The interest is fixed at 0.325% (EUR swap), 0.882% (USD swap) and 3.0125% (AUD swap).

The Group has a €60m (2014: €60m) revolving credit facility which expires on 30 April 2019. An amount of €5.2m (2014: €5.2m) has been utilised as security for ancillary facilities as at 31 December 2015.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

18. Provision for deferred tax

	Group 2015 €m	Group 2014 €m
At 1 January	10.9	5.7
Defined benefit pension liability	-	7.6
Prior period adjustments	(0.5)	-
Tax rate adjustment	(1.0)	-
Credited to profit and loss account	2.7	(0.6)
Deferred tax on defined pension liability	(1.7)	-
Deferred tax not recognised	0.2	(2.1)
Exchange and other adjustments	0.3	0.3
	<u>10.9</u>	<u>10.9</u>
At 31 December	<u>10.9</u>	<u>10.9</u>

The deferred tax asset at the period end comprises:

	Group 2015 €m	Group 2014 €m
Tax losses	3.1	-
Accelerated capital allowances	(0.1)	(0.1)
Other timing differences and losses	3.3	4.9
Pension scheme – deferred tax arising in relation to retirement benefits	4.6	6.1
	<u>10.9</u>	<u>10.9</u>
Asset as at 31 December	<u>10.9</u>	<u>10.9</u>

The UK Finance (No 2) Act 2015 was substantively enacted on 26th October 2015 and, as a result, reductions in the UK Corporation tax rate to 19% will take effect from 1 April 2017 and 18% with effect from 1 April 2020. Accordingly, closing deferred tax balances have been revalued at 18% at 31 December 2015.

On 16th March 2016, the Government announced in the 2016 Budget Report that there would be a future reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. This has not yet been substantively enacted.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

18 Provision for deferred tax (continued)

Potential deferred tax assets

The Group has the following deferred tax assets, which have not been recognised due to uncertainty over the timing of the reversal and future utilisation of the asset.

	2015 Net €m	2014 Net €m	2015 Gross €m	2014 Gross €m
Losses	19.7	10.5	59.0	52.7
Accelerated capital allowances	3.6	2.6	20.0	13.3
Derivative contracts	1.0	1.4	5.8	7.0
Capitalised development costs	0.4	0.5	2.1	2.4

19. Called-up share capital

Group and Company	2015 No.	2014 No.
Authorised		
Ordinary shares of £ 1 each	141	141
Ordinary shares of € 1 each	6,065,314	6,065,314
'A' Ordinary shares of € 0.01 each	181,961	181,961
	€m	€m
Allotted, called-up and fully-paid		
6,065,314 ordinary shares of € 1 each	6.1	6.1
181,961 'A' ordinary shares of €0.01 each	-	-
	6.1	6.1

Two ordinary shares of €1 each were issued at a premium of €27.5m on 28 April 2014 as part of the change of control and was utilised to settle partially the unsecured loan notes and corporate restructuring expenses.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

20. Reconciliation of operating profit to operating cash flows

	2015 Group €m	2014 Group €m
Operating profit	31.2	34.0
Depreciation and amortisation charges	30.2	27.2
Loss on disposal of fixed assets	0.1	1.7
Decrease/(increase) in stocks	4.0	(4.1)
Decrease/(increase) in debtors	3.4	(4.4)
Increase(decrease) in creditors	3.3	(8.6)
Overseas tax paid	(5.9)	(10.5)
Net cash inflow from operating activities	66.3	35.3

Included within the cash inflow from operating activities is a €12.3m outflow in relation to the exceptional items disclosed in note 4 (2014: €12.9m).

21. Contingencies

As part of its normal business practices, Innovia Security Pty Ltd issues performance guarantees to customers, via the issue of letters of credit from the company's bankers, using a €33.5 facility (2014: €33.8m). No amount is expected to be paid in relation to these performance guarantees

	2015 €m	2014 €m
At reporting date, the amount of performance guarantees issued was:	13.1	16.2

The Directors are of the opinion that provisions are not required in respect of this matter, as it is not probable that a future transfer of economic benefits will be required.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

22. Financial commitments

Group

	2015 €m	2014 €m
Capital commitments – tangible assets	1.3	2.6

The Company had no capital commitments (2014: €nil).

Total future minimum lease payments under non-cancellable operating leases are as follows:

Group	2015			2014		
	Land and buildings €m	Other €m	Total €m	Land and buildings €m	Other €m	Total €m
Expiry date						
- within one year	0.1	0.4	0.5	0.2	0.1	0.3
- between one and five years	2.1	1.4	3.5	2.4	1.8	4.2
- after five years	-	0.3	0.3	0.4	0.3	0.7
	<u>2.2</u>	<u>2.1</u>	<u>4.3</u>	<u>3.0</u>	<u>2.2</u>	<u>5.2</u>

The Company had no lease liabilities.

23 Pension liability

The Group operates a number of defined benefit and contribution schemes in the UK and overseas.

Defined benefit schemes

The Group operates a final salary defined benefit scheme, the Innovia British Pension Scheme. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Scheme is closed to new entrants.

The most recent formal actuarial valuation was carried out as at 31 December 2013. The results of this valuation have been updated to 31 December 2015 for FRS 102 purposes by a qualified independent actuary.

The Group also operates a Belgian defined benefit scheme. The valuation of the scheme was carried out on 31 December 2015 for FRS102 purposes by a qualified independent actuary.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

23. Pension liability (continued)

The Group also operates a German defined benefit pension scheme. Group contributions are based on the guidance of an actuary on an annual basis. The defined benefit scheme is closed to new members but open for future accrual. The valuation of the scheme was carried out on 31 December 2015 for FRS102 purposes by a qualified independent actuary.

The assumptions used were as follows:

Financial assumptions

	UK		Europe	
	2015	2014	2015	2014
Discount rate	3.80%	3.60%	2.03%	1.49%
Retail Prices Index (RPI) inflation	2.10%	3.10%	1.90%	0.80%
Salary increases	3.10%	3.10%	2.90%	1.80%
Pension increases:				
- Pre 6 April 1997 benefits	1.50%	1.50%	-	-
- 5 April 1997 to 6 April 2005 benefits	3.00%	3.00%	-	-
- Post 5 April 2005 benefits	2.30%	2.30%	-	-
Rate of increase for deferred pensions	2.10%	3.10%	1.90%	0.80%

Demographic assumptions

	UK		Europe	
	2015	2014	2015	2014
	Years	Years	Years	Years
Life expectancy for an individual aged 65 in 2015				
Males	21.5	21.4	21.6	21.6
Females	23.8	23.7	25.3	25.3
Life expectancy at age 65 for an individual aged 45 in 2015				
Males	23.2	23.2	21.6	21.6
Females	25.7	25.6	25.3	25.3

Assets

The assets of the Scheme are invested in a diversified portfolio

	UK	Europe	Total		UK	Europe	Total	
	2015	2015	2015	%	2014	2014	2014	%
	€m	€m	€m		€m	€m	€m	
Equities	145.8	-	145.8	68.8	133.7	-	133.7	68.2
Bonds	61.0	-	61.0	28.7	57.2	-	57.2	29.2
Cash	0.7	4.6	5.3	2.5	0.6	4.4	5.0	2.6
Total	207.5	4.6	212.1	100.0	191.5	4.4	195.9	100.0

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

23. Pension liability (continued)

The actual return on assets over the period was:

UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
5.2	0.1	5.3	14.1	0.1	14.2

Reconciliation to the balance sheet

	UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
Market value of assets	207.5	4.6	212.1	191.5	4.4	195.9
Present value of liabilities	(231.5)	(6.2)	(237.7)	(220.6)	(5.8)	(226.4)
Deficit in the Scheme	(24.0)	(1.6)	(25.6)	(29.1)	(1.4)	(30.5)

Analysis of changes in the value of the Scheme liabilities over the year

	UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
Value of liabilities at start of year	220.6	5.8	226.4	170.8	4.5	175.3
Service cost	2.2	0.2	2.4	2.2	0.4	2.6
Interest cost	8.5	0.1	8.6	8.2	0.1	8.3
Member contributions	1.8	-	1.8	1.7	-	1.7
Benefits paid	(4.3)	(0.3)	(4.6)	(6.0)	(0.4)	(6.4)
Actuarial (gain)/loss	(9.3)	0.4	(8.9)	29.5	1.2	30.7
Exchange difference	12.0	-	12.0	14.2	-	14.2
Value of liabilities at end of year	231.5	6.2	237.7	220.6	5.8	226.4

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

23. Pension liability (continued)

Analysis of changes in the value of the Scheme assets over the year

	UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
Market value of assets at start of year	191.5	4.4	195.9	191.6	4.3	195.9
Return on plan assets (excluding amounts included in net interest cost)	7.3	0.1	7.4	8.2	0.2	8.4
Administrative expenses	(1.0)	-	(1.0)	(0.3)	-	(0.3)
Actuarial (loss)/gain	(2.2)	-	(2.2)	6.3	-	6.3
Contributions by employer	4.3	0.4	4.7	7.2	0.2	7.4
Contributions by member	1.8	-	1.8	1.7	-	1.7
Benefits paid	(4.3)	(0.3)	(4.6)	(6.0)	(0.3)	(6.3)
Exchange difference	10.1	-	10.1	(17.2)	-	(17.2)
Market value of assets at end of year	<u>207.5</u>	<u>4.6</u>	<u>212.1</u>	<u>191.5</u>	<u>4.4</u>	<u>195.9</u>

Amounts recognised in profit and loss

Analysis of the amounts charged to operating profit

	UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
Current service cost	3.5	0.2	3.7	2.2	0.4	2.6
Past service cost	(1.3)	-	(1.3)	-	-	-
Net charge to operating profit	<u>2.2</u>	<u>0.2</u>	<u>2.4</u>	<u>2.2</u>	<u>0.4</u>	<u>2.6</u>

Analysis of the amount credited/(charged) to other finance income/(charges)

	UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
Interest cost	(8.5)	(0.1)	(8.6)	(8.2)	(0.1)	(8.3)
Interest income	7.3	0.1	7.4	8.2	0.2	8.4
	<u>(1.2)</u>	<u>-</u>	<u>(1.2)</u>	<u>-</u>	<u>0.1</u>	<u>0.1</u>

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

23. Pension liability (continued)

Amounts recognised in the Statement of comprehensive income (SOCI)

	UK 2015 €m	Europe 2015 €m	Total 2015 €m	UK 2014 €m	Europe 2014 €m	Total 2014 €m
Actuarial gain/(loss)	7.1	(0.4)	6.7	(23.2)	(1.2)	(24.4)
Total amount recognised in SOCI	7.1	(0.4)	6.7	(23.2)	(1.2)	(24.4)

Future funding obligation

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustees as at 31 December 2013. The Group agreed to pay annual contributions of 15.1% per annum of member's pensionable salaries to meet the cost of future service benefits, the provision of death in service lump sum benefits and the expenses of running the Scheme. In respect of the shortfall, the Group also agreed to pay an initial payment of £2.9m by 31 July 2014 followed by level contributions of £0.8m per annum from 1 July 2014 to 30 June 2024 inclusive. The Group therefore expects to pay approximately £3 million into the Scheme during the accounting period beginning 1 January 2016.

Defined contribution schemes

The Group also operates a number of defined contribution schemes for which the pension cost charge for the year amounted to €3.7m (2014: €3.2m).

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

24 Financial instruments

	2015 €m	2014 €m
Financial assets		
Measured at fair value and designated in an effective hedging relationship		
• Derivative financial assets (see note 25)	0.6	0.5
Measured at undiscounted amount receivable		
• Trade and other debtors (see note 15)	78.1	83.3
• Cash at bank and in hand	28.0	30.2
Equity instruments measured at cost less impairment		
• Fixed asset investments in unlisted equity instruments (see note 13)	4.6	-
	<u>111.3</u>	<u>114.0</u>
Financial liabilities		
Measured at fair value through profit and loss		
• Derivative financial liabilities	(36.2)	(19.6)
Measured at fair value and designated in an effective hedging relationship		
• Derivative financial liabilities (see note 25)	(3.6)	(4.9)
Measured at amortised cost		
• Senior secured floating rate notes (see note 17)	(340.8)	(340.6)
Measured at undiscounted amount payable		
• Trade and other creditors (see note 16)	(89.2)	(92.7)
	<u>(469.8)</u>	<u>(457.8)</u>

Derivative liabilities measured at fair value through profit and loss are valued at the present value of future cash flows estimated based on quoted forward exchange rates and applicable yield curves from quoted interest rates. These are discounted where appropriate using rates derived from quoted interest rates.

See note 25, for the measurement of derivatives designated in an effective hedge relationship.

See note 17 for the terms of the service secured floating rate notes and descriptions of the interest and cross-currency swaps which are the derivatives held at fair value.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

24. Financial instruments (continued)

The Group's income, expense, gains and losses in respect of financial instruments are summarised below

	Group	
	2015	2014
	€m	€m
Interest expense		
Total interest expense for financial assets at amortised cost	17.4	21.1
Total interest expense for financial liabilities at amortised cost	5.5	2.1
	<u> </u>	<u> </u>
Fair value gains and (losses)		
On derivative financial instruments measured at fair value through profit or loss	(16.6)	(19.6)
On derivative financial instruments designated in an effective hedging relationship	0.9	(4.5)
	<u> </u>	<u> </u>

No impairment losses or reversals were recognised in relation to financial instruments in 2015 (2014: nil).

25 Derivative financial instruments

	Current		Non-current	
	2015	2014	2015	2014
	€m	€m	€m	€m
Group				
Derivatives that are designated and effective as hedging instruments carried at fair value				
Assets				
Forward foreign currency contracts	0.6	0.5	-	-
	<u>0.6</u>	<u>0.5</u>	<u>-</u>	<u>-</u>
Liabilities				
Forward foreign currency contracts	(2.5)	(0.3)	-	(1.3)
Commodity price swap contracts	(1.1)	(2.8)	-	(0.5)
	<u>(3.6)</u>	<u>(3.1)</u>	<u>-</u>	<u>(1.8)</u>

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Commodity price swap contracts are valued using quoted forward indexes. Due to the short term nature of the contracts, no discounting is applied.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

25 Derivative financial instruments (continued)

Forward foreign currency contracts

The Group operates on a global basis with goods being supplied in a number of different currencies, thereby creating foreign exchange risks. The Group has entered into forward foreign currency contracts to hedge the exchange rate risk arising from these anticipated future transactions which are designated as cash flow hedges. The hedged cash flows are expected to occur and affect the profit or loss within the next financial year (2014: next two financial years).

Gains of €4.7m (2014: Losses of €3.7m) were recognised in other comprehensive income and hedge ineffectiveness resulting in a gain of €nil (2014: €nil) was recognised in profit and loss for the year. €0.5m (2014: €0.9m) was reclassified to profit and loss for the year.

Commodity price swap contracts

The Group purchases raw materials, the price of which are linked to commodity indexes. The Group has entered into commodity price swap contracts to hedge the commodity price risk from these anticipated future transactions which are designated as cash flow hedges. The hedges cash flows are expected to occur and affect profit and loss within the next financial year.

Losses of €1.1m (2014: Losses €3.4m) were recognised in other comprehensive income and hedge ineffectiveness resulting in a gain of €nil (2014: €nil) was recognised in profit and loss for the year. €0.5m (2014: €nil) was reclassified to profit and loss for the year.

26 Ultimate parent company and controlling entity

The Company is domiciled and incorporated in the United Kingdom. The ultimate holding company is Fairfield 1 Sarl, which is a company incorporated in Luxembourg. Fairfield 1 Sarl has no controlling party. The smallest group in which the results of Innovia Group (Holding 1) Limited are consolidated is that headed by Innovia Group (Holding 1) Limited. The largest group in which the results of Innovia Group (Holding 1) Limited are consolidated is that headed by Fairfield Midco Limited, a company incorporated in England and Wales. The financial statements of Fairfield Midco Limited can be obtained from the Registrar of Companies in England and Wales, Crown Way, Cardiff, CF14 3UZ.

27 Related party transactions

The directors are the key management personnel of the Group and their remuneration is disclosed in note 8.

The Group received services from Fairfield Bidco Limited at a cost of €1.5m (2014: €0.8m). No amounts were owed in respect of these services at the Balance sheet date.

Innovia Group (Holding 1) Limited

Notes to the financial statements (continued) For the year ended 31 December 2015

28 Foreign exchange rates

The principal exchange rates used in the preparation of the financial statements were as follows:

	Average exchange rate for year	
	2015	2014
AUD/€	1.48	1.47
GBP/€	0.73	0.81
USD/€	1.11	1.33

	Year-end exchange rate	
	2015	2014
AUD/€	1.49	1.48
GBP/€	0.74	0.78
USD/€	1.09	1.21

29 Explanation of transition to FRS 102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Development Costs

Development costs were previously expensed as incurred. On transition the Group chose to capitalise this expenditure provided it meets the requirements described in note 1. This has had the impact of increasing Intangible Assets and decreasing the previously reported loss as noted in the tables below.

Derivatives

Certain derivative financial instruments were previously recognised off Balance Sheet and disclosed in the notes to the financial statements. On transition these derivatives have been recognised on the Balance Sheet at their Fair Values. Hedge accounting has been applied where the conditions stated in note 1 are met.

Pension

The Return on Pension Assets was previously reported in the Profit and Loss Account. Under FRS 102 an element of the income is now reported in the Statement of Comprehensive Income.

As stated in note 1 there have been no changes in the Company financial statements on transition to FRS 102.

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Notes to the financial statements (continued) For the year ended 31 December 2015

29. Explanation of transition to FRS 102 (continued)

Reconciliation of equity

	Group		Company	
	At 1 January 2014 €m	At 31 December 2014 €m	At 1 January 2014 €m	At 31 December 2014 €m
Equity reported under previous UK GAAP	(37.6)	(34.4)	5.5	33.4
Adjustments to equity on transition to FRS 102				
Cashflow hedge reserve	0.9	(6.2)	-	-
Derivatives	-	(4.6)	-	-
Development costs	3.9	4.7	-	-
Equity reported under FRS 102	(32.8)	(40.5)	5.5	33.4

Reconciliation of profit or loss for 2014

	Group €m	Company €m
(Loss)/profit for the financial year under previous UK GAAP	(20.9)	0.4
Development costs	0.4	-
Derivatives	(4.4)	-
Expected return on pension scheme assets	(3.0)	-
(Loss)/profit for the financial year under FRS 102	(27.9)	0.4