Ideal Standard International

Management discussion & analysis of financial conditions and results of operations

Restricted information - not for distribution

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

You should read the following discussion in conjunction with the "Selected Historical Financial Information" section of this Offering Memorandum and the audited financial statements of the Issuer and related notes thereto included elsewhere in this Offering Memorandum. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the "Risk Factors" and "Forward-Looking Statements" sections of this Offering Memorandum. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

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. For example, in both Italy and the United Kingdom we have an approximately 40% market share in ceramics, our largest product category, based on 2009 volumes. 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, 2010, we operated 22 manufacturing plants across Europe and in Egypt, and we had a total of 11,384 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 2010, we generated €316.0 million of revenues from ceramics products, which represented 41.9% of our revenues.

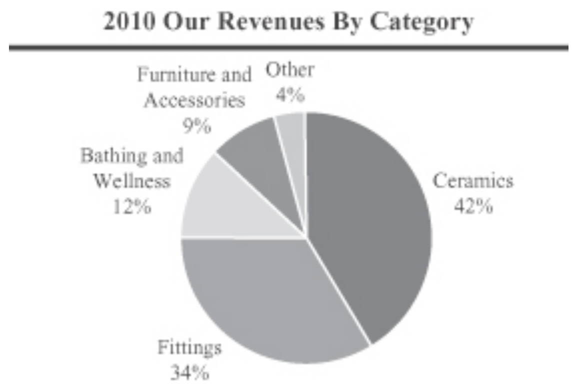
- ***Fittings*** products include taps, mixers, thermostats, valves, shower kits, sensors and electronic fittings, and other products that connect chinaware to water supplies and drains. In 2010, we generated €253.9 million of revenues from fittings products, which represented 33.7% of our revenues.

- ***Bathing and Wellness*** products include bath tubs, whirlpool tubs, bath panels, totems, super showers, acrylic shower trays and shower enclosures. In 2010, we generated €90.6 million of revenues from our bathing and wellness products, which represented 12.0% 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 2010, we generated €65.9 million of revenues from our furniture and accessories products, which represented 8.7% of our revenues.

For the fiscal year ended December 31, 2010, we generated €753.4 million in revenues and €69.3 million in Pro Forma Adjusted EBITDA. In 2010, 23.1% of our revenues were generated in the United Kingdom, 22.5% in Italy, 11.7% in Germany, 9.3% in France and 7.3% in Eastern Europe and 7.2% in Egypt, with the remainder from other countries in Europe, the Middle East and Africa ("EMEA") and the Americas.

The charts below show our revenues by geography (based on country of origin) and product category in 2010.



Key Events in Fiscal Years 2008, 2009 and 2010

Economic Conditions

Since 2008, the global economic downturn has significantly impacted 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 by high unemployment levels, declining consumer confidence and economic uncertainty, tightened lending standards, large supplies of existing and new home inventories in certain geographies and related pricing pressures. These conditions contributed to sharply weakened demand for new homes. As a result, construction of new homes slowed as builders sought to sell their existing inventories. Similarly, the challenging economic environment negatively impacted non-residential construction activity.

Repair, maintenance and improvement activity was also significantly impacted by the global economic downturn, although to a lesser extent than new construction. 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, which limited the amount of home equity against which homeowners could borrow. 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.

New construction, repair, maintenance and improvement activity generally fell across all of our markets in Europe from 2008 to 2010. According to Euroconstruct (which covers 19 countries across Europe), European residential new construction output in the 15 largest European markets fell by 24% from 2008 to 2009 and by 7% from 2009 to 2010, and commercial new construction output fell by 14% from 2008 to 2009 and by 7% from 2009 to 2010. Commercial and residential repair, maintenance and improvement also fell from 2008 through 2010, although to a lesser extent than new construction.

As a result of these adverse factors affecting construction and renovation activity, sales of bathroom products were significantly impacted during this period. From 2007 to 2009, according to BRG Consult, the market for bathroom products in Europe declined by an average of approximately 10% per annum by volume. Over the same period, in our core markets of Italy, the United Kingdom, Germany and France, ceramics volumes fell by 21%, 17%, 4% and 6% per annum, respectively, and fittings volumes by 18%, 12%, 4% and 2% per annum, respectively. As demand for bathroom products slowed between 2007 and 2009, we experienced significant declines in our revenues.

According to Euroconstruct, market conditions began to stabilise in 2010, with more moderate declines in both new construction and repair, maintenance and improvement activity. As the economic environment improved, the European bathroom products market also began to stabilise, with volumes estimated to have declined by 1.1% from 2009 to 2010. However, the economic environment continues to have a significant effect on our industry, and many factors that caused the decline over the past three years continue to affect our markets.

Short-term Response to the Change in Economic Conditions

By the end of 2008, we experienced significant reductions in demand related to the economic downturn. Our profits were further negatively affected by our high fixed cost structure, particularly in our ceramics business, exacerbated by our excess capacity and administrative headcount. Consequently, we took a variety of short-term steps to reduce costs and improve our liquidity position.

We sought to reduce costs and manage inventory levels by implementing short-term plant shutdowns. Our plant shutdown actions were generally implemented in connection with our normal seasonal shutdowns, primarily by starting our Christmas holiday two to three weeks earlier than normal in December 2008 in order to maximise savings. During 2009 and 2010, we undertook more extensive shutdown actions specifically aimed at further reducing our costs and inventory. At our ceramics plants, the time that it takes to cool down and reheat the kilns is extensive, necessitating longer periods of shutdown in order to completely switch off the kilns and maximise cost savings. For our bathing and wellness and fittings plants, however, the production process allows for shorter term shutdowns, and as a result we achieved cost savings through shortened work weeks. In 2009, we obtained government support in Italy, France and Germany to allow us to reduce our fixed labour costs at our plants in those countries by reducing salaries and having, in some cases, governmental authorities pay a portion of those salaries. In the United Kingdom in 2009, our operations employees took an approximately 30% pay cut for four consecutive months.

Beginning in the second quarter of 2009, we implemented a series of steps across our business to supplement our manufacturing measures, including an approximately 10% pay cut for all of our employees. We also reduced costs by decreasing discretionary marketing spending and cutting other general and administrative costs. We took steps to reduce our working capital, primarily by using curtailments in production resulting from plant shutdowns to sell down our existing inventory. We took a proactive approach to analysing capital expenditures by implementing a centralised approval process in order to reduce non-essential low return projects.

Key Changes in Business Operations

During the economic downturn, we took a number of steps to improve our leadership. We have strengthened our management team by recruiting a new Chairman, Chief Financial Officer, Global Vice President of Operations and Chief Marketing Officer. We have recruited executives with the experience and leadership capabilities required to execute on our strategies including cost reduction, operational and administrative efficiency improvements, brand enhancement and product development. We now have our new management team in place, and we view their hiring as key to successfully executing our strategic business plan.

Under the new management team, we began to develop and implement initiatives to improve our operational efficiency and engaged third party consultants to assist in this process. In 2010, we commissioned a study to rationalise our brand portfolio, in order to increase our marketing efficiency and brand recognition for our core brands. In 2009, we commenced a project focused on optimising our rebate and new product pricing strategy. This project was completed in 2010 and has already begun to yield positive results.

As a result of our review of procurement procedures, we have begun to implement a program to centralise our procurement functions to maximise our economies of scale and purchasing efficiency as well as increase the skill and training of individuals in our procurement organisation. As a result of implementing this program, we have achieved price, process and usage benefits. In addition, we commenced a project to review our purchasing spending and agreements for key commodities, materials and services. We also engaged in retendering discussions with existing and new suppliers, which has resulted in a number of new supply contracts with more favourable terms. Most of these new contracts were in place by the middle of 2010.

During 2010, we also implemented various changes to our demand planning system in order to streamline and improve our response to customer orders. Our implementation of this system in 2010 resulted in our OTIF delivery rates increasing from the mid-60% range in the second quarter of 2009 to 95% in February 2011, which we believe is among the highest rates in our industry. We also improved our production processes to more accurately meet product specifications and as a result production compliance rates with our production standards in our ceramics business increased from 59% in May 2009 to 93% in February 2011.

Long-Term Restructuring Initiatives

As identified by Bain Capital in its evaluation of our company in 2007, there is a significant opportunity to reduce our excess manufacturing capacity and duplicative administrative functions which have arisen within our group as a result of our acquisition-based growth. Following the Bain Acquisition, we developed comprehensive restructuring plans to capitalise on this opportunity. While we were able to carry out a number of initiatives in 2008 and 2009, most of those plans were delayed by the uncertainty created during the recent global economic downturn and its impact on our liquidity position. In July 2009, we concluded a sale of certain of our subsidiaries that comprised our Asia Pacific Business to INAX Corporation, a subsidiary of JS Group Corporation, which provided us with approximately €121 million of net cash proceeds. As a result of our improved cash position following from the sale of our Asia Pacific Business in 2009 and the stabilisation of many of our markets, we are now implementing our principal restructuring initiatives, which include the following

- *Rationalise capacity and reduce costs in our manufacturing base.* We have a significant amount of excess capacity in our manufacturing base, particularly in ceramics, and have a number of inefficient and unprofitable plants. In the first quarter of 2010, we closed two of our Italian manufacturing sites in Brescia (ceramics) and Gozanno (fittings). In addition, we entered into a two year agreement for reduced working hours in our remaining Italian sites, which we can extend by our option until the end of 2012. Under this agreement, the Italian government makes payments to cover a large proportion of the earnings that our workers lost as a result of the reduced hours. We estimate that this agreement has allowed us to eliminate approximately €10 million in annual costs, and that the closure of the two Italian plants, the reduction in administrative overheads in Italy and the savings relating to voluntary leavers from the remaining Italian plants have allowed us to eliminate an additional €16.8 million in costs.

  Following the successful closure and downsizing of these 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. We have signed an agreement with the labour union at Middlewich and the plant will be closed in May 2011. The fixed costs associated with the Middlewich plant were €13.0 million in 2010. On April 14, 2011, we signed an agreement with each of the labour unions in France representing the employees in Revin and Dole pursuant to which: (i) the terms of the redundancy plan ("Plan De Sauvegarde de L'emploi") have been agreed and accepted; and (ii) the end of production in both plants has been agreed to be April 22, 2011. The plants had aggregate fixed costs of €16.1 million in 2010 and are currently expected to formally close in June 2011. We currently have excess production capacity at our more efficient plants in Western Europe, as well as at our Sevlievo, Bulgaria and Teplice, Czech Republic plants to receive production volumes from the plants that we intend to close. This shift in our production is already underway and we estimate that the increased annual fixed cost at these plants to accommodate increased production volumes received from our United Kingdom and France plants will be 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. We have identified additional restructuring opportunities that could be implemented after the completion of the plant closures in France and the United Kingdom described above. We are targeting to eliminate between €25 and €30 million of annual costs with these additional opportunities. As part of the rationalisation of our manufacturing capacity, we are also enhancing our third party supplier relationships so that we can source rather than produce additional volumes to respond to changes in market demand.

- *Streamline our general and administrative functions.* We have identified opportunities to streamline our general and administrative functions by reducing duplicative headcount across countries and consolidating certain administrative operations. In 2010, we completed the first phase of this project, an approximately 10% reduction in general and administrative headcount across our company through the termination of approximately 160 employees, which we estimate eliminated €9.7 million of annual costs. In 2011, we began the second phase of this initiative through specific projects in which we are seeking to rationalise some of our back office functions. As part of this second phase, we have identified approximately 190 employees for termination, of which approximately 40% have been made redundant as of March 31, 2011. Upon completion of these identified redundancies we estimate that we will eliminate approximately €12 million of annual costs by 2012. In the final phase, targeted to commence in 2012, we intend to consolidate and selectively relocate our standardised back-office work to Bulgaria and other European countries in order to establish centralised administrative functions that serve our entire group, as opposed to having duplicate operations in various countries. We are targeting approximately €3 to €5 million of annual cost savings through this final phase.

Our comprehensive restructuring program described above seeks to create approximately €95 million of annual savings. We have already realised annual savings of approximately €37 million in connection with projects completed on time and under budget in 2010. We estimate the total spend in relation to our restructuring initiatives completed and currently underway to be €125 to €135 million. Through December 31, 2010, we have spent approximately €27 million, with the majority of the remaining amount split approximately equally between 2011 and 2012. Following the completion of those manufacturing and administrative restructuring initiatives currently underway, we currently estimate that we will spend an additional €55 to €65 million in 2012 to 2014, with a majority to be spent in 2013, to implement the additional restructuring opportunities described above.

In addition to the projects described above, we plan to continue to seek opportunities to increase our efficiency and profitability. Our current estimates of costs and savings may differ from actual results. See "Risk Factors—If our restructuring initiatives are not successful, our business and competitiveness may be adversely affected."

Factors Affecting our Operating Results

Market and General Economic Conditions

Demand for bathroom products originates both from residential (86% of the European market volume in 2009 according to BRG Consult) and non-residential projects (14% of the European market volume in 2009 according to BRG Consult). For both residential and non-residential projects there are primarily four occasions to purchase bathroom equipment products: repair, maintenance, improvement and new construction activities. Our financial performance therefore 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 drives 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 depending on our distribution channels. 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 intense 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 2010. 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 2010, approximately €40 million, or 8%, of our cost of sales (excluding depreciation) related to brass, copper and zinc and approximately €8 million, or 2%, related to MMA. We also purchased approximately €14 million of electricity and approximately €15 million of natural gas in 2010 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. From January 1, 2009 through December 31, 2010, prices for copper and zinc increased significantly from $3,070 per ton (copper) and $1,208 per ton (zinc) on January 1, 2009 to $9,600 per ton (copper) and $2,454 per ton (zinc) on December 31, 2010 (based on closing prices for cash buyers on the London Metal Exchange). 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 2010, 42.1% 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. For example, as of December 31, 2010 we had forward exchange contracts in place that represented 80% of our total exposure to fluctuations in the Pound Sterling. In the past we also have had debt denominated in Pounds Sterling. However we currently have no hedges in place and, upon completion of this transaction, all of our cash pay long-term debt will be denominated in euros. We are currently evaluating our hedging possibilities and may hedge our currency risk related to the Notes 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.

Seasonality

Our business is, to a moderate degree, subject to the effects of seasonality. Our sales are generally stable from quarter to quarter, however within those quarters they may fluctuate on a monthly basis, and often may slow during the summer holiday season, and during the Christmas break. We shut down plants during holiday periods, and as a result our costs can vary moderately on a seasonal basis. We generally have higher cash uses in the first half of the year because in the first quarter we pay customer rebates and often build inventory to cover periods of low production in the summer holiday season.

Our quarterly revenues for the year ended December 31, 2010 were €190.4 million for the first quarter, €195.9 million for the second quarter, €187.6 million for the third quarter and €179.6 million for the fourth quarter. Our quarterly revenues for the year ended December 31, 2009 were €177.8 million for the first quarter, €196.7 million for the second quarter, €178.6 million for the third quarter and €184.0 million for the fourth quarter. These results were derived from management accounting records and are not audited.

Key Statement of Income Items

The following is a description of certain of the line items in our consolidated income statement.

Revenues

We generate revenues from the sale of products from our ceramics, fittings, bathing and wellness and furniture and accessories categories to both residential and non-residential end-markets.

Our principal geographical focus is in EMEA, which represented 95.9% of our sales in 2010. Italy and the United Kingdom are our most significant markets, representing 22.5% and 23.1% of our sales in 2010, respectively. In 2010, 73.7% of our revenues were generated in five countries: Italy, the United Kingdom, Germany, France and Egypt. Outside EMEA, we also have operations in the Americas, which generated 4.1% of our sales in 2010.

We generated 41.9% of our revenues from our ceramics products in 2010, of which 58.9% was from sales in Italy and the United Kingdom. We generated 33.7% of our revenues from fittings products in 2010, of which 51.7% was from sales in Italy, the United Kingdom and Germany. Our bathing and wellness and furniture and accessories products accounted for 12.0% and 8.7%, respectively, of our revenue in 2010. The remaining 3.6% of our revenues were generated from a mixture of categories sold in the Americas.

Cost of Sales

Cost of sales includes raw material costs, purchased parts and direct labour, as well as manufacturing overheads, inbound freight costs 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.

Distribution Expenses

Distribution expenses consist of warehousing and outbound freights cost associated to the movement of the goods from our manufacturing plants and central distribution centres to final customer destination.

Selling and Marketing Expenses

Selling expenses consist of employee compensation, marketing, advertising and sales promotions and sales agent commissions.

Administrative Expenses

Administrative expenses consist of employee compensation, professional services and legal fees, finance, bad debt expense and information technology related expenses.

Impairment of non-financial assets

Impairment of non-financial assets comprises the write down of our goodwill and intangible assets arising from the Bain Acquisition together with the writedown of certain production assets to net realisable value associated with our announced restructuring actions.

Restructuring Expenses

Direct restructuring expenditures are costs necessarily generated by restructuring and therefore not in direct relation to our ongoing activities. These costs include those related to compensation and benefits including severance costs, retention costs, claims and litigations costs. In addition, these costs include professional service fees directly resulting from restructuring decisions, and related clean-up costs to comply with environmental regulations and prepare fixed assets for sale or disposal. Inventory write offs associated with restructuring are also classified in this caption.

Other Operating Income/(Expenses)

Other operating income and expense, net, is comprised of other operating income, other operating expense and income from associated companies. This primarily includes expenses for professional services, associated with non recurring projects, currency gains and losses, gains and losses from the disposal of fixed assets and income from associated companies.

Finance Income

Finance income consists of income from long-term investments and loans, other interest and similar income and gains arising from fair value adjustments on preferred equity certificates.

Finance Expense

Finance expense is primarily comprised of interest expense on bank loans, bonds and shareholder loans and expenses related to interest rate derivatives used to hedge the variable interest on our senior bank debt.

Income Tax Credit/Expense

Taxes on income are comprised of current and deferred income taxes. Deferred taxes are recognised in temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements compared to the tax returns. For tax losses carried forward no deferred tax assets are recognized unless such deferred tax assets can be offset against future current tax liabilities.

Results of Operations

The following table sets forth, for the periods presented, our consolidated income statement data and that data as a percentage of revenues. The information in the table below should be read in conjunction with our consolidated financial statements and the related notes.

(euros in millions)	Fiscal Years Ended December 31,					
	2008		2009		2010	
	€m	%	€m	%	€m	%
Revenues	**957.0**	**100.0**	**737.0**	**100.0**	**753.4**	**100.0**
Cost of sales	(726.0)	75.9	(585.8)	79.5	(548.5)	72.8
Gross profit	**231.0**	**24.1**	**151.2**	**20.5**	**204.9**	**27.2**
Distribution expenses	(63.5)	6.6	(54.9)	7.4	(56.8)	7.5
Sales and marketing expenses	(112.4)	11.7	(92.2)	12.5	(91.3)	12.1
Administrative expenses	(46.9)	4.9	(49.9)	6.8	(42.8)	5.7
Impairment of non-financial assets	(190.6)	19.9	(2.1)	0.3	(14.1)	1.9
Restructuring expenses	(19.2)	2.0	(20.2)	2.1	(13.7)	1.8
Other operating expenses	(41.5)	4.3	(18.0)	1.9	(34.0)	4.5
Operating loss	**(243.1)**	**25.4**	**(86.1)**	**11.7**	**(47.8)**	**6.3**
Finance costs	(125.5)	13.1	(102.1)	13.5	(96.4)	12.8
Finance income	153.7	16.1	110.6	15.0	2.4	0.3
Income tax credit/(expense)	44.9	4.7	(12.3)	1.7	34.5	4.6
Loss from continuing operations	**(170.0)**	**17.8**	**(89.9)**	**12.2**	**(107.3)**	**14.2**
Loss from discontinued operations	**65.3**	6.2	**(4.4)**	0.6	**—**	**—**
Loss	**(235.3)**	**24.6**	**(94.3)**	**12.8**	**(107.3)**	**14.2**

Revenues

Revenues increased by €16.4 million, or 2.2%, to €753.4 million for 2010 as compared to €737.0 million for 2009. This increase primarily resulted from favourable currency fluctuations of €10.3 million attributable to sales in Pound Sterling and pricing increases resulting in €7.1 million of additional revenues (calculate at constant foreign exchange rates), which were partially offset by volume and product mix deterioration that decreased revenues by approximately €1 million.

In 2010, despite the continued decline in the European bathroom market (which declined by an estimated 1.1% by volume according to BRG Consult compared to 2009), we believe we gained market share in many of our markets. Total revenues in our European markets increased 2.0% primarily due to a 10.8% increase in our revenues in Germany and an 11.1% increase in our revenues in Eastern Europe. These increases primarily resulted from wholesale sales strength in Germany and sales of our ceramics and fittings in Russia, particularly in the showroom channel. In the United Kingdom, our revenue in 2010 remained stable compared to 2009. We also experienced a 21.8% increase in our revenues in Egypt. These increases were partially offset by a 3.5% decrease in revenues in France and a 1.1% decrease in revenues in Italy resulting from soft market conditions and inventory reduction actions by some of our primary customers in those markets. Total revenues in our markets other than in the United Kingdom, France, Italy, Germany, Eastern Europe and Egypt decreased by €3.3 million, or 2.3%. Sales of our fittings and bathing and wellness products increased by €16.1 million and €4.8 million, respectively. Sales of our ceramics products decreased by €6.8 million primarily due to adverse market conditions in our two largest ceramics markets, Italy and the United Kingdom.

Revenues decreased by €220.0 million, or 23.0%, from €957.0 million in 2008 to €737.0 million in 2009. This decrease primarily resulted from €212.8 million decrease in sales volumes resulting from adverse market conditions and €21.3 million in unfavourable currency fluctuations, primarily due to translation of revenues earned in Pounds Sterling, partially offset by €18.6 million in increased pricing.

In 2009 the global economic crisis had a significant impact on the European bathroom market, resulting in very weak trading conditions. Our revenues decreased in almost all of our European markets and across all of our product categories. Our revenues in Italy declined by 22.3%, Eastern Europe by 52.5%, France by 22.0% and Greece by 35.4%. In Germany and Egypt, however, sales levels in 2009 remained substantially consistent with 2008 levels. Sales of our ceramics, fittings, bathing and wellness and furniture and accessories products decreased by €100.8 million, €66.2 million, €16.8 million and €15.5 million, respectively.

Cost of sales

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

(euros in millions)	Fiscal Year Ended December 31, 2008	2009	2010
Revenues	€ 957.0	€ 737.0	€ 753.4
Cost of sales	(726.0)	(585.8)	(548.5)
Gross profit	231.0	151.2	204.9
Gross profit as percentage of sales	24.1%	20.5%	27.2%

Cost of sales decreased by €37.3 million, or 6.4%, from €585.8 million in 2009 to €548.5 million in 2010. Gross profit as a percentage of sales in 2010 increased from 20.5% to 27.2%. This was driven primarily by our restructuring programs and raw materials procurement initiatives that reduced our fixed cost base and improved our absorption rate of fixed costs per unit sold. We also undertook a review of pricing policies in all of our primary markets which delivered improved price yields.

Cost of sales decreased by €140.2 million, or 19.3%, from €726.0 million in 2008 to €585.8 million in 2009. Gross profit as percentage of sales declined from 24.1% in 2008 to 20.5% in 2009. This was primarily due to significant sales volume declines and unfavourable exchange rate fluctuations of Pounds Sterling to the euro, partially offset by restructuring initiatives and temporary plant shutdowns. Cost per unit sold of our ceramics products was high because of high fixed costs of our ceramics plants and low utilisation thereof. We sought to reduce fixed costs during 2008 and 2009 by implementing the short-term measures described in "—Key Events in Fiscal Years 2008, 2009 and 2010—Short-Term Response to the Change in Economic Conditions."

Distribution expenses

Distribution expenses increased by €1.9 million, or 3.5%, to €56.8 million in 2010 compared to €54.9 million in 2009. This increase resulted from increased volumes shipped and higher shipping costs tied to 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 platform.

Distribution expenses decreased by €8.6 million, or 13.5%, to €54.9 million in 2009 compared to €63.5 million in 2008. This reduction was mainly a direct result of additional sales volume, resulting in a reduction in outbound freights. Rationalisation of the warehousing network also contributed to the reduction in distribution expenses.

Sales and marketing expenses

Sales and marketing expenses decreased by €0.9 million, or 1.0% to €91.3 million in 2010 from €92.2 million in 2009, primarily resulting from the continuation of projects to rationalise our sales and marketing functions and continued tight discretionary expense control.

Sales and marketing expenses decreased by €20.2 million, or 18.0%, to €92.2 million in 2009 from €112.4 million in 2008, primarily resulting from rationalisation of our sales and marketing functions, tight discretionary expense control and more focused marketing investments.

Administrative expenses

Administrative expenses decreased by €7.1 million, or 14.2% to €42.8 million in 2010 from €49.9 million in 2009. This reduction was due primarily to our initiatives to rationalise our administrative headcount.

Administrative expenses increased by €3.0 million, or 6.4% to €49.9 million in 2009 from €46.9 million in 2008. Following a prolonged downturn in demand in all of our markets, a number of customers experienced liquidity difficulties which resulted in a lengthening of collection days, increasing our bad debt expense.

Impairment of non-financial assets

Impairment of non-financial assets increased by €12.0 million, to €14.1 million for 2010 compared to €2.1 million for 2009. This resulted from the impairment of fixed assets in the United Kingdom and France as a result of our manufacturing restructuring programs.

Impairment of non-financial assets decreased by €188.5 million to €2.1 million in 2009 compared to €190.6 million in 2008. The €190.6 million charge in 2008 resulted from impairment testing, of which €174.7 million related to goodwill impairment with the remainder related to brands and fixed assets.

Restructuring expenses

Restructuring expenses decreased by €6.5 million, or 32.2%, to €13.7 million for 2010 as compared to €20.2 million for 2009. Restructuring expenses increased by €1.0 million, or 5.2%, to €20.2 million for 2009 as compared to €19.2 million for 2008. These expenses resulted from charges with respect to our restructuring activities described in "—Key Events in Fiscal Years 2008, 2009 and 2010—Short-Term Response to the Change in Economic Conditions."

Other operating expenses

Other operating expenses increased by €16.0 million to €34.0 million in 2010 from €18.0 million in 2009, primarily due to professional fees incurred in connection with operational improvements programs such as branding, pricing and procurement as well as legal and other professional fees associated with refinancing transactions.

Other operating expenses in 2009 decreased by €23.5 million to €18.0 million in 2009 from €41.5 million in 2008, primarily driven by a reduction in professional service and consulting fees which were higher in 2008 due to fees incurred in connection with the Bain Acquisition, and the focus on cash management in response to the economic downturn as a result of which all of our discretionary expenses were kept at minimum level.

Finance costs

Finance costs decreased by €5.7 million, or 5.6%, to €96.4 million in 2010 compared to €102.1 million in 2009, primarily driven by a continued decline in interest rates, which resulted in a reduction in our finance costs related to our floating rate debt of €11 million, which was partially offset by €8.2 million in increased interest costs on Pound Sterling denominated debt reflecting a strengthening of the Pound Sterling by 3.1% and the U.S. dollar by 4.6%.

Finance costs decreased by €23.4 million, or 18.6%, to €102.1 million for 2009 compared to €125.5 million for 2008. This resulted primarily from a reduction in interest rates, which resulted in a reduction in our finance costs related to our floating rate debt. This decrease also resulted from favourable foreign exchange changes and amortization of bank fees.

Finance income

Finance income decreased by €108.2 million to €2.4 million for fiscal 2010 as compared to €110.6 million for fiscal 2009 due to the absence of preferred equity certificates fair value adjustment charges and the absence of foreign exchange gains on financing activities, which were incurred in 2009.

Finance income decreased by €43.1 million, or 28.0%, to €110.6 million for fiscal 2009 as compared to €153.7 million for fiscal 2008, driven mainly by the preferred equity certificates fair value adjustment charges in 2009.

Income tax credit/expense

In 2010 there was a net income tax credit of €34.5 million compared to a net charge of €12.3 million in 2009. This resulted primarily from a higher loss before tax in 2010, and a €68.3 million decrease in the non-recognition of deferred tax assets on losses. The net tax charge in 2009 increased by €57.2 million from a net credit of €44.9 million in 2008. This was mainly due to a lower loss before tax in 2009.

Liquidity and Capital Resources

Historical Cash Flow Information

The following summarizes our cash flows in the periods presented:

(euros in millions)	Fiscal Years Ended December 31, 2008	2009	2010
Consolidated cash flow statement			
Net cash generated from operations	€ (6.2)	€ 54.0	€ (9.7)
Cash flows from interest, income taxes and discontinued operations	(99.9)	(52.1)	(59.5)
Cash flows from operating activities	(106.1)	1.9	(69.2)
Cash flows from investing activities	(10.4)	78.4	(22.1)
Cash flows from financing activities	66.6	38.2	(2.1)
Total free cash flow[1]	€ (49.9)	€ 118.5	€ (93.4)

(1) Total free cash flow is not a measurement under IFRS. Please see "Presentation of Financial and Other Data—Non-IFRS Financial Measures."

Working Capital

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

	As of December 31, 2008[1]	2009	2010
Inventories	€ 219.6	€ 143.6	€ 149.1
Trade and other receivables	168.0	167.8	170.2
Trade and other payables	(217.0)	(245.0)	(236.7)
Provisions	(22.0)	(33.8)	(28.6)
Working Capital	€ 148.6	€ 32.6	€ 54.0
Adjustments:			
Non-recourse receivables factoring	—	7.3	(5.7)
Restructuring provisions included in provisions	11.0	23.6	14.9
Accrued interest included in other payables	16.0	14.0	5.7
Operating working capital[2]	€ 175.6	€ 77.5	€ 68.9
As percent of sales	18.3%	10.5%	9.1%

(1) Excludes working capital related to our Asia Pacific Business.
(2) Operating working capital is not a measurement under IFRS. Please see "Presentation of Information—Non-IFRS Financial Measures."

Total free cash flow

Total free cash flow in 2010 was an outflow of €93.4 million due primarily to net cash outflows from operations activities of €9.7 million, interest payments of €58.7 million and capital expenditures of €23.3 million.

Total free cash flow in 2009 was €118.5 million. This was primarily due to the sale of our Asia Pacific Business to INAX Corporation which provided approximately €95.1 million, which represents the purchase price for the business net of intercompany debt repaid and fees and expenses paid in connection with the acquisition. Improvements in operating working capital generated €98.0 million of cash, primarily attributable to €76.0 million of inventory reductions through the temporary shutdowns of our manufacturing plants and reduced production.

Total free cash flow in 2008 was an outflow of €49.9 million. This is mainly due to an outflow of cash from operations of €6.2 million combined with interest payments of €68.2 million, capital expenditures of €35.6 million and tax on income of €30.7 million, partially offset by an acquisition purchase price adjustment of €32.6 million (largely related to pre closing taxes paid) and borrowings under our revolving credit facilities of €67.5 million.

Working Capital

Our working capital as of December 31, 2010 was €54.0 million compared to €32.6 million as of December 31, 2009. Our operating working capital as of December 31, 2010 was €68.9 million compared to €77.5 million as of December 31, 2009. The decrease in our operating working capital related to trade and other receivables, net of the effects of non-recourse factoring, which were €164.5 million as of December 31, 2010 compared to €175.1 million as of December 31, 2009, reflecting a reduction in our fourth quarter revenues and improved cash collection in 2010. Our inventory as of December 31, 2010 was €5.5 million higher than as of December 31, 2009, attributable primarily to the effect of a small increase in sales volume and increased prices of commodities used our fittings. In addition, our working capital current liabilities (defined as trade and other payables plus provisions minus accrued interest and restructuring provisions) as of December 31, 2010 were €244.7 million compared with €241.2 million as of December 31, 2009 primarily due to our acceptance of longer payment terms.

Our working capital at December 31, 2009 was €32.6 million compared to €148.6 million (excluding our Asia Pacific Business) as of December 31, 2008. Our operating working capital as of December 31, 2009 was €77.5 million compared to €175.6 million as of December 31, 2008 (excluding our Asia Pacific Business). The significant decline in operational working capital reflects a large reduction in our inventory levels from €219.6 million to €143.6 million resulting from our reduced production and extended shutdowns of our manufacturing plants during 2009. This was partially offset by an increase in trade and other receivables (removing the effects of non-recourse factoring) from €168.0 million to €175.1 million representing our difficult collection experience at end of 2009. Our working capital current liabilities increased from €212 million as of December 2008 to €241.2 million reflecting extention of payment terms of suppliers and greater accruals for accrued but unpaid operating expenses.

Cash Flows from Operating Activities

In 2010, cash used in operating activities was €69.2 million, compared to €1.9 million of cash flows from operating activities in 2009, as 2009 benefited from a significant inflow from working capital. In 2009, cash flows from operating activities were €1.9 million, as compared to €106.1 million of cash used in operating activities in 2008. Changes in working capital and provisions in 2009 (excluding our Asia Pacific Business) generated €89.8 million of net cash (compared to €25.3 million generated in 2008). These were achieved through a reduction of €75.2 million of inventory achieved by increasing the temporary shutdowns of the manufacturing plants, and improvements in our sales, inventory and operations planning processes. In addition our cash interest declined by €23.4 million in 2009 reflecting lower interest rates.

Cash flows from investing activities

In 2010, cash used in investing activities was €22.1 million, representing investments in property, plant and equipment, software and development programs. Cash flows from investing activities increased by €88.8 million to a net inflow €78.4 million for 2009 as compared to cash used in investing activities of €10.4 million for 2008. This was primarily as a result of the net cash generated from the sale of our Asia Pacific Business in 2009, offset by capital expenditures of €12.7 million and development program expenditure of €5.7 million.

Cash flows from financing activities

In 2010, cash flows from financing activities were €2.1 million, as both borrowing proceeds and principal repayments in 2010 were minimal. Cash flows from financing activities were €38.2 million as compared to €66.6 million for 2008, primarily as a result of a lower amount in borrowings in 2009 than in 2008.

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.

Following the completion of this offering, our primary sources of liquidity will remain cash flows from operations, borrowings under our Revolving Credit Facility and factoring lines in addition to cash on our balance sheet. Our ability to meet future working capital, capital expenditure and restructuring and debt service requirements will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control.

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. Following the onset of the financial crisis in 2008, we began to review all of our capital expenditure projects on a centralised basis through an investment committee, which allows us to better monitor and control project-specific capital expenditures. Capital expenditures, including those incurred in relation to maintenance and our restructuring initiatives, were €23.3 million in 2010, €18.4 million in 2009 and €35.6 million in 2008. 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.

Existing Credit Arrangements

Existing Credit Facility

On October 3, 2007, we entered into a Senior Facilities Agreement with Bank of America and Credit Suisse that provides for the Existing Credit Facility. The purpose of these facilities was to finance our 2007 acquisition by the Bain Capital Funds, refinance our financial indebtedness of the target companies, a payment of pension contributions into schemes operated for the benefits of the members of our Group and their employees and provide sources of liquidity for our day to day operations. As of December 31, 2010, we had €74.8 million of Facility A Loans outstanding, €632.6 million of Facility B Loans outstanding, €56.5 million outstanding under the Acquisition Facility and €74.1 million outstanding under our Existing Revolving Loan, with €1.0 million of letters of credit outstanding.

The rate of interest on each loan made pursuant to the Existing Credit Facility is based on a margin and LIBOR. The applicable margin may be reduced if the borrower's leverage changes. As of December 31, 2010, the LIBOR rate for our borrowings under the Existing Credit Facility was 1.03% for advances in Pounds Sterling, 0.45% for advances in U.S. Dollars and 1.27% for advances in euros.

The Facility A Loans are required to be repaid based on an agreed progressive semi-annual instalment payment schedule ranging from 1.25% to 12.5% with a final instalment payable in 2014. The Facility B Loans are required to be repaid in two equal installments in 2014 and 2015. The Acquisition Facility is required to be repaid fully in 2014 and the Existing Revolving Loans are required to be repaid in 2014.

In June 2010, certain Bain Capital Funds and co-investors acquired approximately 70% of the indebtedness outstanding under the Existing Credit Facility for approximately €321 million. As a result of this and other investments, Bain Capital and the co-investors' total equity invested in our company is approximately €730 million. The terms of the Existing Credit Facility were not changed following the debt repurchase transaction. At the same time as the debt repurchase, the same Bain Capital Funds and co-investors subscribed indirectly for additional equity securities equal to approximately 20% of the equity of the Ideal Standard International.

On March 25, 2011, Holdings entered into a series of agreements with the remaining third party lenders under the Senior Facilities Agreement. These agreements are:

- a Debt Holders Agreement pursuant to which we and those lenders holding a majority of the Third Party Credit Facility Loans (the "Majority") 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 Holdings (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 December 31, 2011 in accordance with a specified price range;
- an Amendment Agreement which amends certain provisions of the Senior Facilities Agreement and effects certain of the protections afforded to the Minority Lenders under the Debt Holders Agreement. Principally, the Amendment Agreement removes all financial covenants from the Senior Facilities Agreement, allows all lenders under the Senior Facilities Agreement to elect to accrue their interest and provides the Minority Lenders with 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

- Settlement and Release Agreements pursuant to which we, Bain Capital 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. Pursuant to the Settlement and Release Agreements, on April 6, 2011, counsel to the parties jointly filed notice at court for the dismissal of the proceedings.

Upon completion of this Offering, the amounts outstanding under the Existing Credit Facility will be novated to Holdings, following which neither the Issuer nor any of its subsidiaries will have any obligations remaining under the Existing Credit Facility.

Credit Arrangements Following this Offering

New Senior Revolving Facility Agreement

The Issuer, Ideal Standard International the Guarantors, Goldman Sachs International and Deutsche Bank AG, London Branch as mandated lead arrangers, the financial institutions named therein as original lenders and Wilmington Trust (London) Limited as agent and security agent will enter into the New Senior Revolving Facility Agreement on or about the completion of the Offering. Our Revolving Credit Facility 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 will accrue interest at a rate ranging from 3.00% to 3.50%, depending on the ratio of gross debt to EBITDA. We will be required to reach certain EBITDA targets on a quarterly basis. The Revolving Credit Facility will mature on the sixth anniversary of the date the Notes are issued. Please see “Description of Other Indebtedness—Revolving Credit Facility.”

Shareholder Funding Instruments

As part of the initial funding of the Bain Acquisition, Holdings entered into a mezzanine facility with Bank of America as lead arranger for an aggregate amount of $290.0 million. Holdings then on-lent an equivalent principal amount to Ideal Standard International of $145.0 million and £71.2 million. In 2008, TopCo purchased the loans under the mezzanine facility from the lenders, funding the transaction with the issuance of additional tranches of preferred equity certificates and a loan of $29.1 million and £10.8 million from Bank of America, which has been subsequently repurchased and extinguished. After the purchase of the mezzanine debt by TopCo, the mezzanine loan to Holdings was amended so that interest accrues annually at a rate of 14.1% per annum.

In 2009 and 2010, we entered into shareholder loans in connection with three transactions to prevent potential breaches of covenants under the Existing Senior Facilities Agreement (the “Equity Cures”). Certain of the Original ISI PECs were redeemed as part of the first equity cure. In addition, Ideal Standard International made a loan to Ideal Standard Cayman Limited of €23.0 million (the “Equity Cure Cayman Loan”), financing the loan with an additional drawdown on the Existing Revolving Credit Facility of €19.0 million and with cash in the group. In April 2010 Holdings loaned an aggregate amount of €115.0 million to Ideal Standard International, comprising two tranches: Tranche A in an aggregate amount of €69.1 million with an interest rate of 8% per annum plus a margin of $^{1}/_{16}$%, and Tranche B in an aggregate amount of €45.9 million with an interest rate of eurobor plus 2.375%, plus a margin of $^{1}/_{16}$%. The interest on both Tranche A and Tranche B accrues.

In April 2011, Holdings formed the Issuer as its wholly-owned subsidiary and transferred all of the outstanding equity of Ideal Standard International to the Issuer. As a result of this transaction, the Issuer became the direct holding company of Ideal Standard International.

In connection with the formation of the Issuer and its insertion into our corporate structure, Holdings will assign to the Issuer its rights as lender under the loans associated with the mezzanine facility and the Equity Cures (as described above), each with Ideal Standard International as borrower, in exchange for the Issuer, entering into two new shareholder loans (the Existing Subordinated Shareholder Loans) on substantially similar terms as the original loans. The Existing Subordinated Shareholder Loans will be subordinated to all other debt claims but senior to the Existing Shareholder PECs.

Following this offering we will have outstanding various preferred equity certificates which will be subordinated to all of our other debt. See “Related Party Transactions—Shareholder Funding Instruments.”

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, dated July 22, 2010 (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. A performance undertaking has been given by Holdings in respect of the Fortis U.K Facility. The maximum aggregate funded amount under the Fortis U.K. Facility is limited to £15.0 million. As of December 31, 2010, there were no amounts outstanding. The Fortis U.K. Facility has no scheduled expiration date and any termination of the contract requires three months' prior notice save that a party cannot terminate within the first two years unless a termination event has occurred. Termination events include a change of control, insolvency proceedings, breach of obligation and cross acceleration to other indebtedness of Ideal Standard (UK) Limited.

Italy. Under the Italian facility with Fortis Commercial Finance S.p.A. ("Fortis") dated July 29, 2010 ("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 factoring agreement is subject to the delivery by Ideal Standard Italia S.r.l. of a performance undertaking to be issued by Holdings (Ideal Standard International Acquisition S.àr.l.) in respect of the Fortis Italian Facility. The maximum aggregate funded amount under the Fortis Italian Facility is limited to €35.0 million. As of December 31, 2010, there were no amounts outstanding. The Fortis Italian Facility has expiration date on June 30, 2012 and is automatically renewed for further 2 years period if no termination notice is sent by a party three months' prior the expiry. The Fortis Italian Facility may also be terminated by Fortis in case of events which may jeopardize the economic and financial situation of Ideal Standard Italia S.r.l., such as, orders of payments (*ingiunzioni di pagamento*), executive proceedings, interim and protective measures (*provvedimenti cautelari e conservativi*)carried out against Ideal Standard Italia S.r.l., or in case of insolvency proceedings, breach of certain obligations under the Fortis Italian Facility by Ideal Standard Italia S.r.l., proposal by Ideal Standard Italia S.r.l. of restructuring agreements regarding its indebtedness or adoption by Ideal Standard Italia S.r.l. of a resolution concerning its liquidation (or similar transaction)."

France. Under the French facility with Natixis Factor S.A. dated December 23, 2008 ("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, 2010, the amount outstanding was approximately €2.3 million. The Natixis Facility has no scheduled expiration date and any termination of the contract requires three months' prior notice, save that Natixis may terminate at any time if one of the following termination events, amongst others, occurs: a change of control, a *procédure d'alerte* or insertion by the auditors in their report drawn-up in relation to the financial statements of one or several warnings, a non technical payment problem recorded by the Banque de France which has not been remedied within 30 working days, a breach of obligation.

Notes Offered Hereby

Following this offering, we expect to have €250.0 million in aggregate principal amount of notes outstanding. We will pay interest on the notes semi-annually in cash at an annual interest rate and on the dates, in each case, as set forth on the cover of this offering memorandum. Interest will accrue from the issue date.

Our obligations under the notes will be fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by each of the Guarantors. See "Description of the Notes—Brief Description of the Structure and Ranking of the Notes, the Notes Guarantees and the Security." The notes and the related note guarantees will be secured by a first lien on substantially all of our and each guarantor's assets, other than certain excluded assets. See "Description of the Notes—Security." The indenture governing the notes will contain covenants that, among other things, limits our ability and the ability of our restricted subsidiaries to: incur additional indebtedness; pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments; enter into agreements that restrict distributions from restricted subsidiaries; sell or otherwise dispose of assets, including capital stock of restricted subsidiaries; enter into transactions with affiliates; create or incur liens and merge, consolidate or sell substantially all of our assets. These covenants will be subject to important exceptions and qualifications. See "Description of the Notes—Certain Covenants."

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, 2010, our contractual cash obligations and commercial commitments over the next several periods are set forth below on an actual and an as adjusted basis giving effect to the Refinancing Transactions, including this Offering and the application of proceeds therefrom as set forth in "Use of Proceeds."

(euros in millions)	**Fiscal Years Ended December 31,**			
	Total	**Less than 1 year**	**Between 1 and 5 years**	**Thereafter**
Contractual obligations				
As adjusted long-term debt obligations[1]	250.0	—	—	250.0
Operating lease obligations[2]	27.6	7.8	15.9	3.9
Other obligations[3]	1.5	1.5	—	—
Total as adjusted contractual obligations	279.1	9.3	15.9	253.9

(1) As adjusted data gives effect to the Refinancing Transactions, including the Offering and the application of the net proceeds therefrom as described under "Use of Proceeds."

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

(3) Principally represents the present value of future minimum capital lease payments as of December 31, 2010, 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, 2010 liabilities arising from defined benefit plans amounted to €373.7 million (€369.3 million as of December 31, 2009 and €285.0 million as of December 31, 2008) while the fair value of plan assets amounted to €281.7 million (€263.8 million as of December 31, 2009 and €212.4 million as of December 31, 2008).

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, 2010 amount to €46.0 million net of tax compared to €50.7 million in 2009 and €20.3 million at December 31 2008. The net actuarial gain for 2010 amount to €4.7 million, compared to actuarial losses of €30.4 million and €13.9 million in 2009 and 2008, respectively.

Our total pension expense recognised in the income statement was €9.1 million in 2010 compared to €9.6 million in 2009 and €16.2 million in 2008. It is made up of €20.6 million (€17.9 million in 2009 and €20.7 million in 2008) of interest on the defined benefit obligation (interest cost), €4.8 million (€4.4 million in 2009 and €6.8 million in 2008) actuarial estimate of benefits earned by employee service in the period (current service cost), less €16.3 million of expected return on plan assets (€12.7 million in 2009 and €18.7 million in 2008, net of €7.4 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 that 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 £5 million.

Off-Balance Sheet Arrangements

As of December 31, 2010, 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 December 31, 2010 included in this Offering Memorandum. 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 €1,138 million of floating rate borrowings outstanding as of December 31, 2010 (December 31, 2009: €1,080 million, December 31, 2008: €1,142 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 December 31, 2010, a hypothetical interest rate increase/decrease of 1% on our 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 €8 million (2009: €7 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

After giving effect to the Refinancing Transactions, we do not expect to have any borrowings outstanding under our Revolving Credit Facility. Upon the completion of the Refinancing Transactions, including this Offering, we expect that €15.0 million will available for borrowing under our Revolving Credit Facility. 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.

Our treasury risk management policy is to hedge between 50% and 80% of anticipated cash flows from exposures deemed to have a material impact on our net income, using a combination of debt denominated in non-euro currencies and forward contracts. We carry out an assessment both at the inception and on an ongoing basis.

At December 31, 2010, a hypothetical 10% weakening or strengthening of the euro 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 €32 million (2009: €51 million, 2008: €43 million), primarily as a result of foreign exchange gains/losses on translation of euro denominated monetary assets and liabilities in the entities with functional currencies other than the euro, excluding entities in Bulgaria where the local currency is pegged to the euro.

At December 31, 2010, a hypothetical 10% weakening/strengthening of the Pound Sterling 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 €15 million (2009: €24 million, 2008: €17 million), primarily as a result of foreign exchange gains/losses on translation of Pound Sterling denominated monetary assets and liabilities in the entities with functional currencies other than the Pound Sterling.

At December 31, 2010, a hypothetical 10% weakening/strengthening of the U.S. Dollar against 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 €25 million (2009: €27 million, 2008: €26 million), primarily as a result of foreign exchange gains/losses on translation of U.S. Dollar denominated monetary assets and liabilities in the entities with functional currencies other than the U.S. Dollar.

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.