Ideal Standard International SA
Financial Information for the 12 months
Ended 31 December 2011

Ideal Standard International SA

Financial Information
31 December 2011

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Forward-Looking Statements

This report includes forward-looking statements within the meaning of the securities laws of applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this report, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets and future developments in the markets where we participate or are seeking to participate. In some cases, you can identify forward-looking statements by terminology such as “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” ”may,” “plan,” “potential,” “predict,” “project,” “should,” or “will” or the negative or such terms or other comparable terminology.
Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future.

We undertake no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in this report. As a result of the risks, uncertainties and assumptions underlying these forward-looking statements, you should not place undue reliance on these forward-looking statements.

Ideal Standard International SA
Consolidated Financial Statements
for the year ended 31 December 2011

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Audit report

To the Shareholders of
Ideal Standard International S.A.

We have audited the accompanying consolidated financial statements of Ideal Standard International S.A. (the "Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2011, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers S.à r.l.
Represented by

Luxembourg, 23 April 2012

Véronique Lefebvre

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Consolidated income statement

For the year ended 31 December Million euro	Notes	2011	2010
Revenues		**713.0**	**753.4**
Cost of sales	23	(526.4)	(548.5)
Gross Profit		**186.6**	**204.9**
Distribution expenses	23	(57.0)	(56.8)
Sales and marketing expenses	23	(94.2)	(91.3)
Administrative expenses	23	(40.6)	(42.8)
Impairment of non-financial assets	6,7	(2.7)	(14.1)
Restructuring expenses	17	(61.6)	(13.7)
Other operating income / (expenses)	20	(32.8)	(34.0)
Operating loss		**(102.3)**	**(47.8)**
Finance (expense)	21	(159.2)	(96.4)
Finance income	21	22.4	2.4
Finance income- net		**(136.8)**	**(94.0)**
Income tax (expense) / credit	12,22	37.5	34.5
LOSS		**(201.6)**	**(107.3)**
Attributable to:			
Equity holders of Ideal Standard International		(201.2)	(107.9)
Non-controlling interests		(0.4)	0.6

The notes 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December Million euro	Notes	2011	2010
Items net of tax			
Loss of the year		**(201.6)**	**(107.3)**
Other Comprehensive Income:			
Actuarial gain/(loss) on post employment benefit obligations	18	(12.9)	4.7
Currency translation differences		(2.0)	(4.8)
Other Comprehensive Income / (Loss)		**(14.9)**	**(0.1)**
Total Comprehensive Income / (Loss)		**(216.5)**	**(107.4)**
Attributable to:			
Equity Holders of Ideal Standard International		(217.1)	(107.3)
Non-controlling interests		0.6	(0.1)

The notes 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

For the year ended 31 December Million euro	Notes	2011	2010
Assets			
Non-current assets			
Property, plant and equipment	7	191.8	198.3
Goodwill	6	1.6	0.0
Intangible assets	6	473.8	482.9
Interest-bearing loans granted to related parties	26	259.9	69.2
Investments in associates	8	0.9	0.9
Deferred tax assets	12	12.9	14.5
Employee benefits	18	15.9	15.0
Trade and other receivables	11	4.7	3.7
		961.5	**784.5**
Current assets			
Inventories	13	149.8	149.1
Trade and other receivables	11	152.2	170.2
Interest-bearing loans granted to related parties	26	10.8	0.0
Derivative financial instruments assets	10	0.0	0.2
Cash and cash equivalents	14	47.0	75.5
Assets held for sale		2.5	2.6
		362.3	**397.6**
Total assets		**1,323.8**	**1,182.1**
Equity and Liabilities			
Equity attributable to equity holders of Ideal Standard International	15	**(733.4)**	**(515.0)**
Non-controlling interests		**9.4**	**8.8**
Non-current liabilities			
Preferred equity certificates	16	916.8	0.8
Interest-bearing loans and borrowings	16	705.5	1,203.5
Employee benefits	18	114.1	107.0
Trade and other payables	19	6.2	8.9
Provisions	17	4.7	4.9
Deferred tax liabilities	12	34.7	83.6
		1,782.0	**1,408.7**
Current liabilities			
Interest-bearing loans and borrowings	16	7.2	9.1
Income tax payables		8.3	5.2
Trade and other payables	19	207.0	236.7
Provisions	17	43.3	28.6
		265.8	**279.6**
Total liabilities		**1,323.8**	**1,182.1**

The notes 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Million euro	Attributable to equity holders of Ideal Standard Int.							Non-controlling interests	Total equity
For the year ended 31 December 2011	Issued capital	Share premium	Share-based payment reserves	Translation reserves	Actuarial gains / (losses)	Retained earnings	Total		
Balance at January 1, 2011	**0.1**	**0.0**	**0.0**	**6.4**	**(46.0)**	**(475.5)**	**(515.0)**	**8.8**	**(506.2)**
Loss for the period						(201.2)	(201.2)	(0.4)	(201.6)
Consolidation perimeter change	(0.1)						(0.1)		(0.1)
Dividend (*)						(1.2)	(1.2)		(1.2)
Currency Translation Diff				1.1)		(1.9)	(3.0)	1.0	(2.0)
Actuarial gains on post employment benefit obligations (net of tax effect)					(12.9)		(12.9)	0.0	(12.9)
Total other comprehensive income / (loss)	0.0	0.0	0.0	(1.1)	(12.9)	(1.9)	(15.9)	1.0	(14.9)
Balance at 31 December 2011	**0.0**	**0.0**	**0.0**	**5.3**	**(58.9)**	**(679.8)**	**(733.4)**	**9.4**	**(724.0)**

Million euro	Attributable to equity holders of Ideal Standard Int.							Non-controlling interests	Total equity
For the year ended 31 December 2010	Issued capital	Share premium	Share-based payment reserves	Translation reserves	Actuarial gains / (losses)	Retained earnings	Total		
Balance at January 1, 2010	**0.1**	**0.0**	**0.0**	**10.5**	**(50.7)**	**(367.6)**	**(407.7)**	**8.9**	**(398.8)**
Loss for the period						(107.9)	(107.9)	0.6	(107.3)
Currency Translation Diff				(4.1)			(4.1)	(0.7)	(4.8)
Actuarial gains on post employment benefit obligations (net of tax effect)					4.7		4.7	0.0	4.7
Total other comprehensive income / (loss)	0.0	0.0	0.0	(4.1)	4.7	0.0	0.6	(0.7)	(0.1)
Balance at 31 December 2010	**0.1**	**0.0**	**0.0**	**6.4**	**(46.0)**	**(475.5)**	**(515.0)**	**8.8**	**(506.2)**

(*) Relates to Profit Sharing payments to Egyptian employees

The notes 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December Million euro	Notes	2011	2010
Operating activities			
Net loss		**(201.6)**	**(107.9)**
Adjusted for:			
Depreciation and impairment on tangible fixed assets	7	25.4	27.8
Amortization	6	19.0	19.4
(Gain) / Losses on disposal of Property, Plant & Equipment		(5.8)	-
Impairment losses		2.7	14.1
Unrealized foreign exchange losses/(gains)	21	1.8	23.3
Swaps Settlements	21	-	2.1
Net interest (income)/expense	21	133.9	67.7
Income tax (credit)/expense	22	(37.5)	(34.5)
Cash flow from operations before changes in working capital and provisions		**(62.1)**	**12.0**
Decrease/(increase) in trade and other receivables	11	13.6	(3.2)
Decrease/(increase) in inventories	13	(0.7)	(5.5)
Increase/(decrease) in trade and other payables	19	(27.9)	4.5
Increase/(decrease) in provisions and employee benefits	17,18	5.2	(17.5)
Net cash generated from operations		**(71.9)**	**(9.7)**
Interest paid		(15.9)	(58.7)
Income tax paid		(3.1)	(0.8)
Cash flow from operating activities		**(90.9)**	**(69.2)**
Investing activities			
Proceeds from sale of property, plant and equipment		5.8	1.2
Acquisition of former Third Party Credit Facility Loans		(189.2)	0.0
Acquisition of property, plant and equipment	7	(20.3)	(13.5)
Acquisition of intangible assets	6	(4.3)	(3.7)
Development expenditure	6	(6.8)	(6.1)
Cash Flow from Investing Activities		**(214.8)**	**(22.1)**
Financing activities			
Proceeds from borrowings		278.4	40.4
Repayment of borrowings		-	(42.5)
Profit sharing payments		(1.2)	-
Cash flow from financing activities		**277.2**	**(2.1)**
Net increase/(decrease) in cash and cash equivalents		**(28.5)**	**(93.4)**
Cash and cash equivalents at beginning of period	14	75.5	168.9
Cash and cash equivalents at end of period	14	**47.0**	**75.5**

The notes 1 to 28 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General Information

Ideal Standard International SA ("Ideal Standard International" or the "Company"), was incorporated for an unlimited period of time under the laws of Luxembourg on 7 April 2011, and its registered office is located at 9A Rue Gabriel Lippmann, L-5365 Munsbach. Ideal Standard International SA is a wholly-owned subsidiary of Ideal Standard Acquisition Sarl. Its ultimate parent is Ideal Standard International Topco SCA.

The consolidated financial statements of Ideal Standard International as of 31 December 2011 comprise Ideal Standard International and its subsidiaries (hereinafter: "the Group") as outlined in Note 27 "Subsidiaries".

These group consolidated financial statements were authorised for issue by the board of directors on April 23, 2012.

2. Summary of Significant Accounting Policies

2.1 Introduction

The Group principally manufactures and sells bathroom Ceramic fixtures (e.g. sinks, bowls), Brass Fittings (e.g. taps), Bathing and Wellness products (e.g. acrylics such as spa and whirlpool tubs) and Bathroom Furniture (e.g. towel racks and toilet seats). The Group trades under the brand names of Ideal Standard, Armitage Shanks, Jado, Porcher, Vidima and Ceramica Dolomite. The Group had a total of 11058 employees as of 31 December 2011.

The Group as defined at that time, was formed from the acquisition of Trane Inc's European, Asian and Latin American Bath & Kitchen divisions, which was completed on October 31, 2007 for a total consideration of $ 1.7 billion (the "Acquisition"). The Acquisition was financed by both external financing (mezzanine and senior facilities debt) and financing received from Ideal Standard International Topco SCA. The Group as defined at that time sold its Asian activities during 2009.

The Group as defined at that time, has performed the purchase price allocation as of 31 October 2007 in accordance with IFRS 3 'Business Combinations'.

Ideal Standard International SA, direct parent of Ideal Standard International Holding Sarl, was formed in April 2011 in order to issue Senior Secured Notes for an aggregate amount of 275 million. As its incorporation was during the periods presented herein, financial information for period prior to April 2011 is for Ideal Standard International Holding Sarl and its subsidiaries and for periods subsequent to April 2011 relates to Ideal Standard International S.A and its subsidiaries.

The creation of Ideal Standard International SA as new direct shareholder of Ideal Standard International Holding Sarl has only involved entities under common control. The consolidated financial statements of Ideal Standard International SA and its subsidiaries represent a continuation of the consolidated financial statements of ideal Standard Holding Sarl and its subsidiaries. Therefore, consolidated financial statements of Ideal Standard International SA account for the carryover basis of all assets and liabilities initially recorded in the consolidated accounts of Ideal Standard Holding Sarl.

The consolidated financial statements of the Group have been prepared for the first time for the year ended 31 December 2008. Up until 31 December 2007, only standalone statutory financial statements of the Ideal Standard International Holdings Sarl and its subsidiaries were prepared in conformity with the local statutory and regulatory requirements. The new Group's unified accounting policies have been applied uniformly to the opening balance sheet at 1 January 2008 and all subsequent figures.

2.2 Basis of preparation

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

These consolidated financial statements are presented in Euro, which is the Group's presentation currency and the functional currency of the Company. All amounts in these consolidated financial statements are presented in millions of EURO, unless otherwise stated.

The financial statements have been prepared on a going concern basis, as further explained in note "5.a Accounting basis".

Adoption of new standards and interpretations:

The new standards, amendments to standards and interpretations listed below reflect the endorsement status at 31 November 2011.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011:

- Amendment to IAS 32 'Classification of rights issues' requiring rights issues within the scope of the amendment to be classified as equity. The amendments are effective for annual periods beginning on or after 1 February 2010.
- Amendments to IFRS 1 providing a limited exemption from comparative IFRS 7 disclosures for first-time adopters, effective as of 1 July 2010.
- IAS 24 Revised 'Related-party transactions', effective for annual periods beginning on or after 1 January 2011. The revised standard amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.
- 'Improvements to IFRSs' (2010) amending IAS 1, IAS 27, IAS 34, IFRS 1, IFRS 3, IFRS 7 and IFRIC 13. These improvements are effective 1 January 2011.
- IFRIC 19 'Extinguishing financial liabilities with equity Instruments', effective for periods beginning on or after 1 July 2010. IFRIC 19 clarifies the accounting when a debtor and creditor might renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor.
- Amendments to IFRIC 14 'Pre-payments of a minimum funding requirement', effective for annual periods beginning on or after 1 January 2011. The amendment removes an unintended consequence of IFRIC 14 arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.

Those standards have been assessed and do not have a material impact on the Group's financial condition or results from operations.

The following new standards, amendments to standards and interpretations have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2011 and have not been endorsed by the European Union:

- Amendments to IFRS 1 'First-time adoption of IFRSs' related to severe hyperinflation and the removal of fixed dates for first-time adopters. These amendments are effective on or after 1 July 2011.
- Amendments to IFRS 7 'Financial instruments: disclosures' requiring enhanced disclosures of transferred financial assets. These revisions are effective at the earliest for annual periods beginning on or after 1 July 2011.
- Amendments to IAS 1 'Presentation of financial statements', effective on or after 1 July 2012. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income.
- Amendments to IAS 12 'Deferred taxes', effective on or after 1 January 2012. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model.
- IFRS 9 'Financial instruments', effective for periods beginning on or after 1 January 2013. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities.
- IFRS 10 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2013. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.
- IFRS 11 'Joint arrangements', effective for annual periods beginning on or after 1 January 2013. The new standard focuses on the rights and obligations rather than the legal form. Proportional consolidation is no longer allowed.

- IFRS 12 'Disclosure of interests in other entities', effective for annual periods beginning on or after 1 January 2013. This a new standard on disclosure requirements for all forms of interests in other entities.
- IFRS 13 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013. The new standard explains how to measure fair value for financial reporting.
- IAS 19 Revised 'Employee benefits', effective for annual periods beginning on or after 1 January 2013. Through these amendments significant changes are made to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.
- IAS 27 Revised 'Separate financial statements', effective for annual periods beginning on or after 1 January 2013. The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 Revised 'Investments in associates and joint ventures', effective for annual periods beginning on or after 1 January 2013. The revised standard now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Management is currently assessing the impact of these new standards and amendments in the Group's operations.

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

2.4 Foreign Currency Translation

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Brands

In the purchase price allocation process following the Acquisition, the Group has identified and allocated a significant part of the excess purchase price to brands. The Ideal Standard International brand portfolio was split between the international brands (Ideal Standard and Jado) and many local brands. The brands have been acquired in a business combination thus they are recognised at their fair value at the acquisition date. In the process of estimating fair value of the acquired assets and liabilities the brands have been allocated into 3 different groups based on market share, brand awareness & consideration, growth outlook and history.

Group 1 brands comprise Ideal Standard, and Jado which benefit from a strong brand awareness and market shares across new served markets and have broad end-markets across different price points. These brands are not amortised due to having indefinite lives. The Group has allocated these brands to cash-generating units for the purpose of annual impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the future economic benefit of these brands.

Group 2 brands comprise local brands benefiting from strong brand awareness and market share in their respective countries, with smaller end-markets. These brands have a finite useful life and are amortised over 30 years.

All other brands have been allocated to Group 3 having smaller brand awareness and market share. The useful lives for these brands have been determined to be 20 years.

Amortisation for Group 2 and Group 3 brands is calculated using the straight-line method to allocate the cost of brand names over its useful life.

(c) Customer relationships

Customer relationships acquired in the Acquisition have been valued at their fair value at acquisition date. Customer relationships have a finite useful life of 40 years and are carried at fair value at acquisition date less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the customer relationships over their estimated useful lives.

(d) Internally developed technologies

The Group capitalises development costs that are directly attributable to the development and industrialisation phase of identifiable and unique new technologies. Such capitalised costs include expenditures to purchase equipment or material, fees paid to third parties participating in the development and employee benefits directly linked to the development of the technology. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Internally developed technology development costs recognised as assets are amortised over their useful life of 5 years using a straight-line method.

(e) Other intangible assets

Other intangible assets acquired for consideration are capitalised at historical cost. The historical cost is composed of the acquisition price less any trade discounts and rebates plus ancillary expenses necessary for the asset to become operational. Other intangible assets have a finite useful life of between 3 and 6 years and are carried at historical cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of these intangible assets over their estimated useful lives. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount.

2.6 Property, Plant and Equipment

The Group owns land, buildings and production facilities in various countries.

Property, plant and equipment acquired in the Acquisition have been measured at their fair value at acquisition date and are stated at this fair value less subsequent depreciation. Separately acquired property, plant and equipment are stated at historical cost less subsequent depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced components is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	20 – 40 years
Equipment in the plant	5 – 15 years
Fixtures and fittings	6 years
Furniture and vehicles	5 – 6 years
IT equipment	4 – 7 years

The assets' residual value and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date. Where an asset's carrying amount is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are recognized within "Other operating income/expenses" in the income statement.

2.7 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipments acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.8 Impairment of Non-Financial Assets

Assets that have an indefinite useful life, for example goodwill or certain brands, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The annual impairment analysis has been performed based on prudent management assumptions and covering cash flows up to 2018, a period which management believes provides the more accurate view of the potential evolution of the Group in the context of the current market and global economic perspectives. The impairment analysis considered only future

restructuring savings from programmes that have been committed at the end of the financial year. The main underlying assumptions for both CGUs were:
- Weighted Average Cost of Capital: 9.8%.
- Sales Average increase during period: 3.5%.
- Real Growth and inflation for Terminal Value calculation 0.8% and 2.0% respectively.

Please refer to Note 5, point (c) Estimated Impairment for sensitivity details on the main assumptions used for impairment testing.

2.9 Assets held for sale and discontinued operations

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable to occur within 12 months of the balance sheet date. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale rather than through continuing use.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and:

- represents either a separate major line of business or a geographical area of operations, and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

2.10 Financial Assets

The Group classifies its financial assets in the following categories: (a) held at fair value and remeasured through profit or loss, (b) loans and receivables, (c) and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets held at fair value and remeasured through profit or loss

These are financial assets held for trading or specifically designated in this category. A financial asset is classified in this category if it has been acquired principally for the purpose of selling it in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

The Group classifies in this category all interest rate and foreign exchange derivatives entered into for economic hedging activities as these derivatives do not qualify for hedge accounting under the criteria set out in IAS 39.

Gains or losses arising from changes in the fair value of the ‘financial assets held at fair value and remeasured through profit or loss’ category are presented in the income statement within “other operating income/ (expenses), except for gains and losses on derivatives related to the financing activities of the Group, which together with the changes in fair value of the preferred equity certificates such gains and losses are presented within “Finance income/ (costs)”.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets held at fair value and remeasured through profit or loss are subsequently carried at fair value.

Changes in the fair value of financial assets classified as available for sale are recognised in the other comprehensive income in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

2.11 Derivative Financial Instruments and Hedging Activities

Derivatives are accounted for in accordance with IAS 39. Derivatives that do not qualify for hedge accounting are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group records all gains or losses resulting from changes in fair value of derivatives in the income statement within “Cost of sales” to the extent that they relate to the operating activities and within “finance income/(costs)” to the extent that they relate to the financing activities of the Group (e.g. interest rate swaps relating to the floating rate borrowings).

The fair values of various derivative instruments used for hedging purposes are disclosed in note 10 derivatives financial instruments. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of raw materials and supplies contains all costs incurred in order to put such assets at their current location and into their current condition. The cost of finished goods and work in progress comprises raw materials, direct labour, overheads (including indirect labour), and outside processing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Write-downs are made to an appropriate extent for inventory risks arising from the length of time held and/or diminished usability.

2.13 Trade Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. This is based on ageing as well as management’s assessment of recoverability. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within “other operating expenses”. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

2.14 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, all highly liquid investments, including short-term bank deposits purchased with original maturities of three months or less and unrestricted, and bank overdrafts. Bank overdrafts are included in short term borrowings in current liabilities on the balance sheet.

2.15 Share Capital

Ordinary shares: Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense when incurred.

2.17 Preferred equity certificates ("PECs")

PECs are classified as long-term liabilities as they are mandatory redeemable on a specific date. PECS Series1 are classified as Liabilities held at fair value and remeasured through the income statement. PECS Series 2 to 6 were issued during 2011 and are classified as Other financial liabilities.

The holders of PECs Series 1 are entitled to receive a percentage return as accrued interest which is based on a fixed interest on par value plus the Specified Income, as described in Note 16. Redemption of PECs is mandatory at a fixed date at a redemption price equal to the sum of the par value for each outstanding PEC and the accrued unpaid interest, if any, on each outstanding PEC. The redemption price is subject to the Company having sufficient funds available to settle its liabilities to all other creditors after any such payments. The PECs Series 1 can also be redeemed at any date prior to the fixed date but not before one year after the maturity date of the Senior Secured Notes. The group designated the PECs Series 1 entire hybrid instrument in the "held at fair value and remeasured through profit or loss" as the instrument contains an embedded derivative that may significantly modify the cash flows that otherwise would be required by the contract, and that separation of the embedded derivative would not be meaningful. The Group has determined the fair value of the entire hybrid contract at the balance sheet date using the discounted cash flows approach. Any changes in the fair value are immediately recognised in the profit or loss and are included in the "finance income and costs".

PECS Series 2 to 6 were issued in April 2011 as part of a number of transactions associated with the restructuring of the borrowings of the Group. Please refer to Note 16. "Borrowings", for explanation on the issuance of the Series 2 to 6 PECS. Holders of PECS Series 2 to 6 are entitled to receive a percentage return based on EURIBOR plus a spread with a PIK condition (unpaid earned yield accrued through the mandatory redemption date). PECS Series 2 to 6 are originally recognized at fair value and subsequently stated at amortized costs.

2.18 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when the existing liability is transferred to a different lender and the Group obtains a legal release from the initial lender, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in the consolidated income statement.

2.19 Current and Deferred Income Tax

Income tax on the profit for the year comprises current and deferred tax.

Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case the tax effect is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated using the balance sheet liability method. Therefore, for all taxable and deductible differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet a deferred tax liability or asset should in principle be recognized.
A deferred tax provision is also recognized on differences between the fair values of assets and liabilities acquired in a business combination and their tax base.

However, no deferred taxes are recognized:

- on initial recognition of goodwill,
- at the initial recognition of assets and liabilities in a transaction that is not a business combination and affects neither accounting or taxable profit,
- on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Furthermore, a deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using enacted or substantively enacted tax rates.

2.20 Employee benefits

The Group companies operate various pension/retirement schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

The Group has various legal and constructive defined benefit obligations, the vast majority of which are situated in Germany, United Kingdom, Ireland, Greece, Italy, France and Bulgaria.
The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually, generally by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group companies provide Other Long Term benefits to its actives employees in Germany (Jubilee Premiums) and Czech Republic (Jubilee Premiums). Other Long Term benefits are benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service. The related liability is calculated annually, generally by independent actuaries using the projected unit credit method. Actuarial gains and losses and all past service cost are recognized immediately in income.

2.21 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured, if applicable, at amortised cost using the effective interest method.

2.22 Provisions

Provisions for environmental remediation and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly before the balance sheet date.

Provision for warranties is recognised for expected warranty claims on products sold during the financial year. The amount of provision is measured by using the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. Costs to satisfy warranty claims are charged as incurred to the accrued warranty liability. The Group assesses the adequacy of its recorded warranty provisions and adjusts the amounts as necessary.

2.23 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the goods and services net of value-added tax, returns, rebates and discounts, and after eliminating inter-company sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. Revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(a) Sale of goods

The sale of goods is recognised when a group company has delivered products to the customer, all risks and rewards associated with the goods are transferred to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

3. Operating segments

The Group has identified two CGUs. However, the business is run on one reportable segment. This reflects how numbers are regularly communicated to the Chief Operation decisions makers. Management considers the business from both a geographic and category perspective. Revenues from external customers are derived from the sales of equipment comprising four main categories:

- Ceramics (including sinks, basins, toilets, bidets and urinals),
- Fittings (including control taps, mixers, thermostats and sensor flow technology),
- Bathing & Wellness (including tubs and shower trays, shower systems),
- Furniture and Accessories (including toilet seats, mirrors and mirror cabinets, rails and holders, soap dishes and toilet paper holders).

Consolidated Sales by Geography

For year ended 31 December	**2010**		**2011**	
	(In Million)	**(% of Sales)**	**(In Million)**	**(% of Sales)**
UK	173.7	23.1	161.9	22.7
Italy	169.3	22.5	143.3	20.1
Germany	88.3	11.7	96.5	13.5
France	69.7	9.2	76.5	10.7
Egypt	54.2	7.2	46.7	6.6
Eastern Europe	55.0	7.3	54.1	7.6
Other EMEA	116.1	15.4	106.0	14.9
Americas	27.1	3.6	28.0	3.9
Total	**753.4**	**100.0**	**713.0**	**100.0**

Consolidated Sales by Product Group

For year ended 31 December	**2010**		**2011**	
	(In Million)	**(% of Sales)**	**(In Million)**	**(% of Sales)**
Ceramics	316.0	41.9	281.6	39.5
Fittings	253.9	33.8	246.4	34.6
Bathing & Wellness	90.6	12.0	92.6	13.0
Furniture & Accessories	65.9	8.7	63.6	8.9
Other	27.0	3.6	28.8	4.0
Total	**753.4**	**100.0**	**713.0**	**100.0**

* Represents sales by country of origin.

4. Financial risk management

The Group's activities expose it to a variety of financial risks, including the effect of changes in foreign currency exchange rates and interest rates.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The objective is to identify, quantify, manage and then monitor events or actions that could lead to financial losses. The Group's treasury department undertakes this responsibility using policies approved by the board of directors.

4.1 Financial risk factors

a) Market risk

1. Foreign exchange risk

The Group conducts operations in most of the major countries of Western and Eastern Europe, and minor operations in, Latin America and the Middle East/Gulf countries. As a result of its international presence, the Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Euro, the UK pound sterling, and the US Dollar. The exposure primarily arises from translating monetary assets and liabilities denominated in these three currencies into the respective functional currency of each Group company where the functional currency is different.

With regard to these foreign currency exposures, the Group Treasury's risk management policy is to hedge between 50% and 80% of anticipated cash flows from exposures deemed to have a material impact on the Group's net income, using forward contracts. The Group carries out an assessment both at the inception and on an ongoing basis.

At 31 December 2011, a hypothetical 10% weakening/strengthening of the UK £ against all other functional currencies with all other variables held constant, would have resulted in an approximate reduction/increase in post-tax profit for the year by 1.7m (2010: 15m increase/reduction) (mainly as a result of foreign exchange gains/losses on translation of UK £ denominated monetary assets and liabilities in the entities with functional currencies other than the UK £.

At 31 December 2011, a hypothetical 10% weakening/strengthening of the US $ against other functional currencies with all other variables held constant, would have resulted in an approximate increase/reduction in post-tax profit for the year by 17m (2010: 25m), mainly as a result of foreign exchange gains/losses on translation of US $ denominated monetary assets and liabilities in the entities with functional currencies other than the US $.

2. Cash flow and fair value interest rate risk

The Group's income and operating cash flows are sensitive to changes in market interest rates, primarily due to floating rate borrowings.

The Group's interest rate risk primarily arises from long term borrowings. Borrowings issued at variable rates expose the Group cash flow to interest rate risk. The Group has a total of 1048.3m (2010: 1,137.8m) of floating rate long term borrowings and 317m of floating rate assets outstanding at year end. The interest rates of the finance leases to which Ideal Standard Group is lessee are fixed at the inception of the lease.

At 31 December 2011, a hypothetical interest rate increase/decrease of 1% on the Group's net floating interest borrowings, with all other variables held constant, would have resulted in an approximate reduction/increase in pre-tax result for the year by 7.3m (2010: 8.0m).

3. Price risk

The Group is exposed to fluctuations in the price of major raw material commodities used in the manufacturing process (such as copper, zync, chromium, mma and clay). From time to time the Group enters into fixed price forward agreements with suppliers to reduce its risks related to commodity price. All of the forward agreements are entered into for the purposes of own use and therefore the Group has applied the exemption in IAS 39 and did not recognise these contracts at fair value.

b) Credit risk

The Group's credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivatives with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of “A” are accepted. For customers, Group companies assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on internal and/or external ratings, in the frame of the delegations given by the board. The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and use of trade supplier credit terms.

The table below analyses the Group’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including an interest assumption, except for PECs Series 2 to 6 stated at their value as of 31 December 2011.

31 December 2011 - Million euro	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings (including interests)				
Senior Secured Notes	32.3	32.3	96.9	307.3
Interest Bearing Loan from parent				901.1
Interest Bearing (subordinated) Loan from parent				364.8
Other Borrowings	1.7			2.5
Derivative financial instruments				
Trade and other payables (excluding payroll and social accruals)	175.7		6.2	
PECs Series 1				406.5
PECs Series 2-6				916.1
	209.7	**32.3**	**103.1**	**2,898.3**

31 December 2010 - Million euro	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings (including interest)	45.6	51.3	1,035.3	692.5
Derivative financial instruments				
Trade and other payables (excluding payroll and social accruals)	201.1			
PECs Series 1				401.8
	246.7	**51.3**	**1,035.3**	**1,094.3**

In order to meet its cash outflow obligations, the Group uses cash flows generated from operating activities and credit facilities with financial institutions if necessary. In addition France, Italy and the UK have entered into a debtor factoring agreement with financial institutions whereby cash is made available to the Group in consideration for certain trade receivables generated by the entities.

Non-recourse factoring receivables, whereby trade receivables are sold at their nominal value minus a discount in exchange for cash, are derecognised from the balance sheet and disclosed as other borrowings .As of 31 December 2011 French factoring program shows 1.0 position (Please refer to Note 16. “Borrowings”). Italy facility can de drawn up to 35m and the UK program allows a drawing up to £15m, these facilities are not drawn as of 31 December 2011.

The Group entered into a revolving credit facility (the Revolving Credit Facility) with third party lenders that will provide for borrowings up to an aggregate amount of 15.0 m. This facility has not been drawn as of 31 December 2011 (Please refer to Note 16. “Borrowings”).

4.2 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

4.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2011:

31 December 2011 - Million euro	Level 1	Level 2	Level 3
Derivative financial instruments	-	-	-
Total Assets	**-**	**-**	**-**
Preferred equity certificates (series 1)	-	-	0.7
Derivative financial instruments	-	-	-
Total Liabilities	**-**	**-**	**0.7**

Preferred equity certificates (series 1)	
31 December 2010 - Million euro	**0.8**
Fair Value Adjustment	(0.1)
Preferred equity certificates (series1) December 31, 2011	**0.7**

5. Critical Accounting Estimates and Judgements

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below.

(a) Accounting Basis
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

This exercise has been performed in a macroeconomic environment which has deteriorated since the end of 2008 and which has affected all companies within the Group. Although the Group took several measures to align the organisation to the adverse market situation, it is still suffering from the economic downturn. It is in this context of uncertainty, volatility and low visibility that the Management of the Company has prepared the 2011 consolidated financial statements, a 2012 budget, and a medium term plan.

The financial statements have been prepared on a going concern basis and in accordance with the main accounting principles set out in section 2.

In this respect, the following underlying assumptions have been used:

- The diversified and well-balanced nature of the Group activities in terms of end-markets and regions served continue to provide reasonable stability in the Group
- The positive impact from the restructuring plans implemented from 2008 to 2011 and those planned for 2012 provide counter measures to the weak markets.
- The availability of several financing and structural options to mitigate a further potential market weakening.

Significant judgement is required when assessing the probable outcomes reflected in these forward looking forecasts and plans.

The Company's Board of directors has assessed this situation in light of putting together its future plans and believe that the Company and the Group are able to trade within the terms of the current financing arrangements for the foreseeable future (it being understood that such assessment may be subject to uncertainties and contingencies, many of which are beyond the control of the Company). The Company has different options from a business and financing perspective to counteract unforeseen conditions

(b) Determination of the fair values of identifiable assets, liabilities and contingent liabilities in a business combination

In connection with the Acquisition, the Group had to determine the fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination. Significant judgement was required in estimating these fair values.

(c) Estimated impairment

The Group tests annually whether goodwill and indefinite useful life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2.8. The recoverable amount of a cash generating unit (CGU) has been determined based on the value in use calculations. These calculations require the use of estimates. Estimating a value in use requires management to make an estimate of the expected future cash-flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash-flows.

The Group has determined 2 separate CGUs, each representing a geographical area where the Group has its main activities. In accordance with the accounting policy the Group has performed the impairment testing on each CGUs being EMEA and Incesa. No additional impairment charge arose, considering a previous write down of 218.4m of the carrying amount of the EMEA CGU.

If the budgeted operating results used in the value-in-use calculations had been 10% lower than management's estimates for the period considered in the impairment analysis, the group would need to further reduce the carrying value of tangible and intangible fixed assets by 65m and 1m in EMEA and Incesa respectively.
If the weighted average cost of capital applied to the discounted cash-flows had been 1% higher than management's estimates, the group would have recognised a further impairment charge by reducing the carrying value of tangible and intangible fixed assets by 95m and 2m respectively.

(d) Income taxes

Significant judgment is required in determining the consolidated provision for income taxes. The Group is subject to income taxes in numerous jurisdictions and there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Measurement of the deferred tax asset related to the tax loss carry-forward involves significant judgement, notably related to the probable future tax profit (refer to note 12 "Deferred Income Tax"). The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(e) Measurement of provisions

Significant judgement is required in the estimation of present obligations that arise from past events including the environmental restoration, warranties, legal claims and other items (refer to note 17 "Provisions"). These judgments are based on the Group's prior experiences with these issues and are the best estimate of the Group's liability for these items.

(f) Useful life and residual value

An estimation of the residual values and useful lives of tangible assets and intangible assets is required to be made at least annually. Judgement is required in estimating the useful lives of fixed asset categories. The residual value is the estimated amount that would be currently obtained from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual life is determined based upon discussions with local engineers.

(g) Timing of collection of receivables

The Group makes significant judgement in determining the amount of provision for impairment of trade receivables when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flow is determined based upon the significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(h) Pension Obligations
The company uses significant judgement to determine the measurement of the defined benefit pension plan assets and liabilities. These amounts are calculated annually by independent actuaries; however, significant judgement is required (refer to note 18 "Retirement Benefit Obligations").

(i) Preferred Equity Certificates

Specific valuation techniques used to value financial instruments, measured in the balance sheet at fair value, include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates based on a spot rate at the corresponding balance sheet date. The resulting gains or loss values are discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group has determined the fair value of the PECs Series 1 using the discounted cash flows approach. A decrease of the discount rate of 1 % would result in an increase of the fair value to 0.4m. An increase in underlying cash flows of 10% would not materially impact the value.

6. Intangible assets

	2011						
Million euro	Goodwill	Brands with indefinite useful lives	Customer relationship	Brands with definite useful lives	Internally developed technologies	Software	Total
Opening net book amount at 1 January 2011	**0.0**	**195.6**	**188.8**	**64.4**	**16.5**	**17.6**	**482.9**
Effect of the movements in exchange rates						0.4	0.4
Additions	1.6					2.7	4.3
Other acquisitions - internally developed					6.8		6.8
Disposals							
Amortisation charge for the year			(5.3)	(2.9)	(6.9)	(3.9)	(19.0)
statement							
Transfer from heading to another							
Closing net book amount	**1.6**	**195.6**	**183.5**	**61.5**	**16.4**	**16.8**	**475.4**
At 31 December 2011							
Cost or deemed cost	176.3	202.6	204.3	72.3	46.0	39.4	740.9
Accumulated depreciation and impairment	(174.7)	(7.0)	(20.8)	(10.8)	(29.6)	(22.6)	(265.5)
Net carrying amount at 31 December 2011	**1.6**	**195.6**	**183.5**	**61.5**	**16.4**	**16.8**	**475.4**

	2010						
Million euro	Goodwill	Brands with indefinite useful lives	Customer relationship	Brands with definite useful lives	Internally developed technologies	Software	Total
Opening net book amount at 1 January 2010	**0.0**	**195.6**	**194.1**	**67.3**	**17.1**	**18.4**	**492.5**
Effect of the movements in exchange rates						0.2	0.2
Additions						3.7	3.7
Other acquisitions - internally developed					6.1		6.1
Disposals						(0.1)	(0.1)
Amortisation charge for the year			(5.3)	(2.9)	(6.7)	(4.6)	(19.5)
Impairment losses recognized in the income statement							
Transfer from heading to another							
Closing net book amount	**0.0**	**195.6**	**188.8**	**64.4**	**16.5**	**17.6**	**482.9**
At 31 December 2010							
Cost or deemed cost	174.7	202.6	204.3	72.3	39.2	36.3	729.4
Accumulated depreciation and impairment	(174.7)	(7.0)	(15.5)	(7.9)	(22.7)	(18.7)	(246.5)
Net carrying amount at 31 December 2010	**0.0**	**195.6**	**188.8**	**64.4**	**16.5**	**17.6**	**482.9**

Of the total amortisation expense of 19.0m, 8.2m has been charged in 'other operating income and expenses', 6.9m in cost of sales and 3.9m in "Selling & Administration expenses" in the income statement.

6.1. Brands

The Group has identified 3 brands with indefinite useful lives, these have been allocated to EMEA CGU and the annual impairment test has been carried out together with the exercise on goodwill. In 2008, an impairment charge of 11.1m has been recorded on these brands that have been charged to separate caption in the income statement. No impairment has been recorded in 2011or 2010.

6.2.Goodwill

On 8 April 2011, the management of Ideal Standard International Acquisition Sarl, direct parent of Ideal Standard International SA, transferred the shares of Ideal Standard Sanitaryware Sarl (holding company of the Irish Shires business) to Ideal Standard International Holding Sarl, subsidiary of Ideal Standard International SA. As a consequence a goodwill of 1.6m is presented in the accounts.

6.3.Customer relationships

Customer relationships consist of customer contracts and related customer relationships which were acquired as part of the Acquisition. The fair value of the customer relationships at the date of acquisition amounted to 229.8m. The carrying amount of the customer relationships at the balance sheet date is 183.5m (2010: 188.8m). The remaining amortisation period at the balance sheet date is 37 years.

6.4. Internally developed technologies

In 2011, the Group has capitalised 6.8m of development cost as internally developed technologies from which 3m is considered as technologies under development and consequently no amortisation charges have been recorded.

7. Property, Plant and Equipment

	2011				
Million euro	**Land & buildings**	**Equipment in the plant**	**Furniture, Vehicles, IT equipment, and Others**	**Assets under construction and advance**	**Total**
Period ended 31 December 2011					
Opening net book amount as of 1 january 2011	**82.5**	**104.6**	**4.8**	**6.4**	**198.3**
Ef	.3	0.2	0.1	0.0	0.6
Additions	1.3	7.3	3.4	8.3	20.3
Sales & Disposals	(0.4)	(0.8)	0.2	0.0	(1.0)
Depreciation/Impairment charge	(6.6)	(14.1)	(3.8)	(3.6)	(28.1)
Transfer to Assets held for sale	0.7	1.1	(0.1)	0.0	1.7
Reclass PPE headings	0.0	0.0	0.0	0.0	0.0
Closing net book amount	**77.8**	**98.3**	**4.6**	**11.1**	**191.8**
At 31 December 2011					
Cost or deemed cost	99.4	183.4	14.3	11.0	308.1
Accumulated depreciation	(21.6)	(85.1)	(9.7)	0.1	(116.3)
Net carrying amount at 31 December 2011	**77.8**	**98.3**	**4.6**	**11.1**	**191.8**

	2010				
Million euro	**Land & buildings**	**Equipment in the plant**	**Furniture, Vehicles, IT equipment, and Others**	**Assets under construction and advance**	**Total**
Period ended 31 December 2010					
Opening net book amount as of 1 january 2010	**85.2**	**125.0**	**7.7**	**7.4**	**225.3**
Ef	.2	2.0	0.3	0.0	4.5
Additions	1.0	5.0	1.3	6.2	13.5
Sales & Disposals	(0.5)	(1.6)	0.1	(2.5)	(4.5)
Depreciation/Impairment charge	(6.2)	(30.1)	(5.6)	0.0	(41.9)
Transfer to Assets held for sale	(1.0)	1.8	0.6	0.0	1.4
Reclass PPE headings	1.8	2.5	0.4	(4.7)	0.0
Closing net book amount	**82.5**	**104.6**	**4.8**	**6.4**	**198.3**
At 31 December 2010					
Cost or deemed cost	104.7	190.2	14.7	6.4	316.0
Accumulated depreciation	(22.2)	(85.6)	(9.9)	0.0	(117.7)
Net carrying amount at 31 December 2010	**82.5**	**104.6**	**4.8**	**6.4**	**198.3**

Of the total depreciation and impairment charge of 28.1m, 23.7m has been charged to 'Cost of Sales' and 1.7m to 'Sales and to General Administrative Expenses' in the income statement. Impairment adjustment of 2.7m is resulting from the impairment of Ideal Standard France SAS assets following the restructuring program announced in January 2011 and is shown in the line Impairment of non-financial assets in the income statement.

Of the total 20.3m of additions to Property, Plant and Equipment, 6.6m relates to investments associated with restructuring programs.

8. Investments in associates

The Group's investment in associates of 0.9m (2010: 0.9m) represents the Group's share of the associates' net assets as at 31 December 2011, using the equity method. The total assets, liabilities and revenues of Sevelievogaz 2000 AD, the most important associate, are respectively 3m (2010: 3m), 1m (2010: 1m) and 3m (2010: 3m).

9. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

31 December 2011 - Million euro	**Loans and receivables**	**Assets held at fair value and remeasured through the income statement**	**Total**
Assets as per balance sheet			
Interest-bearing loans	270.7		270.7
Trade and other receivables	156.9		156.9
Cash and cash equivalents	47.0		47.0
Total	**474.6**	**-**	**474.6**

31 December 2011 - Million euro	**Liabilities held at fair value and remeasured through the income statement**	**Other financial liabilities**	**Total**
Liabilities as per balance sheet			
Preferred equity certificates	0.7	916.1	916.8
Interest-bearing borrowings		712.7	712.7
Trade and other payables excluding social security	181.9		181.9
Total	**182.6**	**1,628.8**	**1,811.4**

31 December 2010 - Million euro	Loans and receivables	Assets held at fair value and remeasured through the income statement	Total
Assets as per balance sheet			
Interest-bearing loans	69.2	-	69.2
Derivative financial instruments	-	0.2	0.2
Trade and other receivables	173.9	-	173.9
Cash and cash equivalents	75.5	-	75.5
Total	**318.6**	**0.2**	**318.8**

31 December 2010 - Million euro	Liabilities held at fair value and remeasured through the income statement	Other financial liabilities	Total
Liabilities as per balance sheet			
Preferred equity certificates	0.8	-	0.8
Interest-bearing borrowings	-	1,212.6	1,212.6
Trade and other payables excluding social security	-	201.1	201.1
Total	**0.8**	**1,413.7**	**1,414.5**

10. Derivative financial instruments

As of December 31 2011, the Group has no derivative financial instruments.

31 December 2010 - Million euro	Assets	Liabilities
Interest rate swaps		
Forward foreign exchange contracts	0.2	
Total	**0.2**	**-**
Less non-current portion:		
Interest rate swaps		
Total non-current portion	**-**	**-**
Current portion	**0.2**	-

a) Interest rate swaps

Until November 2010, the Group has limited its exposure to floating rates of interest under its borrowings by fixing 50 % of its exposure through the use of Interest Rate swaps. At December 31 2010 and 2011, the Group had no interest rate swap contracts.

b) Forward foreign exchange contracts

At 31 December 2011, the Group had no Forward Foreign Exchange contracts.

11. Trade and other receivables

As of 31 December - Million euro	2011	2010
Trade receivables	139.1	146.9
Less: provision for impairment of trade receivables	(7.3)	(6.8)
Trade receivables net	**131.8**	**140.1**
Long term deposits and escrow accounts	-	1.5
Prepayments: advances to suppliers and prepaid expenses	8.2	8.8
Other amounts receivable	16.9	23.5
Trade and Other Receivables	**156.9**	**173.9**
Less: non-current portion		
Long term deposits and escrow accounts	-	(1.5)
Other amounts receivable	(4.7)	(2.2)
Non-current portion	**(4.7)**	**(3.7)**
Current portion	**152.2**	**170.2**

All non-current receivables are due within five years from the balance sheet date.

The fair value of trade and other receivables approximate their carrying amount, as the impact of discounting of the non-current portion is not significant because of the compensating effect of interest receivable.

As of 31 December 2011, trade receivables of 9.3m (2010: 9.1m) were past due but not impaired. These relate to a number of independent customers for which there is no recent history of definitive default. The ageing analysis of these trade receivables is as follows:

Million euro	2011	2010
Up to 3 months	8.3	8.6
3 to 6 months	1.0	0.5
	9.3	**9.1**

As of 31 December 2011, trade receivables of 7.3m (6.8m in 2010) were impaired and provided for. The individually impaired receivables mainly relate to customers in situation of bankruptcy, or in unexpectedly difficult economic situations. It was assessed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

Million euro	2011	2010
Up 6 months	2.6	2.9
Over 6 months	4.7	3.9
	7.3	**6.8**

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

Million euro	2011	2010
EUR	115.3	122.0
GBP	18.7	19.3
USD	0.0	3.5
Other currencies	22.9	29.1
	156.9	**173.9**

Movements on the group provision for impairment of trade receivables are as follows:

Million euro	2011	2010
Beginning of period	6.8	6.2
Provision for receivables impairment, net of recovery	0.5	0.6
	7.3	**6.8**

The creation and release of provision for impaired receivables have been included in 'administration expenses' in the income statement. Amounts charged to the provision account are written off where there is no more expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

As described in note 4.1, the Group has entered into a debtor factoring agreement with financial institutions whereby cash is made available to the Group in consideration for certain trade receivables generated by a Group entity. The program currently covers the entities in France, the UK and Italy. Total Borrowings include 1.0m France factoring at end of 2011 (2.3m end 2010).

12. Deferred Income Tax

Deferred income tax assets and liabilities are offset in the case where a legally enforceable right to offset current tax assets against current tax liabilities applies and in the case where the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities with the intention to settle the balances on a net basis.

The offset amounts are as follows:

For the year ended 31 December - Million euro	2011	2010
Deferred Tax Assets:		
Deferred tax asset to be recovered after more than 12 months	12.9	14.5
Deferred tax asset to be recovered within 12 months		-
	12.9	14.5
Deferred Tax Liabilities:		
Deferred tax liability to be crystalized after more than 12 months	(34.7)	(83.6)
Deferred tax liability to be crystalized within 12 months		-
	(34.7)	(83.6)
Total Deferred Tax (net)	**(21.8)**	**(69.1)**

The gross movement on the net deferred income tax account is as follows:

Million euro	2011	2010
Beginning of the period	(69.1)	(103.1)
Tax income / (expense)	43.4	38.3
Other movement	3.9	(4.3)
At 31 December	**(21.8)**	**(69.1)**

The movements in deferred income tax assets and liabilities during the year, taking into consideration the offsetting balances within the same jurisdiction, are as follows:

	2011								
31 December 2011 - Million euro	**Property plant and equipment**	**Intangible assets**	**Impairment losses**	**Inventory**	**Provisions**	**Employee Benefits**	**Tax loss carry-f**		**I**
Deferred Tax Assets:									
At 1 January	0.6	1.0	2.2	0.7	4.1	9.4	1.4	(4.9)	14.5
Charged/(credited) to the income	0.1	(1.0)	(2.2)	(0.5)	(2.1)	(0.7)	7.3	6.2	7.1
Charged/(credited) to equity						1.7			1.7
Tr	(3.7)			(0.1)	(0.7)	(4.0)	(1.4)	(0.4)	(10.4)
Other									-
A	**.0)**	**-**	**-**	**0.1**	**1.3**	**6.4**	**7.3**	**0.9**	**12.9**

31 December 2011 - Million euro	**Property plant and equipment**	**Intangible assets**	**Impairment losses**	**Inventory**	**Provisions**	**Employee Benefits**	**Tax loss carry-f**		**Total**
Deferred Tax Liabilities:									
At 1 January	(19.2)	(115.5)	7.1	-	(0.6)	(6.1)	46.0	4.7	(83.6)
Charged/(credited) to the income	(0.9)	6.9	(6.6)	-	3.7	(0.2)	35.9	(2.5)	36.3
Charged/(credited) to equity						2.2			2.2
Tr	.7			0.1	0.7	4.0	1.4	0.4	10.4
Other									-
A 1 December	**(16.4)**	**(108.6)**	**0.5**	**0.1**	**3.8**	**(0.1)**	**83.3**	**2.6**	**(34.7)**

	2010								
31 December 2010 - Million euro	**Property plant and equipment**	**Intangible assets**	**Impairment losses**	**Inventory**	**Provisions**	**Employee Benefits**	**Tax loss carry-forward**	**Other**	**Total**
Deferred Tax Assets:									
At 1 January	1.1				5.9		10.0	7.5	24.5
Charged/(credited) to the income	(0.5)	1.0	2.2	0.7	(1.8)	9.4		(6.0)	5.0
Tr							(8.6)	(6.4)	(15.0)
Other									-
A 1 December	**0.6**	**1.0**	**2.2**	**0.7**	**4.1**	**9.4**	**1.4**	**(4.9)**	**14.5**

31 December 2010 - Million euro	**Property plant and equipment**	**Intangible assets**	**Impairment losses**	**Inventory**	**Provisions**	**Employee Benefits**	**Tax loss carry-forward**	**Other**	**Total**
Deferred Tax Liabilities:									
At 1 January	(13.8)	(120.5)	5.3	1.0		(1.8)	3.0	(0.8)	(127.6)
Charged/(credited) to the income	(5.4)	5.0	1.8	(1.0)	(0.6)	(4.3)	28.2	9.6	33.3
Charged/(credited) to equity									-
Transfer							8.5	6.5	15.0
Other							6.3	(10.6)	(4.3)
A	**(19.2)**	**(115.5)**	**7.1**	**-**	**(0.6)**	**(6.1)**	**46.0**	**4.7**	**(83.6)**

Deferred tax assets are recognised for tax loss carry forwards only to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred income tax assets of 291m (2010: 135m) in respect of losses amounting to 548m (2010: 451m) that can be carried forward against future taxable income.

The Group does not expect any undistributed profits in the coming years. As a consequence, no deferred taxes are recognised.

13. Inventories

Million euro	**2011**	**2010**
Raw materials and consumables	21.0	20.9
Work in progress	25.9	28.4
Finished goods	102.9	99.8
	149.8	**149.1**

During the financial year, the Group has recorded net inventory adjustments of 2.5m (2010: 3m) that have been included in 'Cost of Sales'.

14. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

For the year ended 31 December - Million euro	2011	2010
Cash at bank and on hand	46.8	75.5
Short-term bank deposits	0.2	-
	47.0	**75.5**

15. Equity

Share Capital

	Number of shares	Ordinary shares (EUR)
At 1 January 2011 (ISI Holding Sarl)	100,000	100,000
Change of Consolidation perimeter	(100,000)	(100,000)
Issued in the year (IS International SA)	31,000	31,000
At 31 December 2011	**31,000**	**31,000**

Due to the change of consolidation perimeter, following the incorporation of Ideal Standard International S.A in April 2011, the number of ordinary shares as of December 2011 is 31 000 with a par value of 1 per share.

16. Borrowings

31 December 2011 - Million euro	Carrying amounts	Deferred financing fees	Amounts before deferred financing fees
Preferred equity certificates (series 1)	0.7		0.7
Preferred equity certificates (series 2-6)	916.1		916.1
Senior Secured Notes	266.9	13.4	280.3
Interest bearing loan from parent	313.7		313.7
Interest bearing (subordinated) loan from parent	128.3		128.3
Other borrowings	3.8		3.8
	1,629.5	13.4	1,642.9
Current portion	**7.2**		**7.2**
Non-current portion	**1,622.3**		**1,635.7**
Due:			
- in less than 12 months			7.2
- in 1 to 5 years			
- in more than 5 years			1,635.7
			1,642.9

31 December 2010 - Million euro	Carrying amounts	Deferred financing fees	Amounts before deferred financing fees
Preferred equity certificates (series 1)	0.8		0.8
Senior facilities agreement	820.6	17.4	838
Interest bearing loan from parent	267.8	2.2	270
Interest bearing (subordinated) loan from parent	120.4		120.4
Other borrowings	3.8		3.8
	1,213.4	19.6	1,233.0
Current portion	9.1		9.1
Non Current portion	**1,204.3**		**1,223.9**
Due:			
- in less than 12 months			9.1
- in 1 to 5 years			832.9
- in more than 5 years			391.0
			1,233.0

Preferred Equity Certificates

On 31 October 2007, Ideal Standard International Holding Sarl issued Series 1 Preferred Equity Certificates ("PECs") to its parent, Ideal Standard International Acquisition Sarl, in connection with the financing for the Acquisition, with an aggregate par value of 289.9m. In 2010, Ideal Standard International Holding Sarl redeemed 38.3 million of the PECs (29.6 million in 2009) at par value as part of the restructuring of its capital structure.

In April 2011, Ideal Standard International Acquisition Sarl transferred its Series 1 PECs in Ideal Standard International Holding Sarl to Ideal Standard International SA for the issuance by Ideal Standard International SA of Series 1 PECs with par value equal to the par value of the transferred PECs plus an amount of interest equal to the accrued but unpaid yield. The Series 1 PECs have a mandatory redemption date of 15 April 2071 (60 years from the date of issuance) at a redemption price equal to the sum of the par value for each outstanding PEC and the unpaid earned yield accrued through the mandatory redemption date, subject to certain restrictions. The Series 1 PECs are redeemable at the discretion of the Company at their call price equal to the par value plus unpaid yield accrued at the early redemption date, but not before one year after the Senior Secured Notes maturity date.

At 31 December 2011, the Group has determined the fair value of the entire hybrid contract at 0.7m (2010: 0.8m) using the discounted cash flow approach.

PECS Series 2 to 6 were issued in April 2011 as part of a number of transactions associated with the Senior Debt purchase and Senior Secured Notes Issuance.

The Series 2 to 6 PECS have a mandatory redemption date of 28 April 2041 (30 years from the date of issuance) at a redemption price equal to the sum of the par value for each outstanding PEC and the unpaid earned yield accrued through the mandatory redemption date, subject to certain restrictions. The PECs are redeemable at the discretion of the Company at their call price equal to the par value plus unpaid yield accrued at the early redemption date, but not before one year after the Senior Secured Notes maturity date.

At 31 December 2011, the value of the PECS Series 2 to 6 amounts to 916.1m.

Senior Facilities Agreement, Senior Debt Purchase and Senior Secured Notes Issuance

On 3 October 2007, the Group entered into a Senior Facilities Agreement (SFA) with Bank of America and Credit Suisse ("Lead Lenders") (subsequently amended on 30 October 2007, 2 May 2008 and 9 July 2008). Under the SFA the Lead Lenders provided 745m structured into Facility A for 106m ; Facility B for 639m; an acquisition of facility of $ 75 million; and a Revolving Credit Facility (RCF) of 79m. The purpose of these facilities was to finance the Acquisition , refinance financial indebtedness of the target companies, a payment of pension contributions into schemes operated for the benefits of the members of the Group and their employees and to provide sources of liquidity for the Group's day to day operations.

In June 2010, following negotiations between Bain Capital and Senior Debt Holders, Bank of America and Credit Suisse, funds managed by Bain Capital acquired a 70% interest in the Senior Debt of the Group.

The consolidated financial statements for the 12 months ended 31December 2011 of Ideal Standard International SA reflect the following transactions associated with the restructuring of the borrowings of the Group:

On 25 March 2011, the Company's parent, Ideal Standard International Acquisition Sarl. ("ISI Acquisition") entered into a series of agreements with the lenders under the Senior Facilities Agreement. These agreements comprise:

(i) a Debt Holders Agreement pursuant to which the ISI Acquisition and those lenders holding a majority of the outstanding debt under the Senior Facilities Agreement (the "Majority Lenders") agreed (amongst other things) to refrain from taking certain specified actions that would prejudice the interests of those lenders holding a minority of the outstanding debt under the Senior Facilities Agreement (the "Minority Lenders") and, in exchange, the Minority Lenders granted the ISI Acquisition and its affiliates a right to prepay or purchase all of the outstanding debt under the Senior Facilities Agreement held by the Minority Lenders at any time on or prior to 31 December 2011 in accordance with a specified price range.

(ii) an Amendment Agreement which amends certain provisions of the Senior Facilities Agreement and effects certain of the protections afforded the Minority Lenders under the Debt Holders Agreement ("Amended Credit Facility"). Principally, the Amendment Agreement removes all financial covenants from the Senior Facilities

Agreement, allows all lenders under the Senior Facilities Agreement to elect to roll-up their interest and provides the Minority Lenders will limited enforcement rights in circumstances where there has been a payment default under the Senior Facilities Agreement and the Minority Lenders fail to agree a restructuring plan with the Majority Lenders; and

(iii) Settlement and Release Agreements pursuant to which ISI Acquisition, Bain Capital Investors LLC and the lenders under the Senior Facilities Agreement release one another from, and irrevocably abandon, all claims arising out of breaches (or alleged breaches) of the Senior Facilities Agreement occurring or relating to the period prior to execution of the Settlement and Release Agreements.

On 28 April, amounts outstanding under the Amended Credit Facility (100% of the SFA Debt) held by majority lenders were novated to Ideal Standard International Acquisition Sarl in consideration for issuing Series 2 to 6 Preferred Equity Certificates (PECs). Following the novation neither Ideal Standard International SA nor any of its subsidiaries has any further obligations remaining under the Amended Credit Facility terms. Series 2 to 6 PECs issued were equal to principal plus accrued interest on the Senior Debt as at the date of novation and bears the same interest as the SFA Debt at the moment of novation plus 4% with a PIK (unpaid interest accruing until maturity) condition and same terms as the ones of the SFA for each respective tranche. PECs Series 2 to 6 arising from the novation process, have an original amount of 863.4m with accrued interest at the end of December 2011 of 52.7m for a total value of 916.1m.

On 28 April and 18 May 2011, Ideal Standard International SA, the newly created parent company of Ideal Standard International Holding Sarl, issued Senior Secured Notes for an aggregate amount of 275.0m. The Notes are listed in the Luxembourg Stock Exchange. The coupon rate on the Notes is 11.75% annually. The Notes are due in 2018.

On 28 April, Ideal Standard International Holding Sarl entered into a revolver credit facility (the Revolving Credit Facility) with third party lenders that will provide for borrowings up to an aggregate amount of 15.0 m. This facility has not been drawn to date.

On April 28, a portion of the proceeds of the offering was used by Ideal Standard International Finco Sarl, a newly created subsidiary of Ideal Standard International Holdiang Sarl, to buy the Minority part (approximately 30% of the total SFA Debt) of the outstanding debt under the Senior Facility Agreement. This portion of the debt was purchased at a discount of 61.6m vs. the carrying amount with the purchased debt shown as an outstanding receivables to Ideal Standard Acqusition Sarl at fair value (purchase price 189.2m), the discount will be taken to revenue using a yield-to maturity methodology. Total Amortization brought to P&L at the end of December 2011 is 4.5m and therefore the carrying amount of the discount at 31 December 2011 is 57.1 million.

Deferred Financing Fees

Following the series of transactions described above, the previous outstanding SFA Debt is considered extinguished and as a consequence, Deferred Financing Fees attached to that SFA Debt have been fully amortized representing a total charge of 19.6m. Financing fees related to the Senior Notes total 13.4m at the end of December 2011 and are amortized following the effective interest rate method covering the duration of the Senior Notes.

Interest bearing loan from parent

In October 2007, Ideal Standard Holding Sarl entered into an intercompany loan agreement with its parent Ideal Standard International Acquisition Sarl. Under this agreement, the lender provided $290 million loan facility to finance the Acquisition.

Under the intercompany loan agreement, Ideal Standard Holding Sarl has to pay a variable interest in cash (based on LIBOR) and accrue a non –cash pay fixed part (with a rate of 5.5%).

In November 2007, the loan was redenominated for 50% from USD to GBP. The remaining 50% remains USD.

Following the insertion of Ideal Standard International S.A, the existing Interest Bearing loan from parent was transferred to Ideal Standard International S.A in exchange of new Intercompany Debt on a PIK fixed rate of 14.4% issued by Ideal Standard International S.A to Ideal Standard Acqusition Sarl.

At 31 December 2011 the loan amounts to 313.7m including accrued interests. The final maturity date of the loan is at 31 October 2017. No payment is allowed before the maturity of the Senior Secured Notes. This facility is also reported in note 26 "Related-Party Transactions".

Interest bearing (subordinated) loan from parent

On 29 October 2009, Ideal Standard Holding Sarl received a subordinated advance of 75m from Ideal Standard International Acquisition Sarl. As part of a restructuring of the company's capital structure in April 2010, this loan was reimbursed and replaced by a new subordinated loan of 115m from Ideal Standard International Acquisition Sarl.
The interest bearing advance under this loan agreement is repayable in 2040 or earlier on demand. 69m of the advance has a fixed interest rate of 8.0625% while the remainder of the advance has an Euribor based interest (euribor + 2.4375 %). The interest is accruing.

Following the insertion of Ideal Standard International S.A, the existing Interest Bearing (subordinated) loan from parent was transferred to Ideal Standard International S.A in exchange of new Intercompany Debt on similar terms issued by Ideal Standard International S.A to Ideal Standard Acqusition Sarl.

At 31 December 2011 , the loan amounts to 128.3m including accrued interest. This facility is also reported in note 26 "Related-Party Transactions".

Currency Denomination

The carrying amounts of the Group's borrowings are denominated in the following currencies:

As of 31 December - Million euro	2011	2010
EUR	1,315.8	647.5
GBP	137.8	251.4
USD	175.9	314.5
	1,629.5	**1,213.4**

Guarantees and Security of the Senior Secured Notes:

Securities are installed on shares, receivable positions and bank accounts of several subsidiaries of the Group. The Senior Secured Notes will be guaranteed jointly and severally on a senior secured basis by each of a number of subsidiaries of the issuer (the Guarantors).

Each Guarantee will:

(a) be a general secured obligation of the Guarantor that granted such Guarantee;
(b) rank equally in right of payment with all existing and future debt of the applicable Guarantor that is not subordinated in right of payment to such Guarantee;
(c) to the extent not otherwise secured by assets of the applicable Guarantor, be effectively subordinated to all existing and future secured debt of such Guarantor to the extent of the assets securing such debt;

(d) rank senior in right of payment to any and all of the applicable Guarantor's existing and future debt that is subordinated in right of payment to its Guarantee; and
(e) be subject to the restrictions on enforcement as set forth in the Intercreditor Agreement and as described in the section entitled "*Description of Other Indebtedness—Intercreditor Agreement.*"

Please refer to the Offering Memorandum of the 250m Senior Secured Notes/ Description of the Notes section for details related to the guarantees and securities of the Note.

Covenants

Under the Revolving Credit Facility, the Company will be required to procure that consolidated EBITDA at the end of each relevant period (during which borrowings under the Revolving Credit Facility are drawn) is not less than a certain minimum requirement. This financial covenant is calculated and tested quarterly on a rolling twelve month basis by reference to our consolidated annual financial statements and our consolidated quarterly financial statements. The Facility is not drawn to date.

So long as any Senior Secured Notes are outstanding, the Company will furnish to the holders unaudited interim financial statements on a quarterly basis and audited Financial Statements and annual reports on a yearly basis.

17. Provisions

a) Environmental Restoration
Environmental protection requirements vary by country and are regulated by different agencies in each country. A provision is made in full when a liability is identified and assessed. A provision is recognised for the present value of costs to be incurred for the restoration of sites. Currently, it is expected that no provision should be used during 2012.

b) Legal claims
The Group has several legal claims brought against the Group by former employees; third parties for wrongful termination of contracts and alleged contractual breach. Based on prior experience with such claims, the expected settlement date is uncertain and can extend from one to two years.

c) Restructuring provision
The Group has provisions for a number of restructuring programs. The provision relates to from severance payments for employee terminations, and contract termination costs, including those relating to the termination of lease contracts.

During the year ended 31 December 2011, the Group recorded restructuring charges of net 61.6m (2010: 13.7m). This amount includes new restructuring programs and the reversal of un-used provision from the previous years. 55.1m out of the 65.5m additional restructuring provision relates to the ceramics production restructuring program announced in January 2011. The implementation of this restructuring program started in the first quarter of 2011. The remainder of the additional provision covers several other programs.

The Group paid out 46.8m of severance and related restructuring costs in 2011. The aggregate amount of cash spent in 2011 amounts to 57.7m and includes 46.8m above plus restructuring capital expenditure of 6.6m and 4.3m of disruption costs.

d) Warranty claims
The Group provides a basic limited warranty with terms and conditions that vary depending upon product and country in which it was sold. The limited warranty covers the product parts and labour (in certain case) necessary to satisfy the warranty obligation for a period ranging from one to ten years.

During the year ended 31 December, changes in provisions were:

	2011				
Million euro	**Environmental restoration**	**Legal claims**	**Restructuring provision**	**Warranty claims**	**Total**
At 1 January 2011	**2.7**	**9.6**	**14.9**	**6.3**	**33.5**
Additions due to business combination					-
Provision charged/(credited) to the income					
Additional provisions	-	0.3	65.5	0.6	66.4
Unused amounts reversed			(3.9)		(3.9)
Used during period	(0.6)	(0.3)	(46.8)	(1.2)	(48.9)
Other changes			1.1	(0.2)	0.9
Exchange differences					-
At 31 December 2011	**2.1**	**9.6**	**30.8**	**5.5**	**48.0**

Analysis of total provisions:	**31/12/2011**
Non-current	4.7
Current	43.3
	48.0

	2010				
Million euro	Environmental restoration	Legal claims	Restructuring provision	Warranty claims	Total
At 1 January 2010	**2.7**	**6.2**	**23.6**	**5.0**	**37.5**
Additions due to business combination					-
Provision charged/(credited) to the income					
Additional provisions			14.6	1.7	16.3
Unused amounts reversed		(1.7)	(0.9)		(2.6)
Used during period			(22.4)	(1.3)	(23.7)
Other changes		5.1		0.9	6.0
Exchange differences					-
At 31 December 2010	**2.7**	**9.6**	**14.9**	**6.3**	**33.5**

Analysis of total provisions:	**31/12/2010**
Non-current	4.9
Current	28.6
	33.5

18. Retirement Benefit Obligations

The company's net liability for post-employment and long-term employee benefit plans comprises the following at 31 December:

For the year ended 31 December - Million euro	2011	2010
Employee benefits amounts in the balance sheet:		
Liabilities	(114.1)	(107.0)
Assets	15.9	15.0
Net liability	**(98.2)**	**(92.0)**

The group operates several post-employment plans throughout Europe; as follows:

a) Post employment benefits

The amounts recognized in the balance sheet at 31 December are as follows:

Million euro	2011	2010
Present value of funded defined benefit obligations at end of year	286.4	268.1
Fair value of plan assets at end of year	(302.3)	(281.7)
	(15.9)	**(13.6)**
Present value of unfunded defined benefit obligations at end of year	114.1	105.6
Unrecognized past service cost		-
	98.2	**92.0**

The amounts recognized in the income statement are as follows:

Million euro	2011	2010
Current service cost	5.2	4.8
Interest cost	19.9	20.6
Expected return on plan assets	(16.1)	(16.3)
Ef lment or settlement	(2.8)	
Total pension expense/(profit)	**6.2**	**9.1**

Changes in the present value of the defined benefit obligation are as follows:

Million euro	2011	2010
Defined benefit obligation at beginning of year	373.7	369.2
Current service cost	5.2	4.8
Interest cost	19.9	20.6
Benefits paid	(15.3)	(14.6)
Curtailment or settlement	(2.8)	(17.3)
Exchange rate	7.4	13.0
Actuarial (gain)/loss	12.4	(2.0)
Defined benefit obligation at end of year	**400.5**	**373.7**

Changes in the fair value of the plan assets are as follows:

Million euro	2011	2010
Fair value of plan assets at beginning of year	281.7	263.7
Expected return on plan assets	16.1	16.3
Actuarial gain/(loss)	(4.6)	5.2
Contributions paid by the company	10.7	10.6
Benefits paid	(10.8)	(9.1)
Curtailment or settlement	-	(17.7)
Exchange rate	9.2	12.7
Defined plan asset at end of year	**302.3**	**281.7**

Amounts recognized in the statement of recognized income/(expense) in the period:

Million euro	2011	2010
actuarial gains and (losses)	(17.0)	7.2
Cumulative amount of actuarial gains and losses recognized in the statement of recognized income/(expense)		
- Including tax	**(79.1)**	**(62.1)**
- Net of tax effect	**(58.9)**	**(46.0)**

Movements in the net liability/ (asset) recognized in the balance sheet are as follows:

Million euro	2011	2010
Net liability/(asset) in the balance sheet at beginning of year	92.0	105.5
Total expense recognized in the income statement	6.2	9.1
Contributions paid by the company	(10.7)	(10.5)
Benefits paid directly	(4.5)	(5.9)
Amount recognized in the statement of recognized (income)/expense	17.0	(6.8)
Exchange differences	(1.8)	0.6
Defined benefit obligation at end of year	**98.2**	**92.0**

Actual return on plan assets is as follows:

Million euro	2011	2010
Expected return on plan assets	16.1	16.3
Actuarial gain/(loss) on plan assets	(4.6)	5.2
Actual return on plan assets	**11.5**	**21.5**
Actual return on reimbursement right	**-**	**-**

Principal actuarial assumptions at the balance sheet date are as follows:

	2011	2010
Discount rate	4.8%	5.4%
Expected return on plan assets	5.0%	5.6%
Future salary increases	3.2%	3.7%
Future inflation	2.1%	3.1%

Major category of plan assets (% of plan assets):

	2011	2010
Equity securities	34.3%	37.2%
Debt securities/bonds	64.6%	61.7%
Real estate	0.1%	0.1%
Cash	1.0%	1.0%
Other	0.0%	0.0%

Experience adjustments arising on:

	2011	2010
(i) the plan liabilities		
- amount	(0.3)	(1.9)
- percentage of the plan liabilities at balance sheet date	-0.1%	-0.5%
(ii) the plan assets		
- amount	5.1	5.1
- percentage of the plan assets at balance sheet date	1.7%	1.8%

b) Other long term employment benefit

The group operates one jubilee premiums plan in Germany under which employees are remunerated after a certain number of years in service. The amounts recognised on the balance sheet as of 31 December 2011 is 1.0m and it is presented under 'Non-current Trade and Other payables' caption.

19. Trade and other payables

For the year ended 31 December - Million euro	2011	2010
Trade payables	102.4	113.6
Payroll and social security accruals	31.3	44.5
Interests payables	-	5.7
Other payables	79.5	81.8
Total trade and other payables	**213.2**	**245.6**
less: non-current portion		
Jubilee premium	1.0	1.0
Other payables	5.2	7.9
Non-current portion	**6.2**	**8.9**
Current portion	**207.0**	**236.7**

The other payables are mainly related to accrued expenses and accrued fees.

20. Other operating expenses

For the year ended 31 December - Million euro	2011	2010
Professional fees	(16.4)	(23.7)
Disruption costs	(4.3)	(1.9)
Amortisation of Intangibles (Brands and Customer Relantionships)	(8.2)	(8.2)
Net Gain on sale of assets/insurance proceeds	5.8	6.2
Employee incentive arrangements	(6.2)	(10.2)
Other	(3.5)	3.8
Total	**(32.8)**	**(34.0)**

21. Finance income and costs

For the year ended 31 December - Million euro	2011	2010
Finance costs:		
Interest expense	(136.2)	(66.5)
Gains on interest rate swaps	-	(2.1)
Amortization of bank fees	(20.4)	(3.6)
Net foreign exchange losses on financing activities	(1.8)	(24.2)
Other financial costs	(0.8)	-
	(159.2)	**(96.4)**
Finance income:		
Interest income on short-term bank deposits	17.9	2.4
Amortization of Discount on former debt repurchase	4.5	-
Net foreign exchange gains on financing activities	-	-
	22.4	**2.4**
Net finance income / (expense)	**(136.8)**	**(94.0)**

22. Income Tax Expense

For the year ended 31 December - Million euro	2011	2010
Current tax expense	(5.9)	(3.8)
Deferred tax income/(expense)	43.4	38.3
Total current tax	**37.5**	**34.5**

Tax expenses of 5.9 are mainly driven by Egypt (2.9m) and Italy local tax (2.0m) position.

As demonstrated below, the tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities.

For the year ended 31 December - Million euro	2011	2010
Loss before tax	**(238.7)**	**(142.4)**
Tax calculated at domestic tax rates applicable to profits in the respective countries	71.5	42.7
Tax effects:		
- Effect of different tax rates in various countries	8.9	2.2
- Local Taxes (Trade Tax, IRAP)	(2.8)	-
- Expenses not deductible for tax purposes	(3.8)	1.2
- Deferred Financing Fees	4.5	
- Utilisation of previously unrecognized tax losses	-	0.8
- Tax losses for which no deferred tax income was recognized	(44.4)	(18.1)
- Adjustments of Accruals from previous years	4.2	(7.5)
- Loan Impairment on Korean subsidiary	(13.4)	-
- Tax exempt Income on loans granted to related parties	5.9	-
- Change in tax rates	0.4	0.2
- Impact of Pension Deferred tax	-	8.5
- Other	6.6	4.5
Tax income/(expense)	**37.5**	**34.5**
The weighted average applicable tax rate is	30%	30%

23. Additional information on expenses by nature

The lines 'cost of sales', 'distribution costs', 'sales and marketing expenses' and 'administrative expenses' in the income statement include the following main expenses by nature:

For the year ended 31 December - Million euro	2011	2010
Inventory cost of sale	(223.9)	(237.2)
Inventory movements	(6.3)	5.6
Salaries and other benefits	(221.2)	(226.5)
Depreciation and amortization	(36.3)	(39.7)
Outbound Freight	(23.7)	(23.7)
Warehousing	(33.3)	(33.1)
Leases	(15.0)	(14.8)
Professional Services	(35.2)	(37.0)
Other	(123.2)	(133.1)
Other	(230.4)	(241.6)
Total expenses by nature	**(718.2)**	**(739.4)**

24. Contingencies

The Group has certain contingencies in respect of certain legal claims arising in the ordinary course of business for which appropriate provisions have been made.

In 2010 Ideal Standard - Vidima AD procured the issuance of bank guarantees under two audit acts for a total amount of 3.3m. In 2011 the Company appealed the audit acts before a tax court with very strong arguments which make management believe that the appeals will be ultimately awarded. Based on this, the management of the company considers that no provision should be made for the above contingent liabilities.

In November 2011, Ideal Standard Italy Srl has been notified of a Transfer Pricing Audit Process from Italian Tax authorities. Tax Auditors have raised a number of objections with relation to the calculation of Transfer Pricing leading to a potential higher taxable income for the company. The company is awaiting from an official Court notification and believes it has strong arguments to respond to the audit remarks. Based on this, the management of the Company considers that no provision should be accounted for the above contingent liability.

25. Commitments

Operating lease commitments – Group company as lessee

The Group leases various buildings under non-cancellable operating lease agreements, including lease agreements entered into under concession agreements. The typical lease terms vary depending upon which country the lease agreement is entered into. The majority of lease agreements are renewable at the end of the lease period at market rate.

Operating leases relating to the lease of land and buildings that has been recognised as an expense in the period amount to 16m , which has been included in the income statement.

Future minimum rental commitments under non-cancellable operating leases with original terms in excess of one year in effect at 31 December, 2011 are as follows:

For the year ended 31 December - Million euro	2011	2010
No later than 1 year	5.8	7.8
Later than 1 year and no later than 5 years	13.9	15.9
Later than 5 years	0.8	3.9

26. Related-party Transactions

The Group is controlled by Ideal Standard International Acquisition (incorporated in Luxembourg), which owns 100% of the company's shares. The ultimate parent of the group is the Bain Capital Partners LLC. The following transactions were carried out with related parties:

a) *Purchases of goods and services:*

Services are bought from related parties on normal commercial terms and conditions.

b) *Key management compensation:*

The key management is composed by the members of the Executive Management Team.

Salaries and other short term employee benefits for key management amount to 3.1m (2010: 4m). Total compensation including termination benefits, post employment benefits and other long term benefits is 5.5m (2010: 4.6m). In addition, in 2011, the Group has additional charges amounting to 4.7m related to a specific key management incentive plan.

c) *Year-end balances arising from purchases services:*

The payables to related parties arise mainly from purchase transactions for services and are due one month after the date of purchase. The payables bear no interest.

d) *Loans to related parties:*

Interest Bearing loans granted to related parties comprise:

- Loans, including accrued interest, to:
  - Ideal Standard International Topco Sca for an amount of 26.7m with maturity date 1 May 2019. Interest accrue at a rate per annum of LIBOR plus 2.4375%
  - Ideal Standard Cayman Ltd for an amount of 24.2m. Issued on 6 April 2009 with maturity date 6 April 2039, interest accrue at a rate per annum of LIBOR plus 2.4375%.
  - Ideal Standard Acquisition Sarl for an amount of 266.1m (See Note 16. "Borrowings") and 10.8m (cash pooling current position).
- Discount on purchase of the Minority Part of the outstanding debt under the SFA agreement for total amount of 57.1m (See Note 16. "Borrowings").

e) *Loans from related parties:*

(i) The Company issued preferred equity certificates to Ideal Standard International Acquisition sarl. The characteristics of these certificates and their value are described in note 16.

(ii) The shareholder of the Company, Ideal Standard International Acquisition Sarl provided to the Company a loan amounting to 313.7m at year ending 31 December 2011. We refer to note 16 Borrowings for further details.

(iii) The Group entered into a loan agreement with Ideal Standard International Acquisition Sarl for an amount of 115m. We refer to note 16 Borrowings for further details

27. Subsidiaries

The more important subsidiaries of Ideal Standard International SA at 31 December 2011 and the group percentage of ordinary share capital are presented below. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

		2011 % of interest
Belgium		
	Ideal Standard International BVBA	100.00%
Bulgaria		
	Ideal Standard-Vidima AD	100.00%
	AMSTAN HOTELS AD	92.82%
	Sevlievogas AD	49.00%
	Edwards Logistics Bulgaria EOOD	100.00%
Cayman Islands		
	Ideal Standard International Cayman- D2a LP	(*)
Costa Rica		
	Industria Ceramica Costarricense S.A.	64.72%
	Inversiones Intercentroamericanas S.A.	64.72%
	Tecniceramica de Costa Rica S.A.	64.72%

		2011 % of interest
Czech Republic		
	Ideal Standard s.r.o.	100.00%
Denmark		
	Ideal Standard Scandinavia ApS	100.00%
Egypt		
	Ideal Standard International Egypt Sanitarywares SAE	100.00%
El Salvador		
	Solutiones Decorativas SA	64.72%
France		
	Ideal Standard Holding BC France SAS	100.00%
	AMERICAN STANDARD FRENCH HOLDINGS SAS	100.00%
	IDEAL STANDARD France	100.00%
	Ideal Standard Industries France SAS	100.00%
Germany		
	Ideal Standard GmbH	100.00%
	Ideal Standard Produktions-GmbH	100.00%
	Ideal-Standard Unterstützungseinrichtung-GmbH	100.00%
	Ideal Standard Holdings (BC) Germany GmbH	100.00%
Gibraltar		
	Ideal Standard International Gibraltar Limited	100.00%
Greece		
	Ideal Standard SA	100.00%
Guatemala		
	Industria Centroamericana de Sanitarios S.A.	64.72%
Ireland		
	Armitage Shanks Ireland Ltd	100.00%
	Ideal Standard Ireland Ltd	100.00%
	Ideal Standard sanytaryware Holding Limited	100.00%
	Quality Ceramics Ltd	100.00%
	Shires (Ireland) Ltd	100.00%
	Quay Bathrooms Ltd	100.00%
Italy		
	Ideal Standard Holdings (BC) Italy srl	100.00%
	Ideal Standard Industriale srl	100.00%
	Ideal Standard Italia srl	100.00%
Japan		
	American Standard Holdings (BC) Japan K.K.	100.00%
Luxembourg		
	Ideal Standard Holding Sarl	100.00%
	Ideal Standard International Finco Sarl	100.00%
	Capp Holdings Sarl	100.00%

		2011 % of interest
The Netherlands		
	Ideal Standard Holdings (BC) Netherlands BV	100.00%
	Venborgh Holding BV	100.00%
	Ideal Standard Nederland BV	100.00%
Nicaragua		
	Industria Ceramica Centroamericana S.A.	64.72%
Panama		
	Internacional de Inversiones Diversas S.A.	64.72%
	Intercentroamericana S.A.	64.72%
Poland		
	Ideal Standard Polska Sp. z o.o.	100.00%
Portugal		
	Ideal Standard-Equipamentos Sanitarios, LDA	100.00%
	Jado Iberia-Produtos Metalurgicos, Soc. Unipessoal, LDA	100.00%
Russia		
	Ideal Standard RUS Limited Liability Company	100.00%
South Korea		
	Ideal Standard Holdings (BC) Korea	100.00%
Spain		
	Ideal Standard, S.L.U.	100.00%
United Kingdom		
	American Standard UK Co	100.00%
	Ideal Standard (UK)Ltd	100.00%
	Ideal Standard Holdings (BC) UK Limited	100.00%
	Ideal-Standard Ltd	100.00%
	Ideal Standard Global Ltd	100.00%
	Ideal Standard Manufacturing (UK) Ltd	100.00%
	Armitage Shanks Limited	100.00%
	Edwards Logistics Ltd	100.00%
	Armitage Shanks International Ltd	100.00%
	Armitage Washrooms Ltd	100.00%
	Ideal Standard Porcher (UK)Ltd	100.00%
	Ideal Standard Wednesbury Ltd	100.00%
	Ideal Standard (UK) Pension Trustees Limited	100.00%
	Ideal Standard (UK) Executive Pension Trustees Ltd	100.00%
	SQS Furnitures Ltd	100.00%

(*) Special Purpose Entity consolidated within the Group

28. Events after the Balance Sheet date

No material event has occurred after the Balance Sheet Date.

Ideal Standard International S.A Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended 31 December 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Ideal Standard International SA Consolidated Financial Statements for the year ended 31 December 2011.

Basis of Presentation

We present below the audited consolidated financial information as of 31 December 2011 for Ideal Standard International SA. Ideal Standard International SA was formed in April 2011 in order to issue Senior Secured Notes for an aggregate amount of €275 million. As its incorporation was during the period presented herein financial information for period prior to April 2011 is for Ideal Standard International Holding Sarl and for periods subsequent to April 2011 relates to Ideal Standard International S.A.

The consolidated financial information for the year ended 31 December 2011 and 2010 included in this report are prepared on the basis of International Financial Reporting Standard (IFRS).

Overview

We are a leading manufacturer of bathroom products in Europe, providing a broad range of branded products for residential and non-residential end-markets in more than 20 countries. We manufacture products for all of the major product categories in the bathroom products market and we believe our comprehensive offering differentiates us from our competitors. We enjoy leading market positions in many of the largest bathroom products markets in Europe. We sell our products under a series of well known international and national brands including Ideal Standard, JADO, Porcher, Armitage Shanks, Ceramica Dolomite and Vidima. We believe that these brands are well-established and recognised and have a reputation for quality, reliability and innovation. We distribute our products primarily through wholesalers, but also through showrooms and specialty retailers, and the Do-It-Yourself ("DIY") channel, and we benefit from long-standing relationships with our key customers. As of December 31, 2011, we operated 19 manufacturing plants across Europe and in Egypt, and we had a total of 11,058 employees across our business.

We provide products in four primary categories:

Ceramics products include chinaware such as sinks, basins, shower trays, toilets, pedestals, tanks, bidets and urinals. In 2011, we generated €281.6 million of revenues from ceramics products, which represented 39.5% of our revenues.

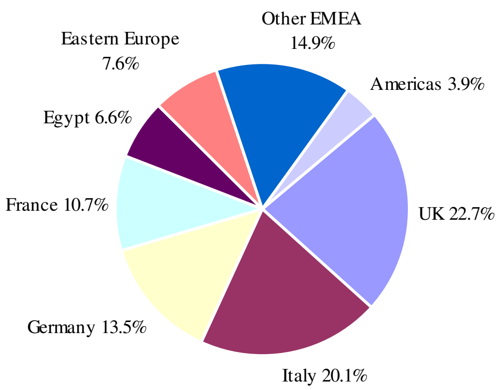
Fittings products include taps, mixers, thermostats, valves, shower kits, sensors and electronic fittings, and other products that connect chinaware to water supplies and drains. In 2011, we generated €246.4 million of revenues from fittings products, which represented 34.6% of our revenues.

Bathing and Wellness products include bath tubs, whirlpool tubs, bath panels, totems, super showers, acrylic shower trays and shower enclosures. In 2011, we generated €92.6 million of revenues from our bathing and wellness products, which represented 13.0% of our revenues.

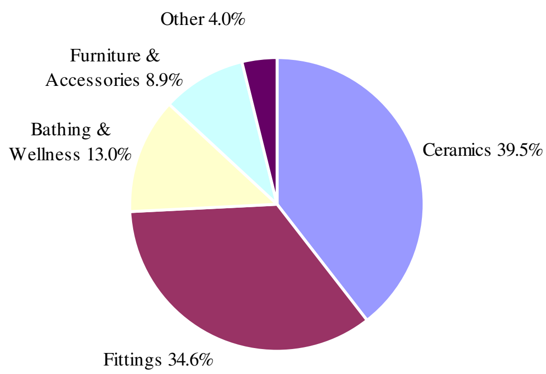
Furniture and Accessories products include a broad range of bathroom furniture products such as toilet seats, wooden cabinets and furniture storage products, tank trim, and bathroom accessories such as mirrors, soap dishes, towel holders and grab rails. In 2011, we generated €63.6 million of revenues from our furniture and accessories products, which represented 8.9% of our revenues.

The charts below show our revenues split by geography (based on country of origin) and product category in 2011.

2011 Our Revenues by Geography



2011 Our Revenues by Category



Key Events in Fiscal Year 2011

Economic Conditions

In 2011 the economic downturn continued to impact the market for bathroom products in the countries in which we operate, as new construction and renovation activity has deteriorated. New construction activity in Europe was negatively impacted, declining consumer confidence and economic uncertainty, tightened lending standards, large supplies of existing and new home inventories in certain geographies and related pricing pressures all contributed to weakened demand for new homes. Similarly, the challenging economic environment negatively impacted non-residential construction activity.

Repair, maintenance and improvement activity was also impacted by the global economic downturn. Homeowners were less able to finance remodeling projects due to the widespread tightening of lending requirements by financial institutions and a decrease in home values. Consumers were also reluctant to use savings on home repair, maintenance and improvement projects as a result of declining consumer confidence and increased unemployment levels.

In addition to the general poor economic conditions across Europe, a lack of credit availability and general liquidity in Italy and Greece, has resulted in our wholesale distribution partners initiating destocking programs to reduce inventory and maintain cash levels. Furthermore, political and social unrest in Egypt and Libya created further economic and financial uncertainty particularly in the first half of the year in the Middle East and North African Region.

Response to the Challenging Economic Conditions

In 2011 we experienced significant reductions in demand related to the economic downturn. Our profits were negatively affected by our high fixed cost structure, particularly in our ceramics business and further exacerbated by the volume declines coming from our Italian operation. Consequently, we took a variety of short-term steps to reduce costs and improve our liquidity position including strict controls of overhead expenditures; continued focus on inventory reduction including programs to reduce slow moving and excess inventory; extended short term shut downs of production activities in our manufacturing plants; and increased our focus on strict credit control and collection of our accounts receivable.

Restructuring Initiatives

In 2011 we continued the execution of our restructuring initiatives with a particular focus on the following:

- *Rationalise capacity and reduce costs in our manufacturing base.*

  Following the successful closure and downsizing of three Italian plants in 2010, in January 2011 we announced the shutdown of three ceramics plants at Middlewich in the United Kingdom and Revin and Dole in France. Middlewich closed in May 2011 and the French sites closed at the end of June 2011. The fixed costs associated with the Middlewich plant were €13.0 million in the twelve months ended 31 December 2010 and for the French plants the aggregate fixed costs were €16.1 million in the same period, all of which were eliminated during the course of 2011 following the closure of these plants. Excess production capacity at our more efficient plants in Western Europe, as well as at our Sevlievo, Bulgaria and Teplice, Czech Republic plants was used to receive the transferred production volumes from the three closed plants. This shift in our production has increased the annual fixed costs within the receiving plants in 2011 by approximately €2.6 million, in aggregate.

  We continue to examine our manufacturing footprint to identify opportunities to rationalise excess capacity, particularly at our less efficient plants.

- *Streamline our general and administrative functions.*

  In 2011, we completed the second phase of our SG&A restructuring initiative. Through specific projects we have rationalised certain of our back office functions. As part of this second phase, we identified 186 employees for termination, of which 164 have been made redundant as of 31 December 2011. Upon completion of all the identified redundancies we estimate that we will eliminate approximately €12 million of annual costs by 31 December 2012.

Factors Affecting our Operating Results

Market and General Economic Conditions

Our financial performance depends significantly on residential and non-residential construction and renovation markets. Levels of new construction and improvement are affected by such factors as consumer confidence, home equity values, home equity loan withdrawals, consumer spending habits, reasonably attainable consumer financing, income and interest rates. As a result, our business is significantly affected by changes in economic conditions. However, demand for repair, maintenance and improvement, which drive the majority of our revenues, has historically been less volatile than new construction.

Bathroom Products Distribution Trends

We sell our products through various distribution channels and our customers in those channels sell our products to installers and end-users. Our relationships with our distribution customers are extremely important to our ability to effectively market our products. Changes in the relative size of distribution channels may affect our ability to sell our products because we have a stronger presence in certain channels than in others. Channel shift may also affect the types of products we are able to sell and the prices at which we are able to sell those products, and as a result our margins may be affected. For example, in many markets, wholesalers have been slowly losing distribution market share to DIY outlets and other retail distribution channels such as showrooms and specialty retailers. We have actively focused on improving our positions in the DIY and the retail distribution channels in response to this trend.

Competition

We are also exposed to strong competition in the bathroom products market. Competition is based on many factors, including brand recognition and customer loyalty, product quality and reliability, breadth of product range, product design and innovation, production capabilities, access to distribution channels, scope and quality of services, volume rebates with customers and price.

We compete both with large, international manufacturing companies similar to ours, and with smaller regional manufacturers.

Certain actions by our competitors may impact our operating results, such as changes in their pricing or marketing or levels of promotional sales, which may cause us to take certain actions that will impact our profitability, such as reductions in our prices or increases in our marketing expenditures. In addition, in recent years, end-users have been increasingly demanding stylish products with enhanced functionality. As a result, we and other manufacturers of bathroom products have been more actively developing innovative products and systems with more sophisticated designs and enhanced functions and features.

Prices of Raw Materials

The raw materials we use to produce our products account for a significant portion of our cost of sales, and raw materials along with purchased parts and components represented approximately 43% of our cost of sales (excluding depreciation) in 2011. Our raw material purchases include clay, metals and plastics. Some of our raw materials used in our manufacturing process are commodities, whose prices often fluctuate based on market conditions. These commodities include copper, zinc, brass, chromium and MMA. In 2011, approximately €45 million, or 10%, of our cost of sales (excluding depreciation) related to brass, copper and zinc and approximately €10 million, or 2%, related to MMA. We also purchased approximately €13 million of electricity and approximately €15 million of natural gas in 2011 and are therefore subject to potential cost increases from energy price fluctuations.

Fluctuations in the price and availability of commodities can be caused by changes in levels of global supply and demand, the operations of our suppliers, governmental policies, political and economic conditions and natural disasters in certain commodity-producing regions. For example, the principal raw material we use to produce our fittings products is brass, which is an alloy of copper and zinc. During 2011 Copper prices were very high, remaining well above 9,000 USD per ton for the first three quarters of the year. Copper prices peaked over 10,000 USD before dropping back in Q4 to below 8,000 USD. Zinc prices also remained high in the first three quarters of 2011, averaging 2,300 USD and peaking above 2,500 USD, again dropping sharply below 2,000 USD in the last quarter. (Data source LME cash buyer prices). The cost of brass generally fluctuates based on the supply of and demand for copper and zinc as well as general economic conditions. In addition, because copper and zinc are mostly traded in U.S. dollars, increases in the prices of these raw materials can be exacerbated by increases in the value of the U.S. dollar.

In order to hedge against increases in raw material prices, we enter into short-term forward purchase agreements that generally fix prices for terms of three to six months with suppliers of raw materials and certain parts and components. We enter into these arrangements when we believe that we can secure fixed prices for our raw materials for specified future periods. These forward purchase agreements cover primarily metals like copper, zinc and brass that we buy in the form of brass rods, brass tubes and brass components. We also seek to reduce raw material price risk by setting list prices for our products on an annual basis.

Currency Fluctuations

Because we conduct operations in various countries, we generate a significant portion of our sales and incur a significant portion of our expenses in currencies other than the euro, including the Pound Sterling. During 2011, 43.7% of our revenue was derived from subsidiaries whose functional currency is other than the euro, largely the Pound Sterling. In cases where we are unable to match sales received in foreign currencies with costs paid in the same currency, our results of operations are consequently impacted by currency exchange rate fluctuations. Therefore, from time to time, as and when we determine it is appropriate and advisable to do so, we will seek to mitigate the effect of exchange rate fluctuations through the use of derivative financial instruments. Historically we have limited our exposure to transactions denominated in Pounds Sterling through the use of forward foreign exchange contracts. In the past we also have had debt denominated in Pounds Sterling. However we currently have no hedges in place and all of our cash pay long-term debt is denominated in euros. We are currently evaluating our hedging possibilities and may hedge our currency risk going forward.

We present our consolidated financial statements in euros. As a result, we must translate the assets, liabilities, revenue and expenses of all of our operations with a functional currency other than the euro into euros at then-applicable exchange rates. Consequently, increases or decreases in the value of the euro may affect the value of these items with respect to our non-euro businesses in our consolidated financial statements, even if their value has not changed in their original currency. For example, a stronger euro will reduce the reported results of operations of the non-euro businesses and conversely a weaker euro will increase the reported results of operations of the non-euro businesses. These translations could significantly affect the comparability of our results between financial periods and/or result in significant changes to the carrying value of our assets, liabilities and stockholders' equity. We record the effects of these translations in our consolidated statement of recognised income and expense as exchange differences on retranslation of foreign operations.

Results of Operations

The following sets forth, for the periods presented, our consolidated income statement data and that data as a percentage of revenue.

(euros in millions)	**Fiscal Years Ended December 31,**			
	2010		**2011**	
Income Statement Data	€m	%	€m	%
Revenues	**€ 753.4**	**100.0**	**€ 713.0**	**100.0**
Cost of sales	(548.5)	72.8	(526.4)	73.8
Gross Profit	**204.9**	**27.2**	**186.6**	**26.2**
Distribution expenses	(56.8)	7.5	(57.0)	8.0
Sales and marketing expenses	(91.3)	12.1	(94.2)	13.2
Administrative expenses	(42.8)	5.7	(40.6)	5.7
Impairment of non-financial assets	(14.1)	1.9	(2.7)	0.4
Restructuring expenses	(13.7)	1.8	(61.6)	8.6
Other operating expenses	(34.0)	4.5	(32.8)	4.6
Operating loss	**(47.8)**	**6.3**	**(102.3)**	**14.3**
Finance costs	(96.4)	12.8	(159.2)	22.3
Finance income	2.4	0.3	22.4	3.1
Income tax credit / (expense)	34.5	4.6	37.5	5.3
Loss	**€(107.3)**	**14.2**	**€(201.6)**	**28.3**

Revenues

The table below shows our revenues by geography (based on country of origin):

	Consolidated Sales by Geography			
For year ended 31 December	**2010**		**2011**	
	(€ Million)	**(% of Sales)**	**(€ Million)**	**(% of Sales)**
UK	173.7	23.1	161.9	22.7
Italy	169.3	22.5	143.3	20.1
Germany	88.3	11.7	96.5	13.5
France	69.7	9.2	76.5	10.7
Egypt	54.2	7.2	46.7	6.6
Eastern Europe	55.0	7.3	54.1	7.6
Other EMEA	116.1	15.4	106.0	14.9
Americas	27.1	3.6	28.0	3.9
Total	**753.4**	**100.0**	**713.0**	**100.0**

Our four largest markets are United Kingdom, Italy, Germany, and France; representing 67.0% and 66.5% of total revenues in the periods ended 31 December 2011 and 31 December 2010, respectively.

Revenues in the United Kingdom decreased by €11.8 million, or -6.8%, from €173.7 million in the twelve months ended 31 December 2010 to €161.9 million in the twelve months ended 31

December 2011. At constant exchange rate, revenues decreased by 5.6%. The decrease was primarily driven by the impact of government imposed austerity measures on the non-residential market, of which we have a high market share, and the more general adverse macroeconomic conditions affecting consumer demand. The overall decline has been felt across all of our product categories.

Revenues in Italy decreased by €26.0 million, or -15.4%, from €169.3 million in the twelve months ended 31 December 2010 to €143.3 million in the twelve months ended 31 December 2011. The decrease was the result of overall decline in the Italian bathroom market, which coupled with our major wholesaler customers destocking, resulted in a decline in volumes and a change in the mix of product sold when compared with last year. The overall decline reflects declining Ceramic volumes partially offset by more positive performance in Bathing and Wellness.

Revenues in Germany increased by €8.2 million, or 9.3%, from €88.3 million in the twelve months ended 31 December 2010 to €96.5 million in the twelve months ended 31 December 2011 being primarily the result of market growth and successful market share gaining initiatives across all of our product categories.

Revenues in France increased by €6.8 million, or 9.8%, from €69.7 million in the twelve months ended 31 December 2010 to €76.5 in the twelve months ended 31 December 2011 also as result of market growth and successful market share gaining initiatives across all of our product categories.

Revenues in Egypt decreased by €7.5 million, or -13.8%, from €54.2 million in the twelve months ended 31 December 2010 to €46.7 million in the twelve months ended 31. 2011. The above decline reflects an underlying local currency performance of -4.4% driven by the social and economic unrest in both Egypt and Libya.

Revenues in Eastern Europe decreased slightly, from €55.0 million in the twelve months ended 31 December 2010 to €54.1 million in the twelve months ended 31 December 2011. This was primarily driven by a 6.5% decline in Russia offset by growth in the rest of this region. The decline in Russia reflects restrictions on import quotas experienced in the last quarter of 2011 that have subsequently been resolved.

Revenues in Other EMEA decreased by €10.1 million, or -8.7%, from €116.1 million in the twelve months ended 31 December 2010 to €106.0 million in the twelve months ended 31 December 2011. This reflects difficult macroeconomic conditions and market declines primarily in Greece, Spain and Ireland.

Revenues in Americas increased by €0.9 million, or 3.3%, from €27.1 million in the twelve months ended 31 December 2010 to €28.0 million in the twelve months ended 31 December 2011. At constant exchange rates revenues increased by 7.5%, reflecting expanding business in South and Central America.

The table below shows our revenues by Product Category:

Consolidated Sales by Product Category

For year ended 31 December	2010		2011	
	(€ Million)	**(% of Sales)**	**(€ Million)**	**(% of Sales)**
Ceramics	316.0	41.9	281.6	39.5
Fittings	253.9	33.8	246.4	34.6
Bathing & Wellness	90.6	12.0	92.6	13.0
Furniture & Accessories	65.9	8.7	63.6	8.9
Other	27.0	3.6	28.8	4.0
Total	**753.4**	**100.0**	**713.0**	**100.0**

Revenues for Ceramics decreased by €34.4 million, or -10.9%, from €316.0 million in the twelve months ended 31 December 2010 to €281.6 millions in the twelve months ended 31 December 2011. At constant exchange rate revenues decreased by 9.2% being primarily the result of significant declines in Italy and the UK partially offset by growth in France and Germany.

Revenues for Fittings decreased by €7.5 million, or -3.0%, from €253.9 million in the twelve months ended 31 December 2010 to €246.4 millions in the twelve months ended 31 December 2011. At constant exchange rate revenues decreased by 2.0% being primarily the result of declines in the UK and Russia, offset by growth in Germany and France.

Revenues for Bathing & Wellness increased by €2.0 million, or 2.2%, from €90.6 million in the twelve months ended 31 December 2010 to €92.6 millions in the twelve months ended 31 December 2011. At constant exchange rate revenue increased by 5.2%, reflecting positive results in Italy, Germany and France which more than compensated declines in UK and Egypt.

Revenues for Furniture and Accessories decreased by €2.3 million, or -3.5%, from €65.9 million in the twelve months ended 31 December 2010 to €63.6 millions in the twelve months ended 31 December 2011. At constant exchange rates revenue decreased by 1.1% reflecting overall difficult market conditions.

Other revenues increased by €1.8 million, or 6.7%, from €27.0 million in the twelve months ended 31 December 2010 to €28.8 million in the twelve months ended 31 December 2011. At constant exchange rates revenue increased by 7.5%.

Cost of sales

The following table summarizes our cost of sales and gross profit for the periods set forth below:

(euros in millions)	**Fiscal Years Ended December 31,**	
	2010	**2011**
Revenues	**€ 753.4**	**€ 713.0**
Cost of sales	(548.5)	(526.4)
Gross Profit	**204.9**	**186.6**
Gross Profit as percentage of sales	27.2%	26.2%

Cost of sales includes raw material costs, purchased parts and direct labor, research and development expenditure, manufacturing overheads and depreciation. The primary raw materials are clay, copper, zinc, brass and MMA for acrylic bathroom products. The primary components of purchased parts are brass and plastic materials.

Cost of sales decreased by €22.1 millions, or -4.0%, from €548.5 million in the twelve months ended 31 December 2010 to €526.4 million in the twelve months ended 31 December 2011. Gross profit, expressed as a percentage of sales, decreased from 27.2% to 26.2% being primarily the result of lower sales volumes; unfavorable product and country revenue mix; lower production volumes absorbing fixed costs of production; higher input prices for metals and MMA offset by our manufacturing restructuring initiatives.

Distribution expenses

Distribution expenses increased by €0.2 million, or 0.4%, from €56.8m in the twelve months ended 31 December 2010 to €57.0 million in the twelve months ended 31 December 2011. This increase resulted from higher shipping and fuel costs and our focus on customer service and on-time delivery. These increases were partially offset by restructuring initiatives, which continued to reduce our fixed cost base and improve the efficiency of our distribution platforms.

Sales and Marketing expenses

Sales and marketing expenses increased by €2.9 million, or 3.2%, from €91.3 million in the twelve months ended 31 December 2010 to €94.2 million in the twelve months ended 31 December 2011, primarily resulting from higher promotional spend supporting new products and branding programs.

Administrative expenses

Administrative expenses decreased by €2.2 million, or -5.1% from €42.8 million in the twelve months ended 31 December 2010 to €40.6 million in the twelve months ended 31 December 2011, driven primarily by headcount rationalization across all administrative functions but partially offset by increased bad debt expenses.

Impairment of non-financial assets

Impairment of non-financial assets decreased by €11.4 million, to €2.7 million for 2011 compared to €14.1 million for 2010. We took a charge for the impairment of fixed assets in the United Kingdom and France as a result of our manufacturing restructuring programs in the twelve months ended 31 December 2010. The €2.7 million charge in 2011 resulted from a further impairment of Ideal Standard France assets following the restructuring program announced in January 2011.

Restructuring expenses

Restructuring expenses increased by €47.9 million from €13.7 million for the twelve months ended 31 December 2010 to €61.6 million for the twelve months ended 31 December 2011. These expenses are primarily the result of severance and other related costs associated with the restructuring programs announced in January 2011 to shutdown three ceramic plants at Middlewich in the UK and Dole and Revin in France, together with other programs to streamline our general and administrative functions.

Other operating expenses

Other operating expenses decreased by €1.2 million from €34.0 million in the twelve months ended 31 December 2010 to €32.8 million in the twelve months ended 31 December 2011. These expenses relate to professional fees related to operational improvement programs, and the restructuring of our Amended Senior Credit Agreement; intangibles amortization; charges taken in respect of management incentive arrangements; net gain on sale of assets and disruption cost associated to our manufacturing realignment.

Finance costs

Finance expense increased by €62.8 million from €96.4 million in the twelve months ended 31 December 2010 to €159.2 million in the twelve months ended 31 December 2011, being primarily the result of higher interest expenses of the new financial structure plus the full amortization of the deferred financing fees associated to the former SFA debt, partially offset by net foreign exchange losses on financing activities in 2010 not recurring in 2011.

Finance income

Finance income increased by €20.0 million from €2.4 million in the twelve months ended 31 December 2010 to €22.4 million in the twelve months ended 31 December 2011, reflecting interest income accruing on the receivable from Ideal Standard International Acquisition Sarl, plus the favorable impact of the revaluation of our non-Euro denominated debt, driven by the depreciation of the US Dollar and the British Pound to the Euro and the accretion of the discount that arose upon the purchase of the minority portion of the Amended Credit Facility.

Income tax credit/expense

In the twelve months ended 31 December 2011 there was a net income tax credit of €37.5 million compared to a net income tax credit of €34.5 million in the twelve months ended 31 December 2010. This resulted primarily from a higher loss before tax in 2011 (€32.6 million tax effect) offset by a €27.1 million increase in the non-recognition of deferred tax assets on losses.

EBITDA and Adjusted EBITDA

The following is a reconciliation of EBITDA and Adjusted EBITDA to Net Loss, the most directly comparable IFRS measure.

(euros in millions)	**Fiscal Years Ended December 31,**	
	2010	**2011**
Loss	**€(107.3)**	**€(201.6)**
Depreciation	27.8	25.4
Amortisation	19.4	19.0
Impairment of goodwill and other intangibles	14.1	2.7
Income tax expense / (credit)	(34.5)	(37.5)
Finance expense, net	70.1	134.9
Foreign Exchange	24.2	1.8
EBITDA	€ 13.8	€(55.3)
Restructuring and related charges (a)	14.4	65.9
Operational improvement programs (b)	7.4	8.9
Refinancing costs (c)	11.5	3.5
Insurance proceeds, (net) (d)	(6.2)	0.0
Costs related to acquisitions, disposals and legal entity changes	4.9	4.5
Gain on sale of assets net of disposal charges (e)	-	(5.8)
Retention bonus (f)	4.3	4.7
Other	1.2	0.9
Adjusted EBITDA	€ 51.3	€ 27.3

(a) Represents charges related to restructuring programs.
(b) Represents professional fees associated with strategic business and process initiatives
(c) Represents legal and professional fees incurred in connection with certain debt and equity refinancing transactions
(d) Represents insurance net proceeds related to a volvanoc eruption and tornado that damaged our Guatemala plant in 2010.
(e) Represents gain on sale of Middlewich manufacturing facility
(f) Represents charges related to a retention bonus scheme running from 2010 until 2012

Liquidity and Capital Resources

The following summarizes our cash flows in the periods presented:

(euros in millions)	**Fiscal Years Ended December 31,**	
Consolidated Cash Flow statement	**2010**	**2011**
Net cash generated from operations	€(9.7)	€(71.9)
Cash flow from interest and income taxes	(59.5)	(19.0)
Cash flow from operating activities	(69.2)	(90.9)
Cash flow from investing activities	(22.1)	(214.8)
Cash flow from financing activities	(2.1)	277.2
Total free cash flow (1)	**€(93.4)**	**€(28.5)**

(1) Total free cash flow is not a measurement under IFRS.

Cash flows from operating activities

In the twelve months ended 31 December 2011, cash used in operating activities was €90.9 million primarily resulting from cash restructuring of €51.1million, interest payments of €15.9m, and an increase in net working capital of €11.0 million. The increased net working capital reflects lower receivables, flat inventory but primarily lower trade and other payables which arise from the settlement of retention payments and generally lower levels of accruals for staff compensation, rebate provisions and VAT, reflecting the trading performance in the latter part of 2011. In the twelve months ended 31 December 2010, cash used in operating activities was €69.2 million; being the result of net working capital increase of €4.2 million and payment of interest of €58.7 million

Cash flows from investing activities

In the twelve months ended 31 December 2011 cash used in investing activities was €214.8 million, reflecting the purchase of outstanding debts under the Senior Facility Agreement held by minority lenders for €189.2 million, investments in property, plant and equipment, software and development programs of €31.4 million offset by net proceeds of €5.8m on the sale of the land, building and equipment of the Middlewich production site in the UK.

Cash flow from financing activities

In the twelve months ended 31 December 2011 cash inflows from financing activities were €277.2 million, or €279.3 million greater than same period in 2010. This primarily reflects the net proceeds from the issuance of €275.0 million Senior Secured Notes on 28 April and 18 May, 2011.

Working Capital

The following summarizes our working capital as of the dates presented:

(euros in millions except ratio data)	**Fiscal Years Ended December 31,**	
	2010	**2011**
Inventories	€ 149.1	€ 149.8
Trade and other receivables	170.2	152.2
Trade and other payables	(236.7)	(207.0)
Provisions	(28.6)	(43.3)
Working Capital	**€ 54.0**	**€ 51.7**
Adjustments :		
Non-recourse receivables factoring	(5.7)	(2.3)
Restructuring provisions included in provisions	14.9	30.8
Accrued interests included in other payables	5.7	-
Operating working capital (1)	**€ 68.9**	**€ 80.2**
As percent of sales	9.1%	11.2%

(1) Operating working capital is not a measurement under IFRS.

Our working capital as of December 31, 2011 was €51.7 million compared to €54.0 million as of December 31, 2010. Our Operating working capital as of December 31, 2011 was €80.2 million compared to €68.9 million as of December 31, 2010. The increase in our operating working capital reflects (i) trade and other receivables, net of the effects of non-recourse factoring, which were €164.5 million as of December 31, 2010 compared to €149.9 million as of December 31, 2011, reflecting a reduction in our fourth quarter revenues and improved cash collection in 2011; (ii) inventory as of December 31, 2011 being €0.7 million higher than as of December 31, 2010; and (iii) current liabilities (defined as trade and other payables plus provisions minus accrued interest and restructuring provisions) as of December 31, 2011 were €219.5 million compared with €244.7 million as of December 31, 2010 primarily due to lower trade and other payables and lower levels of staff compensation accruals.

Liquidity Arrangements

We seek to manage liquidity risk by maintaining sufficient cash, maintaining available funding through an adequate amount of committed credit facilities, factoring lines and use of trade supplier credit terms. In December 2008, we signed a factoring agreement with Natixis in France to factor a portion of trade receivables owed to Ideal Standard France SAS. In the third quarter of 2010, we entered into additional arrangements with Fortis Commercial Finance to factor our receivables in Italy and the United Kingdom.

Capital Expenditure

We generally require capital expenditures to maintain our infrastructure, implement productivity programs, new product development, enhance manufacturing facilities, improve health and safety equipments, create moulds and tools, implement flexible manufacturing capabilities and develop capitalised software.

Capital expenditures, including those incurred in relation to maintenance and our restructuring initiatives, were €31.4 million in the twelve months ended 31 December 2011 and €23.3 million in 2010. Capital expenditures made in connection with our restructuring initiatives include production capability upgrades (such as a new kiln or automation of existing lines), model moves and productivity improvement projects and amounted to € 6.6m in the twelve months ended December 31 2011.

Credit Arrangements

Senior Revolving Facility Agreement

In May 2011, we entered into a Revolving Facility Agreement which provides for borrowings up to an aggregate of €15.0 million on a committed basis. Subject to certain exceptions, loans may be borrowed, repaid and reborrowed at any time. Borrowings under the Revolving Credit Facility accrue interest at a rate ranging from 3.00% to 3.50%, depending on the ratio of gross debt to EBITDA. We are required to reach certain EBITDA targets on a quarterly basis in order to utilize the facility. The Revolving Credit Facility will mature on the sixth anniversary of the date the Notes were issued. As of December 31 2011, no amounts were outstanding on the RCF. We are currently in discussions with the RCF lenders to amend the minimum EBITDA targets.

Factoring Arrangements

We have debtor factoring arrangements in each of Italy, France and the United Kingdom whereby cash is made available to our group in consideration for certain trade receivables generated by our business in these countries.

United Kingdom. Under the United Kingdom facility with Fortis Commercial Finance Limited, (the "Fortis U.K. Facility"), Ideal Standard (UK) Limited may sell and assign to Fortis Commercial Finance Limited certain debts which, subject to customary conditions, the assignee is obliged to buy and accept. The sale price for the assigned debt is approximately 80% of the nominal amount of the debt, subject to the withholding of a certain percentage of the purchase price. The facility has customary market recourse terms where the company bears the credit risk of the transaction. The maximum aggregate funded amount under the Fortis U.K. Facility is limited to £15.0 million. As of December 31, 2011, there were no amounts outstanding.

Italy. Under the Italian facility with Fortis Commercial Finance S.p.A. ("Fortis") ("Fortis Italian Facility"), Ideal Standard Italia S.r.l. may sell and assign to Fortis receivables that are payable by debtors previously approved by Fortis. The sale price for the assigned receivable is the net face value of the receivable, which shall be paid by Fortis to Ideal Standard Italia S.r.l. upon payment by the assigned debtor. Fortis, under certain limitations, can be requested by Ideal Standard Italia S.r.l. to anticipate the payment of the assigned receivable; in this event the sale price for the assigned receivable is up to the 80% of the nominal amount of the receivable, subject to the withholding of a certain percentage of the purchase price. The facility is a recourse facility on customary market terms where Ideal Standard Italia S.r.l. bears the credit risk of the transaction. The maximum aggregate funded amount under the Fortis Italian Facility is limited to €35.0 million. As of December 31, 2011, there were no amounts outstanding.

France. Under the French facility with Natixis Factor S.A. ("Natixis Facility"), Ideal Standard France SAS may sell and assign to Natixis certain debts which, subject to the terms and conditions of Natixis Facility, the assignee is obliged to buy and accept. The sale price for the assigned debt is approximately 85%. The facility is a non-recourse facility. As of December 31, 2011, the amount outstanding was approximately €1.0 million.

Contractual Obligations and Commercial Commitments

Financial Arrangements

We enter into long-term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancellable operating leases. As of December 31, 2011, our contractual cash obligations and commercial commitments over the next several periods are set forth below.

	Total	Less than 1 year	Between 1 and 5 years	Thereafter
Contractual obligations				
Long-term debt obligations	€ 275.0	-	-	€ 275.0
Operating lease obligations (1)	20.6	5.8	13.9	0.8
Other obligations (2)	2.8	2.8	-	-
Total adjusted contractual obligations	€ 298.4	€ 8.6	€ 13.9	€ 275.8

(1) Represents future aggregate minimum rental payments under noncancelable operating leases (with initial or remaining terms in excess of one year).

(2) Principally represents the present value of future minimum capital lease payments as of December 31, 2011, exclusive of taxes, insurance, and percentage rentals as well as certain local lines of credit. Does not include any amount relating to our factoring facilities.

Pension obligations

Our subsidiaries operate various pension schemes, covering both defined contribution and defined benefit plans. Those schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans comprise a variety of postemployment benefit arrangements. They generally provide payments in case of death, disability or retirement to former employees and their survivors. The various legal and constructive defined benefit obligations are situated in Germany, United Kingdom, Ireland, Greece, Italy, France and Bulgaria.

The liability recognised in our statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. Several actuarial assumptions are used to determine the present value of the defined benefit liability and pension expense for the upcoming year. As of December 31, 2011 liabilities arising from defined benefit plans amounted to €400.5 million (€373.7 million as of December 31, 2010) while the fair value of plan assets amounted to €302.3 million (281.7 million as of December 31, 2010).

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in our statement of comprehensive income in the period in which they arise. The cumulative actuarial losses recognised in equity as at December 31, 2011 amount to €58.9 million net of tax compared to €46.0 million as of December 31, 2010.

Our total pension expense recognised in the income statement was €6.2 million in 2011 compared to €9.1 million in 2010. It is made up of €19.9 million (€20.6 million in 2010) of interest on the defined benefit obligation (interest cost); €5.2 million (€4.8 million in 2010) actuarial estimate of benefits earned by employee service in the period (current service cost); less €16.1 million of expected return on plan assets (€16.3 million in 2010); net of €2.8 million of effect of curtailment/settlement.

For defined contribution plans, we have no further payment obligation once the contributions have been paid. Contributions are recognised as an expense when they are paid.

In relation to the Ideal Standard (UK) Limited Pension Plan (the "Plan") and the Ideal Standard (UK) Limited Executive Pension Plan (the "Executive Plan"), Ideal Standard International Acquisition S.àr.l and its subsidiaries entered into pension priority and indemnity agreements in 2008, which provided that (i) the Plan should have an agreed priority amount of £16 million less the aggregate amount of all cash contributions made to the Plan from October 31, 2007, and (ii) the Executive Plan should have an agreed priority amount of £0.9 million less the aggregate amount of all cash contributions made to the Executive Plan from October 31, 2007. The Existing Intercreditor Agreement provides that if at any time the transaction security is enforced, the proceeds of such enforcement shall be applied (after application towards the Security Agent's fees and expenses) towards the agreed priority amounts then outstanding under the Plans, on a pari passu basis. We estimate that the current priority amount related to the Plan is approximately £2.4 million.

Off-Balance Sheet Arrangements

As of December 31, 2011, we had no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. These estimates and judgments affect the amounts reported in those financial statements. On an ongoing basis, we evaluate these estimates. We base our estimates on historical experiences and assumptions believed to be reasonable under the circumstances. Those estimates form the basis for our judgments that affect the amounts reported in the financial statements. Actual results could differ from our estimates under different assumptions or conditions.

Determination of the fair values of identifiable assets, liabilities and contingent liabilities in a business combination

In connection with the Bain Acquisition, we had to determine the fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination. Significant judgement was required in estimating these fair values.

Estimated impairment

We annually test whether goodwill and indefinite useful life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2.8 of the audited financial statements for the year ended 31 December 2011. The recoverable amount of a cash generating unit (CGU) has been determined based on the value in use calculations. These calculations require the use of estimates. Estimating a value in use requires management to make an estimate of the expected future cash-flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash-flows.

Income taxes

Significant judgment is required in determining the consolidated provision for income taxes. We are subject to income taxes in numerous jurisdictions and there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Measurement of the deferred tax asset related to the tax loss carry-forward involves significant judgement, notably related to the probable future tax. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Measurement of provisions

Significant judgement is required in the estimation of present obligations that arise from past events including the environmental restoration, warranties, legal claims and other items. These judgments are based on our prior experiences with these issues and are the best estimate of our liability for these items.

Useful life and residual value

An estimation of the residual values and useful lives of tangible assets and intangible assets is required to be made at least annually. Judgement is required in estimating the useful lives of fixed asset categories. The residual value is the estimated amount that would be currently obtained from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual life is determined based upon discussions with local engineers.

Timing of collection of receivables

We make significant judgement in determining the amount of provision for impairment of trade receivables when there is objective evidence that we will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flow is determined based upon the significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Pension Obligations

We use significant judgement to determine the measurement of the defined benefit pension plan assets and liabilities. These amounts are calculated annually by independent actuaries; however, significant judgement is required.

Quantitative and Qualitative Disclosures of Market Risks

Market Risk

We are exposed to fluctuations in the price of major raw material commodities used in the manufacturing process (such as brass, zinc, copper and MMA). From time to time, we enter into fixed price forward agreements with suppliers to reduce our risks related to commodity prices. All of the forward agreements are entered into for the purposes of own use and therefore we have applied the exemption in IAS 39 and did not recognise these contracts at fair value.

However, an interruption in the ability of these suppliers to provide raw materials could have a material adverse effect on our financial position, results of operations and cash flows. The availability and price of raw materials may also be subject to shortages in supply, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates, global demand and worldwide price levels.

Interest Rate Risk

Our profit and operating cash flows are sensitive to changes in market interest rates, primarily with respect to our floating rate borrowings.

Our interest rate risk primarily arises from our long term borrowings which bear interest at floating rates. We had a total of €1,048.3 million of floating rate borrowings outstanding as of December 31, 2011 (December 31, 2010: €1,137.8 million). Until November 2010, our interest rate risks were covered through interest rate swaps for up to 50% of the Tranche A and Tranche B amounts. The fixed rates achieved through the swap ranged from 4.15% to 5.58% via the use of a portfolio of interest rate swaps. These interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates of the finance leases to which Ideal Standard Group is lessee are fixed at the inception of the lease.

At 31 December 2011, a hypothetical interest rate increase/decrease of 1% on the Group's net floating interest borrowings, with all other variables held constant, would have resulted in an approximate reduction/increase in pre-tax result for the year by €7.3m (2010: €8.0m).

Borrowings under our Revolving Credit Facility will bear interest at varying rates, and as a result we will have interest risk with respect to this debt. We currently do not expect to enter into any interest rate hedging arrangements with respect to the debt under our Revolving Credit Facility. Borrowings under the Notes will bear interest at a fixed rate. For fixed rate debt, interest rate changes affect the fair market value of such debt, but do not impact earnings or cash flow.

Exchange Rate Exposure and Currency Risk Hedging

We conduct operations in most of the major countries of Western and Eastern Europe, as well as in the Americas, the Middle East and Egypt. As a result of our international presence, we are exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Pound Sterling, and the U.S. Dollar. In cases where we are unable to match sales received in foreign currencies with costs paid in the same currency, our results of operations are consequently impacted by currency exchange fluctuations.

At 31 December 2011, a hypothetical 10% weakening/strengthening of the UK £ against all other functional currencies with all other variables held constant, would have resulted in an approximate reduction/increase in post-tax profit for the year by €1.7m (2010: €15m increase/reduction) (mainly as a result of foreign exchange gains/losses on translation of UK £ denominated monetary assets and liabilities in the entities with functional currencies other than the UK £.

At 31 December 2011, a hypothetical 10% weakening/strengthening of the US $ against other functional currencies with all other variables held constant, would have resulted in an approximate increase/reduction in post-tax profit for the year by €17m (2010: €25m), mainly as a result of foreign exchange gains/losses on translation of US $ denominated monetary assets and liabilities in the entities with functional currencies other than the US $.

Credit Risk

Our credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivatives with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. For customers, we assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings, in the frame of the delegations given by the board. The utilisation of credit limits is regularly monitored.